

BTN 16-4 Your friend, Diana Wood, recently completed the second year of her business and just received annual financial statements from her accountant. Wood finds the income statement and balance sheet informative but does not understand the statement of cash flows. She says the first section is especially confusing because it contains a lot of additions and subtractions that do not make sense to her. Wood adds, "The income statement tells me the business is more profitable than last year and that's most important. If I want to know how cash changes, I can look at comparative balance sheets."

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Chapter 16 Reporting the Statement of Cash Flows

Required

Write a half-page memorandum to your friend explaining the purpose of the statement of cash flows. Speculate as to why the first section is so confusing and how it might be rectified.