Chapter 12

Statement of Cash Flows

Learning Objectives

After studying this chapter, you should be able to:

12-1 Classify cash flow statement items as part of net cash flows from operating, investing, and financing activities.

12-2 Report and interpret cash flows from operating activities using the indirect method.

12-3 Analyze and interpret the quality of income ratio.

12-4 Report and interpret cash flows from investing activities.

12-5 Analyze and interpret the capital acquisitions ratio.

12-6 Report and interpret cash flows from financing activities.

12-7 Understand the format of the cash flow statement and additional cash flow disclosures.

Understanding the Business

Positive cash flows permit a company to . . .

- Pay dividends to owners.
- Expand its operations.
- Take advantage of investment opportunities.
- Replace worn assets.

Some Wall Street analysts consider it important to understand the various sources and uses of cash that are associated with business activity.

Learning Objective 12-1

12-1 Classify cash flow statement items as part of net cash flows from operating, investing, and financing activities.

What is cash?

The definition of cash includes cash and cash equivalents.

Cash equivalents are short-term, highly liquid investments that are both

- Readily convertible into known amounts of cash and
- So near to maturity there is little risk that their value will change if interest rates change.

Generally, only investments with original maturities of three months or less qualify as cash equivalents

12-5

Classifications of the Statement of Cash Flows

Operating Activities →	Cash inflows and outflows directly related to earnings from normal operations.
Investing Activities →	Cash inflows and outflows related to the acquisition or sale of productive facilities and investments in the securities of other companies.
Financing Activities →	Cash inflows and outflows related to external sources of financing (owners and creditors) for the enterprise.

12-6

Exhibit 12.1 (1)

Consolidated Statement of Cash Flows

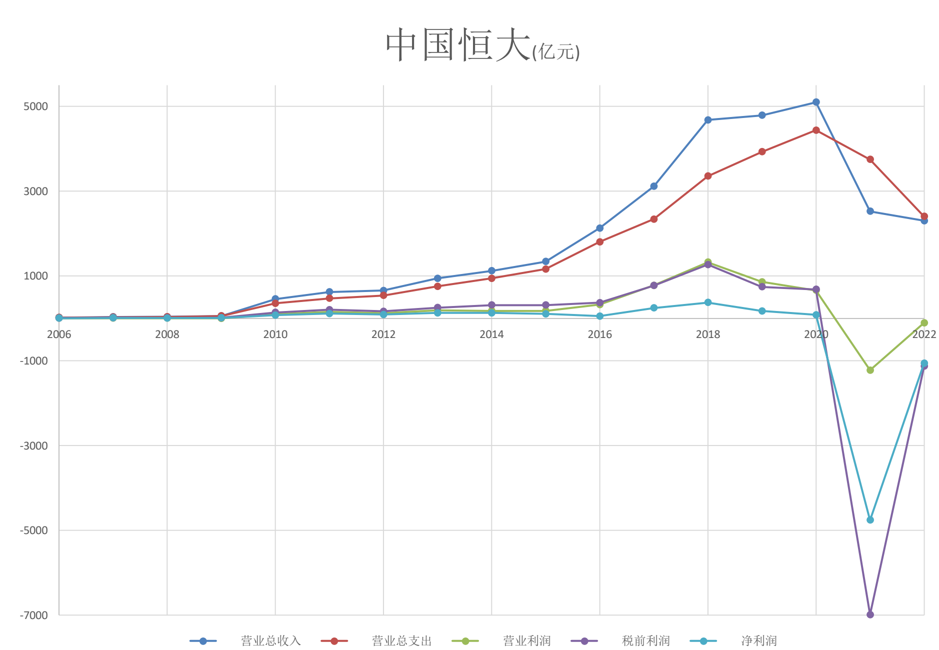
The ending cash balance should agree with the balance sheet.

NATIONAL BEVERAGE CORP.
Consolidated Statement of Cash Flows*
Year Ended April 29, 2017 (dollars in thousands)

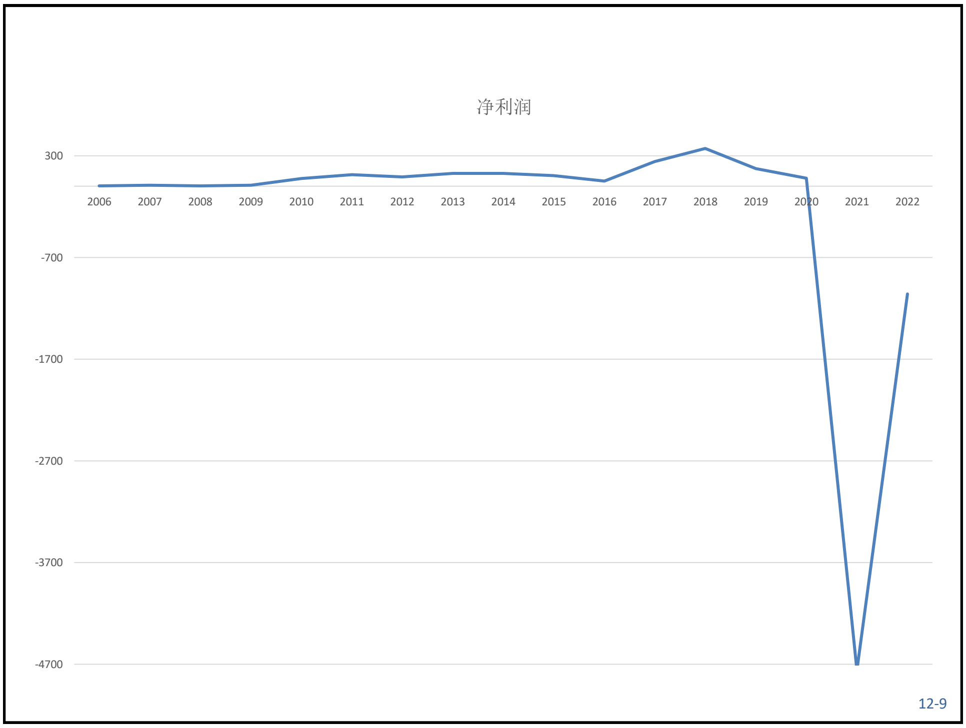
Cash flows from operating activities:	
Net income	$107,045
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	10,152
Changes in assets and liabilities:	
Accounts receivable	(10,273)
Inventories	(5,433)
Prepaid expenses	(2,603)
Accounts payable	8,709
Accrued expenses	2,883
Net cash provided by operating activities	110,480
Cash flows from investing activities:	
Purchase of property, plant, and equipment	(14,015)
Proceeds from disposal of property, plant, and equipment	28
Purchase of short-term investments	(1,463)
Proceeds from sale of short-term investments	2,011
Net cash used by investing activities	(13,439)
Cash flows from financing activities:	
Repayment of principal on long-term debt	—
Proceeds from issuance of long-term debt	1,333
Repurchase of stock	—
Proceeds from issuance of stock	1,068
Payment of cash dividends	(68,647)
Net cash used by financing activities	(66,246)
Net Increase (Decrease) in Cash and Equivalents	30,795
Cash and Equivalents—Beginning of Year	105,577
Cash and Equivalents—End of Year	$136,372

