

## 15.514 SUMMER 2003

### SESSION 9

#### THE STATEMENT OF CASH FLOW

##### *Objectives*

1. Understand the purpose of the SCF.
2. Distinguish between the three sections of the SCF.
3. Understand the differences between the direct and the indirect SCF.
4. Understand how to derive the indirect SCF from the Income Statement and the Balance Sheet.

##### *Reading Assignment*

Pratt: Chapter 14

Intel: p. 22

CP: *Understanding the Statement of Cash Flow*

##### *Class Preparation Questions*

1. Explain the differences between the direct and the indirect SCF.
2. Why is a company's Net Income different from its net cash increase for the year?
3. In the Operating Activities section of the indirect SCF, why is depreciation expense *added back* into the cash flow?
4. In the Operating Activities section of the indirect SCF, why do you *subtract* an *increase* in an asset account such as Accounts Receivable?
5. Looking at Intel's SCF, did Inventories increase or decrease in 2001? By how much? What about Intel's Accounts Payable?

##### *Optional Problems*

P14-2, E14-7, E14-8, E14-9, E14-10