Case 13-02

Buck's Dilemma: Gross or Net?

Buck's Hunting Equipment Inc. ("Buck") is a retailer of hunting equipment, hunting apparel, and outdoor accessories. Buck's operations are based in Pittsburgh, PA, with retail stores located in the nearby suburbs and throughout southwestern Pennsylvania. Buck is actively developing opportunities to expand its operations in the surrounding region, including construction of several new retail stores in West Virginia and southern Ohio. Buck intends to complete construction and open each of the new stores over the next three years. Buck anticipates incurring significant expenses and making short-term cash outlays during the construction phase of the expansion. As a result of this growing need to obtain new, readily available capital, Buck entered into a three-year revolving line of credit (the "Facility") with its bank on January 1, 2010. The line of credit has a maximum borrowing capacity of $100 million.

Since Buck has not previously used a revolving line of credit, it does not have knowledge of the relevant accounting literature and guidance on how to present the related cash flows in its financial statements. Accordingly, as Buck's external auditor, management has asked for your assistance in determining the appropriate presentation of the borrowing and payment activity within its statement of cash flows for the year ended December 31, 2010.

Required:

1. Should Buck present the borrowing and payment activity related to its revolving line of credit as cash flows from operating, investing, or financing activities?

2. For each of the following scenarios, on the basis of the specific facts and circumstances, determine whether Buck should present its borrowing and payment activity under the Facility on a net or gross basis within the financing activities section of its statement of cash flows.

   Scenario 1:

   - The line of credit has a maximum borrowing capacity of $100 million, and under the terms of the agreement, all draws are considered to be due on demand.
   - On July 15, 2010, Buck drew $60 million on the Facility.
   - On August 30, 2010, Buck drew an additional $40 million on the Facility.
   - On September 30, 2010, Buck paid down the draws by $50 million.
   - Assume the turnover of transactions is considered to be quick.

   Scenario 2:

   - The line of credit has a maximum borrowing capacity of $100 million, and under the terms of the agreement, specific maturity terms will be negotiated by Buck and the bank after each draw on the Facility.

- On June 15, 2010, Buck drew $60 million, and signed a note to repay the full amount borrowed by December 15, 2010.
- On September 30, 2010, Buck drew an additional $40 million, and signed a note to repay the full amount borrowed by December 1, 2010.
- On December 1, 2010, Buck paid $40 million to the bank related to the second draw.
- On December 15, 2010, Buck paid $60 million to the bank related to the first draw.
- Assume the turnover of the transactions is considered to be quick.

Scenario 3:

- The line of credit has a maximum borrowing capacity of $100 million. Individual draws on the Facility do not contain specific maturity dates, other than the entire amount outstanding under the Facility becomes due at the end of the three-year term.
- On June 30, 2010, Buck drew $70 million on the Facility.
- On September 30, 2010, Buck drew an additional $15 million on the Facility.
- On November 30, 2010, Buck drew the remaining $15 million available under the Facility.
- On December 15, 2010, Buck made a payment of $50 million related to the outstanding balance.
- Assume the turnover of the transactions is considered to be quick.

3. What international accounting standard (IFRSs) applies to cash flow statement presentation? In general, how do those guidelines compare to U.S. GAAP?