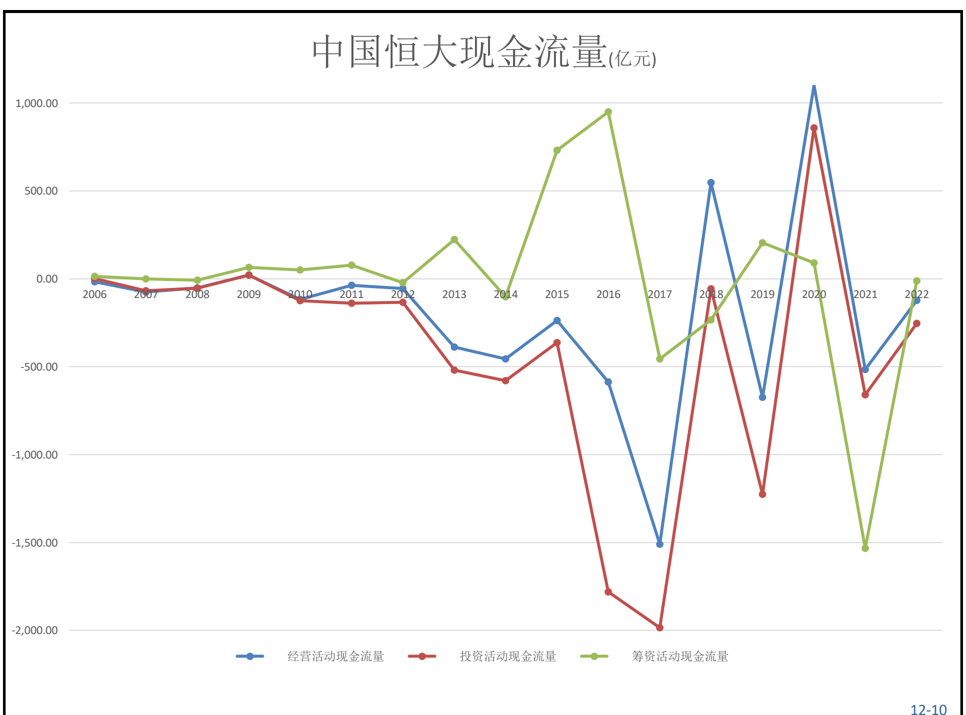
*Certain amounts have been adjusted for pedagogical purposes.

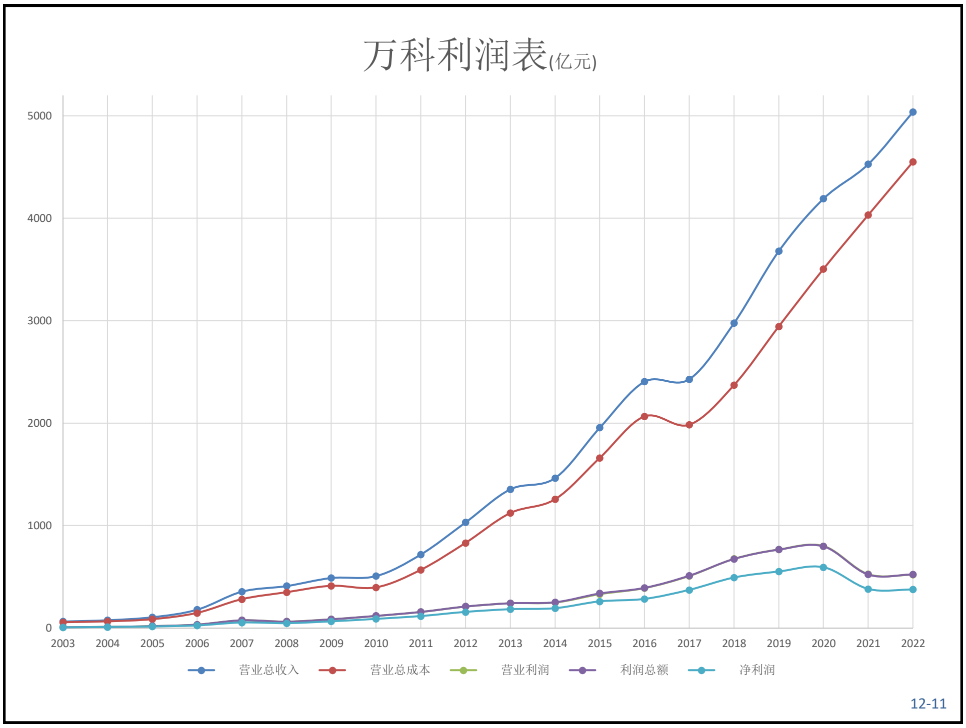
12-7

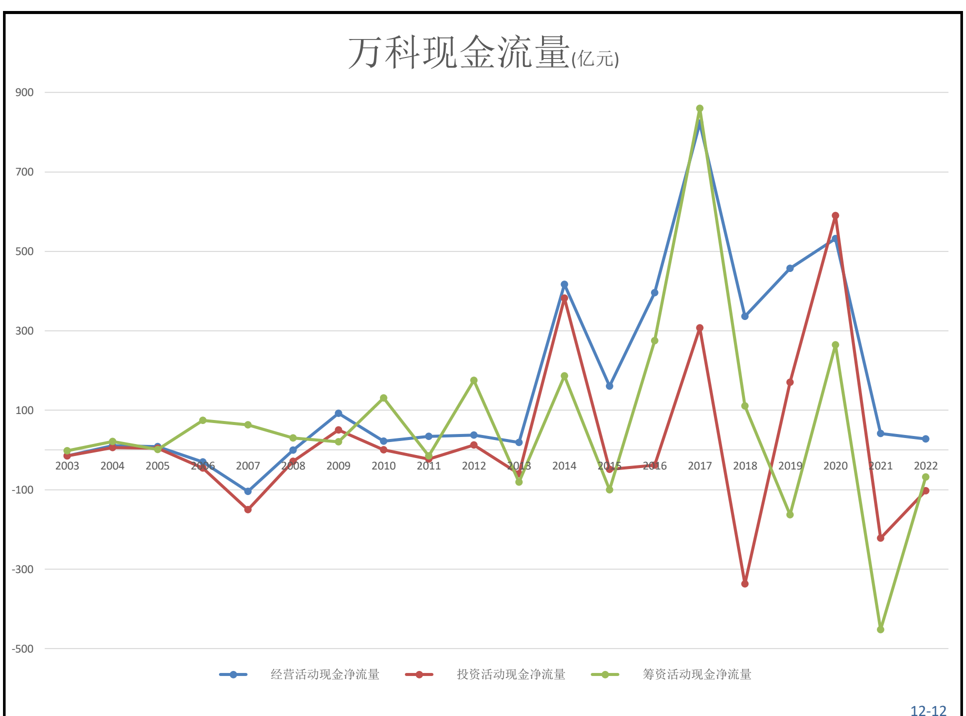


12-8


净利润
300
-700
-1700
-2700
-3700
-4700
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
12-9


中国恒大现金流量(亿元)
1,000.00
500.00
0.00
-500.00
-1,000.00
-1,500.00
-2,000.00
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
经营活动现金流量
投资活动现金流量
筹资活动现金流量
12-10


万科利润表(亿元)
5000
4000
3000
2000
1000
0
2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
营业总收入
营业总成本
营业利润
利润总额
净利润
12-11


万科现金流量(亿元)
900
700
500
300
100
-100
-300
-500
2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
经营活动现金净流量
投资活动现金净流量
筹资活动现金净流量
12-12

Direct Method vs. Indirect Method

Two Formats for Reporting Cash Flow from Operating Activities

Direct Method

Reports the cash effects of each operating activity

Indirect Method

Starts with accrual net income and converts to cash flow from operating activities

The cash flows from operating activities are always the same, regardless of whether the direct or indirect method is used.

12-13

Cash Flows from Operating Activities

Inflows

Cash received from:

- Customers
- Dividends and interest on investments

+ Inflows

Cash Flows from Operating Activities

Outflows

Cash paid for:

- Purchase of services (electricity, etc.) and goods for resale
- Salaries and wages
- Income taxes
- Interest on liabilities

− Outflows

12-14

Cash Flows from Investing Activities

Inflows

Cash received from:

- Sale or disposal of property, plant, and equipment
- Sale or maturity of investments in securities

+ Inflows

Cash Flows from Investing Activities

Outflows

Cash paid for:

- Purchase of property, plant, and equipment
- Purchase of investments in securities

− Outflows

12-15

Cash Flows from Financing Activities

Inflows

Cash received from:

- Borrowings on notes, mortgages, bonds, etc., from creditors
- Issuing stock to owners

+ Inflows

Cash Flows from Financing Activities

Outflows

Cash paid for:

- Repayment of principal to creditors (excluding interest, which is an operating activity)
- Repurchasing stock from owners
- Dividends to owners

− Outflows

12-16

Cash Flow Activities

Cash Inflows	Cash Outflows
Operating activities	
Collections from customers	Cash payments to suppliers
Interest and dividends collected	Cash payments to employees
Other operating receipts	Interest and taxes paid
	Other operating cash payments
Investing activities	
Sale of property, plant, and equipment	Purchase of property, plant, and equipment
Sale of securities that are not cash equivalents	Purchase of securities that are not cash equivalents
Receipt of loan repayments	Making loans
Financing activities	
Borrowing cash from creditors	Repayment of amounts borrowed
Issuing equity securities	Repurchase of equity shares (including the purchase of treasury stock)
Issuing debt securities	Payment of dividends

12-17

Class Discuss Problem

Item	Classified as	Reported under
Fees collected for services	I	OA
Interest paid	O	OA
Proceeds from sale of equipment	I	IA
Cash received from bank on long-term note	I	FA
Purchase of treasury stock for cash	O	FA
Collection of loan made to company officer	I	IA
Cash dividends paid	O	FA
Taxes paid	O	OA
Depreciation expense	N	NOS
Wages paid to employees	O	OA
Cash paid for inventory purchases	O	OA
Proceeds from issuance of common stock	I	FA
Interest received on loan to company officer	I	OA
Purchase of land by issuing stock	N	NOS
Utility bill paid	O	OA

12-18

Net Increase (Decrease) in Cash

The combination of the net cash flows from operating, investing, and financing activities must equal the net increase or decrease in cash.

