

## Vol. 1, Chapter 7 – The Statement of Cash Flows

### Problem 1: Solution

<u>Transaction #</u>	<u>Identification</u>
1	Operating
2	Investing
3	Noncash transaction
4	Financing
5	Noncash transaction
6	Operating
7	Investing
8	Financing
9	None of the above
10	Investing
11	Operating
12	Operating
13	Operating
14	Financing
15	Investing

### Problem 2: Solution

Net Cash Flows from Operating Activities:		
Net income		\$21,452
Adjustments to Reconcile Net		
Income to Net Cash Flows		
from Operating Activities:		
Depreciation expense	\$ 5,200	
Increase in accounts receivable	(2,242)	
Decrease in food inventory	200	
Increase in prepaid insurance	(736)	
Increase in accounts payable	2,516	
Decrease in accrued expenses	(238)	
Increase in taxes payable	<u>451</u>	
Net Cash Flows from Operating Activities		<u>\$26,603</u>

**Problem 3: Solution**

1.	Beginning payroll payable account balance	\$ 6,000
	Payroll expense during 20X2	805,000
	Less: Ending payroll payable account balance	<u>(8,000)</u>
	Cash disbursements for payroll during 20X2	<u>\$803,000</u>
2.	Insurance expenses for 20X2	\$ 15,000
	Prepaid insurance balance at the end of 20X2	5,000
	Less: Prepaid insurance balance at beg. of 20X2	<u>(3,000)</u>
	Insurance premiums paid during 20X2	<u>\$ 17,000</u>
3.	Utility expense during 20X2	\$ 30,000
	Accrued utility expense at the beg. of year	3,000
	Less: Year-end accrual	(4,000)
	Amount paid to utility company during 20X2	<u>\$ 29,000</u>
4.	Ending balance of equipment	\$250,000
	Less: Beginning balance of equipment account	(200,000)
	Plus: Cost of equipment sold during 20X2	<u>20,000</u>
	Cash expenditures for equipment	<u>\$ 70,000</u>
5.	Ending balance of marketable securities	\$ 25,000
	Less: Beg. balance of marketable securities	(20,000)
	Plus: Cost of securities sold (and later replaced)	<u>5,000</u>
	Expenditures for marketable securities	<u>\$ 10,000</u>

**Problem 4: Solution**

1.	Cash received from guests	
	Cash sales	\$ 800,000
	Collection of receivables:	
	Sales on account	\$2,540,000
	Less: Increase in receivables	<u>(10,000)</u>
	Total	<u>2,530,000</u>
		<u>\$3,330,000</u>
2.	Dividends paid	
	Dividends declared in 20X2 paid in 20X3	\$ 10,000
	Dividends declared and paid in 20X3:	
	Dividends declared in 20X3	\$120,000
	Less: Dividends payable at the end of 20X3	<u>(15,000)</u>
	Total	<u>105,000</u>
		<u>\$115,000</u>
3.	Cash payments for food purchases	
	Cost of food used in 20X3	\$400,000
	Add: Increase in food inventory	8,000
	Add: Decrease in suppliers payables	<u>5,000</u>
	Total	<u>\$413,000</u>
4.	Cash borrowed and recorded as LTD:	
	Increase in LTD	\$500,000
	Add: Conversion of debt to stock	200,000
	Add: Reclassif. to current debt	<u>50,000</u>
	Total	<u>\$750,000</u>
5.	Income taxes paid	
	Income tax expense	\$25,000
	Less: Increase in income taxes payable	<u>(1,000)</u>
	Total	<u>\$24,000</u>

### Problem 5: Solution

Net Cash Flows from Operating Activities:		
Net income		\$600,400 (1)
Adjustments to Reconcile Net		
Income to Net Cash Flows		
from Operating Activities:		
Depreciation expense	\$75,200	
Decrease in accounts receivable	10,000	
Increase in food inventory	(5,000)	
Increase in prepaid expenses	(1,000)	
Increase in accounts payable	8,000	
Increase in wages payable	1,500	
Decrease in interest payable	(1,500)	
Increase in taxes payable	<u>2,100</u>	<u>89,300</u>
Net Cash Flows from Operating Activities		<u>\$689,700</u>

