

CHAPTER 17

Statement of Cash Flows

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Indicate the usefulness of the statement of cash flows.	1, 2, 15					
2. Distinguish among operating, investing, and financing activities.	3, 4, 5, 6, 7, 8, 9, 16, 17	1, 2, 3	1	1, 2, 3	1A	1B
3. Prepare a statement of cash flows using the indirect method.	10, 11, 12, 13, 14	4, 5, 6, 7	2	4, 5, 6, 7, 8, 9	2A, 3A, 5A, 7A, 9A, 11A	2B, 3B, 5B, 7B, 9B, 11B
4. Analyze the statement of cash flows.		8, 9, 10, 11	3	7, 9	7A, 8A	7B, 8B
*5. Prepare a statement of cash flows using the direct method.	8, 18, 19, 20, 21	12, 13, 14		10, 11, 12, 13,	4A, 6A, 8A, 10A	4B, 6B, 8B, 10B
*6. Explain how to use a worksheet to prepare the statement of cash flows using the indirect method.	22	15		14	12A	

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendices to the chapter.

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Distinguish among operating, investing, and financing activities.	Simple	10–15
2A	Determine cash flow effects of changes in equity accounts.	Simple	10–15
3A	Prepare the operating activities section—indirect method.	Simple	20–30
*4A	Prepare the operating activities section—direct method.	Simple	20–30
5A	Prepare the operating activities section—indirect method.	Simple	20–30
*6A	Prepare the operating activities section—direct method.	Simple	20–30
7A	Prepare a statement of cash flows—indirect method, and compute free cash flow.	Moderate	40–50
*8A	Prepare a statement of cash flows—direct method, and compute free cash flow.	Moderate	40–50
9A	Prepare a statement of cash flows—indirect method.	Moderate	40–50
*10A	Prepare a statement of cash flows—direct method.	Moderate	40–50
11A	Prepare a statement of cash flows—indirect method.	Moderate	40–50
*12A	Prepare a worksheet—indirect method.	Moderate	40–50
1B	Distinguish among operating, investing, and financing activities.	Simple	10–15
2B	Determine cash flow effects of changes in plant asset accounts.	Simple	10–15
3B	Prepare the operating activities section—indirect method.	Simple	20–30
*4B	Prepare the operating activities section—direct method.	Simple	20–30
5B	Prepare the operating activities section—indirect method.	Simple	20–30
*6B	Prepare the operating activities section—direct method.	Simple	20–30
7B	Prepare a statement of cash flows—indirect method, and compute free cash flow.	Moderate	40–50

ASSIGNMENT CHARACTERISTICS TABLE (Continued)

Problem Number	Description	Difficulty Level	Time Allotted (min.)
*8B	Prepare a statement of cash flows—direct method, and compute free cash flow.	Moderate	40–50
9B	Prepare a statement of cash flows—indirect method.	Moderate	40–50
*10B	Prepare a statement of cash flows—direct method.	Moderate	40–50
11B	Prepare a statement of cash flows—indirect method.	Moderate	40–50

WEYGANDT ACCOUNTING PRINCIPLES 11E
CHAPTER 17
STATEMENT OF CASH FLOWS

Number	LO	BT	Difficulty	Time (min.)
BE1	2	AP	Simple	3–5
BE2	2	C	Simple	2–4
BE3	2	AP	Simple	3–5
BE4	3	AP	Simple	4–6
BE5	3	AP	Simple	3–5
BE6	3	AP	Simple	4–6
BE7	3	AN	Moderate	3–5
BE8	4	AN	Simple	2–4
BE9	4	AN	Simple	2–3
BE10	4	AN	Simple	2–3
BE11	4	AN	Simple	4–6
BE12	5	AP	Simple	2–4
BE13	5	AP	Simple	3–5
BE14	5	AP	Moderate	3–5
BE15	6	AP	Simple	4–6
DI1	2	C	Simple	2–4
DI2	3	AP, C	Simple	4–6
DI3	4	AN, C	Simple	4–6
EX1	2	C	Simple	5–7
EX2	2	C	Simple	6–8
EX3	2	AP	Simple	8–10
EX4	3	AP	Simple	5–7
EX5	3	AP	Simple	6–8
EX6	3	AN	Moderate	10–12
EX7	3, 4	AP	Simple	12–14
EX8	3	AP	Simple	10–12
EX9	3, 4	AP	Simple	12–14
EX10	5	AP	Moderate	6–8
EX11	5	AP	Moderate	6–8
EX12	5	AP	Simple	5–7
EX13	5	AP	Moderate	6–8

STATEMENT OF CASH FLOWS (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX14	6	AP	Moderate	16–20
P1A	2	C	Simple	10–15
P2A	3	AN	Simple	10–15
P3A	3	AP	Simple	20–30
P4A	5	AP	Simple	20–30
P5A	3	AP	Simple	20–30
P6A	5	AP	Simple	20–30
P7A	3, 4	AP, AN	Moderate	40–50
P8A	4, 5	AP, AN	Moderate	40–50
P9A	3	AP	Moderate	40–50
P10A	5	AP	Moderate	40–50
P11A	3	AP	Moderate	40–50
P12A	6	AP	Moderate	40–50
P1B	2	C	Simple	10–15
P2B	3	AN	Simple	10–15
P3B	3	AP	Simple	20–30
P4B	5	AP	Simple	20–30
P5B	3	AP	Simple	20–30
P6B	5	AP	Simple	20–30
P7B	3, 4	AP, AN	Moderate	40–50
P8B	4, 5	AP, AN	Moderate	40–50
P9B	3	AP	Moderate	40–50
P10B	5	AP	Moderate	40–50
P11B	3	AP	Moderate	40–50
BYP1	2	AN	Simple	15–20
BYP2	4	AP, E	Simple	8–12
BYP3	4	AP, E	Simple	8–12
BYP4	—	C	Simple	15–20
BYP5	—	C	Simple	10–15
BYP6	3	AP, E	Moderate	25–30
BYP7	2	AP	Simple	10–15
BYP8	2	E	Simple	10–15
BYP9	—	E	Simple	15–20
BYP10	—	AP	Moderate	10–15

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Indicate the usefulness of the statement of cash flows.		Q17-1 Q17-2	Q17-15			
2. Distinguish among operating, investing, and financing activities.	Q17-4 Q17-6	Q17-3 Q17-5 Q17-7 Q17-8 Q17-9 Q17-16	Q17-17 BE17-2 DI17-1 E17-1 E17-2 P17-1A P17-1B	BE17-1 BE17-3 E17-2 E17-3		
3. Prepare a statement of cash flows using the indirect method.	Q17-13 DI17-2	Q17-10 Q17-11 Q17-12 Q17-14		BE17-4 E17-8 P17-3B BE17-5 E17-9 P17-5B BE17-6 P17-3A P17-7B DI17-2 P17-5A P17-9B E17-4 P17-7A P17-11B E17-5 P17-9A E17-7 P17-11A	BE17-7 E17-6 P17-2A P17-7A P17-2B P17-7B	
4. Analyze the statement of cash flows.	DI17-3			E17-7 P17-8B E17-9 P17-7A P17-8A P17-7B	BE17-8 P17-7A BE17-9 P17-8A BE17-10 P17-7B BE17-11 P17-8B DI17-3	
*5. Prepare a statement of cash flows using the direct method.		Q17-8 Q17-18 Q17-21		Q17-19 E17-12 P17-4B Q17-20 E17-13 P17-6B BE17-12 P17-4A P17-8B BE17-13 P17-6A P17-10B BE17-14 P17-8A E17-10 P17-10A E17-11	P17-8A P17-8B	
*6 Explain how to use a worksheet to prepare the statement of cash flows using the indirect method.		Q17-22		BE17-15 E17-14 P17-12A		
Broadening Your Perspective		Real-World Focus	Comparative Analysis Decision Making Across the Organization Communication FASB Codification	Financial Reporting		Comp. Analysis Decision Making Across the Organization Ethics Case All About You

ANSWERS TO QUESTIONS

1. (a) The statement of cash flows reports the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities of a company during a period.

(b) Disagree. The statement of cash flows is required. It is the fourth basic financial statement.
2. The statement of cash flows answers the following questions about cash: (a) Where did the cash come from during the period? (b) What was the cash used for during the period? and (c) What was the change in the cash balance during the period?
3. The three types of activities are:
Operating activities include the cash effects of transactions that create revenues and expenses and thus enter into the determination of net income.
Investing activities include: (a) acquiring and disposing of investments and property, plant and equipment and (b) lending money and collecting loans.
Financing activities include: (a) obtaining cash from issuing debt and repaying amounts borrowed and (b) obtaining cash from stockholders, repurchasing shares, and paying dividends.
4. (a) Major inflows of cash in a statement of cash flows include cash from operations; issuance of debt; collection of loans; issuance of capital stock; sale of investments; and the sale of property, plant, and equipment.

(b) Major outflows of cash include purchase of inventory, payment of wages and other operating expenses, payment of cash dividends; redemption of debt; purchase of investments; making loans; redemption of capital stock; and the purchase of property, plant, and equipment.
5. The statement of cash flows presents investing and financing activities so that even noncash transactions of an investing and financing nature are disclosed in the financial statements. If they affect financial conditions significantly, the FASB requires that they be disclosed in either a separate schedule at the bottom of the statement of cash flows or in a separate note or supplementary schedule to the financial statements.
6. Examples of significant noncash activities are: (1) issuance of stock for assets, (2) conversion of bonds into common stock, (3) issuance of bonds or notes for assets, and (4) noncash exchanges of property, plant, and equipment.
7. Comparative balance sheets, a current income statement, and certain transaction data all provide information necessary for preparation of the statement of cash flows. Comparative balance sheets indicate how assets, liabilities, and equities have changed during the period. A current income statement provides information about the amount of cash provided or used by operations. Certain transactions provide additional detailed information needed to determine how cash was provided or used during the period.
8. The advantage of the **direct method** is that it presents the major categories of cash receipts and cash payments in a format that is similar to the income statement and familiar to statement users. Its principal disadvantage is that the necessary data can be expensive and time-consuming to accumulate.

The advantage of the **indirect method** is it is often considered easier to prepare, and it focuses on the differences between net income and net cash provided by operating activities. It also tends to reveal less company information to competitors. Its primary disadvantage is the difficulty in understanding the adjustments that comprise the reconciliation.

Both methods are acceptable but the FASB expressed a preference for the direct method. Yet, the indirect method is the overwhelming favorite of companies.

Questions Chapter 17 (Continued)

9. When total cash inflows exceed total cash outflows, the excess is identified as a “net increase in cash” near the bottom of the statement of cash flows.
10. The indirect method involves converting accrual net income to net cash provided by operating activities. This is done by starting with accrual net income and adding or subtracting noncash items included in net income. Examples of adjustments include depreciation and other noncash expenses, gains and losses on the disposal of noncurrent assets, and changes in the balances of current asset and current liability accounts from one period to the next.
11. It is necessary to convert accrual-based net income to cash-basis income because the unadjusted net income includes items that do not provide or use cash. An example would be an increase in accounts receivable. If accounts receivable increased during the period, revenues reported on the accrual basis would be higher than the actual cash revenues received. Thus, accrual-basis net income must be adjusted to reflect the net cash provided by operating activities.
12. A number of factors could have caused an increase in cash despite the net loss. These are (1) high cash revenues relative to low cash expenses; (2) sales of property, plant, and equipment; (3) sales of investments; (4) issuance of debt or capital stock, and (5) differences between cash and accrual accounting, e.g. depreciation.
13. Depreciation expense.
Gain or loss on disposal of a noncurrent asset.
Increase/decrease in accounts receivable.
Increase/decrease in inventory.
Increase/decrease in accounts payable.
14. Under the indirect method, depreciation is added back to net income to reconcile net income to net cash provided by operating activities because depreciation is an expense but not a cash payment.
15. The statement of cash flows is useful because it provides information to the investors, creditors, and other users about: (1) the company’s ability to generate future cash flows, (2) the company’s ability to pay dividends and meet obligations, (3) the reasons for the difference between net income and net cash provided by operating activities, and (4) the cash investing and financing transactions during the period.
16. This transaction is reported in the note or schedule entitled “Noncash investing and financing activities” as follows: “Retirement of bonds payable through issuance of common stock, \$1,700,000.”
17. In its 2011 statement of cash flows, Apple reported \$37,529 million net cash provided by operating activities, \$40,419 million used for investing activities, and \$1,444 million provided by financing activities.
- *18. Net cash provided by operating activities under the direct approach is the difference between cash revenues and cash expenses. The direct approach adjusts the revenues and expenses directly to reflect the cash basis. This results in cash net income, which is equal to “net cash provided by operating activities.”

Questions Chapter 17 (Continued)

*19. (a) Cash receipts from customers = Revenues from sales $\left\{ \begin{array}{l} + \text{ Decrease in accounts receivable} \\ - \text{ Increase in accounts receivable} \end{array} \right.$

(b) Purchases = Cost of goods sold $\left\{ \begin{array}{l} + \text{ Increase in inventory} \\ - \text{ Decrease in inventory} \end{array} \right.$

Cash payments to suppliers = Purchases $\left\{ \begin{array}{l} + \text{ Decrease in accounts payable} \\ - \text{ Increase in accounts payable} \end{array} \right.$

*20. Sales revenue.....	\$2,000,000
Add: Decrease in accounts receivable	<u>200,000</u>
Cash receipts from customers	<u>\$2,200,000</u>

*21. Depreciation expense is not listed in the direct method operating activities section because it is not a cash flow item—it does not affect cash.

*22. A worksheet is desirable because it allows the accumulation and classification of data that will appear on the statement of cash flows. It is an optional but efficient device that aids in the preparation of the statement of cash flows.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 17-1

- (a) Cash inflow from financing activity, \$200,000.
- (b) Cash outflow from investing activity, \$150,000.
- (c) Cash inflow from investing activity, \$20,000.
- (d) Cash outflow from financing activity, \$50,000.

BRIEF EXERCISE 17-2

- (a) Investing activity.
- (b) Investing activity.
- (c) Financing activity.
- (d) Operating activity.
- (e) Financing activity.
- (f) Financing activity.

BRIEF EXERCISE 17-3

Cash flows from financing activities

Proceeds from issuance of bonds payable	\$300,000
Payment of dividends	<u>(50,000)</u>
Net cash provided by financing activities	<u>\$250,000</u>

BRIEF EXERCISE 17-4

Net income		\$2,800,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$160,000	
Accounts receivable decrease	350,000	
Accounts payable decrease	<u>(280,000)</u>	<u>230,000</u>
Net cash provided by operating activities ...		<u>\$3,030,000</u>

BRIEF EXERCISE 17-5

Cash flows from operating activities

Net income		\$280,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$ 70,000	
Loss on disposal of plant assets	<u>12,000</u>	<u>82,000</u>
Net cash provided by operating activities		<u>\$362,000</u>

BRIEF EXERCISE 17-6

Net income		\$300,000
Adjustments to reconcile net income to net cash provided by operating activities		
Decrease in accounts receivable.....	\$ 80,000	
Increase in prepaid expenses	(28,000)	
Increase in inventory	<u>(30,000)</u>	<u>22,000</u>
Net cash provided by operating activities		<u>\$322,000</u>

BRIEF EXERCISE 17-7

Original cost of equipment sold.....	\$22,000
Less: Accumulated depreciation	<u>5,500</u>
Book value of equipment sold	16,500
Less: Loss on disposal of equipment.....	<u>5,500</u>
Cash received from sale of equipment.....	<u>\$11,000</u>

BRIEF EXERCISE 17-8

$$\text{Free cash flow} = \$155,793,000 - \$132,280,000 - \$0 = \$23,513,000$$

BRIEF EXERCISE 17-9

$$\text{Free cash flow} = \$360,000 - \$200,000 - \$0 = \$160,000$$

BRIEF EXERCISE 17-10

$$\text{Free cash flow} = \$45,600,000 - \$1,600,000 - \$0 = \$44,000,000$$

BRIEF EXERCISE 17-11

Free cash flow is cash provided by operations less capital expenditures and cash dividends paid. For Morrow Inc. this would be \$384,000 (\$734,000 – \$280,000 – \$70,000). Since it has positive free cash flow that far exceeds its dividend, an increase in the dividend might be possible. However, other factors should be considered. For example, it must have adequate retained earnings, and it should be convinced that a larger dividend can be sustained over future years. It could also use the free cash flow to expand its operations or pay down its debt.

*BRIEF EXERCISE 17-12

$$\text{Receipts from customers} = \text{Sales revenues} \begin{cases} + \text{ Decrease in accounts receivable} \\ - \text{ Increase in accounts receivable} \end{cases}$$

$$\$1,033,678,000 = \$1,095,307,000 - \$61,629,000 \text{ (Increase in accounts receivable)}$$

*BRIEF EXERCISE 17-13

$$\text{Cash payment for income taxes} = \text{Income Tax Expense} \begin{cases} + \text{ Decrease in income taxes payable} \\ - \text{ Increase in income taxes payable} \end{cases}$$

$$\$115,000,000 = \$340,000,000 - \$225,000,000^*$$

$$*\$522,000,000 - \$297,000,000 = \$225,000,000 \text{ (Increase in income taxes payable)}$$

*BRIEF EXERCISE 17-14

$$\text{Cash payments for operating expenses} = \text{Operating expenses, excluding depreciation} \begin{cases} + \text{ Increase in prepaid expenses} \\ - \text{ Decrease in prepaid expenses} \end{cases} \text{ and } \begin{cases} + \text{ Decrease in accrued expenses payable} \\ - \text{ Increase in accrued expenses payable} \end{cases}$$

$$\$69,000 = \$80,000 - \$6,600 - \$4,400$$

***BRIEF EXERCISE 17-15**

<u>Balance Sheet Accounts</u>	<u>Balance</u>	<u>Reconciling Items</u>		<u>Balance</u>
	<u>1/1/14</u>	<u>Debit</u>	<u>Credit</u>	<u>12/31/14</u>
Prepaid expenses	18,600		(a) 5,600	13,000
Accrued expenses payable	8,200		(b) 2,400	10,600
 <u>Statement of Cash Flow Effects</u>				
Operating activities				
Decrease in prepaid expenses		(a) 5,600		
Increase in accrued expenses payable		(b) <u>2,400</u>		
		<u>8,000</u>	<u>8,000</u>	

SOLUTIONS TO DO IT! REVIEW EXERCISES

DO IT! 17-1

1. Financing activity
2. Operating activity
3. Financing activity
4. Investing activity
5. Investing activity

DO IT! 17-2

Cash flows from operating activities

Net income		\$130,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	\$6,000	
Amortization expense	2,000	
Gain on disposal of equipment	(3,600)	
Decrease in accounts receivable	6,000	
Increase in accounts payable.....	<u>3,200</u>	<u>13,600</u>
Net cash provided by operating activities		<u>\$143,600</u>

DO IT! 17-3

- (a) Free cash flow = $\$73,700 - \$27,000 - \$15,000 = \$31,700$
- (b) Cash provided by operating activities fails to take into account that a company must invest in new plant assets just to maintain the current level of operations. Companies must also maintain dividends at current levels to satisfy investors. The measurement of free cash flow provides additional insight regarding a company's cash-generating ability.

SOLUTIONS TO EXERCISES

EXERCISE 17-1

- (a) Financing activities.
- (b) Noncash investing and financing activities.
- (c) Noncash investing and financing activities.
- (d) Financing activities.
- (e) Investing activities.
- (f) Operating activities.
- (g) Operating activities.

EXERCISE 17-2

- | | |
|-----------------------------------------------|------------------------------------------------------------------------------|
| (a) Operating activity. | (i) Operating activity. |
| (b) Noncash investing and financing activity. | (j) Noncash investing and financing activity. |
| (c) Investing activity. | (k) Investing activity. |
| (d) Financing activity. | (l) Noncash investing and financing activity. |
| (e) Operating activity. | (m) Operating activity (loss); investing activity (cash proceeds from sale). |
| (f) Operating activity. | (n) Financing activity. |
| (g) Operating activity. | |
| (h) Financing activity. | |

EXERCISE 17-3

1. (a) Cash.....	15,000	
Land		12,000
Gain on Disposal of Plant Assets		3,000

(b) The cash receipt (\$15,000) is reported in the investing section. The gain (\$3,000) is deducted from net income in the operating section.

2. (a) Cash.....	20,000	
Common Stock.....		20,000

(b) The cash receipt (\$20,000) is reported in the financing section.

3. (a) Depreciation Expense	17,000	
Accumulated Depreciation— Buildings.....		17,000

(b) Depreciation expense (\$17,000) is added to net income in the operating section.

EXERCISE 17-3 (Continued)

4. (a) Salaries and Wages Expense	9,000	
Cash.....		9,000

(b) Salaries and wages expense is not reported separately on the statement of cash flows. It is part of the computation of net income in the income statement, and is included in the net income amount on the statement of cash flows.

5. (a) Equipment.....	8,000	
Common Stock		1,000
Paid-in Capital in Excess of Par— Common Stock		7,000

(b) The issuance of common stock for equipment (\$8,000) is reported as a noncash financing and investing activity at the bottom of the statement of cash flows.

6. (a) Cash	1,200	
Loss on Disposal of Plant Assets	1,800	
Accumulated Depreciation—Equipment.....	7,000	
Equipment.....		10,000

(b) The cash receipt (\$1,200) is reported in the investing section. The loss (\$1,800) is added to net income in the operating section.

EXERCISE 17-4

GUTIERREZ COMPANY
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities	
Net income	\$225,000
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation expense	\$45,000
Loss on disposal of equipment.....	5,000
Decrease in accounts receivable	15,000
Decrease in prepaid expenses	4,000
Increase in accounts payable.....	<u>17,000</u>
Net cash provided by operating activities	<u>86,000</u> <u>\$311,000</u>

EXERCISE 17-5

SCOGGIN INC.
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities

Net income		\$153,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$24,000	
Decrease in inventory	14,000	
Increase in accrued expenses payable	10,000	
Increase in prepaid expenses	(5,000)	
Decrease in accounts payable	(7,000)	
Increase in accounts receivable	<u>(21,000)</u>	<u>15,000</u>
Net cash provided by operating activities....		<u>\$168,000</u>

EXERCISE 17-6

HERRICK CORP
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$ 77,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$ 28,000	
Loss on disposal of equipment.....	<u>7,000</u>	<u>35,000</u>
Net cash provided by operating activities.....		112,000
Cash flows from investing activities		
Sale of equipment.....	12,000*	
Construction of equipment	(53,000)	
Purchase of equipment	<u>(70,000)</u>	
Net cash used by investing activities		(111,000)
Cash flows from financing activities		
Payment of cash dividends.....		(14,000)
*Cost of equipment sold.....	\$ 49,000	
Accumulated depreciation.....	<u>(30,000)</u>	
Book value	19,000	
Loss on sale of equipment	<u>(7,000)</u>	
Cash proceeds.....	<u>\$ 12,000</u>	

EXERCISE 17-7

(a)

ROJAS CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$ 22,630
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$ 5,000	
Loss on disposal of land	1,100	
Decrease in accounts receivable	2,200	
Decrease in accounts payable	(18,730)	(10,430)
Net cash provided by operating activities		12,200
 Cash flows from investing activities		
Sale of land		4,900
 Cash flows from financing activities		
Issuance of common stock.....	\$ 6,000	
Payment of dividends	(19,500)	
Net cash used by financing activities		(13,500)
 Net increase in cash		 3,600
Cash at beginning of period.....		10,700
Cash at end of period		<u>\$ 14,300</u>

(b) $\$12,200 - \$0 - \$19,500 = (\$7,300)$

EXERCISE 17-8

VELO COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$93,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$34,000	
Increase in accounts receivable	(9,000)	
Decrease in inventory	19,000	
Decrease in accounts payable	<u>(8,000)</u>	<u>36,000</u>
Net cash provided by operating activities		129,000
Cash flows from investing activities		
Sale of land	25,000	
Purchase of equipment	<u>(70,000)</u>	
Net cash used by investing activities		(45,000)
Cash flows from financing activities		
Issuance of common stock	42,000	
Payment of cash dividends	(35,000)	
Redemption of bonds	<u>(50,000)</u>	
Net cash used by financing activities		<u>(43,000)</u>
Net increase in cash		41,000
Cash at beginning of period		<u>22,000</u>
Cash at end of period		<u>\$ 63,000</u>

