# Espresso Cash Flow Statement Solution

Attached is Espresso’s 2018 Financial Statements. Using the information found on the cash flow statement, answer the following questions.

1. Why is the deferral of unearned revenue and recognition of unearned revenue included in the adjustments to reconcile net income to net cash from operations?

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| *The unearned revenue item adjustments are made to reflect the actual cash flows from revenues. Unearned revenue is an accrual based accounting adjustment, where revenues that are collected but are not earned are not recognized as revenue and therefore is not included in net income until a later date. Because net income is the starting figure, adjusting these amounts on the statement of cash flows is done to include the revenue received but not yet recorded in the income statement.* |

2. Has Espresso generated enough cash from operations to fund its investing activities?

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| *Yes. Espresso generated $24,073million compared to its investing activities of $11,314million. After investing activities, it has $12,759million remaining.* |

3. Why does Espresso show excess tax benefits from stock-based compensation in both its operating activities and its financing activities?

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| *The excess tax benefits are reflected in net income, and are considered a cash item. However, as the tax benefits are related to the stock/shares of the company, they are more accurately reflected as a financing activity rather than an operating activity.* |

4. What was the cash value of common stock repurchased by Espresso in 2018? Why would Espresso repurchase its shares?

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| *The cash value of common stock repurchased in 2018 was $11,269million. When a company has excess cash, it is not uncommon for it to repurchase its own shares as a way of reducing its equity (ie, reducing the number of shares held by the public) and increasing the value of its equity for existing and future investors (as earnings per share will increase due to the lower number of shares outstanding).* |

5. What was the final net cash movement for 2018? Why do you think Espresso had this result?

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| *The final cash movement was a use of $571million. If you look at Espresso’s cash balance, it is holding a significant amount of cash and cash equivalents ($5,505million in 2018). Therefore, it participated in more financing activities to restructure its capital (less equity, slightly more debt) to help it remain financially stable in future years.* |

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