Net cash provided by operating activities	$110,480
Net cash used in investing activities	(13,439)
Net cash used in financing activities	(66,246)
Net increase in cash and cash equivalents	30,795
Cash and cash equivalents at beginning of period	105,577
Cash and cash equivalents at end of period	$136,372

Beginning and ending balances from the balance sheet

12-19

Relationships to the Balance Sheet and Income Statement[1]

Information needed to prepare a statement of cash flows:

- Comparative balance sheets
- A complete income statement
- Additional details concerning selected accounts

12-20

Relationships to the Balance Sheet and Income Statement₂

Preparation and understanding of the cash flow statement focuses on the changes in the balance sheet accounts.

Δ Cash = Δ Liabilities + Δ Stockholders' Equity − Δ Noncash Assets

Derives from . . .

Assets = Liabilities + Stockholders' Equity

12-21

Exhibit 12.2

Selected Cash Transactions and Their Effects on Other Balance Sheet Accounts

Category	Transaction	Cash Effect	Other Account Affected
Operating	Collect accounts receivable	+Cash	−Accounts Receivable (A)
	Pay accounts payable	−Cash	−Accounts Payable (L)
	Prepay rent	−Cash	+Prepaid Rent (A)
	Pay interest	−Cash	−Retained Earnings (SE)
	Sale for cash	+Cash	+Retained Earnings (SE)
Investing	Purchase equipment for cash	−Cash	+Equipment (A)
	Sell investment securities for cash	+Cash	−Investments (A)
Financing	Pay back debt to bank	−Cash	−Notes Payable—Bank (L)
	Issue stock for cash	+Cash	+ Common Stock and Additional Paid-in Capital (SE)

12-22

Exhibit 12.3
Comparative Balance Sheet

NATIONAL BEVERAGE CORP.
Consolidated Balance Sheets*
(dollars in thousands)

Related Cash Flow Section Change in Cash		April 29, 2017	April 30, 2016	*Change*
	Assets			
	Current assets:			
	Cash and cash equivalents	$136,372	$105,577	+30,795
I	Short-term investments	3,906	4,454	−548
O	Accounts receivable	71,319	61,046	+10,273
O	Inventories	53,355	47,922	+5,433
O	Prepaid expenses	7,275	4,672	+2,603
	Total current assets	272,227	223,671	
I†	Property, plant, and equipment, net	85,662	81,827	+3,835
	Total assets	$357,889	$305,498	
	Liabilities and Stockholders' Equity			
	Current liabilities:			
O	Accounts payable	$ 58,100	$ 49,391	+8,709
O	Accrued expenses	29,106	26,223	+2,883
	Total current liabilities	87,206	75,614	
F	Long-term debt	25,065	23,732	+1,333
	Stockholders' equity:			
F	Common stock	657	656	+1
F	Additional paid-in capital	17,637	16,570	+1,067
O and F	Retained earnings	227,324	188,926	+38,398
	Total stockholders' equity	245,618	206,152	
	Total liabilities and stockholders' equity	$357,889	$305,498	

†The Accumulated Depreciation account also is related to operations because it relates to depreciation.

12-23

Exhibit 12.3
Current Income Statement

NATIONAL BEVERAGE CORP.
Consolidated Statement of Income*
For the Fiscal Year Ended April 29, 2017
(dollars in thousands)

Net sales	$826,918
Cost of sales	500,841
Gross profit	326,077
Operating expenses:	
Selling, general, and administrative expense	152,911
Depreciation and amortization expense	10,152
Total operating expenses	163,063
Operating income	163,014
Interest expense	189
Income before provision for income taxes	162,825
Provision for income taxes	55,780
Net income	$107,045

Under the indirect method, the statement of cash flows begins with net income from the income statement.

12-24

Exercise 12-1

◆The J.M. Smucker Company

net sales of $4,826 million from selling products such as jam (Smucker's), peanut butter (Jif), and vegetable oils (Crisco) for the year ending April 30, 2011.

operating expenses of $4,042 million, other expenses of $67 million, and income taxes of $238 million.

assume that Depreciation and amortization and Other net noncash expenses (benefits) affect operating expenses and that Other changes in current assets and liabilities, net affect other expenses.

Required:

Prepare CFS, direct method

There are all the items in CFS (in mill.)

Proceeds from long-term debt	$ 400
Dividends paid	(194)
Additions to property, plant, and equipment	(180)
Purchases of marketable securities	(76)
Sales and maturities of marketable securities	57
Disposal of property, plant, and equipment	6
Repurchase of common stock	(389)
Other financing activities, net	13
Net income	479
Depreciation and amortization	240
Other net noncash expenses (benefits)	(7)
Changes in operating assets and liabilities	
Increase in trade receivables	(103)
Increase in inventories	(204)
Increase in accounts payable and accrued liabilities	85
Decrease in income taxes payable	(66)
Other changes in current assets and liabilities, net	(32)

J. M. SMUCKER COMPANY

Statement of Cash Flows
For the Year Ended April 30, 2011
(In Millions)

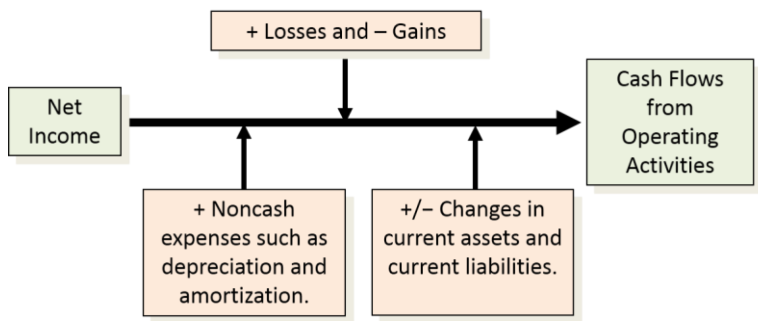
Cash Flows from operating activities:		
Cash received from customers ($4,826 – $103)		$ 4,723
Cash paid for operating expenses ($4,042 – $240 + $7 + $204 – $85)		(3,928)
Cash paid for other expenses ($67 + $32)		(99)
Taxes paid ($238 + $66)		(304)
Net cash provided by operations		392
Cash flows from investing activities:		
Additions to property, plant, and equipment	$(180)	
Purchases of marketable securities	(76)	
Sales and maturities of marketable securities	57	
Disposal of property, plant, and equipment	6	
Net cash used for investing activities		(193)
Cash flows from financing activities:		
Proceeds from long-term debt	400	
Repurchase of common stock	(389)	
Other financing activities, net	13	
Dividends paid	(194)	
Net cash used for financing activities		(170)
Increase in cash		$ 29

Learning Objective 12-2

12-2 Report and interpret cash flows from operating activities using the indirect method.

Reporting and Interpreting Cash Flows from Operating Activities

The indirect method adjusts net income by eliminating noncash items.



12-29

Adjustment for Gains and Losses

Cash received from the sale or disposal of long-term assets is classified as investing cash inflow. Gains/losses on the income statement, if any, are subtracted from/added to net income in order to compute cash flow from operating activities.

Gains → Gains must be subtracted from net income to avoid double counting the gain.

Losses → Losses must be added to net income to avoid double counting the loss.