EXERCISE 17-9

(a)

RODRIQUEZ CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income.....		\$ 18,300
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense.....	\$ 5,200*	
Loss on disposal of equipment	5,500**	
Increase in accounts receivable	(2,900)	
Increase in accounts payable	<u>3,500</u>	<u>11,300</u>
Net cash provided by operating activities.....		29,600
Cash flows from investing activities		
Sale of equipment	3,300	
Purchase of investments	<u>(4,000)</u>	
Net cash used by investing activities.....		(700)
Cash flows from financing activities		
Issuance of common stock	\$ 5,000	
Payment of dividends	(16,400)	
Retirement of bonds	<u>(20,000)</u>	
Net cash used by financing activities.....		<u>(31,400)</u>
Net increase in cash		(2,500)
Cash at beginning of period		<u>17,700</u>
Cash at end of period		<u>\$ 15,200</u>

*[\$14,000 – (\$10,000 – \$1,200)]

**[\$3,300 – (\$10,000 – \$1,200)]

(b) \$29,600 – \$0 – \$16,400 = \$13,200

***EXERCISE 17-10**

Sales revenue	\$192,000	
Deduct: Increase in accounts receivable.....	<u>(60,000)</u>	
Cash receipts from customers*		\$132,000
Operating expenses	78,000	
Deduct: Increase in accounts payable.....	<u>(23,000)</u>	
Cash payments for operating expenses**		<u>55,000</u>
Net cash provided by operating activities		<u>\$ 77,000</u>

*** Accounts Receivable**

Balance, Beginning of year	0		
Revenues for the year	192,000	Cash receipts for year	132,000
Balance, End of year	60,000		

**** Accounts Payable**

		Balance, Beginning of year	0
Payments for the year	55,000	Operating expenses for year	78,000
		Balance, End of year	23,000

***EXERCISE 17-11**

(a) Cash payments to suppliers

Cost of goods sold.....	\$4,852.7 million
Add: Increase in inventory	<u>18.1</u>
Cost of purchases	\$4,870.8 million
Deduct: Increase in accounts payable	<u>(136.9)</u>
Cash payments to suppliers.....	<u>\$4,733.9 million</u>

(b) Cash payments for operating expenses

Operating expenses exclusive of depreciation.....	\$9,470.5 million
(\$10,671.5 – \$1,201)	
Add: Increase in prepaid expenses	\$ 56.3
Deduct: Increase in accrued expenses payable	<u>(160.9)</u> <u>(104.6)</u>
Cash payments for operating expenses	<u>\$9,365.9 million</u>

***EXERCISE 17-12**

Cash flows from operating activities

Cash receipts from

Customers	\$230,000*	
Dividend revenue	<u>18,000</u>	\$248,000

Less cash payments:

To suppliers for merchandise	115,000	
For salaries and wages	53,000	
For operating expenses	28,000	
For income taxes	12,000	
For interest	<u>10,000</u>	<u>218,000</u>
Net cash provided by operating activities ...		<u>\$ 30,000</u>

***\$48,000 + \$182,000**

***EXERCISE 17-13**

Cash payments for rent

Rent expense	\$ 48,000
Add: Increase in prepaid rent	<u>3,100</u>
Cash payments for rent.....	<u>\$ 51,100</u>

Cash payments for salaries

Salaries expense.....	\$ 54,000
Add: Decrease in salaries payable	<u>2,000</u>
Cash payments for salaries	<u>\$ 56,000</u>

Cash receipts from customers

Sales revenue	\$175,000
Add: Decrease in accounts receivable.....	<u>9,000</u>
Cash receipts from customers	<u>\$184,000</u>

***EXERCISE 17-14**

INTERNATIONAL COMPANY
Worksheet
Statement of Cash Flows
For the Year Ended December 31, 2014

Balance Sheet Accounts	Balance 12/31/13	Reconciling Items		Balance 12/31/14
		Debit	Credit	
Debits				
Cash	22,000	(k)	51,000	73,000
Accounts receivable	76,000	(a)	9,000	85,000
Inventory	189,000		(b) 9,000	180,000
Land	100,000		(e) 25,000	75,000
Equipment	<u>200,000</u>	(f)	50,000	<u>250,000</u>
Total	<u>587,000</u>			<u>663,000</u>
Credits				
Accumulated depreciation—equipment	42,000		(d) 24,000	66,000
Accounts payable	47,000	(c)	13,000	34,000
Bonds payable	200,000	(h)	50,000	150,000
Common stock	164,000		(i) 50,000	214,000
Retained earnings	<u>134,000</u>	(g)	70,000	<u>199,000</u>
Total	<u>587,000</u>		(j) 135,000	<u>663,000</u>

Statement of Cash Flow Effects

Operating activities				
Net income		(j)	135,000	
Increase in accounts receivable				(a) 9,000
Decrease in inventory		(b)	9,000	
Decrease in accounts payable				(c) 13,000
Depreciation expense		(d)	24,000	
Investing activities				
Sale of land		(e)	25,000	
Purchase of equipment				(f) 50,000
Financing activities				
Payment of dividends				(g) 70,000
Redemption of bonds				(h) 50,000
Issuance of common stock		(i)	<u>50,000</u>	
Totals			<u>486,000</u>	<u>435,000</u>
Increase in cash				(k) <u>51,000</u>
Totals			<u>486,000</u>	<u>486,000</u>

SOLUTIONS TO PROBLEMS

PROBLEM 17-1A

	Transaction	SCF Activity Affected	Cash Inflow, Outflow, or No Effect?
(a)	Recorded depreciation expense on the plant assets.	O	No cash flow effect
(b)	Recorded and paid interest expense.	O	Cash outflow
(c)	Recorded cash proceeds from a disposal of plant assets.	I	Cash inflow
(d)	Acquired land by issuing common stock.	NC	No cash flow effect
(e)	Paid a cash dividend to preferred stockholders.	F	Cash outflow
(f)	Paid a cash dividend to common stockholders.	F	Cash outflow
(g)	Recorded cash sales.	O	Cash inflow
(h)	Recorded sales on account.	O	No cash flow effect
(i)	Purchased inventory for cash.	O	Cash outflow
(j)	Purchased inventory on account.	O	No cash flow effect

PROBLEM 17-2A

- (a) Net income can be determined by analyzing the retained earnings account.

Retained earnings beginning of year	\$250,000
Add: Net income (plug)	<u>75,500*</u>
	325,500
Less: Cash dividends	15,000
Stock dividends	<u>10,500</u>
Retained earnings, end of year	<u><u>\$300,000</u></u>

*(\$300,000 + \$10,500 + \$15,000 – \$250,000)

- (b) Cash inflow from the issue of stock was \$19,500 (\$170,000 – \$140,000 – \$10,500).

Common Stock		
	140,000	
	10,500	Stock Dividend
	19,500	Shares Issued for Cash
	170,000	

Cash outflow for dividends was \$15,000. The stock dividend does not use cash.

- (c) Both of the above activities (issue of common stock and payment of dividends) would be classified as financing activities on the statement of cash flows.

