

Chapter 17

The Statement of Cash Flows

T Questions

- Four purposes of the statement of cash flows are to
 - predict future cash flows,
 - evaluate management decisions,
 - determine the company's ability to pay dividends to stockholders and interest to creditors,
 - show the relationship between net income and changes in cash.
- Operating* activities create revenues and expenses in the entity's major line of business. Operating activities are related to the transactions that make up net income.
 - Investing* activities increase and decrease the long-term assets of the business.
 - Financing* activities obtain from investors and creditors the cash needed to launch and sustain the business.
- The check figure for the statement of cash flows is the change in cash during the period. This amount is obtained by subtracting the beginning cash balance from the ending cash balance on a comparative balance sheet. The change in cash is compared to the net change in cash shown at the bottom of the statement of cash flows. The two amounts should be equal.
- The largest source of cash for most successful companies is operations. Within this category, collections from customers are most important.
- Cash may decrease during a year when income is high because the entity may be using cash to invest in long-term assets. Cash may increase in a bad year because the entity may be borrowing heavily. The cash flow statement reports these activities.
- Depreciation, depletion, and amortization expenses are *not* reported on a cash flow statement prepared by the direct method because they do not affect cash.

They are reported on a statement prepared by the indirect method because the first item, net income, includes a deduction for them. Because depreciation, depletion, and amortization do not affect cash, they must be added back to net income to cancel the effect of their subtraction in computing income.
- Net cash inflow from operations = \$61,000 (\$92,000 + \$6,000 ! \$24,000 ! \$13,000). The dividend payments and the loan to another company are excluded because the dividends are a financing activity and the loan is an investing activity.
- Issuance of a note payable to purchase land should be reported as a noncash investing and financing activity. This category of transactions can be included in a schedule that accompanies the statement of cash flows. Three other transactions in this category are issuance of stock to acquire a building, issuance of stock to pay long-term debt, and issuance of a note payable to retire stock.

Note: Students may list other examples that are acceptable.
- The *direct method* does a better job of showing the individual cash flows from operating activities. The *indirect method* shows more clearly the relationship between net income and operating cash flow.

10. Cash flows from <i>operating</i> activities:		
Net income.....	\$	XXX
Add (subtract) items that affect net income and cash flow differently:		
Gain on sale of investments.....	(15,000)	
Cash flows from <i>investing</i> activities:		
Sale of investments.....	\$	80,000

11. Another current asset ↑ and Cash ↓
 Another current asset ↓ and Cash ↑
 Current liability ↑ and Cash ↑
 Current liability ↓ and Cash ↓

12. Net cash inflow from operations = \$64,000 (\$38,000 + \$22,000 + \$13,000 ! \$9,000).

T Daily Exercises

(5 min.) **DE 17-1**

U.S. Airways quit paying dividends because net income and cash flow from operations both decreased.

(5 min.) **DE 17-2**

A *cash equivalent* is a liquid short-term investment that can be converted into cash with little delay. Examples include money-market investments and U.S. Government Treasury bills.

Cash equivalents are combined with cash on the balance sheet because they are almost as liquid as cash.

Note: Students need list only one example for each category.

Operating activities create revenues and expenses.

Examples of a cash receipt: Collection of cash from customer
Receipts of interest and dividends

Example of a cash payment: Payment of any expense (salary, rent, utilities, interest, and so on)

Investing activities increase and decrease long-term assets.

Example of a cash receipt: Sale of land, building, equipment, or an investment

Example of a cash payment: Purchase of land, building, equipment, or an investment

Financing activities obtain the cash needed to launch and sustain the business.

Examples of a cash receipt: Issuing stock, borrowing money, selling treasury stock

Examples of a cash payment: Payments of notes payable and dividends, purchases of treasury stock

Note: For each category, students need include only *one* entry for a cash receipt and *one* entry for a cash payment.

Operating:

Cash receipts: Cash..... XX
Accounts Receivable (or Sales Revenue). XX
Collection from customers.

Cash..... XX
Interest (or Dividend) Revenue..... XX
Receipt of interest (or dividends).

Cash payments: Salary (or Rent, Utilities, Interest, or other) Expense (but not depreciation)..... XX
Cash..... XX
Paid expense.

Investing:

Cash receipts: Cash..... XX
Land (or Building, Equipment, or Investment)..... XX
Sale of assets.

Cash payments: Land (or Building, Equipment, or Investment)..... XX
Cash..... XX
Purchase of assets.

