Example 1: Statement of Cash Flow

Win Hom Corp. wants to identify cash change during 2013 according to the following information.

1. It allowed accounts receivable to expand by $25 million.
2. It paid a $30 million dividend.
3. It repaid $25 million of short-term bank debt.
4. It earned $60 million of net income.
5. It reduced inventory, releasing $5 million.
6. It invested $30 million.
7. It purchased $25 million of marketable securities.
8. It issued $30 million of long-term debt.
9. It set aside $20 million as depreciation.
10. It increased its accounts payable – borrowing an additional $25 million from its suppliers.

(1) Complete below table to get cash change position for Win Hom in 2013.

Cash flows from operating activities:	
Net Income	**+60**
Depreciation	**+20**
A/R	**-25**
Inventory	**+5**
A/P	**+25**
Net cash flow from operating activities	***+85***

Cash flows from investing activities:	
Investment	**-30**

Cash flows from financing activities:	
Dividend	**-30**
Short-term Bank Debt	**-25**
Long-term Debt	**+30**
Marketable securities	**-25**
Net cash flow from financing activities	***-50***

Net change in cash	**+5**

(2) Given cash changes above, explain company's strategic operations, including operating, investing, and financing matters in 2013.

Example 2: Statement of Cash Flow

Balance Sheet of WINNIE Inc. at the end of 2010 are presented below. It was found that during 2010, the company paid dividends of $2,500, and paid $46,000 in cash to acquire new fixed assets. No debt was retired during 2010.

1) Use the following data from Balance Sheet of Winie Inc. to identify key accounting entry whether it is source of cash or use of cash. **(10 Points)**

	2010	**2009**	**Source of Cash**	**Use of Cash**
ASSETS				
Cash	4,000	14,000		
Accounts receivable	30,000	39,500	**9,500**	
Inventory	37,000	34,000		**3,000**
Fixed assets	316,000	270,000		**46,000**
Accumulated Depreciation	(45,000)	(30,000)		
Total assets	**342,000**	**327,500**		
LIABILITIES & EQUITY				
Accounts payable	18,000	16,000	**2,000**	
Wages payable	4,000	7,000		**3,000**
Note payable	173,000	160,000	**13,000**	
Capital stock	88,000	84,000	**4,000**	
Retained earnings	59,000	60,500		
Total Liabilities & Equity	**342,000**	**327,500**		

2) From information obtained in (1.1) and Income Statement below, classify each item as cash flow from operating activity, investing activity, or financing activity, and summarize cash flow position in below table. **(10 Points)**

Income Statement	**2010**
Sales	200,000
Cost of goods sold	(123,000)
Depreciation expense	(15,000)
Insurance expense	(11,000)
Wage Expense	(50,000)
Net Income	1,000

Items	***Cash inflow / outflow***
Cash Flow from Operations:	
Net Income	**1,000**
Depreciation Expense	**15,000**
Accounts receivable	**9,500**
Inventory	**(3,000)**
Accounts payable	**2,000**
Wages payable	**(3,000)**
Net Cash Inflow or Outflow	**21,500**

Cash Flow from Investments:	
New fixed assets	**(46,000)**
Net Cash Inflow or Outflow	**(46,000)**

Cash flow from financing activities:	
Dividend payout	**(2,500)**
Note payable	**13,000**
Capital stock	**4,000**
Net Cash Inflow or Outflow	**14,500**

Net Cash Flow	**(10,000)**
Beginning Cash Balance	**14,000**
Ending Cash Balance	**4,000**

Example 3: Statement of Cash Flows

The following financial statements are from the 2019 Annual Report of the MWH Company.

1) According to the following information, identify key accounting entry whether it is source of cash inflow or source of cash outflow, and by how much.

Balance Sheets at December 31, 2018 and 2019 (Unit: $Million)

	2018	2019	Cash Inflow	Cash Outflow
Assets				
Cash	$50	$60		
Accounts receivable	500	520		20
Inventory	750	770		20
Current assets	**$1,300**	**$1,350**		
Fixed assets (net)	$500	$550		
Total assets	**$1,800**	**$1,900**		
Liabilities and equity				
Notes payable to banks	$100	$75		25
Accounts payable	590.00	615.00	25	
Interest payable	10.00	20.00	10	
Current liabilities	**$700**	**$710**		
Long-term debt	300.00	350.00	50	
Deferred income tax	300.00	310.00	10	
Capital stock	400.00	400.00		
Retained earnings	100.00	130.00		
Total liabilities & equity	**$1,800**	**$1,900**		

Note: It is OK whether to identify "cash" or "fixed assets" in the above form. But the point is that we will not include them in the statement of cash flow on page 2. Other items, if filled, are not necessary and may be incorrect.

2) The company just paid out dividends $30 million. Given the following Income Statement, summarize cash flow position of MWH Company for the year ended 2019 in the table below.

