

E X E R C I S E S

cs.wbn.bas.050 Creating cash flow statements before & after acquisition

(Bryan's Health & Fitness)

This exercise extends the Bryan's Health and Fitness exercise in earlier chapters. The entries for fiscal 2012, which ended December 31, 2012, are the same as the ones recorded in the earlier chapters. Abbreviated descriptions of the events are repeated below for your convenience.

Events

- E1 Issued common stock to shareholders in exchange for \$5,000 cash.
- E2 Purchased computers for \$18,600 cash.
- E3 Purchased merchandise on account for \$11,000. BHF was invoiced upon delivery.
- E4 Collected \$8,900 due from customers for previous sales.
- E5 Paid \$13,200 due to suppliers and other vendors for resources previously provided and invoiced.
- E6 Collected \$65,500 of annual membership fees from customers. Related revenue is deferred until services are subsequently delivered.
- E7 Paid \$14,400 for insurance and other resources that will provide future benefits.
- E8a Sold merchandise to customers for \$22,800. \$13,600 was collected at the time of the sale and the remainder was sold on account. Revenue was recognized at the time of the sale.
- E8b The merchandise sold in E8a cost \$10,500.
- E9 Paid \$10,200 to tax authorities for previously expensed taxes.
- E10 Paid \$21,400 cash to meet obligations in accrued liabilities.
- E11 Transferred \$1,400 from accrued liabilities to accounts payable.
- E12 Recognized \$2,400 of SG&A expense during the year. \$1,600 was recognized when the company received invoices and the remainder when the company paid resource providers.
- E13 Recognized \$36,000 of SG&A expense. \$12,000 had been prepaid at earlier dates. The remainder was recorded to accrued liabilities.
- E14 Recognized \$10,000 of depreciation expense.
- E15 Recognized \$64,000 of previously deferred membership revenue.
- E16 Accrued \$11,100 of tax expense.

Record Keeping

This exercise helps you learn how to do record keeping and reporting.

Usage

This exercise helps you learn how to use accounting information.

Part I: Before acquisition

Required

- (a) Use the completed BSE matrix on page 4 to complete the direct and indirect cash-flow statements below and on the next page.

Bryan's Health and Fitness 2012	
Direct Cash Flow Statement	
<i>In Dollars, for year ended December 31, 2012</i>	
Operating activities	
Customer collections	_____
Resource provider payments	_____
Tax payments	_____
Net cash from operations	_____
Investing activities	
Purchase property, plant, and equipment	_____
Net cash from investing activities	_____
Financing activities	
Issue common stock	_____
Net cash from financing activities	_____
Net change in cash during year	_____
Beginning cash balance	_____
Ending cash balance	=====

Bryan's Health and Fitness 2012 Indirect Cash Flow Statement

In Dollars, for year ended December 31, 2012

Operating activities

Net income	_____
Depreciation	_____
Accounts receivable	_____
Inventory	_____
Prepaid expenses	_____
Accounts payable	_____
Accrued taxes	_____
Other accrued liabilities	_____
Deferred revenues	_____
Net cash from operations	_____

Investing activities

Purchase property, plant, and equipment	_____
Net cash from investing activities	_____

Financing activities

Issue common stock	_____
Net cash from financing activities	_____

Net change in cash during year

Beginning cash balance _____

Ending cash balance _____



Zoom in on the PDF to see the details.

Bryan's Health and Fitness 's 2012 BSE Matrix

	ASSETS										LIABILITIES										OWNERS' EQUITY									
	Current					Non-current					Current					Permanent					Net income									
	C	AR	Inven	Inven	PreEx	PP&E	AcDep	AP	ACTX	AccLb	DefRv	CC	RE	MinRv	MirRv	Cms	SG&A	DepEx	TaxEx	IncsM										
31-Dec-11	\$12,300	\$1,350	\$3,600	\$9,500	\$9,500	\$90,000	\$10,000	\$2,750	\$2,200	\$1,600	\$64,450	\$27,250	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0										
E3 Purchase merchandise on account																														
E4 Collect amounts due from customers																														
E5 Pay invoices due																														
E6 Sell memberships for cash																														
E7 Prepay expenses with cash																														
E8a Recognize merchandise revenue																														
E8b Recognize cost of sold merchandise																														
E9 Pay previously accrued taxes																														
E10 Pay previous expenses not invoiced																														
E11 Receive invoices previously expensed																														
E12 Recognize SG&A expense (period)																														
E13 Recognize SG&A expense (adjusting)																														
E14 Recognize depreciation expense																														
E15 Recognize previously deferred revenue																														
E16 Accrue tax expense																														
Net cash from operations																														
E2 Purchase PP&E																														
Net cash from investing activities																														
Net cash from financing activities																														
Net cash from financing activities																														
Trials balance																														
c1 Close to income summary																														
c2 Close from income summary																														
31-Dec-12	\$26,700	\$1,650	\$4,100	\$11,900	\$11,900	\$108,600	\$20,000	\$3,550	\$3,100	\$2,800	\$69,450	\$44,050	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0										

CHART OF ACCOUNTS

ASSETS	Current	Cash
	AR	Accounts receivable
	Inven	Inventory
	PreEx	Prepaid expenses
Non-current	PP&E	Property, plant, & equipment at cost
	AcDep	Accumulated depreciation
LIABILITIES	Current	Accounts payable
	AccLb	Other accrued liabilities
	DefRv	Deferred revenues
OWNERS' EQUITY	Permanent	Contributed capital
	CC	Retained earnings
	RE	Membership revenues
Temporary	MinRv	Merchandise revenues
	MirRv	Cost of merchandise sold
	Cms	Sales, general & administrative
	SG&A	Depreciation expense
	DepEx	Tax expense
	TaxEx	Income summary
	IncsM	

Part II: After acquisition for stock

This exercise assumes the BSE matrix used in part (a) and the related financial statements reflect all activity for fiscal 2012 *except* the acquisition discussed next, which occurred immediately before the end of fiscal 2012.

