

CHAPTER 13

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, 6,15					
2. Distinguish among operating, investing, and financing activities.	3, 4, 5, 6, 7, 8, 9	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.	16, 17, 18, 19	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.	20	15		14	12A	

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendix 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 FINANCIAL ACCOUNTING, IFRS EDITION, 3e
CHAPTER 13
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	4–6
BE13	5	AP	Simple	2–4
BE14	5	AP	Simple	3–5
BE15	6	AP	Moderate	3–5
DI1	2	C	Simple	2–4
DI2	3	AP	Simple	4–6
DI3	4	AN	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	16–20
EX11	5	AP	Moderate	6–8
EX12	5	AP	Moderate	6–8
EX13	5	AP	Simple	5–7

STATEMENT OF CASH FLOWS (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX14	6	AP	Moderate	6–8
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	—	C	Simple	15–20
BYP4	—	C	Simple	10–15
BYP5	3	AP, E	Moderate	25–30
BYP6	3	AP	Simple	10–15
BYP7	2	E	Simple	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.	Q13-4	Q13-1 Q13-2	Q13-15			
2. Distinguish among operating, investing, and financing activities.	Q13-4 Q13-6 BE13-1	Q13-3 Q13-5 Q13-7 Q13-8 Q13-9	BE13-2 DI13-1 E13-1 E13-2 P13-1A P13-1B	BE13-3 E13-3		
3. Prepare a statement of cash flows using the indirect method.	Q13-13	Q13-10 Q13-11 Q13-12 Q13-14	BE13-4 BE13-5 BE13-6 DI13-2 E13-4 E13-5 E13-7	E13-8 E13-9 P13-3A P13-5A P13-7A P13-9A P13-11A	P13-3B P13-5B P13-7B P13-9B P13-11B	BE13-7 E13-6 P13-2A P13-2B P13-7A P13-7B
4. Analyze the statement of cash flows.			E13-7 E13-9 P13-7A P13-8A P13-7B	P13-8B	BE13-8 BE13-9 BE13-10 BE13-11 DI13-3	P13-7A P13-8A P13-7B P13-8B
*5. Prepare a statement of cash flows using the direct method.	Q13-17 Q13-18	Q13-8 Q13-16	Q13-19 BE13-12 BE13-13 BE13-14 E13-10 E13-11	E13-12 E13-13 P13-4A P13-6A P13-8A P13-10A	P13-4B P13-6B P13-8B P13-10B	P13-8A P13-8B
*6 Explain how to use a worksheet to prepare the statement of cash flows using the indirect method.		Q13-20	BE13-15 E13-14 P13-12A			
Broadening Your Perspective		Real-World Focus	Comparative Analysis Decision Making Across the Organization Communication	Financial Reporting		Comp. Analysis Decision Making Across the Organization Ethics Case

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 shareholders, 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 ordinary shares; 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 ordinary shares; and the purchase of property, plant, and equipment.
5. The statement of cash flows presents investing and financing activities so that even non-cash transactions of an investing and financing nature are disclosed in the financial statements. If they affect financial conditions significantly, the IASB requires that they be disclosed in either a separate note or supplementary schedule to the financial statements.
6. Examples of significant non-cash activities are: (1) issuance of ordinary shares for assets, (2) conversion of bonds into ordinary shares, (3) issuance of bonds or notes for assets, and (4) exchanges of plant assets.
7. Comparative statements of financial position, a current income statement, and certain transaction data all provide information necessary for preparation of the statement of cash flows. Comparative statements of financial position 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 IASB expressed a preference for the direct method. Yet, the indirect method is the overwhelming favorite of companies.

Questions Chapter 13 (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 non-cash items included in net income. Examples of adjustments include depreciation and other non-cash expenses, gains and losses on the sale of non-current 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 ordinary shares, and (5) differences between cash and accrual accounting, e.g. depreciation.
13. Depreciation expense.
Gain or loss on sale of a non-current 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. 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 (used) by operating activities.”

Questions Chapter 13 (Continued)

***17.** (a) Cash receipts from customers = Revenues from sales $\begin{cases} + \text{Decrease in accounts receivable} \\ - \text{Increase in accounts receivable} \end{cases}$

(b) Purchases = Cost of goods sold $\begin{cases} + \text{Increase in inventory} \\ - \text{Decrease in inventory} \end{cases}$

Cash payments to suppliers = Purchases $\begin{cases} + \text{Decrease in accounts payable} \\ - \text{Increase in accounts payable} \end{cases}$

***18.** Sales revenue.....NT \$2,000,000
 Add: Decrease in accounts receivable 140,000
 Cash receipts from customersNT \$2,140,000

***19.** 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.

***20.** 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 13-1

- (a) Cash inflow from financing activity, ₺150,000.
- (b) Cash outflow from investing activity, ₺200,000.
- (c) Cash inflow from investing activity, ₺50,000.
- (d) Cash outflow from financing activity, ₺18,000.

BRIEF EXERCISE 13-2

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

BRIEF EXERCISE 13-3

Cash flows from financing activities

Proceeds from issuance of bonds payable	£460,000
Payment of dividends	<u>(40,000)</u>
Net cash provided by financing activities	<u>£420,000</u>

BRIEF EXERCISE 13-4

Net income	€2,000,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	€160,000
Accounts receivable increase	(350,000)
Accounts payable increase	<u>280,000</u> <u>90,000</u>
Net cash provided by operating activities	<u>€2,090,000</u>

BRIEF EXERCISE 13-5

Cash flows from operating activities

Net income		£250,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	£ 65,000	
Gain on disposal of plant assets	<u>(12,000)</u>	<u>53,000</u>
Net cash provided by operating activities..		<u>£303,000</u>

BRIEF EXERCISE 13-6

Net income.....		R\$250,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in prepaid expenses.....	R\$28,000	
Decrease in inventory	30,000	
Increase in accounts receivable	<u>(80,000)</u>	<u>(22,000)</u>
Net cash provided by operating activities		<u>R\$228,000</u>

BRIEF EXERCISE 13-7

Original cost of equipment sold.....	HK\$220,000
Less: Accumulated depreciation	<u>85,000</u>
Book value of equipment sold	135,000
Less: Loss on disposal of plant assets	<u>63,000</u>
Cash received from sale of equipment.....	<u>HK\$ 72,000</u>

BRIEF EXERCISE 13-8

$$\text{Free cash flow} = \$155,397,000 - \$130,820,000 - \$0 = \$24,577,000$$

BRIEF EXERCISE 13-9

$$\text{Free cash flow} = £420,000 - £250,000 - £0 = £170,000$$

BRIEF EXERCISE 13-10

$$\text{Free cash flow} = \$45,000,000 - \$1,400,000 = \$43,600,000$$

BRIEF EXERCISE 13-11

Free cash flow is cash provided by operations less capital expenditures and cash dividends paid. For Russel Ltd. this would be €289,000 (€643,000 – €274,000 – €80,000). 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 should also use the free cash flow to expand its operations or pay down its debt.