12-30

Exhibit 12.4 (1)

Schedule for Net Cash Flow from Operating Activities, Indirect Method

NATIONAL BEVERAGE CORP.
Consolidated Statement of Cash Flows*
Year Ended April 29, 2017
(dollars in thousands)

Cash flows from operating activities:	
Net income	$107,045
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	10,152
Changes in assets and liabilities:	
Accounts receivable	(10,273)
Inventories	(5,433)
Prepaid expenses	(2,603)
Accounts payable	8,709
Accrued expenses	2,883
Net cash provided by operating activities	110,480

Step 1
Adjust net income for depreciation and amortization expense and gains and losses on sale of investing assets.

12-31

Exhibit 12.4 (2)

Schedule for Net Cash Flow from Operating Activities, Indirect Method

NATIONAL BEVERAGE CORP.
Consolidated Statement of Cash Flows*
Year Ended April 29, 2017
(dollars in thousands)

Cash flows from operating activities:	
Net income	$107,045
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	10,152
Changes in assets and liabilities:	
Accounts receivable	(10,273)
Inventories	(5,433)
Prepaid expenses	(2,603)
Accounts payable	8,709
Accrued expenses	2,883
Net cash provided by operating activities	110,480

Step 2
Adjust net income for changes in current assets and current liabilities.

12-32

Change in Accounts Receivable

	Accounts Receivable (A)			
Change $10,273	Beginning balance	61,046		
	Sales revenue (on account)	826,918	Collections from customers	816,645
	Ending balance	71,319		

Sales on account increase the balance in accounts receivable, and collections from customers decrease the balance.

The balance sheet indicates an **increase** in accounts receivable of $10,273 for the period, which means that cash collected from customers is lower than revenue.

To convert to cash flows from operating activities, the amount of the increase (the amount of sales over and above collections) must be **subtracted** from net income. (A decrease is added.)

Change in Inventory

Inventories (A)	
Beg. balance	
Purchases	Costs of goods sold
End. bal.	

Inventories (A)		
Beg.	47,922	
Increase	5,433	
End.	53,355	

The balance sheet indicates that inventory increased by $5,433, which means that the amount of purchases is more than the amount of merchandise sold.

The increase (the extra goods purchased) must be subtracted from net income to convert to cash flow from operating activities. (A decrease is added.)

Change in Prepaid Expenses

Prepaid Expenses (A)	
Beg. bal.	
Cash prepayments	Services used (expense)
End. bal.	

Prepaid Expenses (A)		
Beg.	4,672	
Increase	2,603	
End.	7,275	

The balance sheet indicates a $2,603 increase in prepaid expenses, which means that new cash prepayments are more than the amount of expenses.

The increase (the extra prepayments) must be subtracted from net income. (A decrease is added.)

Change in Accounts Payable

Accounts Payable (L)	
	Beg. bal.
Cash payments	Purchases on account
	End. bal.

Accounts Payable (L)		
	Beg.	49,391
	Increase	8,709
	End.	58,100

The balance sheet indicates accounts payable increased by $8,709, which means that cash payments were less than purchases on account.

This increase (the extra purchases on account) must be added to net income. (A decrease is subtracted.)

Change in Accrued Expenses

Accrued Expenses (L)	
	Beg. bal.
Pay off accruals	Accrued expenses
	End. bal.

Accrued Expenses (L)		
	Beg.	26,223
	Increase	2,883
	End.	29,106

The balance sheet indicates accrued expenses increased by $2,883, which indicates that cash paid for the expenses is less than accrual basis expenses.

The increase (the lower cash paid) must be added to net income. (A decrease is subtracted.)

12-37

Summary

We can summarize the typical additions and subtractions that are required to reconcile net income with cash flow from operating activities as follows:

	ADDITIONS AND SUBTRACTIONS TO RECONCILE NET INCOME TO CASH FLOW FROM OPERATING ACTIVITIES	
Item	**When Item Increases**	**When Item Decreases**
Depreciation and amortization	+	NA
Gain on sale of long-term assets	−	NA
Loss on sale of long-term assets	+	NA
Accounts receivable	−	+
Inventory	−	+
Prepaid expenses	−	+
Accounts payable	+	−
Accrued expense liabilities	+	−

12-38

Exercise 12-2

The following information pertains to Warner Company:

Income Statement for Year 2		
Sales		$17,000
Expenses		
Cost of goods sold	$10,375	
Depreciation expense	1,700	
Salaries expense	2,400	14,475
Net income		$ 2,525

Partial Balance Sheet	Year 2	Year 1
Accounts receivable	$2,100	$2,400
Inventory	2,800	1,600
Salaries payable	350	160

Required:
Present the operating activities section of the statement of cash flows for Warner Company using the indirect method.

Requirement:

WARNER COMPANY Statement of Cash Flows	
Cash flows from operating activities — indirect method	
Net income	$ 2,525
Adjustments to reconcile net income to cash flow from operating activities:	
Depreciation expense	1,700
Changes in assets and liabilities:	
Accounts receivable ($2,100 − $2,400)	300
Inventory ($2,800 − $1,600)	(1,200)
Salaries payable ($350 − $160)	190
Net cash provided by operating activities	$ 3,515

Classification of Interest on the Cash Flow Statement

International Perspective —IFRS

U.S. GAAP and IFRS differ in the cash flow statement treatment of interest received and interest paid.

	Interest Received	Interest Paid
U.S. GAAP	Operating	Operating
IFRS	Operating or Investing	Operating or Financing

12-41

US vs Chinese GAAP

- US

	Interests	Dividends
Received	**CFO**	**CFO**
Paid	**CFO**	**CFF**

- China

	Interests	Dividends
Received	**CFI**	**CFI**
Paid	**CFF**	**CFF**

12-42

Caution

CFO ?=? operating income minus non-cash working capital.

However, the following items (in the **current liabilities**) should **not** be included.

- **Dividends payable**
- **Short-term loans from bank**
- **Notes payable**
- **Bonds to be paid within one year**

And **Notes receivable, Short-term investment** in the current assets should **not** be included

Interpreting Cash Flows from Operating Activities

A common rule of thumb followed by financial and credit analysts is to avoid firms with rising net income but falling cash flow from operations.

Investors will not invest in a company if they do not believe that cash generated from operations will be available to pay them dividends or expand the company.

Creditors will not lend money if they do not believe that cash generated from operations will be available to pay back the loan.

Exercise 12-3

Safeway Service and Repair was started five years ago by two college roommates. The company's comparative balance sheets and income statement are presented below, along with additional information.

Balance Sheet at December 31	Current Year	Prior Year
Cash	$ 3,600	$3,100
Accounts receivable	1,100	800
Prepaid expenses	120	180
Equipment	700	0
Accumulated depreciation	(100)	0
	$ 5,420	$4,080
Wages payable	$ 840	$ 200
Short-term note payable	500	0
Common stock	1,400	1,400
Retained earnings	2,680	2,480
	$ 5,420	$4,080
Income Statement		
Service revenue	$37,450	
Depreciation expense	100	
Salaries expense	33,000	
Other expenses	4,200	
Net income	$ 200	

Additional data:

a. Prepaid expenses relate to rent paid in advance.

b. Other expenses were paid in cash.

c. Purchased equipment for $700 cash at the beginning of the current year and recorded $100 of depreciation expense at the end of the current year.

d. At the end of the current year, the company signed a short-term note payable to the bank for $500.

Required:

Prepare the statement of cash flows for the year ended December 31, current year, using the indirect method.

Requirement:

SAFEWAY SERVICE AND REPAIR Statement of Cash Flows For the Year Ended December 31, Current Year	
Cash flows from operating activities:	
Net income	$ 200
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	100
Increase in accounts receivable	(300)
Decrease in prepaid expenses	60
Increase in wages payable	640
Net cash provided by operating activities	700
Cash flows from investing activities:	
Cash paid for equipment	(700)
Net cash used by investing activities	(700)
Cash flows from financing activities:	
Cash proceeds from short-term borrowing	500
Net cash provided by financing activities	500
Net increase in cash during the year	500
Cash balance, January 1	3,100
Cash balance, December 31	3,600

Learning Objective 12-3

12-3 Analyze and interpret the quality of income ratio.

