

# PART VIII

## ANALYZING ACCOUNTING INFORMATION

Systematic Methods have been developed to help users analyze and interpret the meaning of accounting information. In addition, special reports have been developed to help users understand key activities such as cash flows and investment in corporate securities. These methods and reports will be explored in Part VIII of **Quick Notes**.

### CASH FLOWS

The Statement of Cash Flows is the fourth important financial statement. It supplements the Income Statement, Balance Sheet, and Statement of Owner's Equity by demonstrating the affects of company operations on the Cash account. Cash is defined as Cash and Cash equivalents which include short-term

The Direct Method of Presenting Cash Flows provides a complete picture of both the receipt and payment of Cash for each of the three major classes of company operations: operating activities, investing activities, and financing activities. The Indirect Method is less infor-

highly liquid investments, such as commercial paper and Treasury Bills. Information about the Cash receipts and disbursements allows management to assess liquidity, determine dividend policy, and analyze the affect of investment and financial decisions.

It simply lists the amount and direction of account changes associated with Operating Activities and Nonoperating Activities. Both will be explored in the Cash Flows From Operating Activities Learning Unit and the Statement of Cash Flows Learning Unit.

### FINANCIAL STATEMENT ANALYSIS

While much may be gained from simply reading financial statements as presented, both internal and external decision making may be enhanced by a systematic analysis and interpretation of both the

Income Statement and Balance Sheet. Assessment of past and present performance will result in a logical determination of future potential and the associated investment and credit risks.

### INVESTMENT IN CORPORATE SECURITIES

Companies invest in the securities of other companies to earn a profit, or to establish some degree of control over a company with desirable markets, expertise, or business operations. In the latter case, the capital required for such investments is often less than that required to start a similar business, especially if there are favorable tax considerations. This Learning Unit summarizes both short-term securities investment for

profit, recorded at cost, and investment in equity securities for control, for which determining value is a little more complicated. Control is generally deemed to be the purpose of investments which total 20% or more in a subsidiary by a parent. Consolidated financial statements, required when more than 50% of a company is purchased, conclude the Unit.