Note: For each category, students need include only *one* entry for a cash receipt and *one* entry for a cash payment.

Financing:

Cash receipts:	Cash.....	XX	
	Common Stock.....		XX
	Issued stock.		
	Cash.....	XX	
	Note Payable.....		XX
	Borrowed money.		
	Cash.....	XX	
	Treasury Stock.....		XX
	Sold treasury stock.		
Cash payments:	Note Payable.....	XX	
	Cash.....		XX
	Paid off note payable.		
	Dividends (or Retained Earnings or Dividends Payable).....	XX	
	Cash.....		XX
	Paid dividends.		
	Treasury Stock.....	XX	
	Cash.....		XX
	Purchased treasury stock.		

- a. Financing
- b. Operating
- c. Operating
- d. Not reported because cash is unaffected
- e. Operating
- f. Investing

(5 min.) **DE 17-6**

Main
danger
signal:

Operating activities generated a net cash *outflow*.

(5 min.) **DE 17-7**

eFax.com, Inc.		
Statement of Cash Flows (partial)		
Year Ended December 31, 20X2		
Cash flows from operating activities:		
Collections from customers	\$170,000	
Payments to suppliers	(80,000)	
Payments to employees	(70,000)	
Payment of income tax	(10,000)	
Net cash inflow from operating activities		\$10,000

(5 min.) **DE 17-8**

eFax.com, Inc.		
Statement of Cash Flows (partial)		
Year Ended December 31, 20X2		
Cash flows from investing activities:		
Purchase of equipment	\$(90,000)	
Proceeds from sale of land	60,000	
Net cash outflow from investing activities		(\$30,000)

(5 min.) **DE 17-9**

eFax.com, Inc.		
Statement of Cash Flows (partial)		
Year Ended December 31, 20X2		
Cash flows from financing activities:		
Proceeds from issuance of common stock	\$ 58,000	
Payment of note payable	(30,000)	
Payment of dividends	(6,000)	
Purchase of treasury stock	(5,000)	
Net cash inflow from financing activities		\$17,000

eFax.com, Inc.		
Statement of Cash Flows		
Year Ended December 31, 20X2		
Cash flows from operating activities:		
Collections from customers	\$170,000	
Payments to suppliers	(80,000)	
Payments to employees	(70,000)	
Payment of income tax	<u>(10,000)</u>	
Net cash inflow from operating activities		\$10,000
Cash flows from investing activities:		
Purchase of equipment	\$(90,000)	
Proceeds from sale of land	<u>60,000</u>	
Net cash outflow from investing activities		(30,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock	\$ 58,000	
Payment of note payable	(30,000)	
Payment of dividends	(6,000)	
Purchase of treasury stock	<u>(5,000)</u>	
Net cash inflow from financing activities		<u>17,000</u>
Increase (decrease) in cash		<u>\$<u>(3,000)</u></u>

1. Net income = \$130,000 (\$800,000 ! \$670,000)
2. Ending cash = \$ 24,000 (\$104,000 + \$720,000 ! \$610,000 ! \$140,000 ! \$50,000)
- 3.

Inatome Processing		
Statement of Cash Flows		
Year 20X1		
Cash flows from operating activities:		
Collections from customers	\$720,000	
Payments to suppliers and employees	<u>(610,000)</u>	
Net cash inflow from operating activities		\$110,000
Cash flows from investing activities:		
Purchase of equipment	<u>\$(140,000)</u>	
Net cash outflow from investing activities		(140,000)
Cash flows from financing activities:		
Payment of dividends	<u>\$(50,000)</u>	
Net cash outflow from financing activities		<u>(50,000)</u>
Increase (decrease) in cash		<u>\$(80,000)</u>
Cash balance, beginning		<u>104,000</u>
Cash balance, ending		<u>\$ 24,000</u>

a. Collections from customers = \$654,000, as follows:

Accounts Receivable			
Beg. bal.	48,000		
Sales	660,000	Collections	654,000
End. Bal.	54,000		

Alternate computation:

$$\begin{aligned}
 \text{Collections from customers} &= \text{Sales Revenue} + \text{Increase in Accounts Receivable} \\
 &= \$660,000 + \$6,000 (\$54,000 - \$48,000) \\
 &= \$654,000
 \end{aligned}$$

b. Payments for inventory = \$325,000, as follows:

Inventory		Accounts Payable	
Beg. bal.	84,000	Payments for inventory	325,000
Purchases	336,000	Beg. bal.	42,000
End. bal.	80,000	Purchases	336,000
		End. bal.	53,000
	Cost of goods sold		
	340,000		

Alternate computation:

$$\begin{aligned}
 \text{Payments for inventory} &= \text{Cost of goods sold} - \text{Decrease in Inventory} + \text{Increase in Accounts Payable} \\
 &= \$340,000 - \$4,000 (\$84,000 - \$80,000) + \$11,000 (\$53,000 - \$42,000) \\
 &= \$325,000
 \end{aligned}$$

a. Payments for other expenses = \$156,000, as follows:

Payments of other expenses	=	Other expenses	+	Increase in prepaid expenses	+	Decrease in accrued liabilities
	=	\$150,000	+	\$1,000 (\$3,000 - \$2,000)	+	\$5,000 (\$11,000 - \$6,000)
	=	\$156,000				

b. Payments to employees = \$46,000, as follows:

Salary Payable			
Payments to employees	46,000	Beg. bal.	21,000
		Salary expense	50,000
		End. bal.	25,000

Alternate computation:

$$\begin{aligned}
 \text{Payments to employees} &= \text{Salary expense} - \text{Increase in Salary Payable} \\
 &= \$50,000 - \$4,000 (\$25,000 - \$21,000) \\
 &= \$46,000
 \end{aligned}$$

- a. Proceeds from the sale of long-term investments = \$5,000, as follows:

Long-Term Investments	
Beg. bal.	90,000
End. bal.	85,000
Book value of investments sold 5,000	

Since there was no gain or loss, the proceeds from the sale must be the same as the investments' book value, \$5,000.

- b. Acquisitions of plant assets = \$90,000, as follows:

Plant Assets, net	
Beg. bal.	185,000
End. bal.	215,000
Acquisitions	70,000
Depreciation	40,000

Alternate computation:

Plant Assets, net				
Beg. bal.	+	Acquisitions	!	Depreciation
\$185,000	+	X	!	\$40,000
			!	\$0
				= \$215,000
				= \$215,000 ! \$185,000 + \$40,000
				= \$70,000

- a. *Payment* of long-term note payable = \$5,000 (\$68,000 ! \$63,000)
This is clear from the *decrease* in long-term debt.
- b. *Issuance* of common stock = \$3,000 (\$40,000 ! \$37,000)
This is clear from the *increase* in common stock.
- c. Payment of dividends
(same as amount of dividends declared) = \$37,000, as follows:

Retained Earnings	
Dividend declarations (same amount paid)	37,000
Beg. bal.	246,000
Net income	80,000
End. bal.	289,000

Alternate computation:

Beginning retained earnings	+	Net income	!	Dividend declarations	=	Ending retained earnings
\$246,000	+	\$80,000	!	X	=	\$289,000
X	=	!	\$289,000 + \$246,000 + \$80,000			
	=		\$37,000			

1. Cost of plant asset acquisitions = \$252,000, as follows:

Plant Assets, net			
Beg. bal.	219,000		
Acquisitions	252,000	Depreciation	18,000
End. bal.	453,000		

Alternate computation:

Plant Assets, net					
Beg. bal.	+ Acquisitions	! Depreciation	! Book value of assets sold	=	End. bal.
\$219,000	+ X	! \$ 18,000	! \$0	=	\$453,000
	X	= \$453,000	! \$219,000 + \$18,000		
	X	= \$252,000			

2.

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Plant Assets		252,000	
	Note Payable, Long-Term			83,000
	Cash			169,000
	Acquisition of plant assets.			

3.

Cash flows from investing activities:

Acquisition of plant assets..... \$(169,000)

Noncash investing and financing activities:

Acquisition of plant assets by issuing long-term note payable..... \$ 83,000

<u>O+</u> a. Decrease in accounts receivable	<u>O!</u> g. Increase in inventory
<u>I</u> b. Purchase of equipment	<u>O+</u> h. Decrease in prepaid expense
<u>N</u> c. Collection of cash from customers	<u>F</u> i. Issuance of common stock
<u>O+</u> d. Increase in accounts payable	<u>O!</u> j. Gain on sale of building
<u>O+</u> e. Loss on sale of land	<u>N</u> k. Retained earnings
<u>O+</u> f. Depreciation expense	<u>N</u> l. Sales revenue
	<u>F</u> m. Payment of dividends
	<u>O!</u> n. Decrease in accrued liabilities

