

## Statement of Changes in Working Capital & Statement of Inflows and Outflows of Working Capital

The statement of changes in working capital shows the **net change in working capital** over a time period of operation. Preparing the statement of changes in working capital is one of the easiest financial statements to do. Recall that working capital is the difference between current assets and current liabilities.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

The first step is copying down the current assets and current liabilities from the balance sheet for both years. Then subtract total current liabilities from total current assets to get working capital for each year. Finally, determine the change in working capital between the two years (taking the more recent year's working capital and subtracting the older year's working capital). Below is a sample statement of changes in working capital:

	2009	2010
<i>Current Assets</i>		
Cash	\$30,000	\$35,000
Accounts receivable	<u>\$6,000</u>	<u>\$4,000</u>
Total current assets	\$36,000	\$39,000
<i>Current Liabilities</i>		
Accounts payable	\$9,500	\$11,000
Accrued expenses payable	<u>\$7,300</u>	<u>\$8,200</u>
Total current liabilities	\$16,800	\$19,200
Working Capital	\$19,200	\$19,800
Net Change in Working Capital	\$600	
Total	\$19,800	\$19,800

The working capital for 2009 was \$19,200 and for 2010 was \$19,800. Working capital increased by \$600 from 2009 to 2010. If working capital increases, the net change in working capital is entered in the column of the less recent year. Working capital for 2009 is added to the net change in working capital to give the same number (in the total row) as the working capital in 2010. If working capital decreases, the change in working capital is entered in the column of the more recent year.

The other statement involving working capital is the statement of inflows (called sources) and outflows (called uses) of working capital. This is very similar to the statement of cash flows in that you are identifying the inflows and outflows that explain the net change in working capital. The statement of inflows and outflows of working capital is also much easier to prepare than the statement of cash flows.

1. Cross off all the current assets and current liabilities and retained earnings from the balance sheet. (Just to remind yourself that these accounts are not involved in the statement of inflows and outflows of working capital).
2. Identify any changes in the remaining balance sheet accounts (fixed assets, long-term liabilities, owners' equity, net income, dividends). Label the increases or decreases as inflows or outflows using the same rules as for the statement of cash flows. (Don't look at changes in the "total" rows!)
3. Identify any inflow or outflow in the form of net income and dividends paid.
4. Construct the statement using two sections: Source Inflows and Use Outflows. For every item identified as an inflow, list it under Source Inflows with an adequate description and the value of change. Do the same for the Use Outflows section. Note that outflows are not listed as negative numbers. Subtracting net outflow from net inflow gives the net change in working capital. This should match the value from the statement of changes in working capital. A sample statement is shown below:

Source Inflows	
Net income	\$14,100
Sale of furnishings	3,500
Sale of long-term investment	5,500
Depreciation	<u>2,500</u>
Net Inflow	\$25,600
Use Outflows	
Dividends paid	\$4,000
Redemption of common stock	15,000
Purchase of equipment	<u>6,000</u>
Net outflow	\$25,000
Net change in working capital	\$600

## Exercises

1. A Nanaimo resort has the following comparative balance sheet for 2008 and 2009. Net income for 2009 was \$141,100 and dividends of \$154,200 were paid out. Prepare a statement of changes in working capital and a statement of source inflows and use outflows of working capital for 2009.

	<b>Assets</b>	<b>31-Dec-08</b>	<b>31-Dec-09</b>
<i>Current Assets</i>			
Cash		\$25,200	\$29,600
Accounts receivable		12,550	12,900
Credit card receivables		9,700	8,000
Inventories		2,850	1,100
Marketable securities		2,000	3,000
Prepaid expenses		<u>6,100</u>	<u>4,200</u>
<b>Total Current Assets</b>		<b>\$58,400</b>	<b>\$58,800</b>



<i>Property, plant, and equipment</i>		
Land	\$194,000	\$194,000
Building	9,800,000	9,800,000
Furniture	184,000	134,000
Equipment	736,400	803,400
Accumulated Depreciation	<u>(2,400,000)</u>	<u>(2,544,200)</u>
<b>Net Property, plant and equipment</b>	<b>\$8,514,400</b>	<b>\$8,387,200</b>
Other Assets	\$509,000	\$609,000
<b>Total Assets</b>	<b><u>\$9,081,800</u></b>	<b><u>\$9,055,000</u></b>
<b>Liabilities and Stockholders' Equity</b>		
<i>Current Liabilities</i>		
Accounts payable	\$13,700	\$15,700
Wages payable	4,200	5,000
Notes Payable	4,900	3,700
Current mortgage payable	<u>15,300</u>	<u>15,900</u>
<b>Total Current Liabilities</b>	<b>\$38,100</b>	<b>\$40,300</b>
<i>Long-term Liabilities</i>		
Mortgage payable	\$7,710,200	\$7,704,300
<b>Total Liabilities</b>	<b>\$7,748,300</b>	<b>\$7,744,600</b>
<i>Stockholders' Equity</i>		
Common stock	\$960,000	\$950,000
Retained earnings	<u>373,500</u>	<u>360,400</u>
<b>Total Stockholders' Equity</b>	<b>\$1,333,500</b>	<b>\$1,310,400</b>
<b>Total Liabilities and SE</b>	<b><u>\$9,081,800</u></b>	<b><u>\$9,055,000</u></b>

2. Prepare a statement of changes in working capital and a statement of inflows and outflows in working capital based on the following information. Net income for 2010 was \$8,000 and dividends of \$7,000 were paid.

