

Class:

Please complete the Solution sections below for **Problem(s)** from Chapter 3:

Thanks.

Reminder: Please put your NAME in the file name of file returned.

Thanks.

Professor Frank

**PROBLEMS**

1.The Waterford Wax Company had the following current account activity last year.

Beginning Ending Beginning Ending

Cash $ 160 $ 333 Accts Pay $722 $2,084

Accts Rec 1,875 3,810 Accruals $217 456

Inventory 438 2,676

Curr Assets $2,473 $6,819 Curr Liab. $939 $2,540

a.Calculate and display the current account detail required for the Cash From Operating Activities section of the Statement of Cash Flows.

b.If you also knew that Waterford’s revenues had risen by 20% last year, would you be concerned about the firm’s financial health? Why? (Words only.)

**SOLUTION:**

1. Waterford’s current account detail is:

Please try to type your answers and line them up, thanks so much, I know it is a bit cumbersome.

Remember when a CURRENT ASSET increases it is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(use,source) of CASH.

When a CURRENT LIABILITY increases it is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(use, source) of CASH.

|  |  |  |  |
| --- | --- | --- | --- |
|  | BEGINNING | ENDING | CHANGE |
| Accounts Receivables | 1875 |  |  |
| Inventory |  | 2676 |  |
| Payables |  |  |  |
| Accruals | 217 | 456 | 239 |
| TOTAL |  |  | (2572) |

b. We should be \_\_\_\_\_\_\_\_\_\_\_,(somewhat, kind of , very) concerned about Waterford’s financial health. The increases in receivables and inventory far outstrip the gain in \_\_\_\_\_\_\_\_ This indicates that the firm may be having trouble collecting its receivables and has likely invested in inventory it can’t sell. The fact that payables have also risen dramatically indicates what? The magnitude of these increases makes it look like failure may be just around the corner.

Add any other comments you feel are necessary: