Case 08-1

Pei Shan Liu Professor: David Hossain Accounting 495 10/1/2012 Case 08-1 Go With the Flow, Inc. 1. Insurance Settlement Proceeds According to ASC 230-10-45-12, the insurance settlement proceeds should be classified as an investing cash flow in the statement of cash flow. “ All of the followings are cash inflows from investing activities: a. Receipts from collections or sales of loans made by the entity and of other entities' debt instruments (other than cash equivalents and certain debt instruments that are acquired specifically for resale as discussed in paragraph 230-10-45-21) that were purchased by the entity. . Receipts from sales of equity instruments of other entities (other than certain equity instruments carried in a trading account as described in paragraph 230-10-45-19) and from returns of investment in those instruments. c. Receipts from sales of property, plant, and equipment and other productive assets. d. not used. e. Receipts from sales of loans that were not specifically acquired for resale. That is, if loans were acquired as investments, cash receipts from sales of those loans shall be classified as investing cash inflows regardless of a change in the purpose for holding those loans.

For purposes of this paragraph, receipts from disposing of loans, debt or equity instruments, or property, plant, and equipment include directly related proceeds of insurance settlements, such as the proceeds of insurance on a building that is damaged or destroyed. ” Based on the above principle, the insurance proceeds of one of the company’s manufacturing facilities should be considered investing activities because themoneyreceived was an insurance settlement and the proceeds of the insurance were on a building that was destroyed. . Sale of Accounts

Receivable According to ASC 230-10-45-14, sale of accounts receivable should presented as financing cash inflows in the statement of cash flows. According to ASC 230-10-45-12, Cash received from interest should be presented as an investing activity. “ All of the following are cash inflows from financing activities: a. Proceeds from issuing equity instruments. b. Proceeds from issuing bonds, mortgages, notes, and from other short- or long-term borrowing. c.

Receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment. d. Proceeds received from derivative instruments that include financing elements at inception, whether the proceeds were received at inception or over the term of the derivative instrument, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. . Cash retained as a result of the tax deductibility of increases in the value of equity instruments issued under share-based payment arrangements that are not included in the cost of goods or services that is recognizable for financial reporting purposes. For this purpose, excess tax benefits shall be determined on an individual award (or portion thereof) basis. ” Based on the principle, the accounts receivable from sales of the company’s inventory should be considered as financing activities because the company proceed from issuing notes.

As seen in ASC 230-10-45-12 (a). “ Receipts from collections or sales of loans made by the entity and of other entities' debt instruments (other than cash equivalents and certain debt instruments that are acquired specifically for resale as discussed in paragraph 230-10-45-21 :) that were purchased by the entity”, therefore, the beneficial interest received upon sale of receivable should be presented as a noncash transaction, and cash received from collections on the beneficial interest should be classified as an investing activity. 3.

Acquisition of Property, Plant, and Equipment on Account According to ASC 230-10-45-13, the acquisition of property, plant, and equipment on account should be presented as an investing cash outflow in the statement of cash flows. “ All of the following are cash outflows for investing activities: a. Disbursements for loans made by the entity and payments to acquire debt instruments of other entities (other than cash equivalents and certain debt instruments that are acquired specifically for resale as discussed in paragraph 230-10-45-21 :). b.

Payments to acquire equity instruments of other entities (other than certain equity instruments carried in a trading account as described in paragraphs 230-10-45-18 through 45-19 :). c. Payments at the time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive assets, including interest capitalized as part of the cost of those assets. Generally, only advance payments, the down payment, or other amounts paid at the time of purchase or soon before or after purchase of property, plant, and equipment and other productive assets are investing cash outflows.

However, incurring directly related debt to the seller is a financing transaction (see paragraphs 230-10-45-14 through 45-15 :), and subsequent payments of principal on that debt thus are financing cash outflows. ” Based on above principle, the company spends money to purchase the equipment and machinery would be considered as investing activities in the statement of cash flows as the company plans to pay off the payment soon after purchase.