

ADM 2342A

2013 FALL SEMESTER

CASH FLOW QUESTION – (FROM 2007 EXAM)

The comparative financial information of Stewart Ltd. for the years ending December 31, 2006 is shown below:

	2005	2006
Sales		\$4,369,000
Cost of goods sold		<u>(3,728,000)</u>
Gross profit		641,000
Gain of disposal of capital asset ¹		13,000
Amortization expense		(88,000)
Operating expenses		(298,000)
Interest expense		(54,000)
Income tax expense		<u>(47,000)</u>
Net income		<u>\$167,000</u>
Cash	\$453,000	\$440,000
Accounts receivable	621,000	666,000
Inventory	655,000	631,000
Property, plant, and equipment ¹	1,333,000	1,240,000
Accumulated amortization	<u>(457,000)</u>	<u>(327,000)</u>
	<u>\$2,605,000</u>	<u>\$2,650,000</u>
Accounts payable	\$325,000	\$251,000
Interest payable	44,000	47,000
Income taxes payable	51,000	40,000
Long-term debt – due 2014	700,000	800,000
Common shares, no-par value	1,000,000	900,000
Retained earnings	<u>485,000</u>	<u>612,000</u>
	<u>\$2,605,000</u>	<u>\$2,650,000</u>

¹ During 2006, Stewart sold property, plant, and equipment with a net book value of \$142,000 for \$155,000.

Required

Prepare a properly formatted Cash Flow Statement for Stewart Ltd. for the year ended December 31, 2006 using the direct method. (20 marks)

Answer:

Stewart Ltd.
Cash Flow Statement
For the year ended December 31, 2006

<i>Cash flows from operating activities</i>		
<i>Cash received from customers</i>	\$4,324,000 ^(a)	
<i>Cash paid for cost of goods sold</i>	(3,778,000) ^(b)	
<i>Cash paid for operating expenses</i>	(298,000)	
<i>Cash paid for income taxes</i>	(58,000) ^(c)	
<i>Cash paid for interest</i>	<u>(51,000) ^(d)</u>	
<i>Net cash flows from operating activities</i>		139,000
 <i>Cash flows from investing activities</i>		
<i>Purchase of property, plant and equipment</i>	(267,000) ^(e)	
<i>Sale of property, plant and equipment</i>	<u>155,000</u>	
<i>Net cash flows from investing activities</i>		(112,000)
 <i>Cash flows from financing activities</i>		
<i>Issued long-term debt</i>	100,000	
<i>Redeemed common shares</i>	(100,000)	
<i>Declared and paid dividends</i>	<u>(40,000) ^(f)</u>	
<i>Net cash flows from financing activities</i>		(40,000)
<i>Net change in cash during the period</i>		(13,000)
<i>Cash balance – January 1, 2006</i>		453,000
<i>Cash balance – December 31, 2006</i>		<u>\$ 440,000</u>

(a) $\$4,369,000$ sales – $\$45,000$ increase in accounts receivable = $\$4,324,000$

(b) $\$3,728,000$ COGS – $\$24,000$ decrease in inventory + $\$74,000$ decrease in accounts payable = $\$3,778,000$

(c) $\$47,000$ income tax expense + $\$11,000$ decrease in income taxes payable = $\$58,000$

(d) $\$54,000$ interest expense – $\$3,000$ increase in interest payable = $\$51,000$

(e) $\$457,000$ accumulated amortization + $\$88,000$ amortization expense – $\$327,000$ accumulated amortization = $\$218,000$

$\$218,000$ + $\$142,000$ book value = $\$360,000$

$\$1,333,000$ PP&E – $\$1,240,000$ PP&E – $\$360,000$ = $(\$267,000)$

(f) $\$612,000$ retained earnings – $\$485,000$ retained earnings – $\$167,000$ net income = $(\$40,000)$