*BRIEF EXERCISE 13-12

$$\begin{array}{rcl} \text{Receipts from} & = & \text{Sales} \\ \text{customers} & & \text{revenues} \end{array} \left\{ \begin{array}{l} + \text{ Decrease in accounts receivable} \\ - \text{ Increase in accounts receivable} \end{array} \right.$$

$$\$1,022,679,000 = \$1,085,307,000 - \$62,628,000 \text{ (Increase in accounts receivable)}$$

*BRIEF EXERCISE 13-13

$$\begin{array}{rcl} \text{Cash payments} & = & \text{Income tax} \\ \text{for income taxes} & & \text{expense} \end{array} \left\{ \begin{array}{l} + \text{ Decrease in income taxes payable} \\ - \text{ Increase in income taxes payable} \end{array} \right.$$

$$£112,000,000 = £360,000,000 - £248,000,000^*$$

$$^*£525,000,000 - £277,000,000 = £248,000,000 \text{ (Increase in income taxes payable)}$$

*BRIEF EXERCISE 13-14

$$\begin{array}{rcl} \text{Cash} & & \text{Operating} \\ \text{payments for} & = & \text{expenses,} \\ \text{operating} & & \text{excluding} \\ \text{expenses} & & \text{depreciation} \end{array} \left\{ \begin{array}{l} + \text{ Increase in prepaid expenses} \\ - \text{ Decrease in prepaid expenses} \end{array} \right. \text{ and } \left\{ \begin{array}{l} + \text{ Decrease in accrued expenses payable} \\ - \text{ Increase in accrued expenses payable} \end{array} \right.$$

$$€59,100 = €70,000 - €6,800 - €4,100$$

***BRIEF EXERCISE 13-15**

<u>Statement of Financial Position</u>	<u>Balance 1/1/17</u>	<u>Reconciling Items</u>		<u>Balance 12/31/17</u>
		<u>Debit</u>	<u>Credit</u>	
Prepaid expenses	18,600		(a) 6,500	12,100
Accrued expenses payable	8,200		(b) 2,000	10,200
 <u>Statement of Cash Flow Effects</u>				
Operating activities				
Decrease in prepaid expenses		(a) 6,500		
Increase in accrued expenses payable		(b) <u>2,000</u>		
		<u>8,500</u>	<u>8,500</u>	

SOLUTIONS TO DO IT! REVIEW EXERCISES

DO IT! 13-1

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

DO IT! 13-2

Cash flows from operating activities

Net income		R\$100,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	R\$4,000	
Amortization expense	3,000	
Gain on disposal of equipment	(3,900)	
Decrease in accounts receivable	6,000	
Increase in accounts payable.....	<u>3,200</u>	<u>12,300</u>
Net cash provided by operating activities		<u>R\$112,300</u>

DO IT! 13-3

- (a) Free cash flow = €72,700 – €26,000 – €16,000 = €30,700
- (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 13-1

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

EXERCISE 13-2

- | | |
|--|--|
| (a) Operating activity. | (i) Operating activity. |
| (b) Non-cash investing and financing activity. | (j) Non-cash investing and financing activity. |
| (c) Investing activity. | (k) Investing activity. |
| (d) Financing activity. | (l) Non-cash 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 13-3

1. (a)

Cash.....	10,000	
Loss on Disposal of Plant Assets	2,000	
Land		12,000
- (b) The cash receipt (£10,000) is reported in the investing section. The loss (£2,000) is added to net income in the operating section.
2. (a)

Cash.....	18,000	
Share Capital-Ordinary		18,000
- (b) The cash receipt (£18,000) is reported in the financing section.
3. (a)

Depreciation Expense	14,000	
Accumulated Depreciation—		
Buildings.....		14,000
- (b) Depreciation expense (£14,000) is added to net income in the operating section.

EXERCISE 13-3 (Continued)

4. (a) Salaries and Wages Expense	7,000	
Cash.....		7,000

(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.....	9,000	
Share Capital-Ordinary.....		1,000
Share Premium-Ordinary		8,000

(b) The issuance of ordinary shares for equipment (£9,000) is reported as a non-cash financing and investing activity in a note to the financial statements.

6. (a) Cash	3,500	
Accumulated Depreciation—Equipment.....	8,000	
Equipment.....		10,000
Gain on Disposal of Plant Assets		1,500

(b) The cash receipt (£3,500) is reported in the investing section. The gain (£1,500) is deducted from net income in the operating section.

EXERCISE 13-4

BRACEWELL LTD.
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income		£195,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	£40,000	
Gain on disposal of plant assets	(5,000)	
Increase in accounts receivable.....	(15,000)	
Decrease in prepaid expenses	4,000	
Increase in accounts payable.....	<u>17,000</u>	<u>41,000</u>
Net cash provided by operating activities ...		<u>£236,000</u>

EXERCISE 13-5

NASREEN SA
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities

Net income		€147,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	€21,000	
Increase in accounts receivable	(31,000)	
Decrease in inventory	14,000	
Increase in prepaid expenses	(2,000)	
Decrease in accounts payable	(10,000)	
Increase in accrued expenses payable	<u>6,000</u>	<u>(2,000)</u>
Net cash provided by operating activities		<u>€145,000</u>

EXERCISE 13-6

CHAUDRY NV
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities

Net income		€ 67,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	€ 23,000	
Loss on disposal of plant assets	<u>5,000</u>	<u>28,000</u>
Net cash provided by operating activities.....		95,000

Cash flows from investing activities

Sale of plant assets	16,000*	
Construction of equipment	(53,000)	
Purchase of equipment	<u>(70,000)</u>	
Net cash used by investing activities		(107,000)

