

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:	
<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	

(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		
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>

<i>Items</i>	<i>Cash inflow / outflow</i>
<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 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		
Inventory	750	770		
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		
Accounts payable	590.00	615.00		
Interest payable	10.00	20.00		
Current liabilities	\$700	\$710		
Long-term debt	300.00	350.00		
Deferred income tax	300.00	310.00		
Capital stock	400.00	400.00		
Retained earnings	100.00	130.00		
Total liabilities & equity	\$1,800	\$1,900		

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	<u>-40</u>
Net income	<u><u>60</u></u>

<i>Items</i>	<i>Cash inflow / outflow</i>
<i>Cash Flow from Operations:</i>	
<i>Net Cash Inflow or Outflow</i>	
<i>Cash Flow from Investments:</i>	
Capital Expenditures	
<i>Cash flow from financing activities:</i>	
Dividends	
<i>Net Cash Inflow or Outflow</i>	
Change in Cash	

Example 4: Managerial measures of shareholder's wealth

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

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

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

Win Hom Industries' Balance Sheet December 31, 2013

Assets	
Cash	500
Marketable securities	1,000
Account receivable	25,000
Inventories	<u>45,500</u>
Total current assets	72,000
Land	26,000
Buildings and equipment	90,000
Less: Accumulated depreciation	<u>38,000</u>
Net fixed assets	78,000
Total assets	<u>150,000</u>
Liabilities and Stockholders' Equity	
Total current liabilities	69,000
Long-term debt	22,950
Common stock ^a	31,500
Retained earnings	<u>26,550</u>
Total liabilities and stockholders' equity	<u>150,000</u>

^a The firm's 3,000 outstanding shares of common stocks closed 2013 at a price of \$25 per share.

With the company's corporate tax at 40% and 10% weighted-average cost of capital, calculate the following measures of shareholders' wealth and provide the meaning.

- A) Market Value Added (MVA)
- B) Market-to-Book ratio
- C) Economic Value Added (EVA)
- D) Return on capital.