Income Statement for Year Ended December 31, 2019 (Unit: $Million)

Sales	**1,000**
Cost of goods sold	-650
Depreciation expense	-100
Sales and general expense	-100
Interest expense	-50
Income tax expense	-40
Net income	**60**

Items	*Cash inflow / outflow*
Cash Flow from Operations:	
Net Income	**60**
Depreciation	**100**
Deferred taxes	**10**
A/R	**-20**
Inventory	**-20**
Interest payable	**10**
A/P	**25**
Net Cash Inflow or Outflow	**165**
Cash Flow from Investments:	
Capital Expenditures	**-150**
Cash flow from financing activities:	
Dividends	**-30**
ST Debt repayment	**-25**
LT Debt borrowing	**50**
Net Cash Inflow or Outflow	**-5**
Change in Cash	**10**

Example 4: Statement of Cash Flows

Winnie Corporation, a major producer in automobile industry, had key financial statements as the attached tables. In 2012, the company paid dividends of $18,000. Also, it issued $150,000 in bonds, and purchased machine, some equipment, and other fixed asset for cash. Based on information attached, please help Winnie Corporation to form the statement of cash flows by identifying cash flows from operating, investing, and financing activities.

Balance Sheet

Assets		**Dec 31, 2012**	**Dec 31, 2011**
Cash		$37,000	$49,000
Accounts Receivable		$26,000	$36,000
Prepaid Expenses		$6,000	$0
Machine		$70,000	$0
Equipment	$68,000		$0
Accumulated Depreciation	$10,000	$58,000	$0
Other fixed assets	$200,000		$0
Accumulated Depreciation	$11,000	$189,000	$0
Total Assets		$386,000	$85,000
Liabilities and Stockholder Equity			
Accounts Payable		$40,000	$5,000
Bonds Payable		$150,000	$0
Common Stock		$60,000	$60,000
Retained Earnings		$136,000	$20,000
Total Liabilities and Stockholder Equity		$386,000	$85,000

Income Statement as Dec 31, 2012

Revenue		$492,000
Operating Expenses	$269,000	
Depreciation	$21,000	$290,000
Income before Income Taxes		**$202,000**
Income Tax Expense		$68,000
Net Income		**$134,000**

Solution:

Statement of Cash Flows

Cash Flow from Operating Activities		
Net Income		$134,000
Account Receivable decrease	$10,000	
Prepaid Expense increase	($6,000)	
Account Payable Increase	$35,000	
Depreciation	$21,000	
		$60,000
Net cash change from Operating Activities		$194,000
Cash Flow from Investing Activities		
Machine Purchase	($70,000)	
Other Fixed Assets Purchase	($200,000)	
Equipment Purchase	($68,000)	($338,000)
Cash Flow from Financing Activities		
Dividend payment to shareholders	($18,000)	
Issuance of Bonds Payable	$150,000	$132,000
Net Decrease in Cash		**($12,000)**
Cash Dec 31, 2011		**$49,000**
Cash Dec 31, 2012		**$37,000**

Example 5: Managerial measures of shareholder’s wealth

The financial statements of Win Hom Industries for the year ended December 31, 2013, follow.

Win Hom Industries' Balance Sheet
December 31, 2013

Assets	
Cash	500
Marketable securities	1,000
Account receivable	25,000
Inventories	45,500
Total current assets	**72000**
Land	26,000
Buildings and equipment	90,000
Less: Accumulated depreciation	38,000
Net fixed assets	**78,000**
Total assets	**150,000**
Liabilities and Stockholders' Equity	
Account payable	22,000
Notes payable	47,000
Total current liabilities	**69,000**
Long-term debt	22,950
Common stock [a]	31,500
Retained earnings	26,550
Total liabilities and stockholders' equity	**150,000**

[a] The firm’s 3,000 outstanding shares of common stocks closed 2013 at a price of $25 per share.

Win Hom Industries’ Income Statement
for the Year Ended December 31, 2013

Sale revenue	160,000
Less: Cost of goods sold	106,000
Gross profit	**54,000**
Less Operating expenses	
Selling expense	16,000
General and administrative expenses	10,000
Lease expense	1,000
Depreciation expense	10,000
Total operating expense	37,000
Operating profits	**17,000**
Less: Interest expense	6,100
Net profits before taxes	**10,900**
Less: Taxes	4,360
Net profit after taxes	**6,540**

According to the above Balance Sheet and Income Statement, find the following managerial measures of shareholder's wealth when the company's weighted-average cost of capital was about 10%, and tax rate was at 35%.

a. Market value added.

MVA = MV – BV
= [Market Price of Common Stock]x[#Shares] – Total Equity
= [25 x 3,000] – [31,500 + 26,550]
= 16,950

b. Market-to-book ratio.

Market-to-book ratio = MV / BV
= [25 x 3,000] / [31,500 + 26,550]
= 1.2920

c. Economic value added.

EVA = EBIT x (1-t) – [Cost of Capital]x[Capital]
= 17,000 x (1-35%) – 10%x(22,950+31,500+26,550)
= 2,950

d. Return on capital.

Return on Capital = [EBIT x (1-t)] / Capital
= [17,000 x (1-35%)] / [22,950+31,500+26,550]
= 0.1364 or 13.64%