Cash flows from financing activities

Payment of cash dividends.....		(17,000)
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*Cost of equipment sold.....	€ 49,000
Accumulated depreciation.....	<u>(28,000)</u>
Book value	21,000
Loss on disposal of plant assets	<u>(5,000)</u>
Cash proceeds.....	<u>€ 16,000</u>

EXERCISE 13-7**(a)**

MEERA LTD.
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income		£ 22,590
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation expense	£ 5,000	
Loss on disposal of land	1,000	
Decrease in accounts receivable	2,600	
Decrease in accounts payable	<u>(15,730)</u>	<u>(7,130)</u>
Net cash provided by operating activities.		15,460
Cash flows from investing activities		
Sale of land		5,000
Cash flows from financing activities		
Issuance of ordinary shares	3,000	
Payment of dividends	<u>(16,500)</u>	
Net cash used by financing activities.....		<u>(13,500)</u>
Net increase in cash		6,960
Cash at beginning of period.....		<u>10,700</u>
Cash at end of period		<u>£ 17,660</u>

(b) £15,460 – £0 – £16,500 = (£1,040)

EXERCISE 13-8

SYAL SE
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income.....		€103,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense.....	€32,000	
Increase in accounts receivable	(14,000)	
Decrease in inventory.....	17,000	
Decrease in accounts payable.....	<u>(12,000)</u>	<u>23,000</u>
Net cash provided by operating activities		126,000
 Cash flows from investing activities		
Sale of land	27,000	
Purchase of equipment.....	<u>(60,000)</u>	
Net cash used by investing activities		(33,000)
 Cash flows from financing activities		
Issuance of ordinary shares	42,000	
Payment of cash dividends	(45,000)	
Redemption of bonds	<u>(50,000)</u>	
Net cash used by financing activities		<u>(53,000)</u>
 Net increase in cash		40,000
Cash at beginning of period.....		<u>33,000</u>
Cash at end of period		<u>€ 73,000</u>

EXERCISE 13-9**(a)**

CASSANDRA SA
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income.....		€ 23,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense.....	€ 5,800*	
Loss on disposal of plant assets	4,700**	
Increase in accounts receivable.....	(2,900)	
Increase in accounts payable	<u>1,500</u>	<u>9,100</u>
Net cash provided by operating activities		32,400
Cash flows from investing activities		
Sale of plant assets.....	3,500	
Purchase of investments.....	<u>(7,000)</u>	
Net cash used by investing activities		(3,500)
Cash flows from financing activities		
Issuance of ordinary shares.....	5,000	
Payment of dividends	(14,600)	
Retirement of bonds	<u>(20,000)</u>	
Net cash used by financing activities.....		<u>(29,600)</u>
Net decrease in cash		(700)
Cash at beginning of period		<u>17,700</u>
Cash at end of period		<u>€ 17,000</u>

***[€14,000 – (€10,000 – €1,800)]**

****[€3,500 – (€10,000 – €1,800)]**

(b) €32,400 – €0 – €14,600 = €17,800

*EXERCISE 13-10

Revenues	R\$195,000	
Deduct: Increase in accounts receivable.....	<u>48,000</u>	
Cash receipts from customers*		R\$147,000
Operating expenses	78,000	
Deduct: Increase in accounts payable.....	<u>25,000</u>	
Cash payments for operating expenses**		<u>(53,000)</u>
Net cash provided by operating activities		<u>R\$ 94,000</u>

* Accounts Receivable

Balance, Beginning of year	0		
Revenues for the year	195,000	Cash receipts for year	147,000
Balance, End of year	48,000		

** Accounts Payable

		Balance, Beginning of year	0
Payments for the year	53,000	Operating expenses for year	78,000
		Balance, End of year	25,000

*EXERCISE 13-11

(a) Cash payments to suppliers

Cost of goods sold	\$4,527.8 million
Add: Increase in inventory	<u>17.1</u>
Cost of purchases	\$4,544.9 million
Deduct: Increase in accounts payable	<u>139.6</u>
Cash payments to suppliers.....	<u>\$4,405.3 million</u>

(b) Cash payments for operating expenses

Operating expenses exclusive of depreciation.....	\$9,397.6 million
(\$10,517.6 – \$1,120)	
Add: Increase in prepaid expenses	\$ 65.3
Deduct: Increase in accrued expenses payable	<u>190.6</u> <u>(125.3)</u>
Cash payments for operating expenses	<u>\$9,272.3 million</u>

***EXERCISE 13-12**

Cash flows from operating activities

Cash receipts from

Customers	£244,000*
Dividend revenue	<u>18,000</u>

£262,000

Less cash payments:

To suppliers.....	115,000	
For salaries and wages.....	55,000	
For operating expenses.....	28,000	
For income taxes.....	16,000	
For interest	<u>10,000</u>	<u>224,000</u>
Net cash provided by operating activities ...		<u>£ 38,000</u>

***£54,000 + £190,000**

***EXERCISE 13-13**

Cash payments for rent

Rent expense	€ 40,000
Add: Increase in prepaid rent	<u>3,400</u>
Cash payments for rent.....	<u>€ 43,400</u>

Cash payments for salaries

Salaries and wages expense	€ 65,000
Add: Decrease in salaries payable	<u>2,000</u>
Cash payments for salaries	<u>€ 67,000</u>

Cash receipts from customers

Sales revenue	€170,000
Add: Decrease in accounts receivable.....	<u>12,000</u>
Cash receipts from customers	<u>€182,000</u>

***EXERCISE 13-14**

ERISA MAGAMBO A/S
Worksheet
Statement of Cash Flows
For the Year Ended December 31, 2017