(1) Revenues - Expenses = Net Income  
\$3,500,800 - \$2,900,400 = \$600,400

### Problem 6: Solution

1. The increase in accounts receivable of \$12,000 is deducted from net income; therefore, cash flow is increased. The decrease in food inventory of \$5,000 is added to net income; therefore, cash flow is increased. Both accounts are shown under the net cash flows from operating activities section.
2. \$200,000 was borrowed during 20X4. \$30,000 was paid to retire debt during 20X4. Both the amounts borrowed and paid are shown under the net cash flows from financing activities section.
3. The increase in accounts payable of \$20,000 is added to net income; therefore, cash flow is increased. The decrease in wages payable of \$5,000 is deducted from net income; therefore, cash flow is decreased. Both accounts are shown under the net cash flows from operating activities section.
4. \$70,000 in dividends were paid during 20X4. The amount is shown under the net cash flows from financing activities section.

**Problem 6: Solution** (continued)

5.  $\$25,000 - \$22,000 = \$3,000$   
 $\$5,000 - \$3,000 = \$2,000$  gain  
The gain is shown under the net cash flows from operating activities section. The proceeds from the sale are shown under the net cash flows from activities section.
- $\$690,000 - \$25,000 = \$665,000$   
 $\$750,000 - \$665,000 = \$85,000$  of equipment purchased during 20X4.  
Equipment purchases are shown under the net cash flows from investing activities section.

**Problem 7: Solution**

Net Cash Flows from Financing Activities:			
Borrowed long-term debt	\$10,000,000		
Sold shares of stock	8,500,000	(1)	
Payment of long-term debt	(700,000)	(2)	
Payment of cash dividends	<u>(2,500,000)</u>		
Net Cash Flows from Financing Activities:	<u>\$15,300,000</u>		

- (1)  $100,000 \times \$85 = \$8,500,000$   
(2)  $\$750,000 - \$50,000 = \$700,000$

**Problem 8: Solution**

Net Cash Flows from Operating Activities:			
Net income			\$258,000
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:			
Depreciation expense	\$150,000		
Gain on sale of equipment	(1,500)	(1)	
Loss on sale of investments	10,000	(2)	
Loss on sale of equipment	2,000	(3)	
Decrease in accounts receivable	5,000		
Increase in food inventory	(10,000)		
Increase in prepaid insurance	(4,000)		
Increase in accounts payable	9,000		
Increase in accrued payroll	3,000		
Increase in taxes payable	<u>2,000</u>		\$165,500
Net Cash Flows from Operating Activities			<u>\$423,500</u>

- (1)  $\$2,500 - \$1,000 = \$1,500$   
(2)  $\$60,000 - \$50,000 = \$10,000$   
(3)  $\$3,000 - \$1,000 = \$2,000$

**Problem 9: Solution**

Illini Inn  
Statement of Cash Flows  
For the Year Ended December 31, 20X2

Cash Flows from Operating Activities:

Net income		\$100,000
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	\$200,000	
Amortization	100,000	
Increase in accounts receivable	(35,000)	
Increase in inventory	(5,000)	
Increase in accounts payable	45,000	
Increase in wages payable	<u>5,000</u>	<u>310,000</u>
Net Cash Flows from Operating Activities		410,000

Cash Flows from Investing Activities:

Purchases of equipment  
(300,000)

Cash Flows from Financing Activities:

Payment of current maturities--LTD      \$(50,000)  
Payment of dividends                        (50,000)  
(100,000)

Increase in cash	10,000
Cash—beginning of the year	<u>30,000</u>
Cash—end of the year	<u>40,000</u>

Supplementary Disclosure of Cash Flow Information:

Cash paid during the year for:  
    Income taxes                                                \$ 50,000

