



VOTRE LIEN AVEC CE QUI COMPTE — CONNECTS YOU TO WHAT MATTERS

ADM 2342
Mid Term Exam No. 1
Replacement Question – Cash Flow
2018 Spring/Summer Semester
Solutions

NAME: _____ STUDENT #: _____

1. This question replaces the cash flow question that appeared on the original Mid Term Exam #1. The question covers cash flow concepts based upon Chapter 5 of the Kieso textbook.
2. Limit your answer to the space provided. A blank sheet for rough work is provided at the end. Although supporting calculations and the use of T-accounts is encouraged, only your finalized Cash Flow Statement will be marked.
3. This question is worth 20 marks and you have 40 minutes to complete it. Therefore, you should budget approximately 2 minutes per mark.
4. Please do **not** ask the invigilator or the professor any questions, as they will **not** be answered. State reasonable assumptions, if you feel they are necessary.
5. Students may use either pen or pencil in completing this question. However, if a student elects to use pencil, after the question has been marked and returned to the student, it cannot be re-submitted for review.
6. Language dictionaries (non-electronic) are allowed if the invigilator permits them. They must be shown to the invigilator before the start of the exam.
7. The use of electronic communication devices such as cell phones is strictly prohibited.
8. You **must** sign the Statement of Academic integrity on page 2.

Statement of Academic Integrity

The Telfer School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student.

Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

Statement to be signed by the student:

I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed: _____

Note: an examination copy or booklet without that signed statement will not be graded and will receive a final exam grade of zero.

Question:

Peters Building Supply Ltd. is a public company with a December 31 year-end. The following information was obtained concerning changes which affected certain accounts reported on the company's 2017 Statement of Financial Position:

	Change DR (CR)
Cash	\$ (13,750)
Accounts receivable (net)	30,000
Inventory	151,250
Equipment	44,125
Accumulated depreciation - equipment	(18,250)
Patent (net of accumulated amortization)	27,500
Accrued expenses	(4,000)
Accounts payable	(26,875)
Bank loan payable	(77,875)
Long term bonds payable	(25,000)
Common shares	(32,500)
Retained earnings	(54,625)

Additional information concerning events which took place during 2017 follows:

- (i) Equipment which had originally cost \$18,750 and with a zero book value was thrown away during the year. Other equipment with a cost of \$15,625 and accumulated depreciation of \$10,000 was sold at its book value. Some additional new equipment was purchased during 2017.
- (ii) A patent was acquired during the year in exchange for 2,500 common shares. The common shares were selling for \$13 per share at the time of the exchange. A full year's amortization expense was recorded on the patent during the year.
- (iii) The company reported EPS on its Statement of Comprehensive Income in the amount of \$0.625 based upon 187,400 weighted average common shares outstanding throughout the year. There were no preferred shares issued.
- (iv) On April 1 2017, the company issued long-term bonds payable at their face value, \$25,000. These bonds carry an annual interest rate of 8%. Interest is paid annually every December 31. The company also took out a loan from its local bank during 2017.
- (v) The cash balance at January 1, 2017 and December 31, 2017 was reported as \$41,400 and \$27,650, respectively.
- (vi) Income taxes paid during the year were \$12,400.

Required:

Prepare, with adequate disclosure, a properly formatted Cash Flow Statement for Peters Building Supply Ltd. for 2017 using the indirect method.

Answer:

*Peters Building Supply Ltd.
Cash Flow Statement
For the year ended December 31, 2017*

<i>Cash Flow From Operating Activities:</i>	
<i>Net income</i> ($\$0.625 = (x - 0) / 187,400$)	\$ 117,125
<i>Depreciation expense</i> ($\$18,750 + \$10,000 + \$18,250$)	47,000
<i>Amortization expense (patent)</i> [$(2,500 \times 13) - 27,500$]	<u>5,000</u>
	169,125
<i>Changes in working capital accounts:</i>	
<i>Increase in accrued expenses</i>	4,000
<i>Increase in accounts payable</i>	26,875
<i>Increase in accounts receivable (net)</i>	(30,000)
<i>Increase in inventory</i>	<u>(151,250)</u>
<i>Net cash provided by operating activities</i>	\$ 18,750
<i>Cash Flow From Investing Activities:</i>	
<i>Cash received from sale of equipment</i>	5,625
<i>Cash paid for new equipment</i> ($\$44,125 + \$18,750 + \$15,625$)	<u>(78,500)</u>
<i>Net cash used by investing activities</i>	\$ (72,875)
<i>Cash Flow From Financing Activities:</i>	
<i>Cash received from issuance of bonds</i>	25,000
<i>Cash received from bank loan</i>	77,875
<i>Cash paid for dividends</i> ($117,125 - 54,625$)	<u>(62,500)</u>
<i>Net cash provided by financing activities</i>	\$ 40,375
<i>Net change in cash</i>	(13,750)
<i>Add: beginning cash balance</i>	<u>41,400</u>
<i>Ending cash balance</i>	\$ <u><u>27,650</u></u>

Disclosures:

Peters Building Supply Ltd. issued 2,500 common shares in exchange for a patent. The common shares were selling at \$13 a share at the time.

Interest paid during the year was \$1,500 ($\$25,000 \times 8\% \times 9/12$).

Income taxes paid during the year were \$12,400.