PROBLEM 17-3A

WHITLOCK COMPANY
Partial Statement of Cash Flows
For the Year Ended November 30, 2014

Cash flows from operating activities	
Net income	\$1,650,000
Adjustments to reconcile net income	
to net cash provided by operating activities	
activities	
Depreciation expense	\$ 70,000
Increase in accounts receivable	(200,000)
Decrease in inventory	500,000
Increase in prepaid expenses	(150,000)
Decrease in accounts payable	(340,000)
Decrease in accrued expenses payable ...	<u>(100,000)</u>
Net cash provided by operating	
activities	<u>(220,000)</u>
	<u>\$1,430,000</u>

***PROBLEM 17-4A**

WHITLOCK COMPANY
Partial Statement of Cash Flows
For the Year Ended November 30, 2014

Cash flows from operating activities		
Cash receipts from customers.....		\$7,500,000 (1)
Less cash payments:		
To suppliers.....	\$4,740,000 (2)	
For operating expenses	<u>1,330,000 (3)</u>	<u>6,070,000</u>
Net cash provided by operating activities		<u>\$1,430,000</u>

Computations:

(1) Cash receipts from customers		
Sales revenue		\$7,700,000
Deduct: Increase in accounts receivable		<u>(200,000)</u>
Cash receipts from customers		<u>\$7,500,000</u>
(2) Cash payments to suppliers		
Cost of goods sold.....		\$4,900,000
Deduct: Decrease in inventory		<u>(500,000)</u>
Cost of purchases		4,400,000
Add: Decrease in accounts payable		<u>340,000</u>
Cash payments to suppliers.....		<u>\$4,740,000</u>
(3) Cash payments for operating expenses		
Operating expenses, exclusive of depreciation.....		\$1,080,000*
Add: Increase in prepaid expenses	\$150,000	
Decrease in accrued expenses payable	<u>100,000</u>	<u>250,000</u>
Cash payments for operating expenses.....		<u>\$1,330,000</u>

***(\$1,150,000 – \$70,000)**

PROBLEM 17-5A

ZUMBRUNN COMPANY
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$230,000
Adjustments to reconcile net income		
to net cash provided by operating activities		
Depreciation expense	\$ 60,000	
Loss on disposal of equipment.....	16,000	
Increase in accounts receivable	(10,000)	
Increase in accounts payable.....	18,000	
Increase in income taxes payable.....	4,000	
Net cash provided by operating activities		<u>88,000</u>
		<u>\$318,000</u>

***PROBLEM 17-6A**

ZUMBRUNN COMPANY
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers.....		\$960,000 (1)
Less cash payments:		
For operating expenses	\$606,000 (2)	
For income taxes.....	<u>36,000 (3)</u>	<u>642,000</u>
Net cash provided by operating activities		<u>\$318,000</u>
(1) <u>Computation of cash receipts from customers</u>		
Service revenue		\$970,000
Deduct: Increase in accounts receivable		
(\$75,000 – \$65,000)		<u>(10,000)</u>
Cash receipts from customers.....		<u>\$960,000</u>
(2) <u>Computation of cash payments for operating expenses</u>		
Operating expenses per income statement		\$624,000
Deduct: Increase in accounts payable		
(\$46,000 – \$28,000)		<u>(18,000)</u>
Cash payments for operating expenses		<u>\$606,000</u>
(3) <u>Computation of cash payments for income taxes</u>		
Income tax expense per income statement		\$ 40,000
Deduct: Increase in income taxes payable		
(\$11,000 – \$7,000)		<u>(4,000)</u>
Cash payments for income taxes		<u>\$ 36,000</u>

PROBLEM 17-7A

(a)

NOSKER COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$32,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$14,500	
Increase in accounts receivable	(16,000)	
Increase in inventory	(7,000)	
Increase in accounts payable	9,000	
Decrease in income taxes payable	<u>(1,000)</u>	<u>(500)</u>
Net cash provided by operating activities....		31,500
 Cash flows from investing activities		
Sale of equipment.....		8,500
 Cash flows from financing activities		
Issuance of common stock.....	4,000	
Redemption of bonds.....	(6,000)	
Payment of dividends.....	<u>(20,000)</u>	
Net cash used by financing activities		<u>(22,000)</u>
 Net increase in cash.....		
		18,000
Cash at beginning of period		<u>20,000</u>
Cash at end of period.....		<u>\$38,000</u>

(b) $\$31,500 - \$0 - \$20,000 = \$11,500$

***PROBLEM 17-8A**

(a) **NOSKER COMPANY**
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers		\$226,000 (1)
Less cash payments:		
To suppliers	\$173,000 (2)	
For operating expenses	9,500 (3)	
For income taxes	9,000 (4)	
For interest.....	3,000	<u>194,500</u>
Net cash provided by operating activities		31,500
Cash flows from investing activities		
Sale of equipment		8,500
Cash flows from financing activities		
Issuance of common stock	4,000	
Redemption of bonds	(6,000)	
Payment of dividends	<u>(20,000)</u>	
Net cash used by financing activities		<u>(22,000)</u>
Net increase in cash		18,000
Cash at beginning of period.....		<u>20,000</u>
Cash at end of period		<u>\$ 38,000</u>

Computations:

(1) Cash receipts from customers	
Sales revenue	\$242,000
Deduct: Increase in accounts receivable	<u>(16,000)</u>
Cash receipts from customers	<u>\$226,000</u>

***PROBLEM 17-8A (Continued)**

(2) Cash payments to suppliers	
Cost of goods sold	\$175,000
Add: Increase in inventory.....	<u> 7,000</u>
Cost of purchases	182,000
Deduct: Increase in accounts payable.....	<u> 9,000</u>
Cash payments to suppliers	<u>\$173,000</u>
(3) Cash payments for operating expenses	
Operating expenses	\$ 24,000
Deduct: Depreciation.....	<u> 14,500</u>
Cash payments for operating expenses	<u>\$ 9,500</u>
(4) Cash payments for income taxes	
Income tax expense	\$ 8,000
Add: Decrease in income taxes payable.....	<u> 1,000</u>
Cash payments for income taxes	<u>\$ 9,000</u>

(b) \$31,500 – \$0 – \$20,000 = \$11,500

PROBLEM 17-9A

CHENG INC.
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$158,900
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$46,500	
Loss on disposal of plant assets	7,500	
Increase in accounts payable.....	44,700	
Decrease in accrued expenses payable	(500)	
Increase in prepaid expenses	(2,400)	
Increase in inventory	(14,650)	
Increase in accounts receivable.....	<u>(59,800)</u>	<u>21,350</u>
Net cash provided by operating activities		180,250
Cash flows from investing activities		
Sale of plant assets	1,500	
Purchase of investments.....	(29,000)	
Purchase of plant assets.....	<u>(85,000)</u>	
Net cash used by investing activities		(112,500)
Cash flows from financing activities		
Issuance of common stock	45,000	
Redemption of bonds	(40,000)	
Payment of cash dividends.....	<u>(40,350)</u>	
Net cash used by financing activities		<u>(35,350)</u>
Net increase in cash.....		32,400
Cash at beginning of period		<u>48,400</u>
Cash at end of period.....		<u>\$ 80,800</u>

***PROBLEM 17-10A**

**CHENG INC.
Statement of Cash Flows
For the Year Ended December 31, 2014**

Cash flows from operating activities		
Cash receipts from customers		\$332,980 (1)
Less cash payments:		
To suppliers.....	\$105,410 (2)	
For income taxes.....	27,280	
For operating expenses.....	15,310 (3)	
For interest	<u>4,730</u>	<u>152,730</u>
Net cash provided by operating activities.....		180,250
Cash flows from investing activities		
Sale of plant assets	1,500	
Purchase of investments	(29,000)	
Purchase of plant assets.....	<u>(85,000)</u>	
Net cash used by investing activities.....		(112,500)
Cash flows from financing activities		
Issuance of common stock.....	45,000	
Redemption of bonds.....	(40,000)	
Payment of cash dividends.....	<u>(40,350)</u>	
Net cash used by financing activities.....		<u>(35,350)</u>
Net increase in cash.....		32,400
Cash at beginning of period		<u>48,400</u>
Cash at end of period.....		<u>\$ 80,800</u>
Computations:		
(1) Cash receipts from customers		
Sales revenue.....		\$392,780
Deduct: Increase in accounts receivable.....		<u>(59,800)</u>
Cash receipts from customers.....		<u>\$332,980</u>

***PROBLEM 17-10A (Continued)**

(2) Cash payments to suppliers

Cost of goods sold		\$135,460
Add: Increase in inventory		<u>14,650</u>
Cost of purchases		150,110
Deduct: Increase in accounts payable		<u>44,700</u>
Cash payments to suppliers		<u><u>\$105,410</u></u>

(3) Cash payments for operating expenses

Operating expenses exclusive of depreciation.....			\$ 12,410
Add: Increase in prepaid expenses	\$2,400		
Decrease in accrued expenses payable		<u>500</u>	<u>2,900</u>
Cash payment for operating expenses			<u><u>\$ 15,310</u></u>