To expand its product line, Bryan's Health and Fitness (BHF) acquired Palmer's Organic Power Supplements (POPS) at the end of the day on December 31, 2012. The purchase price was \$24,300.

Here in part (b), we assume BHF paid for the acquisition by issuing BHF common stock valued at \$24,300 to POP's owners in exchange for POP's assets and liabilities. The \$24,300 fair value of the acquired net assets is detailed below.

Required

- (b) Complete the balance sheet and indirect cash-flow statement on the next two pages assuming these statements reflect: (1) all of the activity included in the BSE used in part (a) and (2) the acquisition of Palmer's Organic Power Supplements.

Note:

The actual accounting for acquisitions is quite complicated. However, you don't need to know the details to complete the statements. Focus on the following questions: What are BHF's assets, liabilities, and owners' equity claims after the acquisition? How did cash change during the year? How much of this change was attributable to operating, investing, and financing activities?

Fair Value of Palmer's Organic Power Supplements Assets and Liabilities on December 31, 2012	
	31-Dec-12 Balances (in dollars)
Assets	
Cash	\$3,000
Accounts receivable	\$1,000
Inventory	\$1,200
Prepaid expenses	\$500
Property, plant & equipment	\$12,000
Goodwill	\$10,000
Total	<u>\$27,700</u>
Liabilities	
Accounts payable	\$1,500
Accrued taxes	\$600
Other accrued liabilities	\$1,300
Total	<u>\$3,400</u>
Purchase price (fair value of net assets acquired)	<u><u>\$24,300</u></u>

Bryan's Health and Fitness 2011 & 2012 Balance Sheets

In Dollars

ASSETS

	31-Dec-12	31-Dec-11
Current assets		
Cash	_____	\$12,300
Accounts receivable	_____	\$1,350
Inventory	_____	\$3,600
Prepaid expenses	_____	\$9,500
Total current assets	_____	\$26,750
Property, plant, and equipment, net		
Property, plant & equipment at cost	_____	\$90,000
Accumulated depreciation	_____	(\$10,000)
Property, plant & equipment, net	_____	\$80,000
Goodwill	_____	\$0
Total assets	=====	\$106,750

LIABILITIES

Current liabilities		
Accounts payable	_____	\$2,750
Accrued taxes	_____	\$2,200
Other accrued liabilities	_____	\$1,600
Deferred revenues	_____	\$8,500
Total current liabilities	_____	\$15,050

SHAREHOLDERS' EQUITY

Contributed capital	_____	\$64,450
Retained earnings	_____	\$27,250
Total shareholders' equity	_____	\$91,700
Total liabilities and shareholders' equity	=====	\$106,750

Bryan's Health and Fitness 2012 Indirect Cash Flow Statement

In Dollars, for year ended December 31, 2012

Operating activities

Net income	_____
Depreciation	_____
Accounts receivable	_____
Inventory	_____
Prepaid expenses	_____
Accounts payable	_____
Accrued taxes	_____
Other accrued liabilities	_____
Deferred revenues	_____
Net cash from operations	_____

Investing activities

Palmer's Organic Power Supplements stock acquisition	_____
Purchase property, plant, and equipment	_____
Net cash from investing activities	_____

Financing activities

Issue common stock	_____
Net cash from financing activities	_____

Net change in cash during year

Beginning cash balance

Ending cash balance

=====

Part III: After acquisition for cash

This exercise assumes is exactly the same as part (b) *except* here we assume BHF paid \$24,300 cash for the acquisition rather than issuing common stock.

Required

- (c) Complete the balance sheet and indirect cash-flow statement below and on the next page assuming these statements reflect: (1) all of the activity included in the BSE used in part (a) and (2) the acquisition of Palmer's Organic Power Supplements.

Bryan's Health and Fitness 2011 & 2012 Balance Sheets

In Dollars

ASSETS

	31-Dec-12	31-Dec-11
Current assets		
Cash	_____	\$12,300
Accounts receivable	_____	\$1,350
Inventory	_____	\$3,600
Prepaid expenses	_____	\$9,500
Total current assets	_____	\$26,750
Property, plant, and equipment, net		
Property, plant & equipment at cost	_____	\$90,000
Accumulated depreciation	_____	(\$10,000)
Property, plant & equipment, net	_____	\$80,000
Goodwill	_____	\$0
Total assets	=====	\$106,750

LIABILITIES

Current liabilities		
Accounts payable	_____	\$2,750
Accrued taxes	_____	\$2,200
Other accrued liabilities	_____	\$1,600
Deferred revenues	_____	\$8,500
Total current liabilities	_____	\$15,050

SHAREHOLDERS' EQUITY

Contributed capital	_____	\$64,450
Retained earnings	_____	\$27,250
Total shareholders' equity	_____	\$91,700
Total liabilities and shareholders' equity	=====	\$106,750

Bryan's Health and Fitness 2012 Indirect Cash Flow Statement

In Dollars, for year ended December 31, 2012

Operating activities

Net income	
Depreciation	
Accounts receivable	
Inventory	
Prepaid expenses	
Accounts payable	
Accrued taxes	
Other accrued liabilities	
Deferred revenues	
Net cash from operations	

Investing activities

Palmer's Organic Power Supplements cash acquisition	
Purchase property, plant, and equipment	
Net cash from investing activities	

Financing activities

Issue common stock	
Net cash from financing activities	

Net change in cash during year

Beginning cash balance

Ending cash balance
