USING THE INDIRECT METHOD TO PREPARE THE STATEMENT OF CASH FLOWS FOR DISNEY FOR 2013-2021

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ABSTRACT

In this paper, we demonstrate the use of the Indirect Method to construct the Statement of Cash Flows for The Walt Disney Company (DIS) for the years 2013 to 2021. We show how to construct the SCF and how to calculate the three primary components of the SCF: Cash Flows from Operating Activities, Cash Flows from Investing Activities, and Cash Flows from Financing Activities. The data are we use are directly from the Form 10-K for DIS from the SEC website EDGAR to calculate (1) cash flow from operating activities, (2) cash flow from investing activities, and (3) cash flow from financing activities.

Keywords: *The Walt Disney Company, Indirect Method Statement of Cash Flows, Cash Flow from Operations, Cash Flow from Investing, Cash Flow from Financing*

1. INTRODUCTION

The Balance Sheet and the Income Statement are two financial statements constructed from journal entries. The Statement of Retained Earnings and the Statement of Cash Flows are calculated using information from the Balance Sheet and the Income Statement.

These four financial statements are the accounting information set and provide information about the financial condition of the company to stakeholders of the company including investors, creditors, and the government.

McGowan (2015) shows how to use financial information to conduct financial statement analysis. Gardner, McGowan, and Moeller (2012) and McGowan, Gardner, and Moeller (2015) show how to use financial information to value a company. Dondeti and McGowan (2014) use similar analysis for a simulated company. Dondeti and McGowan (2019) analyze the statement of cash flows for Disney for the years 2013-2018.

The income statement reports operating results for a company on an accrual basis for a specified interval of time. The balance sheet provides a cross-sectional view of the financial position of a company at a specified point in time. However, neither the Balance Sheet nor the Income statement separately or together shows the pattern of the cash inflows and outflows of the company.

The Statement of Cash Flows shows the pattern of cash inflows and cash outflows for a company during a specific period of time. Two methods can be used to prepare the Statement of Cash Flows: (1) the Direct Method and (2) the Indirect Method. The Direct Method shows actual cash flows for the company to determine the change in cash flow for the period of time and the ending cash balance. Companies often prefer the indirect method to prepare and to present the Statement of Cash Flows (American Institute of Certified Public Accountants, 1998).

We demonstrate how to use the indirect method to prepare the Statement of Cash Flows (SCF) for DIS. Applying the indirect method, the analyst determines the cash flow effect of changes in each balance-sheet item on the net cash position of the company. Changes in the accounts will increase or decrease the cash balance of the company.