<u>Statement of Financial Position Accounts</u>	<u>Balance 12/31/16</u>	<u>Reconciling Items</u>		<u>Balance 12/31/17</u>
		<u>Debit</u>	<u>Credit</u>	
<u>Debits</u>				
Land	100,000		(e) 25,000	75,000
Equipment	200,000	(f) 50,000		250,000
Inventory	187,000		(b) 7,000	180,000
Accounts receivable	76,000	(a) 9,000		85,000
Cash	<u>22,000</u>	(k) 36,000		<u>58,000</u>
Total	<u>585,000</u>			<u>648,000</u>
<u>Credits</u>				
Share capital—ordinary	164,000		(i) 50,000	214,000
Retained earnings	134,000	(g) 70,000	(j) 120,000	184,000
Bonds payable	200,000	(h) 50,000		150,000
Accumulated depreciation—equipment	42,000		(d) 24,000	66,000
Accounts payable	<u>45,000</u>	(c) 11,000		<u>34,000</u>
Total	<u>585,000</u>			<u>648,000</u>
 <u>Statement of Cash Flow Effects</u>				
Operating activities				
Net income		(j) 120,000		
Increase in accounts receivable			(a) 9,000	
Decrease in inventory		(b) 7,000		
Decrease in accounts payable			(c) 11,000	
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 ordinary shares		(i) <u>50,000</u>		
Totals		452,000	416,000	
Increase in cash			(k) <u>36,000</u>	
Totals		<u>452,000</u>	<u>452,000</u>	

SOLUTIONS TO PROBLEMS

PROBLEM 13-1A

	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 sale of plant assets.	I	Cash inflow
(d)	Acquired land by issuing ordinary shares.	NC	No cash flow effect
(e)	Paid a cash dividend to preference shareholders.	F	Cash outflow
(f)	Distributed a share dividend to ordinary shareholders.	NC	No cash flow effect
(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 13-2A

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

Retained earnings beginning of year	£250,000
Add: Net income (plug)	<u>77,200*</u>
	327,200
Less: Cash dividends	16,000
Share dividends	<u>11,200</u>
Retained earnings, end of year	<u><u>£300,000</u></u>

$$*(£300,000 + £11,200 + £16,000 - £250,000)$$

- (b) Cash inflow from the issue of ordinary shares was £13,800 (£155,000 – £130,000 – £11,200).

Share Capital Ordinary	
130,000	
11,200	Share Dividend
13,800	Shares Issued for Cash
<u>155,000</u>	

Cash outflow for dividends was £16,000. The share dividend does not use cash.

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

PROBLEM 13-3A

TOBY ZED NV
Partial Statement of Cash Flows
For the Year Ended November 30, 2017

Cash flows from operating activities

Net income		€1,450,000
Adjustments to reconcile net income to net cash provided by operating activities activities:		
Depreciation expense	€ 85,000	
Increase in accounts receivable	(200,000)	
Decrease in inventory	500,000	
Increase in prepaid expenses	(175,000)	
Decrease in accounts payable	(340,000)	
Decrease in accrued expenses payable ...	<u>(105,000)</u>	<u>(235,000)</u>
Net cash provided by operating activities		<u>€1,215,000</u>

*PROBLEM 13-4A

TOBY ZED NV
Partial Statement of Cash Flows
For the Year Ended November 30, 2017

Cash flows from operating activities	
Cash receipts from customers.....	€7,300,000 (1)
Less cash payments:	
To suppliers.....	€4,740,000 (2)
For operating expenses	<u>1,345,000 (3)</u>
Net cash provided by operating activities	<u>6,085,000</u> <u>€1,215,000</u>

Computations:

(1) Cash receipts from customers	
Sales.....	€7,500,000
Deduct: Increase in accounts receivable	<u>200,000</u>
Cash receipts from customers	<u>€7,300,000</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.....	€1,065,000*
Add: Increase in prepaid expenses	€175,000
Decrease in accrued expenses payable	<u>105,000</u>
Cash payments for operating expenses.....	<u>280,000</u> <u>€1,345,000</u>

* (€1,150,000 – €85,000)

PROBLEM 13-5A

RATTIGAN PLC
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities

Net income		£226,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	£ 55,000	
Loss on disposal of plant assets	25,000	
Increase in accounts receivable	(15,000)	
Increase in accounts payable.....	14,000	
Increase in income taxes payable.....	<u>6,000</u>	<u>85,000</u>
Net cash provided by operating activities		<u>£311,000</u>

*PROBLEM 13-6A

RATTIGAN COMPANY PLC
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Cash receipts from customers.....		£955,000 (1)
Less cash payments:		
For operating expenses.....	£610,000 (2)	
For income taxes.....	<u>34,000 (3)</u>	<u>644,000</u>
Net cash provided by operating activities		<u>£311,000</u>
 (1) <u>Computation of cash receipts from customers</u>		
Service revenue		£970,000
Deduct: Increase in accounts receivable		
(£75,000 – £60,000)		<u>15,000</u>
Cash receipts from customers.....		<u>£955,000</u>
 (2) <u>Computation of cash payments for operating expenses</u>		
Operating expenses.....		£624,000
Deduct: Increase in accounts payable		
(£41,000 – £27,000)		<u>14,000</u>
Cash payments for operating expenses		<u>£610,000</u>
 (3) <u>Computation of cash payments for income taxes</u>		
Income tax expense		£ 40,000
Deduct: Increase in income taxes payable		
(£13,000 – £7,000)		<u>6,000</u>
Cash payments for income taxes		<u>£ 34,000</u>

PROBLEM 13-7A

(a)

RAJESH COMPANY LTD.
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income		£32,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	£13,300	
Increase in accounts receivable	(19,000)	
Increase in inventory	(10,000)	
Increase in accounts payable	14,000	
Decrease in income taxes payable	<u>(1,000)</u>	<u>(2,700)</u>
Net cash provided by operating activities		29,300
Cash flows from investing activities		
Sale of equipment.....		9,700
Cash flows from financing activities		
Issuance of ordinary shares	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.....		17,000
Cash at beginning of period		<u>20,000</u>
Cash at end of period.....		<u>£37,000</u>

(b) $£29,300 - £0 - £20,000 = £9,300$

*PROBLEM 13-8A

(a)

RAJESH COMPANY LTD.
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Cash receipts from customers		£223,000 (1)
Less cash payments:		
To suppliers	£171,000 (2)	
For operating expenses	10,700 (3)	
For income taxes	9,000 (4)	
For interest	<u>3,000</u>	<u>193,700</u>
Net cash provided by operating activities		29,300
Cash flows from investing activities		
Sale of equipment		9,700
Cash flows from financing activities		
Issuance of ordinary shares	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		17,000
Cash at beginning of period		<u>20,000</u>
Cash at end of period		<u>£ 37,000</u>

Computations:

(1) Cash receipts from customers		
Sales revenue		£242,000
Deduct: Increase in accounts receivable		<u>19,000</u>
Cash receipts from customers		<u>£223,000</u>

