ACC1701X
ACCOUNTING FOR DECISION MAKERS
SEMESTER 1 2022 / 2023

TUTORIAL 10 ANSWER SOLUTION

Statement of Cash Flows

Understanding Financial Statements – Samsung

(a) Analyze Samsung's Statement of Cash Flows, what pattern can you identify from its three sections (operating, investing and financing) for the years 2021 and 2020, and how would you interpret it? Is there a net positive or negative cash flow for these two years?

Positive inflow of cash from operating activities for both years. Negative outflow of cash for investing and financing activities for both years. However, there is still a net positive cash flow for 2021 and 2020. Such a pattern indicates that Samsung is generating positive cash flows from its operations and is using those funds to invest in fixed assets and pay down its debts or distribute to its owners as dividends.

(b) The largest outflow of cash for Samsung in 2021 for its investing activities is the acquisition of PPE. Why do you think the acquisition of PPE figure reported on the Statement of Cash Flows does not tie with the acquisition of PPE figure disclosed in Note 10?

The SCF reflects the amount of cash that was paid out in 2021 for the acquisition of PPE, which is ₩47,122,106. Note 10 however, shows the total acquisition cost of PPE in 2021 including non-cash purchases (e.g. PPE bought on credit), which is ₩49,965,164. Thus, the two acquisition of PPE figures are not the same.

(c) What is the largest outflow of cash for Samsung for its financing activities in 2021 and 2020?

Dividends payment of ₩20,510,350 and ₩9,676,760 in 2021 and 2020 respectively.

SSA Textbook Tutorial Assignment:

E 14-11 (LO4) Cash Flows Provided by Operations (Indirect Method)

Operating activities:	
Net income	**$ 90,000**
Add (deduct) adjustments to cash basis:	
Interest expense	**3,500***
Depreciation	**65,000**
Decrease in accounts receivable	**13,000**
Increase in inventory	**(8,000)**
Decrease in accounts payable	**(3,400)**
Net cash flows from operating activities	**$160,100**

**The question indicated that if an item has alternative classification, to not classify as operating cash flows. Since interest paid has alternative classification (it can be reported in the financing activities section), we do not include it in operating activities as per the question's requirement.*

Clarification Note: In the lectures, it was indicated that for the purpose of this module, interest paid will always be classified as operating activities. So, unless the question specifically indicates to not treat it as operating activities (as what E14-11 above has done), we will always classify interest paid under operating activities.

The following spreadsheet may also be helpful in explaining the adjustments from accrual-basis Income Statement to cash-basis Cash Flows from Operations:

	Income Statement	*Adjustments*		*Cash Flows from Operations*
Sales revenue	*$600,000*	*13,000*	*Cash collected from customers*	*$613,000(1)*
Cost of goods sold	*–400,000*	*–8,000*	*Cash paid for inventory*	*–411,400(2)*
		–3,400		
Depreciation expense	*–65,000*	*65,000*	*Cash paid for depreciation*	*0*
Interest expense	*–3,500*	*+ 3,500*	*Cash paid for interest*	*0*
Other expenses	*–41,500*	*0*	*Cash paid for other expenses*	*–41,500*
Net income	*$ 90,000*		*Cash flows from operating activities*	*$160,100*

(1) Using T-account reconstruction analysis, cash collected from customers can be calculated by analyzing the accounts receivable account movement to calculate cash received from customers:

Accounts Receivable

Beginning	$	48,000			
Sales Rev	$	600,000	Cash Receipts	$	613,000
Ending	$	35,000			

(2) Using T-account reconstruction analysis, cash paid to customers can be calculated by first analyzing the inventory account to find out how much purchases was made during the period, and then analyzing the accounts payable account to calculate cash paid:

Inventory					
Beginning	$	47,000			
Purchases	$	408,000	COGS	$	400,000
Ending	$	55,000			

Accounts Payable					
			Beginning	$	64,400
			Purchases	$	408,000
Cash Paid	$	411,400			
			Ending	$	61,000

P 14-14 (LO4, LO5, LO6) Statement of Cash Flows (Indirect Method)

Geoffrey Corporation
Statement of Cash Flows
For the Year Ended December 31, 2022

Operating activities		
Net income		**$9,650**
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation expense	**$ 3,100[1]**	
Loss on disposal of equipment	**2,000[2]**	
Increase in accounts payable	**1,750**	
Increase in accounts receivable	**(1,450)**	**5,400**
Net cash flows from operating activities		**15,050**
Investing activities		
Sale of equipment	**1,900**	
Purchase of investments	**(4,500)**	
Net cash flows from investing activities		**(2,600)**
Financing activities		
Issuance of ordinary shares	**2,500**	
Retirement of bonds	**(10,000)**	
Payment of dividends	**(7,700)**	
Net cash flows from financing activities		**(15,200)**
Net decrease in cash		**(2,750)**
Beginning cash balance		**8,850**
Ending cash balance		**$ 6,100**

(1) Depreciation Expense reported during the period can be calculated by analyzing the Accumulated Depreciation account:

Accumulated Depreciation				
		Beginning	$	5,000
		Depreciation Expense	$	3,100
Disposed Equipment	$ 1,100			
		Ending	$	7,000

Depreciation Expense = [$7,000 – ($5,000 – $1,100)] = $3,100

(2) Loss on Disposal of Equipment
= Proceeds from Sale – (Acquisition Cost – Accumulated Depreciation)
= $1,900 – ($5,000 – $1,100)
= -$2,000