

Vance Corporation: Cash Flow Statement: Problem Handouts



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Vance Corporation: Cash Flow Statement

Part 1



Vance Corporation sells heavy equipment. Some of the equipment is financed through sales type leases. All other equipment is sold on credit with a thirty day payment cycle. You have been assigned to the audit team that will be reviewing Vance Corporation's financial statements. The manager in charge of the job, Randolph Junah, has asked you to draw up a preliminary cash flow statement for Vance Corporation.

Questions:

In preparation for the first class, please come to class prepared to discuss the following questions.

1. What are the three classifications of cash flows?
2. Define each of the three kinds of cash flows.
3. Provide an example of an inflow and an outflow for each kind of cash flow.
4. What are the two methods for preparing a cash flow statement?
5. What financial information will you need to prepare a cash flow statement?

Vance Corporation: Cash Flow Statement

Part 2

As you review the audit work papers, you discover that the balance sheet for the Vance Corporation has been prepared by others on the audit team.

Questions:

1. How can you use the information contained on the balance sheet to prepare a cash flow statement?
2. What additional information will you need to prepare a cash flow statement?



Balance sheet

Vance Corporation

Balance Sheet

As of December 31, 2005

In thousands

ASSETS	2005	2004
<u>Current Assets:</u>		
Cash	\$29,090	\$11,700
Accounts receivable	\$22,430	\$13,850
Inventory	\$43,500	\$44,450
Prepaid rent	<u>\$20,960</u>	<u>\$15,870</u>
Total Current Assets	<u>\$115,980</u>	<u>\$85,870</u>
<u>Long Term Assets:</u>		
Lease payments receivable	\$118,316	\$101,692
Less: Unearned interest revenue	<u>\$42,594</u>	<u>\$36,609</u>
Book value of lease assets	<u>\$75,722</u>	<u>\$65,083</u>
Buildings and machinery	\$368,070	\$314,570
Less: Accumulated depreciation	<u>\$105,860</u>	<u>\$96,210</u>
Book value of buildings and equipment	<u>\$262,210</u>	<u>\$218,360</u>
Land	<u>\$68,810</u>	<u>\$80,000</u>
Total Long Term Assets	<u>\$406,742</u>	<u>\$363,443</u>
TOTAL ASSETS	<u>\$522,722</u>	<u>\$449,313</u>

LIABILITIES

Current Liabilities:

Accounts payable	\$24,790	\$22,630
Wages payable	\$4,100	\$5,510
Interest payable	\$28,050	\$22,240
Taxes payable	<u>\$13,776</u>	<u>\$7,195</u>
Total Current Liabilities	<u>\$70,716</u>	<u>\$57,575</u>

Long Term Liabilities:

Notes payable	\$177,600	\$171,150
Accrued pension cost	\$49,143	\$43,606



Deferred tax liability	<u>\$19,552</u>	<u>\$14,282</u>
Total Long Term Liabilities	<u>\$246,295</u>	<u>\$229,038</u>
TOTAL LIABILITIES	<u>\$317,011</u>	<u>\$286,613</u>

STOCKHOLDERS' EQUITY

Common stock, no-par	\$125,000	\$100,000
Retained earnings	<u>\$80,711</u>	<u>\$62,700</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$205,711</u>	<u>\$162,700</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$522,722</u>	<u>\$449,313</u>



Vance Corporation: Cash Flow Statement

Part 3

Further investigation reveals that an income statement for the Vance Corporation has been prepared by other members of the audit team. In addition, you discover additional information about financial transactions, which is shown below the income statement. Mr. Junah informs you that Vance Corporation Management has elected to report cash flows using the direct method.

Questions:

1. How can you use this additional information to prepare a cash flow statement?
2. Using the additional information complete the analysis of the balance sheet accounts.



Income Statement

Vance Corporation
Income Statement
For the Year Ended December 31, 2005
In thousands

Sales revenue		\$203,457
Cost of goods sold		<u>\$73,350</u>
Gross profit		\$130,107
Operating expenses:		
Wages expense	\$42,700	
Depreciation expense	\$19,360	
Rent expense	\$4,350	
Pension expense	<u>\$7,035</u>	
Total operating expenses		<u>\$73,445</u>
Operating income		\$56,662
Other revenues and expenses:		
Interest revenues on leases	\$13,412	
Interest expense	(\$14,300)	
Loss on sale of real estate	<u>(\$10,300)</u>	
Total other expenses		<u>(\$11,188)</u>
Pre-tax income		\$45,474
Provision for income tax		<u>\$16,086</u>
Net income		<u>\$29,388</u>

The value of the minimum lease payments for new leases this year is \$36,624,000. The present value of the minimum lease payments for new leases is \$17,227,000. All equipment sold via leases transfers to the lessee at the end of the lease term. Machinery was purchased during the year for \$150,000,000 cash. Real estate was sold during the year for cash. No real estate was acquired during the year. All inventory is purchased on credit. No long-term debt or stock was retired during the year. All notes payable have a balloon payment. There were no stock dividends or stock splits during the year.



Vance Corporation: Cash Flow Statement

Part 4

Having reviewed and approved your draft of the cash flow statement under the direct method, Mr. Junah gives you another task. He asks that you prepare a draft of the cash flow statement under the indirect method, so that he can show both options in an upcoming meeting with Vance Corporation management.

Questions:

1. Do you have sufficient information to complete this assignment?
2. Prepare a draft copy of the cash flow statement using the indirect method.