***PROBLEM 13-8A (Continued)**

(2) Cash payments to suppliers	
Cost of goods sold	£175,000
Add: Increase in inventory.....	<u>10,000</u>
Cost of purchases	185,000
Deduct: Increase in accounts payable.....	<u>14,000</u>
Cash payments to suppliers.....	<u>£171,000</u>
 (3) Cash payments for operating expenses	
Operating expenses	£ 24,000
Deduct: Depreciation.....	<u>13,300</u>
Cash payments for operating expenses	<u>£ 10,700</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) £29,300 – £0 – £20,000 = £9,300

PROBLEM 13-9A

SINJH SA
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income		€172,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	€45,000	
Gain on disposal of plant assets.....	(5,000)	
Increase in accounts receivable.....	(59,800)	
Increase in inventory	(9,650)	
Increase in prepaid expenses	(3,300)	
Increase in accounts payable.....	44,700	
Decrease in accrued expenses payable	<u>(500)</u>	<u>11,450</u>
Net cash provided by operating activities		184,350
Cash flows from investing activities		
Sale of equipment.....	12,500	
Purchase of long-term investments	(26,000)	
Purchase of equipment	<u>(80,000)</u>	
Net cash used by investing activities		(93,500)
Cash flows from financing activities		
Sale of ordinary shares	45,000	
Redemption of bonds	(40,000)	
Payment of cash dividends.....	<u>(43,900)</u>	
Net cash used by financing activities		<u>(38,900)</u>
Net increase in cash.....		51,950
Cash at beginning of period		<u>48,400</u>
Cash at end of period.....		<u>€ 100,350</u>

***PROBLEM 13-10A**

SINJH SA
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Cash receipts from customers		€332,980 (1)
Less cash payments:		
To suppliers.....	€100,410 (2)	
For income taxes.....	27,280	
For operating expenses.....	16,210 (3)	
For interest	<u>4,730</u>	<u>148,630</u>
Net cash provided by operating activities.....		184,350
Cash flows from investing activities		
Sale of plant assets	12,500	
Purchase of long-term investments	(26,000)	
Purchase of plant assets.....	<u>(80,000)</u>	
Net cash used by investing activities.....		(93,500)
Cash flows from financing activities		
Sale of ordinary shares	45,000	
Redemption of bonds.....	(40,000)	
Payment of cash dividends.....	<u>(43,900)</u>	
Net cash used by financing activities.....		<u>(38,900)</u>
Net increase in cash.....		51,950
Cash at beginning of period		<u>48,400</u>
Cash at end of period.....		<u>€100,350</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 13-10A (Continued)**

(2) Cash payments to suppliers

Cost of goods sold	€135,460
Add: Increase in inventory	<u>9,650</u>
Cost of purchases	145,110
Deduct: Increase in accounts payable	<u>44,700</u>
Cash payments to suppliers	<u>€100,410</u>

(3) Cash payments for operating expenses

Operating expenses exclusive of depreciation.....		€ 12,410
Add: Increase in prepaid expenses	€3,300	
Decrease in accrued expenses payable	<u>500</u>	<u>3,800</u>
Cash payment for operating expenses		<u>€ 16,210</u>

PROBLEM 13-11A

AMARAL REIS COMPANY SA
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities

Net income		R\$ 48,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense.....	R\$40,000	
Loss on disposal of plant asset.....	6,000*	
Decrease in accounts receivable.....	16,000	
Increase in inventory	(12,550)	
Decrease in prepaid expenses.....	2,720	
Increase in accounts payable	<u>6,350</u>	<u>58,520</u>
Net cash provided by operating activities..		106,520

Cash flows from investing activities

Sale of land	20,000	
Sale of equipment.....	6,000	
Purchase of equipment	<u>(95,000)</u>	
Net cash used by investing activities.....		(69,000)

Cash flows from financing activities

Payment of cash dividends.....	<u>(20,000)</u>	
Net cash used by financing activities.....		<u>(20,000)</u>

Net increase in cash.....	17,520
Cash at beginning of period	<u>45,000</u>
Cash at end of period.....	<u><u>R\$ 62,520</u></u>

Note 1:

Non-cash investing and financing activities

Exchange of ordinary shares for land.....	<u><u>R\$ 35,000</u></u>
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*(R\$6,000 – R\$12,000)

***PROBLEM 13-12A**

JHUTTI COMPANY LTD.
Worksheet—Statement of Cash Flows
For the Year Ended December 31, 2017

<u>Statement of Financial Position</u>	<u>Balance 12/31/16</u>	<u>Reconciling Items</u>		<u>Balance 12/31/17</u>
		<u>Debit</u>	<u>Credit</u>	
<u>Debits</u>				
Equipment	205,000	(f) 92,000	(h) 47,000	250,000
Investments	87,000		(e) 3,000	84,000
Inventory	102,650	(b) 19,250		121,900
Accounts receivable	57,000	(a) 23,900		80,900
Cash	47,250	(m) 43,050		90,300
Totals	<u>498,900</u>			<u>627,100</u>
<u>Credits</u>				
Share capital—ordinary	200,000		(j) 40,000	240,000
Retained earnings	121,790	(l) 80,600	(k) 133,810	175,000
Bonds payable	70,000		(i) 30,000	100,000
Accumulated depreciation—equipment	40,000	(h) 41,300	(g) 47,900	46,600
Accounts payable	48,280		(c) 5,120	53,400
Accrued expenses payable	18,830	(d) 6,730		12,100
Totals	<u>498,900</u>			<u>627,100</u>
<u>Statement of Cash Flow Effects</u>				
Operating activities				
Net income		(k) 133,810		
Increase in accounts receivable			(a) 23,900	
Increase in inventory			(b) 19,250	
Increase in accounts payable		(c) 5,120		
Decrease in accrued expenses payable			(d) 6,730	
Depreciation expense		(g) 47,900		
Gain on disposal of equipment			(h) 8,550	
Investing activities				
Sale of investments		(e) 3,000		
Sale of equipment		(h) 14,250		
Purchase of equipment			(f) 92,000	
Financing activities				
Sale of ordinary shares		(j) 40,000		
Issuance of bonds		(i) 30,000		
Payment of dividends			(l) 80,600	
Totals		<u>580,910</u>		<u>537,860</u>
Increase in cash			(m) 43,050	
Totals		<u>580,910</u>		<u>580,910</u>

