

Example 1: 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	72,000
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.
- b. Market-to-book ratio.
- c. Economic value added.
- d. Return on capital.

Example 2: Change in Fixed Asset Calculation

	31 December 2013	31 December 2014
Fixed Assets	150,000	3,000,000
Depreciation Reserve	520,000	820,000
Net Fixed Assets	980,000	2,180,000

Assume: Depreciation during the period \$400,000

Example 3: 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:	
<i>Net cash flow from operating activities</i>	

Cash flows from investing activities:	

Cash flows from financing activities:	
<i>Net cash flow from financing activities</i>	

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

Example 4: 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		
Inventory	37,000	34,000		
Fixed assets	316,000	270,000		
Accumulated Depreciation	(45,000)	(30,000)		
Total assets	342,000	327,500		
LIABILITIES & EQUITY				
Accounts payable	18,000	16,000		
Wages payable	4,000	7,000		
Note payable	173,000	160,000		
Capital stock	88,000	84,000		
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	<u>1,000</u>

Items	Cash inflow / outflow
<i>Cash Flow from Operations:</i>	
Net Income	
Depreciation Expense	
<i>Net Cash Inflow or Outflow</i>	

<i>Cash Flow from Investments:</i>	
<i>Net Cash Inflow or Outflow</i>	

<i>Cash flow from financing activities:</i>	
<i>Net Cash Inflow or Outflow</i>	

Net Cash Flow	
Beginning Cash Balance	
Ending Cash Balance	

Example 5: Statement of Cash Flows

Changes in Balance Sheet of ChuThaThep Company (2011 and 2012)

Entries	Activity	2011	2012	Cash Inflow	Cash Outflow
Cash		16,000	15,000		
Marketable securities		8,000	7,200		
Account receivable		42,200	34,100		
Inventory		50,000	82,000		
Land and plant		150,000	150,000		
Machine		190,000	200,000		
Office equipment		50,000	54,000		
Other fixed assets		10,000	11,000		
Depreciation reserve		115,000	145,000		
Account payable		49,000	57,000		
Note payable		16,000	13,000		
Accrual expense		6,000	5,000		
Long-term debt		160,000	150,000		
Common stock		120,000	110,200		
Retained earning		50,200	73,100		
Total					

Statement of Cash Flow

Cash flow from operating activities:

Net income	49,000	
<i>Plus</i>		
<i>Minus</i>		

Cash flow from investing activities:

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Cash flow from financing activities:

Dividend payout	(26,100)	
Net cash flow increase (decrease)		
Cash at the beginning of period		
Cash at the end of period		

Example 5: 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	<u>\$10,000</u>	\$0
Other fixed assets	\$200,000	\$0
Accumulated Depreciation	<u>\$11,000</u>	\$0
Total Assets	<u>\$386,000</u>	<u>\$85,000</u>
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	<u>\$386,000</u>	<u>\$85,000</u>

Income Statement as Dec 31, 2012

Revenue	\$492,000
Operating Expenses	\$269,000
Depreciation	<u>\$21,000</u>
Income before Income Taxes	\$202,000
Income Tax Expense	<u>\$68,000</u>
Net Income	<u>\$134,000</u>