

SOLUTIONS

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	\$88,000
Resource provider payments	(\$49,800)
Tax payments	(\$10,200)
Net cash from operations	\$28,000
Investing activities	
Purchase property, plant, and equipment	(\$18,600)
Net cash from investing activities	(\$18,600)
Financing activities	
Issue common stock	\$5,000
Net cash from financing activities	\$5,000
Net change in cash during year	\$14,400
Beginning cash balance	\$12,300
Ending cash balance	\$26,700

Bryan's Health and Fitness 2012 Indirect Cash Flow Statement

	Before acquisition
<i>In Dollars, for year ended December 31, 2012</i>	
Operating activities	
Net income	\$16,800
Depreciation	\$10,000
Accounts receivable	(\$300)
Inventory	(\$500)
Prepaid expenses	(\$2,400)
Accounts payable	\$800
Accrued taxes	\$900
Other accrued liabilities	\$1,200
Deferred revenues	\$1,500
Net cash from operations	\$28,000
Investing activities	
Purchase property, plant, and equipment	(\$18,600)
Net cash from investing activities	(\$18,600)
Financing activities	
Issue common stock	\$5,000
Net cash from financing activities	\$5,000
Net change in cash during year	\$14,400
Beginning cash balance	\$12,300
Ending cash balance	\$26,700



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																														
trial balance																														
Close to income summary																														
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>

BHF's BSE matrix after acquiring Palmer Organic with stock.

	ASSETS										LIABILITIES										OWNERS' EQUITY									
	Current					Non-current					Current					Permanent					Net income									
	C	AR	Inven	PreEx	GW	AcDep	PR&E	AcDep	GW	AP	AcTx	OC&Lb	DefRv	CC	RE	MmRv	MfRv	Cms	SG&A	DepEx	TaxEx	IncSm								
	+	+	+	+	+	-	+	-	+	+	+	+	+	+	+	+	+	-	-	-	-	+								
31-Dec-11	\$12,300	\$1,350	\$3,600	\$9,500	\$0	\$10,000	\$90,000	\$10,000	\$0	\$2,750	\$2,200	\$1,600	\$5,500	\$64,450	\$27,250	\$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																														
E8 Recognize merchandise revenue																														
E9 Recognize cost of sold merchandise																														
E10 Pay previously accrued taxes																														
E11 Pay previous expense not invoiced																														
E12 Receive invoices previously expensed																														
E13 Recognize SG&A expense (period)																														
E14 Recognize SG&A expense (adjusting)																														
E15 Recognize depreciation expense																														
E16 Recognize previously deferred revenue																														
E17 Accrue tax expense																														
Net cash from operations																														
E18 Purchase P&E																														
Acquire POPS with stock																														
Net cash from investing activities																														
E19 Issue common stock																														
Net cash from financing activities																														
Final balance																														
c1 Close to income summary																														
c2 Close from income summary																														
31-Dec-12	\$29,700	\$2,650	\$5,300	\$12,400	\$10,000	\$20,000	\$120,600	\$20,000	\$10,000	\$5,050	\$3,700	\$4,100	\$10,000	\$93,750	\$27,250	\$64,000	\$22,800	\$10,500	\$38,400	\$10,000	\$11,100	\$0								



Zoom in on the PDF to see the details.

CHART OF ACCOUNTS

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

Bryan's Health and Fitness 2011 & 2012 Balance Sheets

<i>In Dollars</i>	After acquisition with stock	
ASSETS	31-Dec-12	31-Dec-11
Current assets		
Cash	\$29,700	\$12,300
Accounts receivable	\$2,650	\$1,350
Inventory	\$5,300	\$3,600
Prepaid expenses	\$12,400	\$9,500
Total current assets	<u>\$50,050</u>	<u>\$26,750</u>
Property, plant, and equipment, net		
Property, plant & equipment at cost	\$120,600	\$90,000
Accumulated depreciation	(\$20,000)	(\$10,000)
Property, plant & equipment, net	<u>\$100,600</u>	<u>\$80,000</u>
Goodwill	\$10,000	\$0
Total assets	<u>\$160,650</u>	<u>\$106,750</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$5,050	\$2,750
Accrued taxes	\$3,700	\$2,200
Other accrued liabilities	\$4,100	\$1,600
Deferred revenues	\$10,000	\$8,500
Total current liabilities	<u>\$22,850</u>	<u>\$15,050</u>
SHAREHOLDERS' EQUITY		
Contributed capital	\$93,750	\$64,450
Retained earnings	\$44,050	\$27,250
Total shareholders' equity	<u>\$137,800</u>	<u>\$91,700</u>
Total liabilities and shareholders' equity	<u>\$160,650</u>	<u>\$106,750</u>