Quality of Income Ratio

KEY RATIO ANALYSIS

$$$

$$\text{Quality of Income Ratio} = \frac{\text{Cash Flow from Operating Activities}}{\text{Net Income}}$$

In general, this ratio measures the portion of income that was generated in cash. All other things equal, a higher quality of income ratio indicates greater ability to finance operating and other cash needs from operating cash inflows.

12-49

Exercise 12-4

A recent annual report for Crown Bottling Company contained the following information for the period (dollars in millions):

Net income	$10,284
Depreciation and amortization	3,086
Increase in accounts receivable	1,098
Increase in inventory	690
Increase in prepaid expense	136
Increase in accounts payable	1,436
Decrease in taxes payable	360
Increase in other current liabilities	1,476
Cash dividends paid	5,082
Treasury stock purchased	9,440

Required:
1. Compute cash flows from operating activities for Crown Bottling Company using the indirect method.
2. Compute the quality of income ratio.
3. What were the major reasons that Crown Bottling Company's quality of income ratio did not equal 1.0?

12-50

Requirement 1

CROWN BOTTLING COMPANY Statement of Cash Flows	
Cash flows from operating activities—indirect method	
Net income	$10,284
Depreciation and amortization	3,086
Increase in accounts receivable	(1,098)
Increase in inventory	(690)
Increase in prepaid expense	(136)
Increase in accounts payable	1,436
Decrease in taxes payable	(360)
Increase in other current liabilities	1,476
Total cash flows from operating activities	$13,998

Note: The cash dividends paid and treasury stock purchased are not related to operating activities and do not affect cash flows from operating activities.

Requirement 2

$$\text{Quality of income ratio} = \frac{\text{Cash flows from operations}}{\text{Net income}} = \frac{\$13{,}998}{\$10{,}284} = 1.36$$

Requirement 3

The reason the quality of income ratio was greater than one was primarily because of large non-cash depreciation charges.

Fraud and Cash Flows from Operations 1

QUESTION OF ETHICS

$$$

The cash flow statement often gives outsiders the first hint that financial statements may contain errors and irregularities.

Unethical managers sometimes attempt to reach earnings targets by manipulating accruals and deferrals of revenues and expenses to inflate income. Because these adjusting entries do not affect the cash account, they have no effect on the cash flow statement.

A growing difference between net income and cash flow from operations can be a sign of such manipulations.

12-53

Fraud and Cash Flows from Operations 2

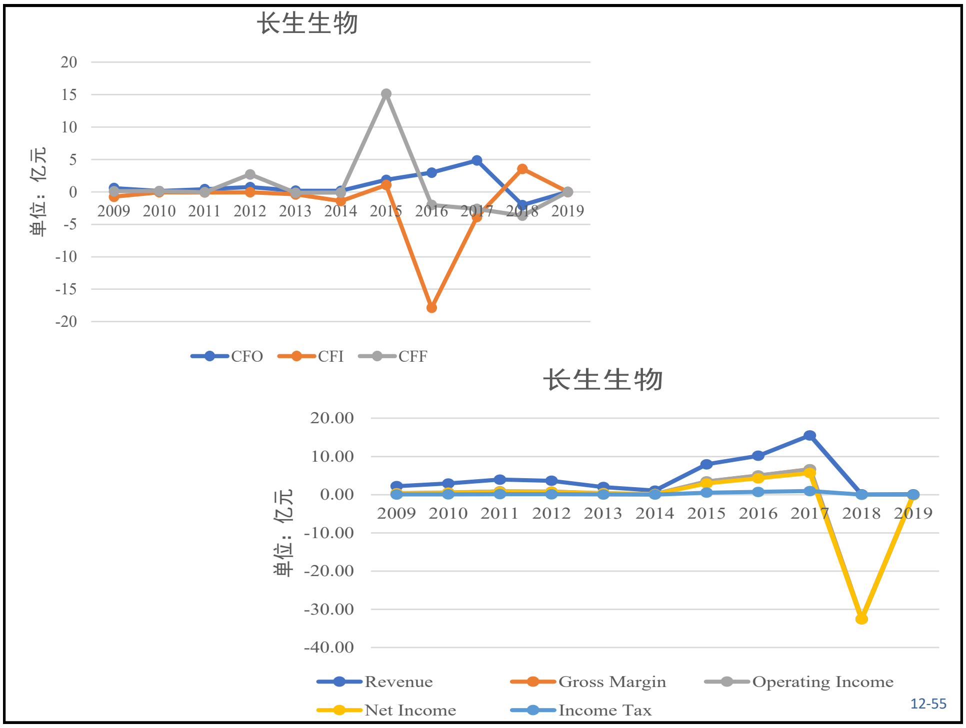
QUESTION OF ETHICS

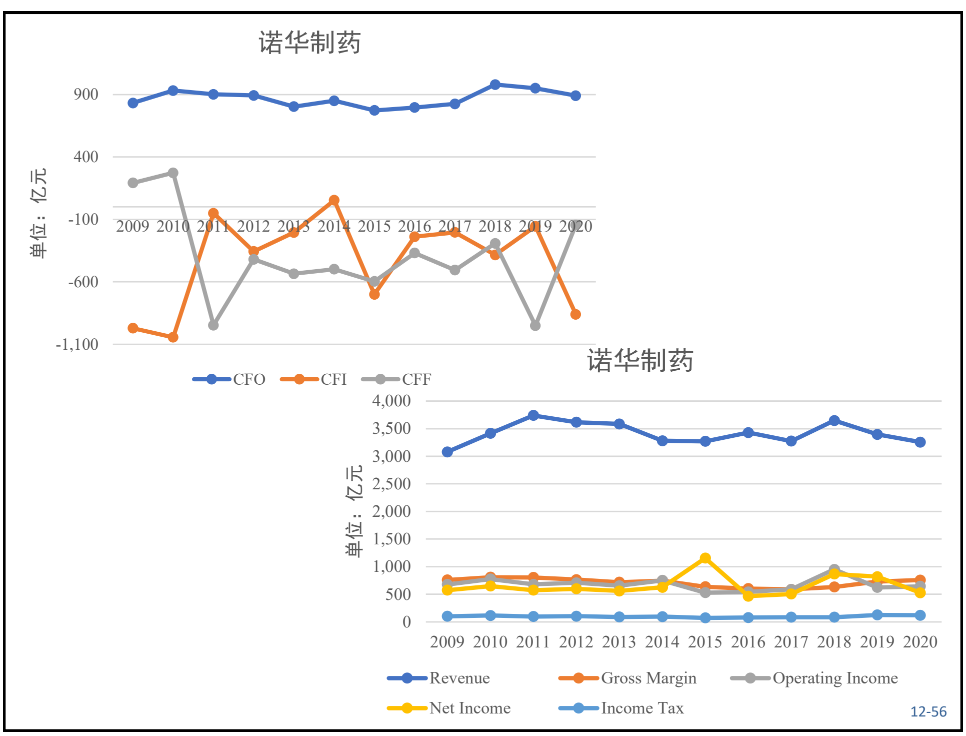
$$$

Investors Chronicle reported on an accounting fraud at a commercial credit company, suggesting the following:

> . . . a look at **Versailles**'s cash flow statement—an invaluable tool in spotting creative accounting—should have triggered misgivings. In the company's last filed accounts . . . Versailles reported operating profits of . . . $25 million but a cash outflow from operating activities of $24 million . . . such figures should . . . have served as a warning. After all, what use is a company to anyone if it reports only accounting profits which are never translated into cash?

12-54


长生生物
20
15
10
5
0
-5
-10
-15
-20
单位：亿元
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019
CFO
CFI
CFF
长生生物
20.00
10.00
0.00
-10.00
-20.00
-30.00
-40.00
单位：亿元
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019
Revenue
Gross Margin
Operating Income
Net Income
Income Tax
12-55


诺华制药
900
400
-100
-600
-1,100
单位：亿元
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
CFO
CFI
CFF
诺华制药
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
单位：亿元
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
Revenue
Gross Margin
Operating Income
Net Income
Income Tax
12-56

Learning Objective 12-4

12-4 Report and interpret cash flows from investing activities.

