

Chapter 12

Statement of Cash Flows

E12–8.

Req. 1

Cash flows from operating activities—indirect method

Net loss.....	(\$6,400)
Depreciation expense	4,500
Amortization of copyrights.....	200
Accounts receivable decrease (\$8,000 – \$13,000)	5,000
Salaries payable increase (\$12,000 – \$1,000)	11,000
Other accrued liabilities decrease (\$1,000 – \$2,800).....	(1,800)
Net cash provided by operating activities	<u>\$12,500</u>

Req. 2

The first reason for the net loss was the depreciation expense. This is a non-cash expense. Depreciation expense, along with decreased working capital requirements (current assets - current liabilities), turned the net loss into positive operating cash flow from operations. The reasons for the difference between net income and cash flow are important because they help the financial analyst determine if the trends are sustainable or whether they represent one-time events.

E12–15.

Req. 1

Cash flows from operating activities—indirect method

Net income.....	\$6,462
Depreciation and amortization	2,737
Increase in accounts receivable.....	(666)
Increase in inventory.....	(331)
Increase in prepaid expense.....	(27)
Increase in accounts payable	520
Decrease in taxes payable.....	(340)
Increase in other current liabilities	589
Cash flows provided from operating activities	<u>\$8,944</u>

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

Req. 2

$$\text{Quality of income ratio} = \frac{\text{Cash flow from operations}}{\text{Net income}} = \frac{\$8,944}{\$6,462} = 1.38$$

Req. 3

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

E12–16.

The investing and financing sections of the statement of cash flows for Oering's Furniture:

Cash flows from investing activities:

Purchase of property, plant & equipment	\$(1,071)
Sale of marketable securities.....	219
Proceeds from sale of property, plant & equipment.....	<u>6,894</u>
Net cash flows from investing activities.....	\$6,042

Cash flows from financing activities:

Borrowings under line of credit.....	1,117
Proceeds from issuance of stock	11
Payments on long-term debt.....	(46)
Payment of dividends.....	(277)
Purchase of treasury stock.....	<u>(2,583)</u>
Net cash flows from financing activities	(1,778)

E12–23.

Req. 1

Cash flows from operating activities—direct method

Cash collected from customers ¹	\$151,600
Cash payments to employees	(55,400)
Cash payments to suppliers ²	(53,520)
Cash payments for other expenses ³	(11,702)
Cash payments for income tax ⁴	(220)
Net cash provided by operating activities	<u>\$30,758</u>

1. Cash collected from customers = Revenues + Decrease in Accounts receivable
 $\$150,800 + \$800 = \$151,600$
2. Cash payments to suppliers: Cost of sales – Decrease in Inventories
– Increase in Accounts payable
 $\$55,500 - \$230 - \$1,750 = \$53,520$
3. Cash payments for other expenses = Other expense + Increase in Prepaid expenses
+ Decrease in Accrued liabilities
 $\$9,600 + \$1,500 + \$602 = \$11,702$
4. Cash payments for income tax = Income tax expense – Increase in income taxes payable
 $\$1,500 - \$1,280 = \$220$

Req. 2

The primary reason for the net loss was the depreciation and amortization expense. These represent non-cash expenses. Large depreciation and amortization expense, along with decreased working capital requirements, turned Trumansburg's net loss into positive operating cash flow. The reasons for the difference between net income and cash flow from operations are important because they help the financial analyst to determine if the trends are sustainable or whether they represent one-time events.
