Course Work

[Name of the Writer]

[Name of the Institution]

**ACCT forum 5**

The purpose of the statement of cash flow or cash flow statement is to estimate the essential cashflow happening at a same time in the company linked balance sheet and the income statement. The cash flow statement shows the outflows and inflows of the company to give information to report reader (Williams & Dobelman, 2017).

The investment community uses the information of the statement of cash flows to determine the organization ability to manage funds. The cash flow statement is mostly important for the acquirer when he reviews the potential to acquire financial statements. Acquirer uses the cash flow statement to analyze the generation of cash flows and avoids to do the investment if the price is not supported by the acquiree cash flows. The statement shows certain cash flow uses and sources which will be otherwise difficult for the reader to get it.

The cash flow statement is classified into three activities which include Operating activities, Financing activities, and Investing activities. Operating activities are those activities of cash which are related to net income. For example, payment of cash for merchandise which is an expense and it is a generation of cash from sales, which generate revenues and these expenses and revenues are the part of net income. Cash activities which are associated with noncurrent assets are known as investing activities. Noncurrent assets consist of (1) Equipment, plant, and property; (2) Long term investments; (3) Loans principal amount for various entities. For Example, cash is produced from land selling and cash investment paid to another company is a part of operating activity. Financing activities are those cash activities which are associated with owners equity and noncurrent liability. Owners equity and noncurrent liability include (1) Repurchase and sales of stocks; (2) long term debt principal amount; (3) payments of dividends. It also includes bonds payable and notes, retained earnings and stocks and capital equipment (Gordon, Jorgensen, & Linthicum, 2017).

**References**

Gordon, E. A., Henry, E., Jorgensen, B. N., & Linthicum, C. L. (2017). Flexibility in cash-flow classification under IFRS: determinants and consequences. *Review of Accounting Studies*, *22*(2), 839-872.

Williams, E. E., & Dobelman, J. A. (2017). Financial statement analysis. *World Scientific Book Chapters*, 109-169.