**Questions and Answers**

1. The 2018 balance sheet of Spieth’s Golf Shop, Inc., showed long-term debt of $1.565 million, and the 2019 balance sheet showed long-term debt of $1.645 million. The 2019 income statement showed an interest expense of $170.000. what was the firm’s cash flow to creditors during 2019?

|  |  |  |  |
| --- | --- | --- | --- |
| *Input area:* | |  |  |
|  |  |  |  |
|  | Dec. 31, 2018 Long-term debt | $ 1.565.000 |  |
|  |  |  |  |
|  | Dec. 31, 2019 Long-term debt | $ 1.645.000 |  |
|  |  |  |  |
|  | Interest expense | $ 170.000 |  |
|  |  |  |  |
|  |  |  |  |
| **Output area:** | |  |  |
|  |  |  |  |
|  | Cash flow to creditors | **$ 90.000** |  |
|  |  |  |  |

Cash flow to creditors= Interest paid – Net new borrowing

1. The 2018 balance sheet of Spieth’s Golf Shop, Inc., showed $490.000 in the common stock account and $3.4 million in the additional paid-in surplus account. The 2019 balance sheet showed $525.000 and +3.75 million in the same two accounts, respectively. If the sompany paid out $335,000 in cash dividends during 2019, what was the cash flow to stockholders for the year?

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Input area:* |  |  |
|  | Dec. 31, 2018 Common stock | $ 490.000 |  |
|  | Dec. 31, 2018 Additional paid-in surplus | 3.400.000 |  |
|  |  |  |  |
|  | Dec. 31, 2019 Common stock | $ 525.000 |  |
|  | Dec. 31, 2019 Additional paid-in surplus | 3.750.000 |  |
|  |  |  |  |
|  | Cash dividends | $ 335.000 |  |
|  |  |  |  |
|  |  |  |  |
|  | **Output area***:* |  |  |
|  | Cash flow to stockholders | **$ (50.000)** |  |
|  |  |  |  |
|  |  |  |  |

Cash flow to stockholders = Dividends paid – Net new equity raised

1. Given the information for Spieth’s Golf Shop, Inc., in the previous two problems, suppose you also know that the firm’s net capital spending for 2019 was $735,00 and that the firm reduced its net working capital investment by $96,000. What was the firm’s 2019 operating cash flow, or OCF?

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Input area:* |  |  |
|  | From the previous problems: |  |  |
|  | 2019 Cash flow to creditors | $ 90.000 |  |
|  | 2019 Cash flow to stockholders | -50.000 |  |
|  |  |  |  |
|  | New information: |  |  |
|  | 2019 Net capital spending | $ 735.000 |  |
|  | Change in net working capital | -96.000 |  |
|  |  |  |  |
|  | **Output area:** |  |  |
|  |  |  |  |
|  |  |  |  |
|  | Cash flow from assets | $ 40.000 |  |
|  |  |  |  |
|  | Operating cash flow | **$ 679.000** |  |
|  |  |  |  |

Cash flow from assets = Cash Flow to Creditors + Cash Flow to stockholders

Operating cash flow = Cash flow from assets + Changes in NWC + Net Capital Spending

1. Ritter Corporation’s accountants prepared the following financial statements for year-end 2019:
2. Explain tha change in cash during 2019.
3. Determine the change in net working capital in 2019.
4. Determine the cash flow generated by the firm’s assets during 2019.

|  |  |
| --- | --- |
| Ritter Corporation  Income Statement  2019 | |
| Revenue | $797 |
| Expenses | 576 |
| Depreciation | 92 |
| Net income | $129 |
| Dividends | $97 |

|  |  |  |
| --- | --- | --- |
| Ritter Corporation  Balance Sheet  December 31 | | |
| **Assets** | **2018** | **2019** |
| Cash | $ 63 | $ 84 |
| Other current assets | 175 | 192 |
| Net fixed assets | 398 | 417 |
| Total assets | $636 | $693 |
| **Liabilities and Equity** |  |  |
| Accounts payable | $129 | $146 |
| Long-term debt | 155 | 163 |
| Stockholders’ equity | 352 | 384 |
| Total liabilities and equity | $636 | $693 |

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|  | | **Output area:** |  | |  |  |  |  |  |  |
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|  | **Statement of cash flows** | | | |  |  |  |  |  |  |
|  | **Operations** | | |  |  |  |  |  |  |  |
|  | Net income | | | $ 129 |  |  |  |  |  |  |
|  | Depreciation | | | 92 |  |  |  |  |  |  |
|  | Change in other current assets | | | (17) |  |  |  |  |  |  |
|  | Accounts payable | | | 17 |  |  |  |  |  |  |
|  | **Total cash flow from operations** | | | $ 221 |  |  |  |  |  |  |
|  |  | | |  |  |  |  |  |  |  |
|  | **Investing activities** | | |  |  |  |  |  |  |  |
|  | Acquisition of fixed assets | | | $(111) |  |  |  |  |  |  |
|  | **Total cash flow from investing activities** | | | $(111) |  |  |  |  |  |  |
|  |  | | |  |  |  |  |  |  |  |
|  | | **Financing activities** | |  |  |  |  |  |  |  |
|  | | Proceeds of long-term debt | | 8 |  |  |  |  |  |  |
|  | | Dividends | | (97) |  |  |  |  |  |  |
|  | | **Total cash flow from financing activities** | | $ (89) |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | | **Change in cash (on balance sheet)** | | $ 21 |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | | Ending NWC | | $ 130 |  |  |  |  |  |  |
|  | | Beginning NWC | | 109 |  |  |  |  |  |  |
|  | | Change in NWC | | **$ 21** |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | | *Operating cash flow* | |  |  |  |  |  |  |  |
|  | | Net income | | $ 129 |  |  |  |  |  |  |
|  | | Depreciation | | 92 |  |  |  |  |  |  |
|  | | Operating cash flow | | $ 221 |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | | *Capital spending* | |  |  |  |  |  |  |  |
|  | | Ending fixed assets | | $ 417 |  |  |  |  |  |  |
|  | | Beginning fixed assets | | (398) |  |  |  |  |  |  |
|  | | Depreciation | | 92 |  |  |  |  |  |  |
|  | | Capital spending | | $ 111 |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |
|  | | *Cash flow from assets* | |  |  |  |  |  |  |  |
|  | | Operating cash flow | | $ 221 |  |  |  |  |  |  |
|  | | Capital spending | | (111) |  |  |  |  |  |  |
|  | | Change in NWC | | (21) |  |  |  |  |  |  |
|  | | Cash flow from assets | | **$ 89** |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |

1. The Stancil Corporation provided the following current information:

|  |  |
| --- | --- |
| Proceeds from long-term borrowing | $16,400 |
| Proceeds from the sale of common stock | 4,000 |
| Purchases of fixed asstes | 29,000 |
| Purchases of inventories | 2,400 |
| Payment of dividends | 13,100 |

Determine the total cash flows spent on fixed asstes and NWC. What are the cash flows to inventors of the firm?

|  |  |  |  |
| --- | --- | --- | --- |
|  | ***Output area:*** |  |  |
|  | *Capital spnding and NWC* |  |  |
|  | Capital spending | $(29.000) |  |
|  | Additions to NWC | (2.400) |  |
|  | Cash flows from the firm | $(31.400) |  |
|  |  |  |  |
|  | *Cash flows to investors of the firm* |  |  |
|  | Sale of long-term debt | (16.400) |  |
|  | Sale of common stock | (4.000) |  |
|  | Dividends paid | 13.100 |  |
|  | Cash flows to investors of the firm | $ (7.300) |  |