Class:

This is problem 7 from our text. Instead of asking you to construct the STATEMENT OF CASH FLOWS, I am asking you to review it below and in a separate section; explain how the values highlighted in **BLUE** were arrived at.

I know you may say that this is somewhat basic but I need to see that you understand how both (uses) and sources of cash are calculated given the information from the balance sheet and income statements.

Thanks.

**7.** Axtel Company has the following financial statements:

|  |  |
| --- | --- |
| AXTEL COMPANY |  |
| Balance Sheet |  |
| For the period ended 12/31/X1 |  |
| ($000) |  |
|  | ASSETS |  |  |  |
|  |  |  |  |  |
| **AXTEL COMPANY****INCOME STATEMENT** | 12/31/X0 | 12/31/X1 |  |  |
| Cash  | $3,514 | $2,875 |  AXTEL COMPANY |
| Accounts Receivable | 6,742 | 5,583 |  Balance Sheet |
| Inventory | 2,573 | 3,220 | For the period | end 12/31/X1 |
| CURRENT ASSETS | $12,829 | $11,678 |  |  |
|  |  |  | Sales | $36,227 |
| Fixed Assets |  |  | COGS | 19,925 |
|  Gross | $22,478 | $24,360 | Gross Margin | $16,302 |
|  Accum. Depreciation | (12,147) | (13,313) | Expense | $10,868 |
|  Net | $10,331 | $11,047 | EBIT | $5,434 |
|  |  |  | Interest | 713 |
| TOTAL ASSETS | $23,160 | $22,725 | EBT | $4,721 |
|  |  |  | Tax | 1,605 |
|  |  |  | Net Income | $3,116 |
|  | LIABILITIES |  |  |  |
| Accounts Payable | $1,556 | $1,702 |  |  |
| Accruals | 268 | 408 |  |  |
| CURRENT LIABILITIES | $1,824 | $2,110 |  |  |
|  |  |  |  |  |
| Long-Term Debt | $ 7,112 | $ 6,002 |  |  |
| Equity | 14,224 | 14,613 |  |  |
| TOTAL CAPITAL | $21,336 | $20,615 |  |  |
|  |  |  |  |  |
| TOTAL LIABILITIES  AND EQUITY | $23,160 | $22,725 |  |  |

 In addition, Axtel *retired* stock for $1,000,000 and paid a dividend of $1,727,000. Depreciation for the year was $1,166,000. Construct a Statement of Cash Flows for Axtel for 2001. (*Hint*: Retiring stock means buying it back from shareholders. Assume the purchase was made at book value, and treat it like a negative sale of stock.)

**SOLUTION:**  First summarize the changes in working capital as follows.

**AXTEL COMPANY**

**Changes in Working Capital Accounts**

For the period ended 12/31/X1

($000)

 20X0 20X1 Change

Accounts Receivable $6,742 $5,583 $1,159

Inventory $2,573 $3,220 ($ 647)

Accounts Payable $1,556 $1,702 $ 146

Accruals $ 268 $ 408 $ 140

 $ 798

The Statement of Cash Flows then follows directly.

**AXTEL COMPANY**

**Statement of Cash Flows**

For the period ended 12/31/X1

($000)

 **OPERATING ACTIVITIES:**

 Net Income $3,116

 Depreciation $1,166

 Change in WC $ 798

 Cash from Operating

 Activities $5,080

 **INVESTING ACTIVITIES:**

 Increase in

 Fixed Assets ($1,882)

 Cash from Investing

 Activities ($1,882)

 **FINANCING ACTIVITIES:**

 Decrease in Debt ($1,110)

 Dividends Paid ($1,727)

 Stock Retired ($1,000)

 Cash from Financing

 Activities ($3,837)

 **NET CASH FLOW ($ 639)**

 **Reconciliation**

 Beginning Cash $3,514

 Net Cash Flow ($ 639)

 Ending Cash $2,875