***CHAPTER 2***

**FINANCIAL STATEMENTS AND CASH FLOW**

**Answers to Concepts Review and Critical Thinking Questions**

**1.** True. Every asset can be converted to cash at some price. However, when we are referring to a liquid asset, the added assumption that the asset can be quickly converted to cash at or near market value is important.

**2.** The recognition and matching principles in financial accounting call for revenues, and the costs associated with producing those revenues, to be “booked” when the revenue process is essentially complete, not necessarily when the cash is collected or bills are paid. Note that this way is not necessarily correct; it’s the way accountants have chosen to do it.

**3.** The bottom line number shows the change in the cash balance on the balance sheet. As such, it is not a useful number for analyzing a company.

**4.** The major difference is the treatment of interest expense. The accounting statement of cash flows treats interest as an operating cash flow, while the financial cash flows treat interest as a financing cash flow. The logic of the accounting statement of cash flows is that since interest appears on the income statement, which shows the operations for the period, it is an operating cash flow. In reality, interest is a financing expense, which results from the company’s choice of debt and equity. We will have more to say about this in a later chapter. When comparing the two cash flow statements, the financial statement of cash flows is a more appropriate measure of the company’s performance because of its treatment of interest.

**5.** Market values can never be negative. Imagine a share of stock selling for –$20. This would mean that if you placed an order for 100 shares, you would get the stock along with a check for $2,000. How many shares do you want to buy? More generally, because of corporate and individual bankruptcy laws, net worth for a person or a corporation cannot be negative, implying that liabilities cannot exceed assets in market value.

**6.** For a successful company that is rapidly expanding, for example, capital outlays will be large, possibly leading to negative cash flow from assets. In general, what matters is whether the money is spent wisely, not whether cash flow from assets is positive or negative.

**7.** It’s probably not a good sign for an established company to have negative cash flow from operations, but it would be fairly ordinary for a start-up, so it depends.

**8.** For example, if a company were to become more efficient in inventory management, the amount of inventory needed would decline. The same might be true if the company becomes better at collecting its receivables. In general, anything that leads to a decline in ending NWC relative to beginning would have this effect. Negative net capital spending would mean more long-lived assets were liquidated than purchased.

**9.** If a company raises more money from selling stock than it pays in dividends in a particular period, its cash flow to stockholders will be negative. If a company borrows more than it pays in interest and principal, its cash flow to creditors will be negative.

**10.** The adjustments discussed were purely accounting changes; they had no cash flow or market value consequences unless the new accounting information caused stockholders to revalue the assets.

**Solutions to Questions and Problems**

*NOTE: All end-of-chapter problems were solved using a spreadsheet. Many problems require multiple steps. Due to space and readability constraints, when these intermediate steps are included in this solutions manual, rounding may appear to have occurred. However, the final answer for each problem is found without rounding during any step in the problem.*

*Basic*

**1.** To find owners’ equity, we must construct a balance sheet as follows:

Balance Sheet

CA $ 5,400 CL $ 4,100

NFA 28,100 LTD 10,600

OE ??

TA $33,500 TL & OE $33,500

We know that total liabilities and owners’ equity (TL & OE) must equal total assets of $33,500. We also know that TL & OE is equal to current liabilities plus long-term debt plus owners’ equity, so owners’ equity is:

Owners’ equity = $33,500 – 10,600 – 4,100

Owners’ equity = $18,800

And net working capital (NWC) is:

NWC = CA – CL

NWC = $5,400 – 4,100

NWC = $1,300

**2.** The income statement for the company is:

Income Statement

Sales $497,000

Costs 276,000

Depreciation 43,000

EBIT $178,000

Interest 24,000

EBT $154,000

Taxes 32,340

Net income $121,660

One equation for net income is:

Net income = Dividends + Addition to retained earnings

Rearranging, we get:

Addition to retained earnings = Net income – Dividends

Addition to retained earnings = $121,660 – 30,000

Addition to retained earnings = $91,660

**3.** To find the book value of current assets, we use: NWC = CA – CL. Rearranging to solve for current assets, we get:

CA = NWC + CL

CA = $275,000 + 945,000

CA = $1,220,000

The market value of current assets and fixed assets is given, so:

Book value CA $1,220,000 Market value NWC $1,250,000

Book value NFA 3,500,000 Market value NFA 5,400,000

Book value assets $4,720,000 Total $6,650,000

**4.** Taxes = .10($9,950) + .12($40,525 – 9,950) + .22($86,375 – 40,525) + .24($164,925 – 86,375)

+ .32($189,000 – 164,925)

Taxes = $41,307

The average tax rate is the total tax paid divided by taxable income, so:

Average tax rate = $41,307/$189,000

Average tax rate = .2186, or 21.86%

The marginal tax rate is the tax rate on the next $1 of earnings, so the marginal tax rate is 32 percent.