PROBLEM 13-1B

	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 ordinary shares	F	Cash inflow
(f)	Purchased shares of another company to be held as a long-term equity investment.	I	Cash outflow
(g)	Paid dividends to ordinary shareholders.	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 13-2B

(a) Cash inflows (outflows) related to plant assets 2017:

Equipment purchase	(€90,000)
Land purchase	(30,000)
Proceeds from equipment sold	21,000*

*Cost of equipment sold €250,000 + €90,000 – €300,000 = €40,000

Accumulated depreciation removed from accounts for sale of plant assets

Accumulated Depreciation—
Equipment

	93,000	
Plug 12,000	64,000	Depreciation Expense
	145,000	

Cash proceeds = Cost €40,000 – accumulated depreciation €12,000 – loss €7,000 = €21,000

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

Equipment.....	90,000	
Cash.....		90,000
Land.....	30,000	
Cash.....		30,000
Cash (plug)	21,000	
Accumulated Depreciation—Equipment.....	12,000	
Loss on Disposal of Plant Assets	7,000	
Equipment		40,000

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

PROBLEM 13-3B

ASQUITH COMPANY SA
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities

Net income		€ 880,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	€ 95,000	
Amortization expense	20,000	
Decrease in accounts receivable	230,000	
Increase in inventory	(120,000)	
Increase in prepaid expenses	(125,000)	
Increase in accounts payable.....	50,000	
Increase in accrued expenses payable	<u>155,000</u>	<u>305,000</u>
Net cash provided by operating activities		<u><u>€1,185,000</u></u>

*PROBLEM 13-4B

ASQUITH COMPANY SA
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Cash receipts from customers.....		€5,480,000 (1)
Less cash payments:		
To suppliers.....	€3,380,000 (2)	
For operating expenses.....	<u>915,000 (3)</u>	<u>4,295,000</u>
Net cash provided by operating activities.....		<u>€1,185,000</u>

Computations:

(1) Cash receipts from customers		
Sales revenue		€5,250,000
Add: Decrease in accounts receivable		<u>230,000</u>
Cash receipts from customers		<u>€5,480,000</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.....	€125,000	
Deduct: Increase in accrued expenses payable	<u>155,000</u>	<u>(30,000)</u>
Cash payments for operating expenses.....		<u>€ 915,000</u>

PROBLEM 13-5B

ANNE DROID CO. LTD.
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income		£115,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in accounts receivable	£ 15,000	
Decrease in accounts payable	(11,000)	
Increase in income taxes payable.....	<u>8,000</u>	<u>12,000</u>
Net cash provided by operating activities.....		<u>£127,000</u>

*PROBLEM 13-6B

ANNE DROID CO. LTD.
Partial Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities			
Cash receipts from customers.....			£566,000 (1)
Less cash payments:			
For operating expenses.....	£411,000 (2)		
For income taxes.....	<u>28,000 (3)</u>	<u>439,000</u>	
Net cash provided by operating activities.....			<u>£127,000</u>
 (1) <u>Computation of cash receipts from customers</u>			
Service revenue		£551,000	
Add: Decrease in accounts receivable			
(£70,000 – £55,000)		<u>15,000</u>	
Cash receipts from customers.....			<u>£566,000</u>
 (2) <u>Computation of cash payments for operating expenses</u>			
Operating expenses.....		£400,000	
Add: Decrease in accounts payable			
(£51,000 – £40,000)		<u>11,000</u>	
Cash payments for operating expenses			<u>£411,000</u>
 (3) <u>Income tax expense</u>.....			
Income tax expense.....		£ 36,000	
Deduct: Increase in income taxes payable			
(£12,000 – £4,000)		<u>8,000</u>	
Cash payments for income taxes			<u>£ 28,000</u>

PROBLEM 13-7B

(a)

ROCASTLE PLC
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income.....		€28,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense.....	€ 6,000	
Increase in accounts receivable.....	(11,000)	
Increase in inventory.....	(20,000)	
Decrease in accounts payable.....	(12,000)	
Increase in income taxes payable	<u>4,000</u>	<u>(33,000)</u>
Net cash used by operating activities		(5,000)
Cash flows from investing activities		
Sale of equipment	12,000	
Purchase of equipment.....	<u>(7,000)</u>	
Net cash provided by investing activities		5,000
Cash flows from financing activities		
Issuance of bonds.....	10,000	
Payment of cash dividends	<u>(25,000)</u>	
Net cash used by financing activities		<u>(15,000)</u>
Net decrease in cash		(15,000)
Cash at beginning of period		<u>33,000</u>
Cash at end of period		<u>€18,000</u>

(b) (€5,000) – €7,000 – €25,000 = (€37,000)

***PROBLEM 13-8B**

(a)

ROCASTLE PLC
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Cash receipts from customers		€275,000 (1)
Less cash payments:		
To suppliers	€236,000 (2)	
For operating expenses		
(€37,000 – €6,000)	31,000	
For interest.....	7,000	
For income taxes	<u>6,000</u> (3)	<u>280,000</u>
Net cash used by operating activities		(5,000)
Cash flows from investing activities		
Sale of equipment	12,000	
Purchase of equipment.....	<u>(7,000)</u>	
Net cash provided by investing activities.....		5,000
Cash flows from financing activities		
Issuance of bonds.....	10,000	
Payment of cash dividends	<u>(25,000)</u>	
Net cash used by financing activities		<u>(15,000)</u>
Net decrease in cash		(15,000)
Cash at beginning of period.....		<u>33,000</u>
Cash at end of period		<u>€ 18,000</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 13-8B (Continued)**

(2) Cash payments to suppliers

Cost of goods sold	€204,000
Add: Increase in inventory.....	<u>20,000</u>
Cost of purchases	224,000
Add: Decrease in accounts payable.....	<u>12,000</u>
Cash payments to suppliers.....	<u>€236,000</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) (€5,000) – €7,000 – €25,000 = (€37,000)

