


Chapter 5, Module 6

Slide 1

Chapter 5 Module 6

AMIS 211
Introduction to Financial Accounting

Professor Marc Smith



The slide content is enclosed in a black rectangular border. At the top, there is a dark grey horizontal bar containing the text "Chapter 5 Module 6" in a white, italicized serif font. Below this bar, the text "AMIS 211" and "Introduction to Financial Accounting" is centered in a bold, black serif font. Underneath, "Professor Marc Smith" is centered in a smaller, black serif font. The logo for Ohio State University Fisher College of Business is centered below the text. The logo consists of a square with "T · H · E" at the top, "OHIO STATE UNIVERSITY" in the middle, and "FISHER COLLEGE OF BUSINESS" at the bottom. At the bottom of the slide content area, there is a light grey horizontal bar above a dark grey horizontal bar.

Hi everyone. Welcome back.

Let's continue with our Example#2 that we are working.

We just did the Operating Activities section of the Cash Flow Statement.

And, if you would, go to the next slide with me...

Slide 2

Chapter 5 Module 6: Example #2

Cash collected from customers		496,000
Cash payments:		
to suppliers for inventory purchases	314,000	
to employees as salaries	48,000	
to the government as taxes	35,000	397,000
Net cash provided by operating activities		99,000

There it is!

That is what we just worked through in the previous Module. We figured out Net Cash Provided by Operating Activities to be \$99,000.

Let's look at the other two Activities. And, let's start with our Investing Activities.

So, go to the next slide.

Slide 3

Chapter 5 Module 6: Example #2

Cash Flows From Investing Activities:		
Cash Paid to Purchase Equipment		(80,000)
Cash Paid to Purchase Land		(22,000)
Cash Received from the Sale of Land		<u>6,000</u>
Net cash used by investing activities		(96,000)

How did we calculate the cash received from the sale of land?

Involve Investments and Long-Term Assets

And, I have done the Investing Activities section for us.

I want you to remember: our Investing Activities...what do they relate to?

They relate to Long-Term Assets and Investments.

So, these things, here, involve Long-Term Assets and Investments.

Just look at the Cash Flows I have listed.

Cash Paid to purchase Equipment—an \$80,000 outflow. That is why we have it in brackets.

That one was easy. Look at the Balance Sheets. The Equipment account went from a \$200,000 balance to a \$280,000 balance.

The only reason Equipment would go up is that we went out and purchased more.

So, the Cash we paid to purchase Equipment is an \$80,000 outflow.

The next one I have listed is the Cash Paid to purchase Land—a \$22,000 outflow.

That was also easy.

At the very bottom of the page in bold it says: we spend \$22,000 of cash to buy Land. There is no problem there.

But then, look at that very last one: the Cash Received from the Sale of Land: \$6,000.

We need to answer this question: “Where did that come from? How did we calculate this Cash received from selling Land?”

Go to the next slide with me.

Slide 4

<i>Chapter 5 Module 6: Example #2</i>	
Land	
164,000 Purchases 22,000	Cost of Land Sold X
170,000	
$164,000 + 22,000 - X = 170,000$ $X = \text{Land Sold (cost)} = \$16,000$	

And, let's work with our Land T-Account.

Enter in the Beginning and Ending Balances for that T-Account. That is given to us.

Now, what else do we know about the Land?

Well, in bold, at the bottom of the page it flat-out tells us:

We went out and we bought more. We spent \$22,000 to go out and purchased Land.

Enter that in.

Now, the problem we have is this:

The Beginning Balance plus (+) what was acquired DOES NOT equal the Ending Balance.

\$164,000 plus (+) \$22,000 DOES NOT equal \$170,000.

So that means: we must have sold some land or we need something on the credit side of this T-Account. We need to figure out how much Land we actually sold.

The only way to balance that account is to recognize: “Hey look! There had to have been a sale of the Land.”

We can set up our Algebra equation from the T-Account. We solve for our “x.”

And, we can figure out that the cost of Land that was sold was \$16,000.

Now, I want you to go to the next slide.

Slide 5

Chapter 5 Module 6: Example #2

Cash Flows From Investing Activities:		
Cash Paid to Purchase Equipment		(80,000)
Cash Paid to Purchase Land		(22,000)
Cash Received from the Sale of Land		<u>6,000</u>
Net cash used by investing activities		(96,000)

How did we calculate the cash received from the sale of land?

- We know land costing \$16,000 was sold in 2003
- From the income statement, we know the land was sold at a \$10,000 loss (meaning the cash from the sale was \$10,000 less than the cost of the land sold)

And, back on this slide, we can see what we just worked on a few minutes ago.

And, that question is still there:

“How did we calculate the cash received from the sale of Land?”

Because: just a second ago, we solved for “x” and we said “x” was \$16,000.

Except look: I have Cash Received from the Sale of Land of: only \$6,000.

Well, we know—we know; we just figured it out—Land costing \$16,000 was sold. We also know from the Income Statement that we had a Loss on the sale of \$10,000.

When you have a Loss, that means you sold the asset for less than its cost.

So, we sold Land costing \$16,000 for a \$10,000 Loss. The amount of cash we received must have been \$6,000.

If I had changed this problem on you just ever so slightly and said we had a Gain instead of a Loss; how much cash would we have collected now?

Well, in that case, we would have collected \$26,000.

A Gain means we sold it for more than cost. So, we would have gotten \$10,000 more than the cost sold—or: \$26,000.

But, in this example, the Land was sold at a Loss. We only received \$6,000 from the sale.

That can be just a little bit tricky.

You want to make sure you are comfortable with that. If you are not, go back through the Module again, or ask in our optional classes, or whatever; but you will want to make sure that you are comfortable with that idea.

We are now able to figure out the cash that was used by Investing Activities—Net Cash Used by Investing Activities: \$96,000.

Let's go to the next slide.

Slide 6

Chapter 5 Module 6: Example #2

Cash Flows From Financing Activities:		
Cash Paid on Mortgage (decrease in mortgage payable account)		(20,000)
Cash Received from the Sale of Common Stock (increase in common stock account)		50,000
Cash Paid for Dividends		(41,000)
Net cash used by financing activities		(11,000)

How did we calculate the cash paid for dividends?

**Involve Long-Term Liability and
Stockholders' Equity Items**

And, let's look at our final category: Financing Activities.

And, once again, I have done it already for us. Let's go through the different pieces of this.

The first one says: Cash Paid on a Mortgage.

Well, remember:

Where is this mortgage coming from?

Remember that: Financing Activities relate to Long-Term Liabilities and Equity. A mortgage is certainly an example of a Long-Term Liability.

And, the Mortgage Payable account decreased by: \$20,000. It went from \$160,000 at the beginning of the year to \$140,000 at the end of the year.

What must have happened is: we must have paid some of that mortgage.

So, we have a cash outflow that is Financing Activities—Cash Paid for the Mortgage.

We also have a cash inflow from selling stock. Our Common Stock account went from \$150,000 to \$200,000—a cash inflow—Cash Received from the Sale of Stock: 50,000 bucks (\$50,000).

And then, look at the third one that I have listed: Cash Paid for Dividends: \$41,000.

And, answer this question:

How did we calculate that?

Because: there are no Dividend accounts to look at here. We do not see any Dividends on the Balance Sheet.

So, how were we able to figure out the Cash that we paid for Dividends?

Of course, it goes back...to what?

You should be able to answer this:

It goes back to Retained Earnings.

Go to the next slide.

Slide 7

<i>Chapter 5 Module 6: Example #2</i>	
Retained Earnings	
Dividends X	27,000 Net Income 48,000
	34,000
$27,000 + 48,000 - X = 34,000$ $X = \text{Cash Paid for Dividends} = \$41,000$	

And, there is our T-Account for Retained Earnings.

Beginning and Ending Balance entered in.

We should know by now Retained Earnings goes up by the amount of Net Income and it goes down by the amount of Dividends.

Set up the Algebra equation. Solve for “x”—the amount of Dividends Paid to be the 41,000 bucks (\$41,000).

And, that is where we got Cash Paid for Dividends.

Finally, let’s go to the next slide.

Slide 8

Chapter 5 Module 6: Example #2

Cash flows from operating activities	
Cash collected from customers	496,000
Cash payments for:	
inventory purchases	(314,000)
salaries	(48,000)
income taxes	<u>(35,000)</u>
Net cash provided by operating activities	99,000
Cash flows from investing activities	
Cash paid to purchase equipment	(80,000)
Cash paid to purchase land	(22,000)
Cash received from the sale of land	<u>6,000</u>
Net cash used by investing activities	(96,000)
Cash flows from financing activities	
Cash paid on mortgage	(20,000)
Cash received from the sale of common stock	50,000
Cash paid as dividends	<u>(41,000)</u>
Net cash used by financing activities	(11,000)
Net change in cash (99,000 - 96,000 + 11,000)	(8,000)

And, there is the Statement of Cash Flows all in one big fell swoop, if you will.

The Operating Activities: Net Cash Provided: \$99,000.

The Investing Activities: Net Cash Used: \$96,000.

The Financing Activities: Net Cash Used: \$11,000.

The Net Change in Cash—just add those three subtotals together—(\$99,000 + \$96,000 + \$11,000): it looks like we have a Net Change of an \$8,000 decrease.

And what should make us feel comfortable about that—how do we feel that we think we got it right?

Go to your Balance Sheets:

The account Cash—the Beginning Balance is \$38,000; the Ending Balance is \$30,000; for an \$8,000 decrease described right here on this final slide.