PROBLEM 17-11A

ROTHLISBERGER COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities	
Net income	\$ 42,000
Adjustments to reconcile net income	
to net cash provided by operating activities	
Depreciation expense	\$42,000
Loss on disposal of equipment.....	4,000*
Decrease in accounts receivable	21,000
Increase in accounts payable.....	7,730
Decrease in prepaid expenses	5,720
Increase in inventory	(9,450)
Net cash provided by operating activities.....	<u>71,000</u>
	113,000
Cash flows from investing activities	
Sale of land	25,000
Sale of equipment.....	6,000
Purchase of equipment	<u>(88,000)</u>
Net cash used by investing activities	(57,000)
Cash flows from financing activities	
Payment of cash dividends.....	<u>(20,000)</u>
Net increase in cash.....	36,000
Cash at beginning of period	<u>45,000</u>
Cash at end of period.....	<u>\$ 81,000</u>
<u>Noncash investing and financing activities</u>	
Conversion of bonds by issuance	
of common stock	<u>\$ 40,000</u>

*(**\$6,000 – \$10,000**)

***PROBLEM 17-12A**

OAKLEY COMPANY
Worksheet—Statement of Cash Flows
For the Year Ended December 31, 2014

<u>Balance Sheet Accounts</u>	<u>Balance 12/31/13</u>	<u>Reconciling Items</u>		<u>Balance 12/31/14</u>
		<u>Debit</u>	<u>Credit</u>	
<u>Debits</u>				
Cash	47,250	(m) 35,450		82,700
Accounts receivable	57,000	(a) 33,800		90,800
Inventory	102,650	(b) 24,250		126,900
Investments	87,000		(e) 2,500	84,500
Plant assets	<u>205,000</u>	(f) 97,000	(h) 47,000	<u>255,000</u>
Totals	<u>498,900</u>			<u>639,900</u>
<u>Credits</u>				
Accumulated depreciation—plant assets	40,000	(h) 40,200	(g) 49,700	49,500
Accounts payable	48,280		(c) 9,420	57,700
Accrued expenses payable	18,830	(d) 6,730		12,100
Bonds payable	70,000		(i) 30,000	100,000
Common stock	200,000		(j) 50,000	250,000
Retained earnings	<u>121,790</u>	(l) 83,400	(k) 132,210	<u>170,600</u>
Totals	<u>498,900</u>			<u>639,900</u>

Statement of Cash Flow Effects

Operating activities				
Net income		(k) 132,210		
Increase in accounts receivable			(a) 33,800	
Increase in inventory			(b) 24,250	
Increase in accounts payable		(c) 9,420		
Decrease in accrued expenses payable			(d) 6,730	
Depreciation expense		(g) 49,700		
Gain on disposal of plant assets			(h) 8,750	
Investing activities				
Sale of investments		(e) 2,500		
Sale of plant assets		(h) 15,550		
Purchase of plant assets			(f) 97,000	
Financing activities				
Issuance of common stock		(j) 50,000		
Issuance of bonds		(i) 30,000		
Payment of dividends			(l) 83,400	
Totals		<u>610,210</u>		<u>574,760</u>
Increase in cash			(m) 35,450	
Totals		<u>610,210</u>		<u>610,210</u>

PROBLEM 17-1B

	Transaction	SCF Activity Affected	Cash inflow, outflow, or no cash flow effect?
(a)	Recorded depreciation expense on the plant assets.	O	No cash flow effect
(b)	Incurred a loss on disposal of plant assets.	O	No cash flow effect
(c)	Acquired a building by paying cash.	I	Cash outflow
(d)	Made principal repayments on a mortgage.	F	Cash outflow
(e)	Issued common stock	F	Cash inflow
(f)	Purchased shares of another company to be held as a long-term equity investment.	I	Cash outflow
(g)	Paid cash dividends to common stockholders.	F	Cash outflow
(h)	Sold inventory on credit. The company uses a perpetual inventory system.	O	No cash flow effect
(i)	Purchased inventory on credit.	O	No cash flow effect
(j)	Paid wages to employees.	O	Cash outflow

PROBLEM 17-2B

(a) Cash inflows (outflows) related to plant assets 2014:

Equipment purchase	(\$95,000)
Land purchase	(30,000)
Proceeds from equipment sales	11,000*

*Cost of equipment sold \$240,000 + \$95,000 – \$300,000 = \$35,000

Accumulated depreciation removed from accounts for sale of equipment

Accumulated Depreciation—		
Equipment		
	96,000	
Plug 16,000	64,000	Depreciation Expense
	144,000	

Cash proceeds = Cost \$35,000 – accumulated depreciation \$16,000 – loss \$8,000 = \$11,000

Note to instructor—some students may find journal entries helpful in understanding this exercise.

Equipment.....	95,000	
Cash.....		95,000
Land.....	30,000	
Cash.....		30,000
Cash (plug)	11,000	
Accumulated Depreciation—Equipment.....	16,000	
Loss on Disposal of Plant Assets	8,000	
Equipment		35,000

(b) Equipment purchase	Investing activities (outflow)
Land purchase	Investing activities (outflow)
Proceeds from equipment sale	Investing activities (inflow)

PROBLEM 17-3B

**EICHORN COMPANY
Partial Statement of Cash Flows
For the Year Ended December 31, 2014**

Cash flows from operating activities		
Net income		\$1,020,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$105,000	
Amortization expense	20,000	
Decrease in accounts receivable	320,000	
Increase in inventory	(120,000)	
Increase in prepaid expenses	(175,000)	
Increase in accounts payable	50,000	
Increase in accrued expenses payable	<u>155,000</u>	<u>355,000</u>
Net cash provided by operating activities		<u><u>\$1,375,000</u></u>

***PROBLEM 17-4B**

EICHORN COMPANY
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers.....		\$5,720,000 (1)
Less cash payments:		
To suppliers.....	\$3,380,000 (2)	
For operating expenses	<u>965,000 (3)</u>	<u>4,345,000</u>
Net cash provided by operating activities		<u>\$1,375,000</u>

Computations:

(1) Cash receipts from customers		
Sales revenue		\$5,400,000
Add: Decrease in accounts receivable		<u>320,000</u>
Cash receipts from customers		<u>\$5,720,000</u>
(2) Cash payments to suppliers		
Cost of goods sold.....		\$3,310,000
Add: Increase in inventory		<u>120,000</u>
Cost of purchases		3,430,000
Deduct: Increase in accounts payable.....		<u>(50,000)</u>
Cash payments to suppliers.....		<u>\$3,380,000</u>
(3) Cash payments for operating expenses		
Operating expenses		\$ 945,000
Add: Increase in prepaid expenses.....	\$ 175,000	
Deduct: Increase in accrued expenses payable	<u>(155,000)</u>	<u>20,000</u>
Cash payments for operating expenses.....		<u>\$ 965,000</u>

PROBLEM 17-5B

DARBYSHIRE INC.
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$109,000
Adjustments to reconcile net income		
to net cash provided by operating activities		
Decrease in accounts receivable	\$ 20,000	
Decrease in accounts payable	(21,000)	
Increase in income taxes payable.....	<u>6,000</u>	<u>5,000</u>
Net cash provided by operating activities		<u>\$114,000</u>

***PROBLEM 17-6B**

**DARBYSHIRE INC.
Partial Statement of Cash Flows
For the Year Ended December 31, 2014**

Cash flows from operating activities		
Cash receipts from customers.....		\$565,000 (1)
Less cash payments:		
For operating expenses	\$421,000 (2)	
For income taxes.....	<u>30,000 (3)</u>	<u>451,000</u>
Net cash provided by operating activities		<u>\$114,000</u>
(1) <u>Computation of cash receipts from customers</u>		
Service revenue		\$545,000
Add: Decrease in accounts receivable (\$70,000 – \$50,000)		<u>20,000</u>
Cash receipts from customers.....		<u>\$565,000</u>
(2) <u>Computation of cash payments for operating expenses</u>		
Operating expenses.....		\$400,000
Add: Decrease in accounts payable (\$51,000 – \$30,000)		<u>21,000</u>
Cash payments for operating expenses		<u>\$421,000</u>
(3) Income tax expense.....		\$ 36,000
Deduct: Increase in income taxes payable (\$10,000 – \$4,000)		<u>(6,000)</u>
Cash payments for income taxes		<u>\$ 30,000</u>