**Note:** No detail is provided in regard to interest expense.

**Problem 10: Solution**

CB Café  
Statement of Cash Flows  
For the Year Ended December 31, 20X2

Cash Flow from Operating Activities:		
Net Income		\$29,000
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation Expense	\$15,000	
Loss on sale of equipment	5,000	
Gain on sale of marketable securities	(2,000)	
Increase in accounts receivable	(1,000)	
Decrease in inventory	1,000	
Increase in accounts payable	<u>1,000</u>	<u>19,000</u>
Net Cash Flow from Operating Activities:		<u>\$48,000</u>
Cash Flow provided by Investing Activities:		
Proceeds from sale of equipment	5,000	
Proceeds from sale of marketable securities	12,000	
Purchase of marketable securities	(10,000)	
Purchase of equipment	<u>(25,000)</u>	
Net Cash Flow from Investing Activities		<u>\$(18,000)</u>
Cash Flow provided by Financing Activities:		
Payment of dividends	(30,000)	
Borrowing long-term debt	(80,000)	
Payment of long-term debt	<u>80,000</u>	
Net Cash Flow from Financing Activities		<u>\$(30,000)</u>
Increase in Cash		\$ -0-
Cash at the Beginning of 20X2		<u>\$ 15,000</u>
Cash at the End of 20X2		<u>\$ 15,000</u>

**Problem 11: Solution**

Molehill  
Statement of Cash Flows  
For the year of 20X2

Cash flows provided by operating activities:

Net income \$ 17,000\*

Adjustments to reconcile net income to  
operating cash flows:

Depreciation expense during 20X2	\$59,000	
Gain from sale of investment	(2,000)	
Gain from sale of equipment	(5,000)	
Decrease in accounts receivable	4,000	
Increase in accounts payable	<u>3,000</u>	<u>59,000</u>
Net cash flows from operations		76,000

Cash flows used in investing activities:

Proceeds from sale of investment	12,000	
Purchase of investments	(20,000)	
Proceeds from sale of equipment	5,000	
Purchase of equipment	<u>(140,000)</u>	
Net cash flows from investing activities		(143,000)

Cash flows provided by financing activities:

Payment of mortgage payable	(5,000)	
Borrowing--mortgage payable	57,000	
Sale of common stock	20,000	
Payment of dividends	<u>(7,000)</u>	
Net cash flows from financing activities		65,000

Decrease in cash during the year (2,000)

Cash at the beginning of the year 10,000

Cash--end of year \$ 8,000

\*Determination of net income:

Income before gain of sale of equipment	\$15,000	
Gain on sale of equipment	5,000	
Less: income taxes	<u>(3,000)</u>	
Net income		<u>\$17,000</u>

**Problem 12: Solution**

The Freida  
Statement of Cash Flows  
For the Year Ended December 31, 20X2

Cash Flows from Operating Activities:	
Net Income	\$ 14,000
Adjustments to reconcile net income to net cash flows from operating activities:	
Depreciation expense	\$30,000
Loss on sale of equipment	2,000
Gain on sale of investments	(3,000)
Decrease in accounts receivable	1,000
Increase in accounts payable	<u>3,000</u>
Net Cash Flows from Operating Activities	47,000
Cash Flows from Investing Activities:	
Proceeds from sale of equipment	\$ 8,000
Proceeds from sale of investments	8,000
Purchase of equipment	<u>(145,000)</u>
Net Cash Flows from Investing Activities	(129,000)
Cash Flows from Financing Activities:	
Dividends paid	\$(7,000)
Payment of mortgage payable	(5,000)
Proceeds--notes payable	40,000
Proceeds--sale of common stock	<u>50,000</u>
Net Cash Flows from Financing Activities	<u>78,000</u>
Decrease in cash during 20X2	(4,000)
Cash--beginning of 20X2	<u>10,000</u>
Cash--end of 20X2	<u>\$ 6,000</u>