PROBLEM 13-9B

KELLER MINDEN COMPANY SA
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income		€ 108,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	€ 25,000	
Loss on disposal of plant assets	5,000	
Increase in accounts receivable.....	(26,200)	
Increase in inventory	(21,850)	
Increase in accounts payable.....	8,320	
Decrease in accrued expenses payable.....	<u>(3,730)</u>	<u>(13,460)</u>
Net cash provided by operating activities.....		94,700
Cash flows from investing activities		
Sale of investments	27,500	
Sale of equipment.....	10,000	
Purchase of equipment	<u>(149,000)</u>	
Net cash used by investing activities.....		(111,500)
Cash flows from financing activities		
Issuance of bonds	70,000	
Sale of ordinary shares	50,000	
Payment of cash dividends.....	<u>(43,000)</u>	
Net cash provided by financing activities.....		<u>77,000</u>
Net increase in cash.....		60,200
Cash at beginning of period		<u>33,400</u>
Cash at end of period.....		<u>€ 93,600</u>

*PROBLEM 13-10B

KELLER MINDEN COMPANY SE
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Cash receipts from customers		€271,300 (1)
Less cash payments:		
To suppliers.....	€ 112,990 (2)	
For income taxes.....	37,270	
For operating expenses.....	23,400 (3)	
For interest	<u>2,940</u>	<u>176,600</u>
Net cash provided by operating activities.....		94,700
Cash flows from investing activities		
Sale of investments	27,500	
Sale of plant assets.....	10,000	
Purchase of plant assets	<u>(149,000)</u>	
Net cash used by investing activities.....		(111,500)
Cash flows from financing activities		
Sale of ordinary shares	50,000	
Issuance of bonds	70,000	
Payment of cash dividends.....	<u>(43,000)</u>	
Net cash provided by financing activities.....		<u>77,000</u>
Net increase in cash.....		60,200
Cash at beginning of period		<u>33,400</u>
Cash at end of period.....		<u>€ 93,600</u>

***PROBLEM 13-10B (Continued)**

Computations:

(1) Cash receipts from customers	
Sales revenue	€297,500
Deduct: Increase in accounts receivable	<u>26,200</u>
Cash receipts from customers	<u>€271,300</u>
(2) Cash payments to suppliers	
Cost of goods sold	€ 99,460
Add: Increase in inventory	<u>21,850</u>
Cost of purchases	121,310
Deduct: Increase in accounts payable.....	<u>8,320</u>
Cash payments to suppliers.....	<u>€112,990</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 13-11B

VERNET COMPANY LTD.
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities		
Net income		£70,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	£ 57,000	
Gain on disposal of plant asset	(3,000)*	
Increase in accounts receivable	(13,000)	
Increase in inventory	(30,000)	
Decrease in prepaid expenses	4,400	
Decrease in accounts payable	<u>(7,000)</u>	<u>8,400</u>
Net cash provided by operating activities..		78,400
Cash flows from investing activities		
Sale of land	35,000	
Sale of equipment.....	34,000	
Purchase of equipment	<u>(80,000)</u>	
Net cash used by investing activities		(11,000)
Cash flows from financing activities		
Payment of cash dividends.....		<u>(82,940)</u>
Net decrease in cash.....		(15,540)
Cash at beginning of period		<u>57,000</u>
Cash at end of period.....		<u><u>£41,460</u></u>
Note 1:		
Non-cash investing and financing activities		
Exchange of ordinary shares for land.....		<u><u>£25,000</u></u>

*(£34,000 – £31,000)

(a) Indirect method

MATCHA & COFFEE CREATIONS INC.

Cash Flow Statement

Year Ended October 31, 2018

Operating activities

Net income NT\$78,760

Adjustments to reconcile net income

to net cash provided by operating activities:

Depreciation expense	NT\$ 3,900	
Increase in accounts receivable.....	(3,250)	
Increase in inventory	(17,897)	
Increase in prepaid expenses.....	(6,300)	
Increase in accounts payable.....	5,848	
Increase in income tax payable.....	19,690	
Increase in salaries and wages payable	2,250	
Increase in interest payable	<u>188</u>	<u>4,429</u>
Net cash provided by operating activities .		83,189

Investing activities

Purchase of furniture	(12,500)	
Purchase of computer equipment.....	(4,200)	
Purchase of kitchen equipment (Note X).....	<u>(17,000)</u>	
Net cash used by investing activities.....		(33,700)

Financing activities

Issue of preferred stock.....	14,000	
Issue of common stock.....	25,930	
Principal repayment of note payable	(2,000)	
Repurchase of stock	(500)	
Payment of dividends	<u>(7,000)</u>	
Net cash provided by financing activities..		<u>30,430</u>

Net increase in cash..... 79,919

Cash, November 1, 2017 0

Cash, October 31, 2018 NT\$79,919

Noncash investing and financing activities

Issuance of notes payable to purchase kitchen equipment	<u>NT\$12,000</u>
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MC13 (Continued)

(b) Direct method

MATCHA & COFFEE CREATIONS INC.
Cash Flow Statement
Year Ended October 31, 2018

Operating activities

Cash receipts from customers (1)		NT\$459,250
Cash payments		
To suppliers (2)	NT\$(243,299)	
For operating expenses (3).....	(42,287)	
For salaries and wages (4)	(90,250)	
For interest (5)	(225)	
For income tax (6)	<u>0</u>	<u>(376,061)</u>
Net cash provided by operating activities		83,189

Investing activities

Purchase of computer equipment	NT\$ (4,200)	
Purchase of furniture	(12,500)	
Purchase of kitchen equipment (Note X)	<u>(17,000)</u>	
Net cash used by investing activities		(33,700)

Financing activities

Issue of common stock	NT\$ 25,930	
Issue of preferred stock	14,000	
Principal repayment of note payable.....	(2,000)	
Repurchase of stock	(500)	
Payment of dividends (7)	<u>(7,000)</u>	
Net cash provided by financing activities		<u>30,430</u>

Net increase in cash..... 79,919

Cash, November 1, 2017 0

Cash, October 31, 2018..... NT\$ 79,919

Noncash investing and financing activities

Issuance of notes payable to purchase kitchen equipment.....	<u>NT\$ 12,000</u>
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MC13 (Continued)

(b) (Continued)

Note X: During the year, the company acquired kitchen equipment with a cost of NT\$17,000 by paying NT\$5,000 cash and incurring a NT\$12,000 note payable.