PROBLEM 17-7B

(a)

JOHNSTON COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income.....		\$28,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense.....	\$ 8,000	
Increase in accounts receivable.....	(11,000)	
Increase in inventory.....	(16,000)	
Decrease in accounts payable.....	(12,000)	
Increase in income taxes payable	<u>4,000</u>	<u>(27,000)</u>
Net cash provided by operating activities		1,000
Cash flows from investing activities		
Sale of equipment	10,000	
Purchase of equipment.....	<u>(7,000)</u>	
Net cash provided by investing activities		3,000
Cash flows from financing activities		
Issuance of bonds.....	10,000	
Payment of cash dividends	<u>(23,000)</u>	
Net cash used by financing activities		<u>(13,000)</u>
Net decrease in cash		(9,000)
Cash at beginning of period		<u>33,000</u>
Cash at end of period		<u>\$24,000</u>

(b) $\$1,000 - \$7,000 - \$23,000 = (\$29,000)$

*PROBLEM 17-8B

(a) **JOHNSTON COMPANY**
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers		\$275,000 (1)
Less cash payments:		
To suppliers	\$232,000 (2)	
For operating expenses		
(\$37,000 – \$8,000)	29,000	
For interest.....	7,000	
For income taxes	<u>6,000 (3)</u>	<u>274,000</u>
Net cash provided by operating activities		1,000
 Cash flows from investing activities		
Sale of equipment	10,000	
Purchase of equipment.....	<u>(7,000)</u>	
Net cash provided by investing activities.....		3,000
 Cash flows from financing activities		
Issuance of bonds.....	10,000	
Payment of cash dividends	<u>(23,000)</u>	
Net cash used by financing activities		<u>(13,000)</u>
Net decrease in cash		(9,000)
Cash at beginning of period.....		<u>33,000</u>
Cash at end of period		<u>\$ 24,000</u>

Computations:

(1) Cash receipts from customers		
Sales revenue		\$286,000
Deduct: Increase in accounts receivable		<u>(11,000)</u>
Cash receipts from customers		<u>\$275,000</u>

***PROBLEM 17-8B (Continued)**

(2) Cash payments to suppliers

Cost of goods sold	\$204,000
Add: Increase in inventory.....	<u>16,000</u>
Cost of purchases	220,000
Add: Decrease in accounts payable.....	<u>12,000</u>
Cash payments to suppliers	<u>\$232,000</u>

(3) Cash payments for income taxes

Income tax expense	\$ 10,000
Deduct: Increase in income taxes payable	<u>(4,000)</u>
Cash payments for income taxes	<u>\$ 6,000</u>

(b) \$1,000 – \$7,000 – \$23,000 = (\$29,000)

PROBLEM 17-9B

SAFFORDVILLE COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$ 112,660
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$ 30,500	
Gain on disposal of plant assets.....	(5,000)	
Increase in accounts receivable.....	(23,800)	
Increase in inventory	(24,250)	
Increase in accounts payable.....	9,420	
Decrease in accrued expenses payable.....	<u>(3,730)</u>	<u>(16,860)</u>
Net cash provided by operating activities		95,800
Cash flows from investing activities		
Sale of investments	27,500	
Sale of plant assets	15,000	
Purchase of plant assets.....	<u>(146,000)</u>	
Net cash used by investing activities		(103,500)
Cash flows from financing activities		
Issuance of bonds	75,000	
Issuance of common stock.....	50,000	
Payment of cash dividends.....	<u>(48,000)</u>	
Net cash provided by financing activities		<u>77,000</u>
Net increase in cash.....		69,300
Cash at beginning of period		<u>33,400</u>
Cash at end of period.....		<u>\$ 102,700</u>

***PROBLEM 17-10B**

SAFFORDVILLE COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers		\$273,700 (1)
Less cash payments:		
To suppliers.....	\$ 114,290 (2)	
For income taxes.....	37,270	
For operating expenses	23,400 (3)	
For interest	<u>2,940</u>	<u>177,900</u>
Net cash provided by operating activities.....		95,800
 Cash flows from investing activities		
Sale of plant assets	15,000	
Sale of investments	27,500	
Purchase of plant assets.....	<u>(146,000)</u>	
Net cash used by investing activities.....		(103,500)
 Cash flows from financing activities		
Issuance of common stock.....	50,000	
Issuance of bonds	75,000	
Payment of cash dividends.....	<u>(48,000)</u>	
Net cash provided by financing activities		<u>77,000</u>
Net increase in cash.....		69,300
Cash at beginning of period		<u>33,400</u>
Cash at end of period.....		<u>\$102,700</u>

***PROBLEM 17-10B (Continued)**

Computations:

(1) Cash receipts from customers	
Sales revenue	\$297,500
Deduct: Increase in accounts receivable	<u>(23,800)</u>
Cash receipts from customers	<u>\$273,700</u>
(2) Cash payments to suppliers	
Cost of goods sold	\$ 99,460
Add: Increase in inventory	<u>24,250</u>
Cost of purchases	123,710
Deduct: Increase in accounts payable.....	<u>(9,420)</u>
Cash payments to suppliers.....	<u>\$114,290</u>
(3) Cash payments for operating expenses	
Operating expenses	\$ 19,670
Add: Decrease in accrued expenses payable	<u>3,730</u>
Cash payments for operating expenses	<u>\$ 23,400</u>

PROBLEM 17-11B

PESTER COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities	
Net income	\$47,890
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation expense	\$ 55,000
Gain on disposal of equipment	(4,000)*
Increase in accounts receivable	(13,000)
Increase in inventory	(32,000)
Decrease in prepaid expenses	4,400
Increase in accounts payable.....	<u>13,000</u>
Net cash provided by operating activities.....	<u>23,400</u> 71,290
 Cash flows from investing activities	
Sale of land	40,000
Sale of equipment.....	37,000
Purchase of equipment	<u>(80,000)</u>
Net cash used by investing activities	(3,000)
 Cash flows from financing activities	
Payment of cash dividends.....	<u>(84,290)</u>
 Net decrease in cash.....	
	(16,000)
Cash at beginning of period	<u>57,000</u>
Cash at end of period.....	<u><u>\$41,000</u></u>
 <u>Noncash investing and financing activities</u>	
Conversion of bonds by issuance of stock	<u><u>\$30,000</u></u>

*(\$37,000 – \$33,000)

- (a) Net cash provided by operating activities:
- | | |
|------|------------------|
| 2011 | \$37,529 million |
| 2010 | \$18,595 million |
- (b) The decrease in cash and cash equivalents for the year ended September 24, 2011 was \$1,446 million, and the increase was \$5,998 million for the year ended September 25, 2010.
- (c) Apple uses the indirect method of computing and presenting the net cash provided by operating activities.
- (d) The change in accounts receivable provided cash of \$143 million in 2011. The change in inventories provided cash of \$275 million in 2011. The change in accounts payable provided cash of \$2,515 million in 2011.
- (e) The net cash used by investing activities in 2011 was \$40,419 million.
- (f) Under the “Supplemental cash flow disclosure” section cash flow information disclosed income taxes paid of \$3,338 million in 2011.

		<u>PepsiCo</u>	<u>Coca-Cola</u>
(a)	$\$8,944 - \$3,339 - \$3,157 =$	$\$2,448$	
	$\$9,474 - \$2,920 - \$4,300 =$		$\$2,254$

All amounts in millions

- (b) The companies are similar in their ability to generate cash. Both had a significant amount of “free cash” available after covering capital expenditures and cash dividends.

		<u>Amazon</u>	<u>Wal-Mart</u>
(a)	\$3,903 – \$1,811 – \$0 =	\$2,092	
	\$24,255 – \$13,510 – \$5,048 =		\$5,697

All amounts in millions

- (b) Both companies had a significant amount of “free cash” available after covering capital expenditures and cash dividends (for Wal-Mart). Wal-Mart’s free cash flow is over 2 and a half times as large as Amazon’s, even after paying over \$5,000 million more dividends.

