

Question Book for Lecture Note 1

2.22 Transactions and the Statement of Cash Flows. Classify each transaction in the first three columns by its correct cash flow activity.

		Type of activity		
		Operating	Investing	Financing
(a)	Issued common stock for cash			
(b)	Purchased treasury stock			
(c)	Paid an account payable			
(d)	Declared a cash dividend			
(e)	Issued a bond payable			
(f)	Purchased land			
(g)	Sold a machine at book value			

2.23 Activity Classification. Classify each of the following transactions as an operating activity, an investing activity, or a financing activity. Also indicate whether the activity is a source of cash or a use of cash.

1. A plant was sold for \$550,000.
2. A profit of \$75,000 was reported.
3. Long-term bonds were retired.
4. Cash dividends of \$420,000 were paid.
5. Four hundred thousand share of preferred stock were sold.
6. A new high-tech robotics was purchased.
7. A long-term note payable was issued.
8. A 50 percent interest in a company was purchased.
9. A loss for the year was reported.
10. Additional common stock was sold.

2.25 Statement of Changes in Financial Position. The consolidated balance sheets for CSULB Seasonal Products, Inc., at the beginning and end of 20X1 are presented below (in millions of dollars).

	January 1, 20X1	December 31, 20X1
ASSETS		
Cash	\$ 12	\$ 9
Accounts receivable	14	24
Inventories	4	12
Total current assets	<u>\$ 30</u>	<u>\$ 45</u>
Gross fixed assets	\$120	\$145
Less: Accumulated depreciation	45	55
Net fixed assets	<u>\$ 75</u>	<u>\$ 90</u>
Total assets	<u><u>\$105</u></u>	<u><u>\$135</u></u>
 LIABILITIES AND EQUITY		
Accounts payable	\$ 14	\$ 11
Notes payable	10	10
Long-term debt	10	25
Common stock	30	30
Retained earnings	41	59
Total liabilities and equity	<u><u>\$105</u></u>	<u><u>\$135</u></u>

CSULB earned \$20 million after taxes during the year and paid cash dividends of \$2 million. The annual depreciation expense during 20X1 was \$10 million. The company purchased \$25 million of fixed assets.

(a) Add source and use column to the balance sheet; (b) prepare a statement of changes in financial position on the cash basis, and include percentage computations; and (c) summarize your findings.

2.26 Adjustments to Net Income. Indicate whether each of the events described below will be added to or deducted from net income in order to compute cash flow from operations.

1. Gain on sale of an asset
2. Increase in accounts receivable
3. Decrease in prepaid insurance
4. Depreciation expense
5. Increase in accounts payable
6. Uncollectible accounts expense
7. Decrease in wages payable
8. Increase in inventory
9. Amortization of a patent

2.27 Statement of Cash Flows. Acme Manufacturing has provided the following financial statements:

*Acme Manufacturing
Comparative Balance Sheets
For the years Ended December 31, 20X4 and 20X5*

	20X4	20X5
ASSETS		
Cash	\$ 112,500	\$ 350,000
Accounts receivable	350,000	281,250
Inventories	125,000	150,000
Plant and equipment	1,000,000	1,025,000*
Accumulated depreciation	(500,000)	(525,000)
Land	500,000	718,750
Total assets	<u>\$1,587,500</u>	<u>\$2,000,000</u>

* Beginning equipment	\$1,000,000
Purchases	250,000
Less sales	<u>(225,000)</u>
Ending equipment	<u>\$1,025,000</u>

LIABILITIES AND EQUITY

Accounts Payable	\$ 300,000	\$ 237,500
Mortgage payable	–	250,000
Common Stock	75,000	75,000
Contributed capital in excess of par	300,000	300,000
Retained earnings	<u>912,500</u>	<u>1,137,500</u>
Total liabilities and equity	<u>\$1,587,500</u>	<u>\$2,000,000</u>

Income Statement
For the years Ended December 31, 20X5

Revenues	\$1,200,000
Gain on sale of equipment	50,000
Less: Cost of goods sold	(640,000)
Less: Depreciation expense	(125,000)
Less: Interest expense	<u>(35,000)</u>
Net income	<u>\$ 450,000</u>

Other information:

- (a) Equipment with a book value of \$125,000 was sold for \$175,000 (original cost was \$225,000).
- (b) Dividends of \$225,000 were declared and paid.

Prepare a statement of cash flows.

2.28 Financial Analysis. Motel Enterprises operates and owns many motels throughout the United States. The company has expanded rapidly over the past few years, and company officers are concerned that they may have overexpanded.

The following financial statements have been supplied by the controller of Motel Enterprises.

Motel Enterprises Income Statement
(in Thousands of Dollars)
For the Years Ending October 31, 20X1 and 20X2
(Unaudited)

	20X1	20X2
Revenue	<u>\$1,920</u>	<u>\$2,230</u>
Cost and expenses		
Direct room and related services	\$ 350	\$ 400
Direct food and beverage	640	470
General and administrative	250	302
Advertising	44	57
Repairs and maintenance	82	106
Interest expense	220	280
Depreciation	95	120
Lease payment	<u>73</u>	<u>100</u>
Total costs and expenses	<u>\$1,754</u>	<u>\$2,105</u>
Income before taxes	\$ 166	\$ 125
Provision for income tax	<u>42</u>	<u>25</u>
Net income	<u><u>\$ 124</u></u>	<u><u>\$ 100</u></u>

Motel Enterprises Balance Sheet
(for Thousands of Dollars)
As of October 31, 20X1 and 20X2
(Unaudited)

	20X1	20X2
ASSETS		
Current assets		
Cash	\$ 125	\$ 100
Accounts receivable (net)	200	250
Inventory	50	60
Other	<u>5</u>	<u>5</u>
Total current assets	<u>\$ 380</u>	<u>\$ 415</u>
Long-term assets	<u>\$ 710</u>	<u>\$ 605</u>
Property and equipment		
Building and equipment (net)	\$2,540	\$3,350

Land	410	370
Construction in progress	450	150
Total property and equipment	<u>\$3,400</u>	<u>\$3,870</u>
Other assets	\$ 110	\$ 110
Total assets	<u>\$4,600</u>	<u>\$5,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Current liabilities		
Accounts payable	\$30	\$ 40
Accrued liabilities	190	190
Notes payable to bank	10	30
Current portion of long-term notes	50	80
Total current liabilities	<u>\$ 280</u>	<u>\$ 340</u>
Long-term debt		
Long-term notes	\$2,325	\$2,785
Subordinated debentures	800	800
Total long-term debt	<u>\$3,125</u>	<u>\$3,585</u>
Total liabilities	<u>\$3,405</u>	<u>\$3,925</u>
Stockholders' equity		
Common stock (\$1 par)	\$ 300	\$ 300
Paid-in capital in excess of par	730	730
Net unrealized loss on long-term investments		(105)
Retained earnings	165	150
Total stockholders' equity	<u>\$1,195</u>	<u>\$1,075</u>
Total liabilities and stockholders' equity	<u>\$4,600</u>	<u>\$5,000</u>

- (a) Compute the following ratios for 20X1 and 20X2: (1) debt/equity ratio; (2) times interest earned; (3) return on total assets; (4) current ratio; (5) return on common stock equity; and (6) accounts receivable turnover.
- (b) Evaluate the financial condition based on the trend analysis. (CMA, adapted.)