Calculations:

(1) Cash receipts from customers

Sales revenue	NT\$462,500
Less: Increase in accounts receivable.....	<u>(3,250)</u>
Cash receipts from customers	<u>NT\$459,250</u>

(2) Cash payments to suppliers

Cost of goods sold	NT\$231,250
Add: Increase in inventory.....	<u>17,897</u>
Cost of goods purchased	249,147
Less: Increase in accounts payable.....	<u>(5,848)</u>
Cash payments to suppliers.....	<u>NT\$243,299</u>

(3) Cash payments for operating expenses

Operating expenses	NT\$ 35,987
Add: Increase in prepaid expenses.....	<u>6,300</u>
Cash payments for operating expenses	<u>NT\$ 42,287</u>

(4) Cash payments to employees

Salaries and wages expense	NT\$ 92,500
Less: Increase in salaries and wages payable	<u>(2,250)</u>
Cash payments to employees	<u>NT\$ 90,250</u>

MC13 (Continued)

(b) (Continued)

(5) Cash payments for interest

Interest expense	NT\$ 413
Less: Increase in interest payable	<u>188</u>
Cash payments for interest	<u>NT\$ 225</u>

(6) Cash payments for income taxes

Income tax expense	NT\$19,690
Less: Increase in income taxes payable.....	<u>19,690</u>
Cash payments for income taxes.....	<u>NT\$ 0</u>

(7) Cash payments for dividends

Dividends (NT\$7,000 + NT\$7,000).....	NT\$ 14,000
Less: Increase in dividends payable	<u>7,000</u>
Cash payments for dividends.....	<u>NT\$ 7,000</u>

(a) Net cash provided by operating activities:

2013 NT\$347,383.5 million

2012 NT\$284,963.1 million

- (b) The increase in cash and cash equivalents for the year ended December 31, 2013 was NT\$99,284.8 million, and the decrease was NT\$61.7 million for the year ended December 31, 2012.**
- (c) TSMC uses the indirect method of computing and presenting the net cash provided by operating activities.**
- (d) The change in accounts and notes receivable used cash of NT\$14,131.1 million in 2013. The change in inventories provided cash of NT\$122.5 million in 2013. The change in accounts payable provided cash of NT\$346.4 million in 2013.**
- (e) The net cash used by investing activities in 2013 was NT\$281,054.2 million.**
- (f) Per the adjustments section of cash flows from operating activities income taxes paid during 2013 amounted to NT\$14,463 million. Per the cash flows from financing activities section, interest paid during 2013 amounted to NT\$1,330.9 million.**

	<u>Petra Foods</u>	<u>Nestlé</u>
(a) US\$(7,287) – US\$35,371 – US\$25,585 =	US\$(66,243)	
CHF 14,992 – CHF 4,928 – CHF 6,880 =		CHF3,184
Petra Foods amounts in thousands		
Nestlé amounts in millions		

- (b) Petra Foods did not produce sufficient cash from operating activities to cover their capital expenditures nor enough to pay a dividend. As a result, Petra Foods generated a negative free cash flow. Nestlé on the other hand, produced sufficient cash from operating activities to cover both their capital expenditures and pay a dividend. By generating a positive free cash flow, they have sufficient cash to invest in other capital expenditures, pay off debt, repurchase shares, or just improve their liquidity.

- (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) **DEL CARPIO COMPANY SLU**
Statement of Cash Flows
For the Year Ended January 31, 2017

Cash flows from operating activities		
Net loss		€ (44,000)*
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense.....	€ 75,000	
Gain from sale of investment.....	<u>(10,000)</u>	<u>65,000</u>
Net cash provided by operating activities		21,000
Cash flows from investing activities		
Sale of investment.....	85,000	
Purchase of investment.....	(75,000)	
Purchase of fixtures and equipment....	<u>(320,000)</u>	
Net cash used by investing activities		(310,000)
Cash flows from financing activities		
Sale of ordinary shares.....	405,000	
Purchase of treasury shares	<u>(15,000)</u>	
Net cash provided by financing activities		<u>390,000</u>
Net increase in cash		101,000
Cash at beginning of period.....		<u>140,000</u>
Cash at end of period		<u>€241,000</u>
Note 1:		
Non-cash investing and financing activities		
Issuance of note for truck.....		<u>€ 25,000</u>

BYP 13-5 (Continued)

*Computation of net income (loss)

Sales of merchandise		€350,000
Interest revenue		6,000
Gain on sale of investment (€85,000 – €75,000)		<u>10,000</u>
Total revenues and gains		366,000
Merchandise purchased	€245,000	
Operating expenses (€160,000 – €75,000)	85,000	
Depreciation	75,000	
Interest expense	<u>5,000</u>	
Total expenses		<u>410,000</u>
Net loss		<u>€ (44,000)</u>

- (b) From the information given, it appears that from an operating standpoint, Del Carpio Company did not have a superb first year, having suffered a €44,000 net loss. Sara 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 non-cash investing and financing activities in a separate schedule. Sara is wrong, however, about the actual increase in cash not being €101,000; €101,000 is the correct increase in cash.

MEMO

To: Bart Sampson

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 non-current 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 non-current liabilities and equity. The company had a cash inflow from financing activities due to the issuance of ordinary shares 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:
Milton Williams, president of Babbit Ltd.
Jerry Roberts, controller.
The Board of Directors.
The shareholders of Babbit Ltd.
- (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, Jerry," encourages Jerry to do something unethical.

Controller Jerry Roberts' 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 Babbit Corporation's statement of cash flows. It is also possible that close scrutiny of the statement of financial position 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.

GAAP EXERCISES

GAAP 13-1

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

GAAP 13-2

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

	<u>IFRS</u>	<u>GAAP</u>
(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

GAAP 13-3

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) Net cash provided by operating activities:

2013	\$53,666 million
2012	\$50,856 million

- (b) The increase in cash and cash equivalents for the year ended September 28, 2013 was \$3,513 million, and \$931 million for the year ended September 29, 2012.**
- (c) Apple uses the indirect method of computing and presenting the net cash provided by operating activities.**
- (d) The change in accounts receivable used cash of \$2,172 million in 2013. The change in inventories used cash of \$973 million in 2013. The change in accounts payable provided cash of \$2,340 million in 2013.**
- (e) The net cash used by investing activities in 2013 was \$33,774 million.**
- (f) Under the “Supplemental cash flow disclosure” section cash flow information disclosed income taxes paid of \$9,128 million in 2013.**