Direct and indirect cash flows

The difference between direct and indirect method of cash flows are the operating activities, which is the first section of the statement of cash flows. The investing and financing activities sections has no reported differences in the presentation of the cash flows. The direct presentation of cash flows displays cash receipts and payments from operations, more or less like the actual statement of cash flow. On the other hand, the indirect presentation of cash flows displays items with its fractional total net income.

The item adjusted using the indirect method does not affect the cash. The direct method uses the cash flow from operations and is directly calculated (from scratch). Using the net income of the company and making adjustments calculate the indirect methods of cash flows from operations. The income is calculated using the accrual method and the owner is only interested in the cash receipts reduced by cash disbursements. These adjustments include: Adding back expenses that were deducted from the net income but did not cost anything.

-Subtracting capital gains and loses that are not part of operating.

-Subtracting expenses that were accrued but not yet paid.

-Subtracting expenditures that cost cash but were not expensed this year.

-Subtracting income that was accrued but not yet received.

-Adding back cash receipts that were not treated as income. The Financial Accounting Standards Board (FASB) proclaims both methods to be accurate and useful.

However, the FASB does not name either one to be their sole choice. If each method results in the same answer you can use each method to figure out if the other is calculated correctly. The indirect method is the quicker method and is the least expensive but is also easiest compared to the direct method. It is my opinion that both methods would come in handy when dealing in business so I would most likely use them both.