**Cash Flow Statements**

**Practice Questions**

**Question 1**Complete the Statement of Cash Flows. Show workings.

Mickelson Ltd manufactures golf clubs for professional golfers. Mickelson Ltd’s balance sheets for the years ended 30 June 2010 and 2011 are presented below:

|  |  |  |
| --- | --- | --- |
| **Mickelson Ltd Balance Sheets as at 30 June** | | |
|  | 2011 | 2010 |
| **ASSETS** |  |  |
| Cash | 480,000 | - |
| Accounts Receivable | 180,000 | 300,000 |
| Provision for doubtful debts | (60,000) | (40,000) |
| Property, plant and equipment | 780,000 | 600,000 |
| Accumulated depreciation, Property, plant and equip | (180,000) | (100,000) |
| Inventory | 460,000 | 260,000 |
| **Total Assets** | **1,660,000** | **1,020,000** |
|  |  |  |
| **LIABILITIES** |  |  |
| Bank Overdraft | - | 200,000 |
| Accounts Payable | 300,000 | 300,000 |
| Accrued Wages (Wages Payable) | 100,000 | 80,000 |
| Provision for annual leave | 40,000 | 60,000 |
| Loans | 300,000 | - |
| **Total Liabilities** | **740,000** | **640,000** |
|  |  |  |
| **Net Assets** | **920,000** | **380,000** |
|  |  |  |
| **Represented by:** |  |  |
| **Shareholders’ Funds** |  |  |
| Share Capital | 700,000 | 100,000 |
| Revaluation Surplus | 140,000 | 40,000 |
| Retained Profits | 80,000 | 240,000 |
| **Total Shareholders’ Funds** | **920,000** | **380,000** |

|  |  |
| --- | --- |
| The revenues and expenses of Mickelson Ltd for the year ended 30 June 2011 are as follows: |  |
|  | $ |
| ***Revenue*** |  |
| Sales | 300,000 |
| Interest (no interest receivable at year end) | 20,000 |
| Gain on sale of property (had a carrying value of $100,000) | 40,000 |
| ***Expenses*** |  |
| Cost of goods sold | 200,000 |
| Doubtful debts expense | 40,000 |
| Depreciation expense | 100,000 |
| Wages expense | 100,000 |
| Employee entitlement (annual leave) expense | 80,000 |
|  |  |
| **Net Loss for the year** | **(160,000)** |

***Additional information:***

Mickelson Ltd classifies interest expense payments as **operating** cash flows.

***Required*:**

Complete the Statement of Cash Flows for Mickelson Ltd for the year ended 30 June 2011, using the pro forma provided. Show all workings.

|  |  |  |
| --- | --- | --- |
| 1. **Past examination question – pro forma** | | |
| ***Mickelson Ltd***  ***Cash Flow Statement for the year ended 30 June 2011*** | | |
|  | *$* | *$* |
| ***Cash flows from operating activities:*** |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| *Net cash …* |  |  |
| ***Cash flows from investing activities:*** |  |  |
|  |  |  |
|  |  |  |
| *Net cash …* |  |  |
| ***Cash flows from financing activities:*** |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| *Net cash …* |  |  |
| ***Net increase (decrease) in cash held*** |  |  |
| ***Cash at beginning of year*** |  |  |
| ***Cash at end of year*** |  |  |

**Question 2)**

Hooker Corporation collapsed in July 1989, owing hundreds of millions of dollars to various creditors. This occurred in the era before a Cash Flow Statement was required in Australia, although a Funds Statement was required, which provided different sort of information about the movement of funds. It appears that creditors and the market took different views of the company’s success.

Read the article “Hooker Corporation: a case for cashflow reporting?” by Jack Flanagan and Greg Whittred (ARTICLE IS ATTACHED).

***Required:***

1. Outline the indicators of financial performance that may have contributed to the company’s reputation and state whether its reputation was deserved, according to the article.
2. Do you think that if Hooker Corporation had been required to prepare a Cash Flow Statement, that its failure might have been avoided? *You may find the ICC format (Issues, content, conclusions) useful in structuring your answer.*