Cash flows from operating activities:

Net income.....	\$55,000
Add (subtract) items that affect net income and cash flows differently:	
Depreciation.....	9,000
Gain on sale of land.....	(4,000)
Increase in accounts receivable, inventory, and prepaid expenses (\$78,000 ! \$65,000).....	(13,000)
Decrease in current liabilities (\$42,000 ! \$40,000).....	<u>(2,000)</u>
Net cash inflow from operating activities:.....	<u>\$45,000</u>

Exterra Communications		
Statement of Cash Flows		
Year Ended June 30, 20X3		
	(In Thousands)	
Cash flows from operating activities:		
Net income		\$ 80
Add (subtract) items that affect net income and cash flows differently:		
Depreciation	\$ 40	
Increase in accounts receivable	(6)	
Decrease in inventory	4	
Increase in prepaid expenses	(1)	
Increase in accounts payable	11	
Increase in salary payable	4	
Decrease in accrued liabilities	(5)	47
Net cash inflow from operating activities		127
Cash flows from investing activities:		
Acquisition of plant assets		
(\$215 ! \$185 + \$40)	\$(70)	
Sale of long-term investments (\$90 ! \$85)	5	
Net cash outflow from investing activities		(65)
Cash flows from financing activities:		
Payment of long-term note payable (\$68 ! \$63)	\$ (5)	
Issuance of common stock (\$40 ! \$37)	3	
Payment of dividends (\$246 + \$80 ! \$289)	(37)	
Net cash outflow from financing activities		(39)
Increase in cash		\$ 23
Cash balance, beginning		16
Cash balance, ending		<u>\$ 39</u>

1. The statement of cash flows indicates *why* the company's cash balance changed. It reports where cash came from and how cash was spent. Thus, the statement of cash flows explains the *causes* of the changes in the cash balance.

2. The *indirect method* starts with net income and shows the reconciliation from net income to operating cash flows.

3. Mother Nature.com's cash flows look very weak. Operations are using (not generating) cash—a sign of weakness. During the year, Mother Nature.com invested in new property and equipment, but the company had to borrow heavily to keep from running out of cash. At December 31, 1999, the company's cash balance was only \$4,000. Many students have more cash than that.

To evaluate a company's cash flows, look for net cash *inflow* from operating activities.

T Exercises

(10-15 min.) **E 17-2**

(10-15 min.) **E 17-1**

The statement of cash flows helps management predict the future cash flows of a business. The statement is a good predictor of future cash flows. Net income is an important measure of management performance, but it takes cash to pay the bills. Also, a manager's performance should be evaluated in part on how well he or she uses cash. That information is given in the statement of cash flows.

In evaluating a borrower's ability to repay a loan, a creditor learns from the statement of cash flows how the borrower has generated and spent cash. As Morningstar's situation indicates, income may increase while cash decreases. The statement of cash flows should be used in conjunction with the income statement and the balance sheet in evaluating a company.

Note: Student responses may vary.

- | | |
|---|--|
| <u>O</u> a. Payment of account payable | <u>I</u> j. Purchase of long-term investment |
| <u>F</u> b. Issuance of preferred stock for cash | <u>O</u> k. Payment of wages to employees |
| <u>F</u> c. Payment of cash dividend | <u>O</u> l. Collection of cash interest |
| <u>I</u> d. Sale of long-term investment | <u>I</u> m. Cash sale of land |
| <u>N</u> e. Amortization of bond discount | <u>N</u> n. Distribution of stock dividend |
| <u>O</u> f. Collection of account receivable | <u>NIF</u> o. Acquisition of equipment by issuance of note payable |
| <u>F</u> g. Issuance of long-term note payable to borrow cash | <u>F</u> p. Payment of long-term debt |
| <u>N</u> h. Depreciation of equipment | <u>NIF</u> q. Acquisition of building by issuance of common stock |
| <u>F</u> i. Purchase of treasury stock | <u>N</u> r. Accrual of salary expense |
| | <u>F</u> s. Issuance of common stock for cash |

(5-10 min.) **E 17-3**

- a. Operating activities
- b. Investing activities
- c. Investing activities
- d. Financing activities
- e. Noncash investing and financing activities
- f. Operating activities
- g. Operating activities
- h. Financing activities
- i. Financing activities
- j. Not reported
- k. Operating activities
- l. Investing activities
- m. Financing activities
- n. Noncash investing and financing activities

(10-15 min.) **E 17-4**

Cash flows from operating activities:

Receipts:

Collections from customers	
(\$128,000 + \$15,000).....	\$ 143,000
Dividends received on investments.....	<u>1,000</u>
Total cash receipts.....	144,000

Payments:

To suppliers.....	\$(48,000)
To employees.....	(34,000)
For interest.....	(16,000)
For income tax.....	<u>(13,000)</u>
Total cash payments.....	<u>(111,000)</u>
Net cash inflow from operating activities...	<u>\$ 33,000</u>

Evaluation: Operating cash flow is strong, as shown by the net cash *inflow* from operating activities.

(5-10 min.) **E 17-5**

Long-Term Debt—Report issuance of debt and payments of long-term debt as financing cash flows.

Accounts Receivable—Report cash receipts from customers as an operating cash flow.

Investment in Land—Report acquisitions of investments and the sale of investments* as investing cash flows.

*Amount of sale proceeds is not determinable. We would need the gain or loss to combine with the cost of investments sold.

(20-30 min.) **E 17-6**

Req. 1

Gillette Satellite Network, Inc.		
Statement of Cash Flows		
Year Ended September 30, 20X2		
Cash flows from operating activities:		
Receipts:		
Collections from customers		
(\$252,000 + \$7,000)		<u>\$259,000</u>
Total cash receipts		259,000
Payments:		
To suppliers (\$115,000 + \$11,000 ! \$5,000)	\$(121,000)	
To employees (\$45,000 + \$1,000)	(46,000)	
For income tax	(9,000)	
For interest	<u>(2,000)</u>	
Total cash payments		<u>(178,000)</u>
Net cash inflow from operating activities		81,000
Cash flows from investing activities:		
Acquisition of equipment	\$(100,000)	
Proceeds from sale of land	<u>14,000</u>	
Net cash outflow from investing activities		(86,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock	\$ 35,000	
Payment of long-term note payable	(20,000)	
Payment of dividends	<u>(10,000)</u>	
Net cash inflow from financing activities		<u>5,000</u>
Increase (decrease) in cash		\$ -0-
Cash balance, September 30, 20X1		<u>18,000</u>
Cash balance, September 30, 20X2		<u>\$ 18,000</u>
Noncash investing and financing activities:		
Acquisition of plant assets by issuing long-term note payable		<u>\$ 35,000</u>

Req. 2

Evaluation: Gillette's cash flows look strong. *Operations* are the main source of cash. The company is *investing* in new plant assets without much borrowing. It was able to issue stock and pay off a long-term note payable, both *financing* transactions. All these signs are favorable. The zero change in cash is unimportant.

$$\begin{aligned} \text{a. Cash collections} &= \$81,000 + \left\{ \begin{array}{l} \$5,000 \text{ decrease in} \\ \text{Accounts Receivable} \\ (\$19,000 ! \$24,000) \end{array} \right. \\ &= \$86,000 \\ \\ \text{b. Cash payments} &= \$84,000 ! \left\{ \begin{array}{l} \$8,000 \text{ decrease in} \\ \text{Inventory} \\ (\$29,000 ! \$21,000) \end{array} \right. + \left\{ \begin{array}{l} \$3,000 \text{ decrease in} \\ \text{Accounts Payable} \\ (\$11,000 ! \$8,000) \end{array} \right. \\ \text{for inventory} &= \$79,000 \end{aligned}$$

(15-20 min.) **E 17-8**

a.

Plant Assets, Net			
Beginning balance	103,000	Depreciation	16,000
Acquisitions	27,000	Book value sold	X
Ending balance	112,000		

Cash proceeds of sale = \$3,000
 = Book value of asset sold, \$2,000*
 + Gain on sale, \$1,000
 = \$3,000

*\$103,000 + \$27,000 ! \$16,000 ! Book value sold (X) = \$112,000
 ! Book value sold = \$112,000 ! \$103,000 ! \$27,000 + \$16,000
 Book value sold = \$2,000

b.

Retained Earnings			
Stock dividends	22,000	Beginning balance	45,000
Cash dividends	X	Net income	62,000
		Ending balance	69,000

Cash dividend payments = \$16,000
 \$45,000 + \$62,000 ! \$22,000 ! Cash dividends (X) = \$69,000
 ! Cash dividends = \$69,000 ! \$45,000 ! \$62,000 + \$22,000
 Cash dividends = \$16,000

(10-15 min.) **E 17-9**

Cash flows from operating activities:

Net income.....		\$ 33,000
Add (subtract) items that affect net income and cash flow differently:		
Depreciation.....	\$ 12,000	
Loss on sale of land.....	5,000	
Increase in current assets other than cash.....	(17,000)	
Decrease in current liabilities.....	(29,000)	(29,000)
Net cash inflow from operating activities.....		<u>\$ 4,000</u>

Evaluation: Operating cash flow is fairly strong, as shown by the net cash *inflow* from operating activities.

(10-15 min.) **E 17-10**

1. Direct method:

- Report the \$130,000 cash payment as an *investing* activity. Report issuance of the \$160,000 note payable to acquire land as a *noncash investing and financing* activity in a schedule to accompany the statement of cash flows.
- Report the cash receipt of \$22,000 as an *investing* activity.

2. Indirect method:

- Same answer as answer to 1a.
- Subtract the \$13,000 gain from net income in the *operating* activities section. Report cash receipt of \$22,000 as an *investing* activity.

Req. 1

Gillette Satellite Network, Inc.		
Statement of Cash Flows		
Year Ended September 30, 20X2		
Cash flows from operating activities:		
Net income		\$ 41,000
Add (subtract) items that affect net income and cash flow differently:		
Depreciation	\$ 29,000	
Decrease in accounts receivable	7,000	
Increase in inventory	(6,000)	
Increase in prepaid expenses	(1,000)	
Increase in accounts payable	13,000	
Decrease in accrued liabilities	<u>(2,000)</u>	<u>40,000</u>
Net cash inflow from operating activities		81,000
Cash flows from investing activities:		
Acquisition of equipment	\$(100,000)	
Proceeds from sale of land	<u>14,000</u>	
Net cash outflow from investing activities		(86,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock	\$ 35,000	
Payment of long-term note payable	(20,000)	
Payment of dividends	<u>(10,000)</u>	
Net cash inflow from financing activities		<u>5,000</u>
Increase (decrease) in cash		\$ -0-
Cash balance, September 30, 20X1		<u>18,000</u>
Cash balance, September 30, 20X2		<u>\$ 18,000</u>
Noncash investing and financing activities:		
Acquisition of plant assets by issuing note payable		<u>\$ 35,000</u>

Req. 2

Evaluation: Gillette's cash flows look strong. *Operations* are the main source of cash. The company is *investing* in new plant assets without much borrowing. It was able to issue stock and pay off a long-term note payable, both *financing* transactions. All these signs are favorable. The zero change in cash is unimportant.

(15-20 min.) **E 17-12**

Cash flows from operating activities:

Net income.....		\$ 23,000	
Add (subtract) items that affect net income and cash flow differently:			
Depreciation.....	\$ 6,000		
Decrease in accounts receivable.....	4,000		
Increase in inventory.....	(2,000)		
Increase in accounts payable	5,000		
Decrease in accrued liabilities.....	<u>(3,000)</u>	<u>10,000</u>	
Net cash inflow from operating activities...			<u>\$33,000</u>

Digitex shows no sign of trouble collecting receivables or selling inventory. There is no large buildup in either receivables or inventory.

(5-10 min.) **E 17-13**

Case 1 - The sale of plant assets generated the cash needed to acquire new plant assets.

Case 2 - New borrowing generated the cash to acquire plant assets.

Case 3 - A combination of operations and new borrowing generated most of the cash for acquisition of plant assets.

(15-20 min.) **E 17-14**

1. *Indirect method*, as revealed by starting with Net income.

	<i>Millions</i>	
	1999	1998
2. Largest source of cash.....	Borrowing (long-term) \$3,480	Borrowing (short-term) \$4,049
3. Largest use of cash.....	Payments of short-term debt \$1,906	Investments \$4,537

4. Accounts and notes receivable *increased*, as shown by the decrease in cash. Accounts payable and other current liabilities also *increased*, as shown by the increase in cash.

5.

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
			<i>Millions</i>	
	Cash		3,480	
	Long-Term Debt (or Notes Payable)			3,480
	Long-Term Debt (or Notes Payable)		1,123	
	Cash			1,123

Long-Term Debt (or Notes Payable)			
		Bal., 12-31-98	4,028
Payments during 1999	1,123	Borrowing during 1999	3,480
		Bal., 12-31-99	6,385

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