Bryan's Health and Fitness 2012 Indirect Cash Flow Statement

	Before acquisition	After acquisition with stock
<i>In Dollars, for year ended December 31, 2012</i>		
Operating activities		
Net income	\$16,800	\$16,800
Depreciation	\$10,000	\$10,000
Accounts receivable	(\$300)	(\$300)
Inventory	(\$500)	(\$500)
Prepaid expenses	(\$2,400)	(\$2,400)
Accounts payable	\$800	\$800
Accrued taxes	\$900	\$900
Other accrued liabilities	\$1,200	\$1,200
Deferred revenues	\$1,500	\$1,500
Net cash from operations	\$28,000	\$28,000
Investing activities		
Palmer's Organic Power Supplements acquisition	\$0	\$3,000
Purchase property, plant, and equipment	(\$18,600)	(\$18,600)
Net cash from investing activities	(\$18,600)	(\$15,600)
Financing activities		
Issue common stock	\$5,000	\$5,000
Net cash from financing activities	\$5,000	\$5,000
Net change in cash during year	\$14,400	\$17,400
Beginning cash balance	\$12,300	\$12,300
Ending cash balance	\$26,700	\$29,700

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			
<i>In Dollars</i>	Before acquisition	After acquisition with stock	After acquisition with cash
ASSETS	31-Dec-12	31-Dec-12	31-Dec-12
Current assets			
Cash	\$26,700	\$29,700	\$5,400
Accounts receivable	\$1,650	\$2,650	\$2,650
Inventory	\$4,100	\$5,300	\$5,300
Prepaid expenses	\$11,900	\$12,400	\$12,400
Total current assets	\$44,350	\$50,050	\$25,750
Property, plant, and equipment, net			
Property, plant & equipment at cost	\$108,600	\$120,600	\$120,600
Accumulated depreciation	(\$20,000)	(\$20,000)	(\$20,000)
Property, plant & equipment, net	\$88,600	\$100,600	\$100,600
Goodwill	\$0	\$10,000	\$10,000
Total assets	\$132,950	\$160,650	\$136,350
LIABILITIES			
Current liabilities			
Accounts payable	\$3,550	\$5,050	\$5,050
Accrued taxes	\$3,100	\$3,700	\$3,700
Other accrued liabilities	\$2,800	\$4,100	\$4,100
Deferred revenues	\$10,000	\$10,000	\$10,000
Total current liabilities	\$19,450	\$22,850	\$22,850
SHAREHOLDERS' EQUITY			
Contributed capital	\$69,450	\$93,750	\$69,450
Retained earnings	\$44,050	\$44,050	\$44,050
Total shareholders' equity	\$113,500	\$137,800	\$113,500
Total liabilities and shareholders' equity	\$132,950	\$160,650	\$136,350

BHP's BSE matrix after acquiring Palmer Organic with cash.