Reporting and Interpreting Cash Flows from Investing Activities

Related Balance Sheet Account(s)	Investing Activity	Cash Flow Effect
Property, plant, and equipment and intangible assets (patents, etc.)	Purchase of property, plant, and equipment or intangible assets for cash	Outflow
	Sale of property, plant, and equipment or intangible assets for cash	Inflow
Short- or long-term investments (stocks and bonds of other companies)	Purchase of investment securities for cash	Outflow
	Sale (maturity) of investment securities for cash	Inflow

Remember that:

Only purchases paid for with cash or cash equivalents are included.

The amount of cash that is received from the sale of assets is included, regardless of whether the assets are sold at a gain or loss.

Exhibit 12.1 (2)

We must report individually the cash used to purchase equipment and the cash proceeds received from the sale of equipment.

NATIONAL BEVERAGE CORP.
Consolidated Statement of Cash Flows*
Year Ended April 29, 2017 (dollars in thousands)

Cash flows from operating activities:	
Net income	$107,045
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	10,152
Changes in assets and liabilities:	
Accounts receivable	(10,273)
Inventories	(5,433)
Prepaid expenses	(2,603)
Accounts payable	8,709
Accrued expenses	2,883
Net cash provided by operating activities	110,480
Cash flows from investing activities:	
Purchase of property, plant, and equipment	(14,015)
Proceeds from disposal of property, plant, and equipment	28
Purchase of short-term investments	(1,463)
Proceeds from sale of short-term investments	2,011
Net cash used by investing activities	(13,439)
Cash flows from financing activities:	
Repayment of principal on long-term debt	—
Proceeds from issuance of long-term debt	1,333
Repurchase of stock	—
Proceeds from issuance of stock	1,068
Payment of cash dividends	(68,647)
Net cash used by financing activities	(66,246)
Net Increase (Decrease) in Cash and Equivalents	30,795
Cash and Equivalents—Beginning of Year	105,577
Cash and Equivalents—End of Year	$136,372

**Certain amounts have been adjusted for pedagogical purposes.*

Exhibit 12.1 (3)

Although short-term investments is a current asset, it is reported in the investing section. The company purchased short-term investments for $1,463. They company also sold short-term investments for $2,011, an amount equal to their net book value.

NATIONAL BEVERAGE CORP.
Consolidated Statement of Cash Flows*
Year Ended April 29, 2017 (dollars in thousands)

Cash flows from operating activities:	
Net income	$107,045
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	10,152
Changes in assets and liabilities:	
Accounts receivable	(10,273)
Inventories	(5,433)
Prepaid expenses	(2,603)
Accounts payable	8,709
Accrued expenses	2,883
Net cash provided by operating activities	110,480
Cash flows from investing activities:	
Purchase of property, plant, and equipment	(14,015)
Proceeds from disposal of property, plant, and equipment	28
Purchase of short-term investments	(1,463)
Proceeds from sale of short-term investments	2,011
Net cash used by investing activities	(13,439)
Cash flows from financing activities:	
Repayment of principal on long-term debt	—
Proceeds from issuance of long-term debt	1,333
Repurchase of stock	—
Proceeds from issuance of stock	1,068
Payment of cash dividends	(68,647)
Net cash used by financing activities	(66,246)
Net Increase (Decrease) in Cash and Equivalents	30,795
Cash and Equivalents—Beginning of Year	105,577
Cash and Equivalents—End of Year	$136,372

**Certain amounts have been adjusted for pedagogical purposes.*

Learning Objective 12-5

12-5 Analyze and interpret the capital acquisitions ratio.

Capital Acquisitions Ratio

KEY RATIO ANALYSIS

$$\text{Capital Acquisitions Ratio} = \frac{\text{Cash Flow from Operating Activities}}{\text{Cash Paid for Property, Plant, and Equipment}}$$

$$$

In general, this ratio reflects the portion of purchases of property, plant, and equipment financed from operating activities. A high ratio indicates less need for outside financing for current and future expansions.

A high ratio benefits the company because:

- it provides the company opportunities for strategic acquisitions
- it avoids the cost of additional debt
- it reduces the risk of bankruptcy that comes with additional leverage

Free Cash Flow

FINANCIAL ANALYSIS

$$$

Managers and analysts calculate **free cash flow** as a measure of a firm's ability to pursue long-term investment opportunities

Free Cash Flow = Cash Flow from Operating Activities
– Dividends – Capital Expenditures

Any positive free cash flow is available for additional capital expenditures, investments in other companies, and mergers and acquisitions without the need for external financing or reductions in dividends to shareholders.

12-63

Facebook——FCF

Define FCF as：

net cash provided by operating activities

- − purchases of property and equipment
- − property and equipment acquired under capital leases.

FCF is one of the key financial indicators of business performance over the long term

- – how CFO compares to the property and equipment investments (CFI) required to maintain and grow our business.

12-64

Facebook——FCF

Year Ended December 31,

	2010	2011	2012	2013	2014	2015	2016	2017
				in billions				
Net cash provided by operating activities	0.70	1.55	1.61	4.22	5.46	8.60	16.11	24.22
Purchases of property and equipment	-0.29	-0.61	-1.24	-1.36	-1.83	-2.52	-4.49	-6.73
Property and equipment acquired under capital leases	-0.22	-0.47	-0.34	-0.01				
Free cash flow	0.19	0.47	0.04	2.85	3.63	6.08	11.62	17.49

12-65

Meta Platforms, Inc.

(in millions):

	Year Ended December 31,		
	2021	2020	2019
Net cash provided by operating activities	$ 57,683	$ 38,747	$ 36,314
Less: Purchases of property and equipment	(18,567)	(15,115)	(15,102)
Less: Principal payments on finance leases	(677)	(604)	(552)
Free cash flow	$ 38,439	$ 23,028	$ 20,660

12-66

Learning Objective 12-6

12-6 Report and interpret cash flows from financing activities.

Reporting Cash Flows from Financing Activities

Related Balance Sheet Account(s)	Financing Activity	Cash Flow Effect
Short-term debt (notes payable)	Borrowing cash from banks or other financial institutions	Inflow
	Repayment of loan principal	Outflow
Long-term debt	Issuance of bonds for cash	Inflow
	Repayment of bond principal	Outflow
Common stock and additional paid-in capital	Issuance of stock for cash	Inflow
	Repurchase (retirement) of stock with cash	Outflow
Retained earnings	Payment of cash dividends	Outflow

Remember that:
Cash repayments of principal are cash flows from financing activities.
Interest payments are cash flows from operating activities.
Dividend payments are cash flows from financing activities.
If debt or stock is issued for other than cash, it is not included in this section.

Exhibit 12.1 (4)

NATIONAL BEVERAGE CORP. **Consolidated Statement of Cash Flows*** **Year Ended April 29, 2017 (dollars in thousands)**	
Cash flows from operating activities:	
Net income	$107,045
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	10,152
Changes in assets and liabilities:	
Accounts receivable	(10,273)
Inventories	(5,433)
Prepaid expenses	(2,603)
Accounts payable	8,709
Accrued expenses	2,883
Net cash provided by operating activities	110,480
Cash flows from investing activities:	
Purchase of property, plant, and equipment	(14,015)
Proceeds from disposal of property, plant, and equipment	28
Purchase of short-term investments	(1,463)
Proceeds from sale of short-term investments	2,011
Net cash used by investing activities	(13,439)
Cash flows from financing activities:	
Repayment of principal on long-term debt	—
Proceeds from issuance of long-term debt	1,333
Repurchase of stock	—
Proceeds from issuance of stock	1,068
Payment of cash dividends	(68,647)
Net cash used by financing activities	(66,246)
Net Increase (Decrease) in Cash and Equivalents	30,795
Cash and Equivalents—Beginning of Year	105,577
Cash and Equivalents—End of Year	$136,372

**Certain amounts have been adjusted for pedagogical purposes.*

Cash received from issuance of long-term debt.

