

EXERCISE

CASH FLOW STATEMENTS

Background

A member of the deal team you're on asks if you can help him understand the cash flow statement for the client, Tempo Cycles, and to answer a few questions he has about it.

TEMPO CYCLES, INC.
Statement of Cash Flows
(in thousands)
For the year ended December 31, 2016

OPERATING ACTIVITIES:	
Net income	\$ 35,000
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	10,000
Provision for doubtful accounts	1,000
Changes in operating assets and liabilities	
Accounts receivable	2,000
Accounts payable	(4,000)
Inventory	(14,000)
Prepaid expenses and accrued revenue	(9,000)
Accrued expenses	11,000
Net cash provided by operating activities	<u>32,000</u>
INVESTING ACTIVITIES:	
Purchases of property and equipment	(48,000)
Sales of property and equipment	36,000
Net cash used in investing activities	<u>(12,000)</u>
FINANCING ACTIVITIES:	
Proceeds from line of credit	2,000
Repayment of debt	(14,000)
Repurchase of common stock	(1,000)
Dividends to shareholders	(3,000)
Net cash (used in) provided by financing activities	<u>(16,000)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	4,000
CASH AND CASH EQUIVALENTS, Beginning of year	5,000
CASH AND CASH EQUIVALENTS, End of year	<u><u>\$ 9,000</u></u>

Instructions

Come prepared to discuss the following questions from your colleague:

1. In the operating activities section, why does Tempo start with net income?
2. What are the adjustments about in the operating activities section?
3. What's the difference between investing activities and financing activities?
4. What's the difference between cash and cash equivalents?
5. Why does Tempo prepare a cash flow statement when it prepares an income statement?