

Waguespack Corporation and Hedrick Corporation had identical cash positions at the beginning and end of 20X9. Each company also reported a net income of \$150,000 for 20X9. Evaluate their cash flow statements that follow.

Which company is displaying elements of cash flow stress? What factors cause you to reach this conclusion? What is the importance of evaluating a company's cash flow statement?

WAGUESPACK CORPORATION		
Statement of Cash Flows		
For the Year Ending December 31, 20X9		
Cash flows from operating activities:		
Net income		\$150,000
Add (deduct) noncash effects on operating income		
Depreciation expense	\$ 20,000	
Gain on sale of equipment	(185,200)	
Increase in accounts receivable	(45,000)	
Decrease in inventory	37,500	
Increase in accounts payable	11,400	
Decrease in income taxes payable	<u>(3,000)</u>	<u>(164,300)</u>
Net cash provided by operating activities		\$ (14,300)
Cash flows from investing activities:		
Sale of equipment		204,900
Cash flows from financing activities:		
Proceeds from long-term borrowing		<u>20,000</u>
Net increase in cash		\$210,600
Cash balance at January 1, 20X9		<u>66,000</u>
Cash balance at December 31, 20X9		<u><u>\$276,600</u></u>

HEDRICK CORPORATION
Statement of Cash Flows
For the Year Ending December 31, 20X9

Cash flows from operating activities:

Net income		\$150,000
Add (deduct) noncash effects on operating income		
Depreciation expense	\$160,000	
Decrease in accounts receivable	43,700	
Increase in inventory	(87,500)	
Decrease in accounts payable	(8,100)	
Decrease in income taxes payable	<u>(8,600)</u>	<u>99,500</u>
Net cash provided by operating activities		\$249,500

Cash flows from investing activities:

Purchase of equipment		(20,400)
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Cash flows from financing activities:

Repayment of long-term borrowing		<u>(18,500)</u>
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Net increase in cash \$210,600

Cash balance at January 1, 20X9 66,000

Cash balance at December 31, 20X9 \$276,600