**Problem 13: Solution**

Spartan Inn  
Statement of Cash Flows  
For the Year Ended December 31, 20X2

Cash Flows from Operating Activities:	
Net income	\$290,000
Adjustments to reconcile net income to net cash flows from operating activities:	
Depreciation	\$ 400,000
Gain on sale of investments	(300,000)
Decrease in accounts receivable	5,000
Increase in inventory	(5,000)
Increase in accounts payable	<u>10,000</u>
Net Cash Flows from Operating Activities	400,000
Cash Flows from Investing Activities:	
Purchase of building	(1,000,000)
Purchase of equipment	(100,000)
Proceeds from sale of investments	<u>340,000</u>
Net Cash Flows from Investing Activities	(760,000)
Cash Flows from Financing Activities:	
Payment of LTD	(100,000)
Borrowed--LTD	500,000
Dividends paid	<u>(30,000)</u>
Net Cash Flows from Financing Activities	<u>370,000</u>
Increase in cash during 20X2	10,000
Cash at the beginning of 20X2	<u>30,000</u>
Cash at the end of 20X2	\$ <u><u>40,000</u></u>

**Problem 14: Solution**

Spartan Inn  
Statement of Cash Flows  
For the year ended December 31, 20X2

Cash flows from operating activities:		
Cash receipts from sales		\$6,005,000
Cash disbursements for:		
Inventory	(\$1,005,000)	
Labor expenses	(2,000,000)	
Interest expense	(450,000)	
Income taxes	(110,000)	
Other cash expenses	<u>(2,040,000)</u>	<u>(5,605,000)</u>
Net cash flows from operating activities		400,000
Cash flows from investing activities:		
Purchase of building	(1,000,000)	
Purchase of equipment	(100,000)	
Proceeds from sale of investments	<u>340,000</u>	
Net cash flows from investing activities		(760,000)
Cash flows from financing activities:		
Payment of LTD	(100,000)	
Borrowed--LTD	500,000	
Dividends paid	<u>(30,000)</u>	
Net cash flows from financing activities		370,000
Increase in cash during 20X2		10,000
Cash at the beginning of 20X2		<u>30,000</u>
Cash at the end of 20X2		<u>\$40,000</u>

Reconciliation of net income and operating cash flows:

Net income	\$290,000	
Adjustments:		
Depreciation	\$400,000	
Gain on sale of investments	(300,000)	
Decrease in accounts receivable	5,000	
Increase in inventory	(5,000)	
Increase in accounts payable	<u>10,000</u>	<u>110,000</u>
Operating cash flows	<u>\$400,000</u>	

**Problem 15: Solution**

1.	$\$5,000 - \$20,000 + \$33,000 = \$18,000$	<b>\$33,000</b>
2.	$\$53,500 - 33,000 + \$57,000 = \$77,500$	<b>\$57,000</b>
3.	$\$20,000 - \$5,000 + \$49,000 = \$64,000$	<b>\$49,000</b>
4.	$\$200,000 - \$8,000 + \$133,000 = \$325,000$	<b>\$133,000</b>
5.	$\$95,000 - \$15,000 + \$30,000 = \$110,000$	<b>\$30,000</b>

**Problem 16: Solution**

1.	Dividends Declared 20X2 $\$5,000 - \$30,000 + \$35,000 = \$10,000$	\$35,000
2.	Note Payable 20X2	\$10,000
3.	Change in inventory's impact on cash	\$5,000
4.	Change in A/P's impact on cash	\$(8,000)
5.	Net Income for 20X2 $\$30,000 + \$35,000 = \$65,000$	\$65,000
6.	Investments Purchased $\$110,000 - \$10,000 + \$5,000 = \$105,000$	\$5,000
7.	Depreciation Expense for 20X2 $\$20,000 - \$17,000 + \$47,000 = \$50,000$	\$47,000
8.	Working Capital Beginning 20X2 $\$55,000 - \$33,000 = \$22,000$	\$22,000
9.	Cash from sale of marketable securities	\$7,000
10.	Treasury Stock sold during 20X2 but \$10,000 was purchased	\$-0-

**Problem 17: Solution**

Rosa's Cafe  
Statement of Cash Flows  
20X2

Cash Flow Provided by Operating Activities:		
Net Income		\$29,000
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Depreciation Expense	\$15,000	
Gain on Sale of Equipment	(5,000)	
Loss on Sale of Investments	5,000	
Gain on Sale of Marketable Securities	(5,000)	
Increase in Accounts Receivable	(1,000)	
Decrease in Inventory	1,000	
Increase in Accounts Payable	<u>1,000</u>	
		<u>11,000</u>
Net Cash Flows from Operating Activities:		40,000
Cash Flow Provided by Investing Activities:		
Proceeds from Sale of Equipment	15,000	
Proceeds from Sale of Investments	10,000	
Proceeds from Sale of Marketable Securities	10,000	
Purchase of Investments	(15,000)	
Purchase of Marketable Securities	(5,000)	
Purchase of Equipment	<u>(5,000)</u>	
Net Cash Flows from Investing Activities:		10,000
Cash Flow Provided by Financing Activities:		
Payment of Dividends	(30,000)	
Borrowing Long-Term Debt	20,000	
Purchase of Common Stock	(20,000)	
Payment of Long-Term Debt	(20,000)	
		<u>(50,000)</u>
Increase in Cash		-0-
Cash at the Beginning of 20X2		<u>15,000</u>
Cash at the End of 20X2		<u>\$15,000</u>

**Problem 18: Solution**

1.	$\$5,000 - \$10,000 + \$15,000 = \$10,000$	<b>\$15,000</b>
2.	$\$10,000$	
3.	$+\$5,000$	
4.	$-\$8,000$	
5.	$\$40,000 - \$15,000 + \$45,000 = \$70,000$	<b>\$45,000</b>
6.	$\$10,000 - \$10,000 + \$5,000 = \$5,000$	<b>\$5,000</b>
7.	$\$20,000 - \$17,000 + \$47,000 = \$50,000$	<b>\$47,000</b>

**Problem 19: Solution**

Nathan's Motel  
Balance Sheet  
December 31, 20X2

Assets:	
Cash	\$ 18,500
Equipment	231,500
Accumulated depreciation: equip.	(10,000)
Investments	<u>24,000</u>
Total	<u>\$264,000</u>
Liabilities and Owner's Equity:	
Long-term notes	\$122,000
E. Nathan, Capital	<u>142,000</u>
Total	<u>\$264,000</u>

**Problem 20: Solution**Part I

Hawkeye Hotel  
Comparative Balance Sheets  
December 31, 20X5 and 20X6

<u>Assets</u>	<u>20X5</u>	<u>20X6</u>	<u>Dollar Diff.</u>	<u>Percentage Diff.</u>
Current Assets				
Cash	\$ 12,540	\$ 19,278	\$ 6,738	53.73%
Marketable Securities	100,000	0	(100,000)	-100.00
Accounts Receivable	73,811	75,000	1,189	1.61
Less Allowance for Doubtful Accounts	<u>0</u>	<u>1,211</u>	<u>1,211</u>	<u>100.00</u>
Net Receivables	73,811	73,789	(22)	-0.03
Food Inventory	10,833	11,936	1,103	10.18
Prepaid Insurance	<u>4,318</u>	<u>4,667</u>	<u>349</u>	<u>8.08</u>
Total Current Assets	201,502	109,670	(91,832)	-45.57
Property and Equipment, at Cost				
Land	262,000	262,000	-0-	0.00
Building	1,572,805	1,927,817	355,012	22.57
Equipment	<u>213,843</u>	<u>241,470</u>	<u>27,627</u>	<u>12.92</u>
	2,048,648	2,431,287	382,639	18.68
Less Accumulated Depreciation	<u>303,227</u>	<u>411,137</u>	<u>107,910</u>	<u>35.59</u>
Net Property and Equipment	<u>1,745,421</u>	<u>2,020,150</u>	<u>274,729</u>	<u>15.74</u>
Total Assets	<u>\$1,946,923</u>	<u>\$2,129,820</u>	<u>\$182,897</u>	<u>9.39</u> %
<u>Liabilities</u>				
Current Liabilities				
Notes Payable	\$ 0	\$ 25,000	\$ 25,000	100.00%
Mortgage Payable				
--Current	50,000	0	(50,000)	-100.00
Accounts Payable	18,776	6,821	(11,955)	-63.67
Accrued Wages	<u>6,843</u>	<u>7,953</u>	<u>1,110</u>	<u>16.22</u>
Total Current Liabilities	75,619	39,774	(35,845)	-47.40
Long-Term Liabilities				
Mortgage Payable	950,695	1,155,399	204,704	21.53
Owners' Equity				
Common Stock, No Par, Authorized 100,000 Shares, Issued				
75,000 Shares	750,000	750,000	0	0.00
Retained Earnings	<u>170,609</u>	<u>184,647</u>	<u>14,038</u>	<u>8.23</u>
Total Liabilities and Owners' Equity	<u>\$1,946,923</u>	<u>\$2,129,820</u>	<u>\$182,897</u>	<u>9.39</u> %