<i>Assets</i>	<b>2009</b>	<b>2010</b>
<i>Current Assets</i>		
Cash	\$15,800	\$16,600
Credit card receivables	\$813	\$747
Accounts receivable	7,387	6,853
Inventories	4,925	6,275
Marketable securities	<u>2,975</u>	<u>3,425</u>
<b>Total Current Assets</b>	<b>\$31,900</b>	<b>\$33,900</b>
<i>Property, plant, and equipment</i>		
Furniture/Equipment	\$15,700	\$19,700
Accumulated depreciation	<u>(4,600)</u>	<u>(5,600)</u>
<b>Net Property, plant and equipment</b>	<b>\$11,100</b>	<b>\$14,100</b>
<b>Total Assets</b>	<b><u>\$43,000</u></b>	<b><u>\$48,000</u></b>
<b>Liabilities and Stockholders' Equity</b>		
<i>Current Liabilities</i>		
Accounts payable	\$3,800	\$6,100
Accrued expenses payable	800	700
Taxes payable	<u>2,400</u>	<u>1,200</u>
<b>Total Current Liabilities</b>	<b>\$7,000</b>	<b>\$8,000</b>

<i>Long-term Liabilities</i>		
Mortgage payable	\$24,800	\$26,800
<b>Total Liabilities</b>	<b>\$31,800</b>	<b>\$34,800</b>
<i>Stockholders' Equity</i>		
Common stock	\$5,200	\$6,200
Retained earnings	<u>6,000</u>	<u>7,000</u>
<b>Total Stockholders' Equity</b>	<b>\$11,200</b>	<b>\$13,200</b>
<b>Total Liabilities and SE</b>	<b><u>\$43,000</u></b>	<b><u>\$48,000</u></b>

## Solutions

1. Statement of Changes in Working Capital for the year 2009

<i>Current Assets</i>	<b>2008</b>	<b>2009</b>
Cash	\$25,200	\$29,600
Accounts receivable	12,550	12,900
Credit card receivables	9,700	8,000
Inventories	2,850	1,100
Marketable securities	2,000	3,000
Prepaid expenses	<u>6,100</u>	<u>4,200</u>
<b>Total Current Assets</b>	<b>\$58,400</b>	<b>\$58,800</b>
<i>Current Liabilities</i>		
Accounts payable	\$13,700	\$15,700
Wages payable	4,200	5,000
Notes Payable	4,900	3,700
Current mortgage payable	<u>15,300</u>	<u>15,900</u>
<b>Total Current Liabilities</b>	<b>\$38,100</b>	<b>\$40,300</b>
Working Capital	\$20,300	\$18,500
Net Change in Working Capital (decrease)	-----	1,800
Total	\$20,300	\$20,300

### Statement of Inflows and Outflows in Working Capital for 2009

Source Inflows	
Net Income	\$141,100
Sale of furniture	50,000
Depreciation	<u>144,200</u>
Net Inflow	\$335,300
Use Outflows	
Purchase of equipment	\$67,000
Purchase of other assets	100,000
Payment of mortgage payable	5,900
Redemption of common stock	10,000
Dividends paid	<u>154,200</u>
Net Outflow	\$337,100
Net Change in Working Capital	(\$1,800)

2.

Statement of Change in Working Capital for the year 2010		
<i>Current Assets</i>	<b>2009</b>	<b>2010</b>
Cash	\$15,800	\$16,600
Credit card receivables	\$813	\$747
Accounts receivable	7,387	6,853
Inventories	4,925	6,275
Marketable securities	<u>2,975</u>	<u>3,425</u>
<b>Total Current Assets</b>	\$31,900	\$33,900
<i>Current Liabilities</i>		
Account payables	\$3,800	\$6,100
Accrued expenses payable	800	700
Taxes payable	<u>2,400</u>	<u>1,200</u>
<b>Total Current Liabilities</b>	\$7,000	\$8,000
Working Capital	\$24,900	\$25,900
Net Change in Working Capital (increase)	\$1,000	-----
Total	\$25,900	\$25,900

Statement of Source Inflows and Use Outflows in Working Capital for 2010

Source Inflows	
Net income	\$8,000
Depreciation	1,000
Issue of common stock	1,000
Borrowing on long-term mortgage payable	<u>2,000</u>
Net Inflows	\$12,000
Use Outflows	
Purchase of furniture/equipment	\$4,000
Dividends paid	<u>7,000</u>
Net Outflows	\$11,000
Net Change in Working Capital for 2010	\$1,000