

Question 1 (20 Points)

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

1.1 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. **(10 Points)**

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.

1.2 The company had capital expenditures (or cash flow from investing activities) \$150 million and 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. **(10 Points)**

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	<u>60</u>

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