- (a) **Crucial to the SEC's effectiveness is its enforcement authority. Each year the SEC brings hundreds of civil enforcement actions against individuals and companies that break the securities laws. Typical infractions include insider trading, accounting fraud, and providing false or misleading information about securities and the companies that issue them.**
- (b) **The main purposes of these laws can be reduced to two common-sense notions:**
- ▶ **Companies publicly offering securities for investment dollars must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing.**
 - ▶ **People who sell and trade securities—brokers, dealers, and exchanges—must treat investors fairly and honestly, putting investors' interests first.**
- (c) **President Franklin Delano Roosevelt appointed Joseph P. Kennedy, President John F. Kennedy's father, to serve as the first Chairman of the SEC.**

Answers will vary depending on the company chosen by the student.

(a)

GUTHRIE COMPANY
Statement of Cash Flows
For the Year Ended January 31, 2014

Cash flows from operating activities		
Net loss		\$ (30,000)*
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense.....	\$ 55,000	
Gain from sale of investment.....	<u>(5,000)</u>	<u>50,000</u>
Net cash provided by operating activities		20,000
Cash flows from investing activities		
Sale of investment	80,000	
Purchase of investment.....	(75,000)	
Purchase of fixtures and equipment.....	<u>(330,000)</u>	
Net cash used by investing activities		(325,000)
Cash flows from financing activities		
Sale of capital stock.....	420,000	
Purchase of treasury stock	<u>(10,000)</u>	
Net cash provided by financing activities		<u>410,000</u>
Net increase in cash		105,000
Cash at beginning of period		<u>140,000</u>
Cash at end of period		<u>\$245,000</u>
<u>Noncash investing and financing activities</u>		
Issuance of note for truck		<u>\$ 20,000</u>

BYP 17-6 (Continued)

***Computation of net income (loss)**

Sales of merchandise		\$380,000
Interest revenue.....		6,000
Gain on sale of investment (\$80,000 – \$75,000)		<u>5,000</u>
Total revenues and gains.....		391,000
Merchandise purchased	\$258,000	
Operating expenses (\$160,000 – \$55,000)	105,000	
Depreciation	55,000	
Interest expense	<u>3,000</u>	
Total expenses.....		<u>421,000</u>
Net loss		<u>\$ (30,000)</u>

- (b) From the information given, it appears that from an operating standpoint, Guthrie Company did not have a superb first year, having suffered a \$30,000 net loss. Mary is correct; the statement of cash flows is not prepared in correct form. The correct format classifies cash flows from three activities—operating, investing, and financing; and it also presents significant noncash investing and financing activities in a separate schedule. Mary is wrong, however, about the actual increase in cash not being \$105,000; \$105,000 is the correct increase in cash.

MEMO

To: Will Hardin

From: Student

Re: Statement of cash flows

The statement of cash flows provides information about the cash receipts and cash payments of a firm, classified as operating, investing, and financing activities. The operating activities section of the company's statement of cash flows shows that cash increased by \$172,000 as a result of transactions which affected net income. This amount is computed by adjusting net income for those items which affect net income, but do not affect cash, such as sales on account which remain uncollected at year-end.

The investing activities section of the statement reports cash flows resulting from changes in investments and other long-term assets. The company had a cash outflow from investing activities due to purchases of buildings and equipment.

The financing activities section of the statement reports cash flows resulting from changes in long-term liabilities and stockholders' equity. The company had a cash inflow from financing activities due to the issuance of common stock and an outflow due to the payment of cash dividends.

If you have any further questions, please do not hesitate to contact me.

- (a) **The stakeholders in this situation are:**
Samuel Gunkle, president of Wesley Corporation.
Gerald Rondelli, controller.
The Board of Directors.
The stockholders of Wesley Corporation.
- (b) **The president’s statement, “We must get that amount above \$1 million,” puts undue pressure on the controller. This statement along with his statement, “I know you won’t let me down, Gerald,” encourages Gerald to do something unethical.**

Controller Gerald Rondelli’s reclassification (intentional misclassification) of a cash inflow from a long-term note (financing activity) issuance to an “increase in payables” (operating activity) is inappropriate and unethical.

- (c) **It is unlikely that any board members (other than board members who are also officers of the company) would discover the misclassification. Board members generally do not have detailed enough knowledge of their company’s transactions to detect this misstatement. It is possible that an officer of the bank that made the loan would detect the misclassification upon close reading of Wesley Corporation’s statement of cash flows. It is also possible that close scrutiny of the balance sheet showing an increase in notes payable (long-term debt) would reveal that there is no comparable financing activity item (proceeds from note payable) in the statement of cash flows.**

- (a) The article describes three factors that determine how much money you should set aside. (1) *Your willingness to take risk.* You need to evaluate how willing you are to experience wide swings in your financial position. (2) *Your needs.* You need to carefully evaluate your situation and evaluate the possibility of various events and what the financial implications would be. This is also impacted by the number of dependents you have. (3) *Your upcoming expenses.* Here you need to look further out into the horizon and consider the implications of larger events such as a big trip, a wedding, or education costs.
- (b) They recommend having at least three months of living expenses set aside, and up to six months.
- (c) Responses to this question will vary. What is most important is that students begin the process of considering their cash needs and developing a plan to set aside enough money to provide a cushion in the event of a financial “hiccup.”

- (a) Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:
- a. Readily convertible to known amounts of cash
 - b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

- (b) Financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; receiving restricted resources that by donor stipulation must be used for long-term purposes; borrowing money and repaying amounts borrowed, or otherwise setting the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.
- (c) Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the entity (other than materials that are part of the entity's inventory). Investing activities exclude acquiring and disposing of certain loans or other debt or equity instruments that are acquired specifically for resale, as discussed in paragraph 230-10-45-12 and 230-10-45-21.

BYP 17-10 (Continued)

- (d) **Operating activities include all transactions and other events that are not defined as investing or financing activities (see paragraph 230-10-45-12 through 45-15). Operating activities generally involve producing and delivering goods and providing services. Cash flow from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.**
- (e) **The primary objective of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period.**

As indicated in the glossary at this same section, cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty. All charges and credits to those accounts are cash receipts or payments to both the entity owning the account and the bank holding it. For example, a bank's granting of a loan by crediting the proceeds to a customer's demand deposit account is a cash payment by the bank and a cash receipt of the customer when the entry is made.

Thus, the basis for the statement of cash flows is cash, not broader measures of liquidity, like working capital.

- (f) **Information about all *investing* and *financing activities* of an entity during a period that affect recognized assets or liabilities but that do not result in cash receipts or *cash* payments in the period shall be disclosed. Those disclosures may be either narrative or summarized in a schedule, and they shall clearly relate the cash and noncash aspects of transactions involving similar items.**

IFRS EXERCISES

IFRS 17-1

Under IFRS bank overdrafts are treated as part of cash and cash equivalents on the balance sheet. As a result, on the statement of cash flows they are part of the change in cash in cash equivalents. In contrast, under GAAP they are treated as a liability on the balance sheet, as a source of financing on the statement of cash flows.

IFRS 17-2

The treatment of these items under IFRS and GAAP is as follows:

	IFRS	GAAP
(a) Interest paid	Operating or financing	Operating
(b) Interest received	Operating or investing	Operating
(c) Dividends paid	Operating or financing	Financing
(d) Dividends received	Operating or investing	Operating

IFRS 17-3

In the future cash equivalents will probably not be combined with cash. Instead they will most likely be reported separately, as a type of short term investment.

- (a) The company reports interest paid as an operating activity.
- (b) Zetar's balance in cash and cash equivalents is negative because the company has £4,282 thousand of cash, but it has £12,923 of bank overdrafts. Bank overdrafts are a form of negative cash, so the company reports negative cash and cash equivalents of £8,641.
- (c) Under GAAP bank overdrafts are not reported in cash and cash equivalents. Instead they are treated as a financing activity, and would be reported on the balance sheet as a liability.
- (d) The components of the "net movement in working capital" are reported on the face of the statement of cash flows as

Decrease in inventory	£ 72
Increase in receivables	(5,295)
Decrease in payables	<u>(817)</u>
	<u>(£6,040)</u>