Exhibit 12.1 (5)

NATIONAL BEVERAGE CORP. **Consolidated Statement of Cash Flows*** **Year Ended April 29, 2017 (dollars in thousands)**	
Cash flows from operating activities:	
Net income	$107,045
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	10,152
Changes in assets and liabilities:	
Accounts receivable	(10,273)
Inventories	(5,433)
Prepaid expenses	(2,603)
Accounts payable	8,709
Accrued expenses	2,883
Net cash provided by operating activities	110,480
Cash flows from investing activities:	
Purchase of property, plant, and equipment	(14,015)
Proceeds from disposal of property, plant, and equipment	28
Purchase of short-term investments	(1,463)
Proceeds from sale of short-term investments	2,011
Net cash used by investing activities	(13,439)
Cash flows from financing activities:	
Repayment of principal on long-term debt	—
Proceeds from issuance of long-term debt	1,333
Repurchase of stock	—
Proceeds from issuance of stock	1,068
Payment of cash dividends	(68,647)
Net cash used by financing activities	(66,246)
Net Increase (Decrease) in Cash and Equivalents	30,795
Cash and Equivalents—Beginning of Year	105,577
Cash and Equivalents—End of Year	$136,372

**Certain amounts have been adjusted for pedagogical purposes.*

Cash received from issuing common stock.

Exhibit 12.1 (6)

Retained earnings increased by $38,398 due to the combined effect of $107,045 of income and $68,647 in dividends declared and paid.

Retained Earnings Analysis	
April 30, 2016	$188,926
Add net income	107,045
Less dividends	(68,647)
April 29, 2017	$227,324

NATIONAL BEVERAGE CORP.
Consolidated Statement of Cash Flows*
Year Ended April 29, 2017 (dollars in thousands)

Cash flows from operating activities:	
Net income	$107,045
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	10,152
Changes in assets and liabilities:	
Accounts receivable	(10,273)
Inventories	(5,433)
Prepaid expenses	(2,603)
Accounts payable	8,709
Accrued expenses	2,883
Net cash provided by operating activities	110,480
Cash flows from investing activities:	
Purchase of property, plant, and equipment	(14,015)
Proceeds from disposal of property, plant, and equipment	28
Purchase of short-term investments	(1,463)
Proceeds from sale of short-term investments	2,011
Net cash used by investing activities	(13,439)
Cash flows from financing activities:	
Repayment of principal on long-term debt	—
Proceeds from issuance of long-term debt	1,333
Repurchase of stock	—
Proceeds from issuance of stock	1,068
Payment of cash dividends	(68,647)
Net cash used by financing activities	(66,246)
Net Increase (Decrease) in Cash and Equivalents	30,795
Cash and Equivalents—Beginning of Year	105,577
Cash and Equivalents—End of Year	$136,372

*Certain amounts have been adjusted for pedagogical purposes.

Interpreting Cash Flows from Financing Activities

The long-term growth of a company is normally financed from three sources:

1. Internally generated funds (cash from operating activities)
2. The issuance of stock
3. Money borrowed on a long-term basis

The statement of cash flows shows how management has elected to fund its growth. This information is used by analysts who wish to evaluate the capital structure and growth potential of a business.

Learning Objective 12-7

12-7 Understand the format of the cash flow statement and additional cash flow disclosures.

Completing the Statement and Additional Disclosures

Statement of Cash Flows (Indirect Method)
Operating activities:
Net income
+ Depreciation and amortization expense
− Gain on sale of long-term assets
+ Loss on sale of long-term assets
+ Decreases in operating assets
+ Increases in operating liabilities
− Increases in operating assets
− Decreases in operating liabilities
Net Cash Flow from Operating Activities
Investing Activities:
− Purchase of property, plant, and equipment or intangible assets
+ Sale of property, plant, and equipment or intangible assets
− Purchase of investment securities
+ Sale (maturity) of investment securities
Net Cash Flow from Investing Activities
Financing Activities:
+ Borrowing from bank or other financial institution
− Repayment of loan principal
+ Issuance of bonds for cash
− Repayment of bond principal
+ Issuance of stock
− Repurchase (retirement) of stock
− Payment of (cash) dividends
Net Cash Flow from Financing Activities
Net increase or decrease in cash and cash equivalents
Cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period

Supplemental Cash Flow Information

Two additional required cash flow disclosures are normally listed at the bottom of the statement or in the notes.

1. **Noncash investing and financing activities,** such as the purchase of a building with a mortgage given by the former owner.
2. **Cash paid for interest and cash paid for income taxes** (for companies that use the indirect method)

12-75

Question?

How about the impact of unearned revenue/prepaid expenses on CFO?

One transactions involving 2 types of activities

- Use inventory to pay short-term loans from bank?
- Use inventory to exchange for a equipment?
  - Can we use change of inventory to deduct CFO?
- Client issues a note for the service we have provided

Disclose non-cash transactions

- Transactions involves operating and financing activities
- Transactions involves operating and investing activities

12-76

Chapter Supplement A: Reporting Cash Flows from Operating Activities—Direct Method

	Sales revenue
+	Decrease in accounts receivable
−	Increase in accounts receivable
=	**Cash collections from customers**

	Interest/Dividend revenue
+	Decrease in interest/dividends receivable
−	Increase in interest/dividends receivable
=	**Collections of interest/dividends on investments**

	Cost of goods sold
+	Increase in inventory
−	Decrease in inventory
−	Increase in accounts payable
+	Decrease in accounts payable
=	**Cash payments to suppliers**

	Other expenses
+	Increase in prepaid expenses
−	Decrease in prepaid expenses
−	Increase in accrued expenses
+	Decrease in accrued expenses
=	**Cash paid for expenses**

	Income tax expense
+	Increase in prepaid income taxes
−	Decrease in prepaid income taxes
−	Increase in income taxes payable
+	Decrease in income taxes payable
=	**Payments of income taxes**

12-77

Chapter Supplement B: Adjustment for Gains and Losses on Sale of Long-Term Assets—Indirect Method

The Operating Activities section of the cash flow statement prepared using the indirect method may include an adjustment for gains and losses on the sale of long-term assets reported on the income statement.

If property, plant, and equipment with an original cost of $10,000 and accumulated depreciation of $4,000 is sold for $8,000 cash, the following entry is made.

	Debit	Credit
Cash (+A)	8,000	
Accumulated depreciation (−XA, +A)	4,000	
Property, plant, and equipment (−A)		10,000
Gain on disposal (+R, +SE) ($8,000 − $6,000)		2,000

$8,000 Investing cash flow

$2,000 subtraction in the Operating section

12-78

Chapter Supplement C: T-Account Approach (Indirect Method)

Based on the idea that changes in cash must equal the sum of the changes in all other balance sheet accounts, we can use T-accounts to analyze cash flows as follows:

1. Determine the change in each balance sheet account. From this year's ending balance, subtract this year's beginning balance (i.e., last year's ending balance).

2. Identify the cash flow category or categories to which each account relates.

3. Create schedules that summarize operating, investing, and financing cash flows.

Exhibit 12.9 (1)

T-Account Approach to Preparing the Statement of Cash Flows (Indirect Method)

Panel A: Changes in Cash Account

Cash (A)			
Operating			
(1) Net Income	107,045	10,273	(3) Accounts Receivable
(2) Depreciation and Amortization	10,152	5,433	(4) Inventory
(6) Accounts Payable	8,709	2,603	(5) Prepaid Expenses
(7) Accrued Expenses	2,883		
Net cash provided by operating activities	110,480		
Investing			
(9) Disposals of Property, Plant, & Equipment	28	14,015	(8) Purchases of Property, Plant, & Equipment
(11) Sales of Short-Term Investments	2,011	1,463	(10) Purchases of Short-Term Investments
		13,439	Net cash used in investing activities
Financing			
(12) Issuance of Long-Term Debt	1,333	68,647	(14) Payment of Dividends
(13) Issuance of Stock	1,068		
		66,246	Net cash used in financing activities
Net increase in cash and cash equivalents	30,795		

Exhibit 12.9 (2)

T-Account Approach to Preparing the Statement of Cash Flows (Indirect Method)

Panel B: Changes in Noncash Accounts

Accounts Receivable (A)

Beg. bal	61,046		
(3) Increase	10,273		
End. bal	71,319		

Inventory (A)

Beg. bal	47,922		
(4) Increase	5,433		
End. bal	53,355		

Prepaid Expenses (A)

Beg. bal	4,672		
(5) Increase	2,603		
End. bal	7,275		

Accounts Payable (L)

		Beg. bal	49,391
		(6) Increase	8,709
		End. bal	58,100

Accrued Expenses (L)