Bryan's Health and Fitness's 2012 BSE Matrix After Cash Acquisition of POPS

	ASSETS										LIABILITIES										OWNERS' EQUITY									
	Current					Non-current					Current					Permanent					Net Income									
	C	AR	Inven	PP&E	AcDep	GdW	AP	ACTX	AccLb	DePrv	CC	RE	MmRv	MmRv	MmRv	Cms	SG&A	DcpEx	TaxEx	IncSm										
31-Dec-11	\$12,300	\$1,350	\$3,600	\$9,500	\$90,000	\$0	\$2,750	\$1,600	\$8,500	\$64,450	\$27,250	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0										
e3 Purchase merchandise on account			+11,000				+11,000																							
e4 Collect amounts due from customers		+8,900																												
e5 Pay invoices due		+13,200					+13,200																							
e6 Sell memberships for cash		+65,500							+65,500																					
e7 Prepay expenses with cash		+14,400																												
e8 Recognize merchandise revenue		+13,600	+9,200												+22,800															
e9 Recognize cost of sold merchandise			-10,500												+10,500															
e10 Pay previously accrued taxes		+10,200					+10,200																							
e11 Pay previous expenses not invoiced		+21,400						-21,400																						
e12 Receive invoices previously expensed							+1,400																							
e13 Recognize SG&A expense (period)		-800					+1,600										+2,400													
e14 Recognize SG&A expense (adjusting)				-12,000																										
e15 Recognize depreciation expense																														
e16 Recognize previously deferred revenue																														
e17 Accrue tax expense																														
e18 Accrue tax expense																														
e19 Accrue tax expense																														
Net cash from operations		+28,000	+300	+500	+2,400	+0	+800	+900	+1,200	+1,500	+0	+0	+64,000	+22,800	+10,500	+38,400	+10,000	+11,100	+0											
e2 Purchase PP&E		-18,600																												
Acquire POPS with cash		-21,300	+1,000	+1,200	+500	+10,000	+1,500	+600	+1,300																					
Net cash from investing activities		-39,900	+1,000	+1,200	+500	+10,000	+1,500	+800	+1,300	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0										
e1 Issue common stock		+5,000											+5,000																	
Net cash from financing activities		+5,000	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0	+5,000	+0	+0	+0	+0	+0	+0	+0										
Trial balance		\$5,400	\$2,650	\$5,300	\$12,400	\$20,600	\$5,050	\$3,700	\$4,100	\$10,000	\$27,250	\$69,450	\$22,800	\$10,600	\$38,400	\$10,000	\$11,100	\$0	\$0											
c1 Close to income summary																														
c2 Close from income summary																														
31-Dec-12	\$5,400	\$2,650	\$5,300	\$12,400	\$20,600	\$10,000	\$5,050	\$3,700	\$4,100	\$10,000	\$44,050	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0											



Zoom in on the PDF to see the details.

CHART OF ACCOUNTS

ASSETS	Cash
Current	Accounts receivable
C	Inventory
AR	Prepaid expenses
PP&E	Property, plant & equipment at cost
AccDep	Accumulated depreciation
LIABILITIES	
Current	
AP	Accounts payable
AccLb	Other accrued liabilities
DePrv	Deferred revenues
Permanent	
CC	Contributed capital
RE	Retained earnings
Temporary	
MmRv	Membership revenues
MmRv	Merchandise revenues
Cms	Cost of merchandise sold
SG&A	Sales, general & administrative
DcpEx	Depreciation expense
IncSm	Income summary

Bryan's Health and Fitness 2012 Indirect Cash Flow Statement

	Before acquisition	After acquisition with stock	After acquisition with cash
<i>In Dollars, for year ended December 31, 2012</i>			
Operating activities			
Net income	\$16,800	\$16,800	\$16,800
Depreciation	\$10,000	\$10,000	\$10,000
Accounts receivable	(\$300)	(\$300)	(\$300)
Inventory	(\$500)	(\$500)	(\$500)
Prepaid expenses	(\$2,400)	(\$2,400)	(\$2,400)
Accounts payable	\$800	\$800	\$800
Accrued taxes	\$900	\$900	\$900
Other accrued liabilities	\$1,200	\$1,200	\$1,200
Deferred revenues	\$1,500	\$1,500	\$1,500
Net cash from operations	\$28,000	\$28,000	\$28,000
Investing activities			
Palmer's Organic Power Supplements acquisition	\$0	\$3,000	(\$21,300)
Purchase property, plant, and equipment	(\$18,600)	(\$18,600)	(\$18,600)
Net cash from investing activities	(\$18,600)	(\$15,600)	(\$39,900)
Financing activities			
Issue common stock	\$5,000	\$5,000	\$5,000
Net cash from financing activities	\$5,000	\$5,000	\$5,000
Net change in cash during year	\$14,400	\$17,400	(\$6,900)
Beginning cash balance	\$12,300	\$12,300	\$12,300
Ending cash balance	\$26,700	\$29,700	\$5,400