**Problem 20: Solution** (continued)

Part II

Hawkeye Hotel  
Income Statement  
For the Year Ended December 31, 20X6

	<u>Net</u> <u>Revenue</u>	<u>Cost of</u> <u>Sales</u>	<u>Payroll and</u> <u>Related</u> <u>Expenses</u>	<u>Other</u> <u>Expenses</u>	<u>Income</u> <u>(Loss)</u>
Operated Departments					
Rooms	\$1,349,866	\$ -0-	\$450,000	\$115,037	\$784,829
Food	753,722	225,000	250,000	149,161	129,561
Telephone	73,936	52,470	22,000	2,000	(2,534)
Rentals & Other					
Income	1,791	-0-	-0-	-0-	1,791
<u>Total Operated</u> <u>Departments</u>	<u>2,179,315</u>	<u>277,470</u>	<u>722,000</u>	<u>266,198</u>	<u>913,647</u>
<u>Undistributed Operating Expenses</u>					
Administrative & General			150,677	100,000	250,677
Marketing				45,000	45,000
Property Operation and Maintenance			42,000	10,000	52,000
Utility Costs			_____	<u>57,478</u>	<u>57,478</u>
Total Undistributed Operating Expenses	_____	_____	<u>192,677</u>	<u>212,478</u>	<u>405,155</u>
Gross Operating Profit	<u>\$2,179,315</u>	<u>\$277,470</u>	<u>\$914,677</u>	<u>\$478,676</u>	<u>\$508,492</u>
Property Taxes				80,000	
Insurance				31,462	
Interest Expense				161,087	
Depreciation				<u>110,225</u>	
Income Before Income Taxes and Gain or Loss on Sale of Property					125,718
Gain on Sale of Property				<u>3,000</u>	
Income Before Income Taxes					128,718
Income Taxes				<u>51,180</u>	
Net Income					<u>\$77,538</u>

**Problem 20: Solution** (continued)

Part III

Hawkeye Hotel  
Statement of Cash Flows  
For the Year Ending December 31, 20X6

Cash Flow from Operating Activities:

Net Income		\$ 77,538
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation	\$110,225	
Increase in Inventory	(1,103)	
Increase in Notes Payable	25,000	
Gain on Sale of Equipment	(3,000)	
Increase in Prepaid Insurance	(349)	
Decrease in Accounts Receivable	22	
Increase in Accrued Wages	1,110	
Decrease in Accounts Payable	<u>(11,955)</u>	<u>119,950</u>
Net Cash Flow from Operating Activities		197,488

Cash Flow from Investing Activities:

Purchase of Property and Equipment	(34,377)	
Proceeds from Sale of Equipment	7,435	
Additions to Building	(355,012)	
Proceeds from Sale of Marketable Securities	<u>100,000</u>	
Net Cash Flow from Investing Activities		(281,954)

Cash Flow from Financing Activities:

Borrowing--Long-Term Debt	204,704	
Payment of LTD	(50,000)	
Dividends Paid	<u>(63,500)</u>	
Net Cash from Financing Activities		<u>91,204</u>
Increase in Cash During 20X6		6,738
Cash--Beginning of 20X6		<u>12,450</u>
Cash--End of 20X6		\$ <u><u>19,278</u></u>