		Beg. bal	26,223
		(7) Increase	2,883
		End. bal	29,106

Property, Plant, & Equipment, Net (A)

Beg. bal	81,827	(2) Depreciation	10,152
(8) Purchases	14,015	(9) Disposals	28
End. bal	85,662		

Short-Term Investments (A)

Beg. bal	4,454		
(10) Purchases	1,463	(11) Disposals	2,011
End. bal	3,906		

Long-Term Debt (L)

		Beg. bal	23,732
		(12) Borrowings	1,333
		End. bal	25,065

Common Stock (SE)

		Beg. bal	656
		(13) Stock issued	1
		End. bal	657

Additional Paid-In Capital (SE)

		Beg. bal	16,570
		(13) Stock issued	1,067
		End. bal	17,637

Retained Earnings (SE)

		Beg. bal	188,926
(14) Dividends	68,647	(1) Net income	107,045
		End. bal	227,324

Exercise 12-5

Palmer Universe Store is a golf equipment retailer. The company reported the following for the current year:

- Purchased a long-term investment for cash, $27,000.
- Paid cash dividend, $14,000.
- Sold equipment for $16,000 cash (cost, $41,000, accumulated depreciation, $25,000).
- Issued shares of no-par stock, 700 shares at $12 per share cash.
- Net income was $30,200.
- Depreciation expense was $5,000.

	December 31	
Its comparative balance sheet is presented below.	Current Year	Prior Year
Cash	$ 27,600	$ 28,500
Accounts receivable	42,000	42,000
Merchandise inventory	87,000	78,000
Investments	27,000	0
Equipment	83,500	124,500
Accumulated depreciation	(14,000)	(34,000)
Total	$253,100	$239,000
Accounts payable	16,000	27,000
Wages payable	3,500	6,500
Income taxes payable	8,500	5,000
Notes payable	74,000	74,000
Common stock and additional paid-in capital	108,400	100,000
Retained earnings	42,700	26,500
Total	$253,100	$239,000

Required:

1. Complete a T-account worksheet to be used to prepare the statement of cash flows for the current year.
2. Based on the T-account worksheet, prepare the statement of cash flows for the current year in proper format.

12-83

Requirement 1: T-Account Approach

1. Determine the change in each balance sheet account.
2. Identify the cash flow category or categories to which each account relates.
3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

12-84

Requirement 1 T-Account Approach

1. Determine the change in each balance sheet account.
2. Identify the cash flow category or categories to which each account relates.

Accounts Receivable			
Beg.	42,000		
No change			
End.	42,000		

Merchandise Inventory			
Beg.	78,000		
Increase	9,000		
End	87,000		

Investments			
Beg.	0		
Purchases	27,000	0	Disposals
End	27,000		

Equipment			
Beg.	124,500		
Purchases	0	41,000	Disposals
End.	83,500		

Accumulated Depreciation			
		34,000	Beg.
Disposals	25,000	5,000	Depreciation
		14,000	End.

Accounts Payable			
		27,000	Beg.
Decrease	11,000		
		16,000	End.

Wages Payable			
		6,500	Beg.
Decrease	3,000		
		3,500	End.

Income Taxes Payable			
		5,000	Beg.
		3,500	Increase
		8,500	End.

Notes Payable			
		74,000	Beg.
		74,000	End.

Common Stock and Additional Paid-in Capital			
		100,000	Beg.
		8,400	Stock issued
		108,400	End.

Retained Earnings			
		26,500	Beg.
Dividends	14,000	30,200	Net Income
		42,700	End.

12-85

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Retained Earnings			
		26,500	Beg.
Dividends	14,000	30,200	Net Income
		42,700	End.

Cash		
Operating		
Net Income	30,200	
Investing		
Financing		

12-86

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Accumulated Depreciation			
		34,000	Beg.
Disposals	25,000	5,000	Depreciation
		14,000	End.

Cash			
Operating			
Net Income	30,200		
Depreciation Expense	5,000		
Investing			
Financing			

12-87

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Merchandise Inventory			
Beg.	78,000		
Increase	9,000		
End	87,000		

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000		
Investing			
Financing			

12-88

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Accounts Payable			
		27,000	Beg.
Decrease	11,000		
		16,000	End.

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
Investing			
Financing			

12-89

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Wages Payable			
		6,500	Beg.
Decrease	3,000		
		3,500	End.

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
		3,000	Wages Payable
Investing			
Financing			

12-90

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Income Taxes Payable		
	5,000	Beg.
	3,500	Increase
	8,500	End.

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
Income Taxes Payable	3,500	3,000	Wages Payable
Net cash provided by operating activities	**15,700**		
Investing			
Financing			

12-91

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

The company reported the following for the current year:

- Sold equipment for $16,000 cash (cost, $41,000, accumulated depreciation, $25,000).

Equipment			
Beg.	124,500		
Purchases	0	41,000	Disposals
End.	83,500		

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
Income Taxes Payable	3,500	3,000	Wages Payable
Net cash provided by operating activities	**15,700**		
Investing			
Sale of Equipment	16,000		
Financing			

12-92

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Investments		
0		
27,000	0	Disposals
27,000		

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
Income Taxes Payable	3,500	3,000	Wages Payable
Net cash provided by operating activities	**15,700**		
Investing		27,000	Purchased Investment
Sale of Equipment	16,000	**11,000**	**Net cash used by investing activities**
Financing			

12-93

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

The company reported the following for the current year:

- Issued shares of no-par stock, 700 shares at $12 per share cash.

Common Stock and Additional Paid-in Capital		
	100,000	Beg.
	8,400	Stock issued
	108,400	End.

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
Income Taxes Payable	3,500	3,000	Wages Payable
Net cash provided by operating activities	**15,700**		
Investing		27,000	Purchased Investment
Sale of Equipment	16,000	**11,000**	**Net cash used by investing activities**
Financing			
Proceeds from stock issuances	8,400		

12-94

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

The company reported the following for the current year:

- Paid cash dividend, $14,000.

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
Income Taxes Payable	3,500	3,000	Wages Payable
Net cash provided by operating activities	**15,700**		
Investing		27,000	Purchased Investment
Sale of Equipment	16,000	**11,000**	**Net cash used by investing activities**
Financing			
Proceeds from stock issuances	8,400	14,000	Payment of dividends

12-95

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
Income Taxes Payable	3,500	3,000	Wages Payable
Net cash provided by operating activities	**15,700**		
Investing		27,000	Purchased Investment
Sale of Equipment	16,000	**11,000**	**Net cash used by investing activities**
Financing			
Proceeds from stock issuances	8,400	14,000	Payment of dividends
		5,600	**Net cash used by financing activities**

12-96

Requirement 1: T-Account Approach

3. Prepare a single large T-account to represent the changes that have taken place in cash subdivided into the three sections of the cash flow statement.

Cash			
Operating			
Net Income	30,200	9,000	Inventory
Depreciation Expense	5,000	11,000	Accounts payable
Income Taxes Payable	3,500	3,000	Wages Payable
Net cash provided by operating activities	**15,700**		
Investing		27,000	Purchased Investment
Sale of Equipment	16,000	**11,000**	**Net cash used by investing activities**
Financing			
Proceeds from stock issuances	8,400	14,000	Payment of dividends
		5,600	**Net cash used by financing activities**
		900	**Net decrease in cash and cash equivalents**

Requirement 2

PALMER UNIVERSE STORE
Statement of Cash Flows
For the Year Ended December 31, Current Year

Cash flows from operating activities:	
Net income	$ 30,200
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	5,000
Changes in current assets and current liabilities:	
Inventory	(9,000)
Accounts payable	(11,000)
Wages payable	(3,000)
Income taxes payable	3,500
Net cash provided by operating activities	15,700
Cash flows from investing activities:	
Purchase of investment	(27,000)
Proceeds from sale of equipment	16,000
Net cash used in investing activities	(11,000)
Cash flows from financing activities:	
Sale of capital stock	8,400
Dividends paid	(14,000)
Net cash used in financing activities	(5,600)
Net decrease in cash and cash equivalents	(900)
Cash and cash equivalents at beginning of year	28,500
Cash and cash equivalents at end of year	$ 27,600

HW12

P664 E12-8

P667 E12-15

P667 E12-16

P670 E12-23