**5.** To calculate OCF, we first need the income statement:

Income Statement

Sales $49,800

Costs 23,700

Depreciation 2,300

EBIT $23,800

Interest 1,800

Taxable income $22,000

Taxes (22%) 4,840

Net income $17,160

OCF = EBIT + Depreciation – Taxes

OCF = $23,800 + 2,300 – 4,840

OCF = $21,260

**6.** Net capital spending = NFAend – NFAbeg + Depreciation

Net capital spending = $3,100,000 – 2,300,000 + 327,000

Net capital spending = $1,127,000

**7.** The long-term debt account will increase by $34 million, the amount of the new long-term debt issue. Since the company sold 4.6 million new shares of stock with a $1 par value, the common stock account will increase by $4.6 million. The capital surplus account will increase by $56.4 million, the value of the new stock sold above its par value. Since the company had a net income of $7.9 million, and paid $1.9 million in dividends, the addition to retained earnings was $6 million, which will increase the accumulated retained earnings account. So, the new long-term debt and stockholders’ equity portion of the balance sheet will be:

|  |  |  |
| --- | --- | --- |
|  | Long-term debt | $ 82,000,000 |
|  | Total long-term debt | $ 82,000,000 |
|  |  |  |
|  | Shareholders’ equity |  |
|  | Preferred stock | $ 3,100,000 |
|  | Common stock ($1 par value) | 16,100,000 |
|  | Accumulated retained earnings | 114,000,000 |
|  | Capital surplus | 107,400,000 |
|  | Total equity | $ 240,600,000 |
|  |  |  |
|  | Total liabilities & equity | $ 322,600,000 |

**8.** Cash flow to creditors = Interest paid – Net new borrowing

Cash flow to creditors = Interest paid – (LTDend – LTDbeg)

Cash flow to creditors = $305,000 – ($2,660,000 – 2,250,000)

Cash flow to creditors = –$105,000

**9.** Cash flow to stockholders = Dividends paid – Net new equity

Cash flow to stockholders = Dividends paid – [(Commonend + APISend) – (Commonbeg + APISbeg)]

Cash flow to stockholders = $654,000 – [($965,000 + 5,040,000) – ($780,000 + 4,780,000)]

Cash flow to stockholders = $209,000

Note, APIS is the additional paid-in surplus.

**10.** Cash flow from assets = Cash flow to creditors + Cash flow to stockholders = –$105,000 + 209,000 = $104,000

Cash flow from assets = $104,000 = OCF – Change in NWC – Net capital spending

= $104,000 = OCF – (–$55,000) – 1,500,000

Operating cash flow = $104,000 – 55,000 + 1,500,000

Operating cash flow = $1,549,000

*Intermediate*

**11.** *a.* The accounting statement of cash flows explains the change in cash during the year. The accounting statement of cash flows will be:

|  |  |  |
| --- | --- | --- |
|  | Statement of cash flows | |
|  | *Operations* |  |
|  | Net income | $148 |
|  | Depreciation | 94 |
|  | Changes in other current assets | –18 |
|  | Change in accounts payable | 18 |
|  | Total cash flow from operations | $242 |
|  |  |  |
|  | *Investing activities* |  |
|  | Acquisition of fixed assets | –$114 |
|  | Total cash flow from investing activities | –$114 |
|  |  |  |
|  | *Financing activities* |  |
|  | Proceeds of long-term debt | $9 |
|  | Dividends | –115 |
|  | Total cash flow from financing activities | –$106 |
|  |  |  |
|  | Change in cash (on balance sheet) | $22 |

*b.* Change in NWC = NWCend – NWCbeg

= (CAend – CLend) – (CAbeg – CLbeg)

= [($87 + 195) – 149] – [($65 + 177) – 131]

= $133 – 111

= $22

*c.* To find the cash flow generated by the firm’s assets, we need the operating cash flow and the capital spending. So, calculating each of these, we find:

|  |  |  |
| --- | --- | --- |
|  | *Operating cash flow* |  |
|  | Net income | $148 |
|  | Depreciation | 94 |
|  | Operating cash flow | $242 |

Note that we can calculate OCF in this manner since there are no taxes.

|  |  |  |
| --- | --- | --- |
|  | *Capital spending* |  |
|  | Ending fixed assets | $420 |
|  | Beginning fixed assets | –400 |
|  | Depreciation | 94 |
|  | Capital spending | $114 |

Now we can calculate the cash flow generated by the firm’s assets, which is:

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | *Cash flow from assets* |  |
|  | Operating cash flow | $242 |
|  | Capital spending | –114 |
|  | Change in NWC | –22 |
|  | Cash flow from assets | $106 |

**12.** With the information provided, the total of capital spending and the change in net working capital are:

|  |  |  |
| --- | --- | --- |
|  | *Cash flows from the firm* |  |
|  | Capital spending | –$27,500 |
|  | Additions to NWC | –2,600 |
|  | Capital spending and NWC cash flow | –$30,100 |

And the cash flows to the investors of the firm are:

|  |  |  |
| --- | --- | --- |
|  | *Cash flows to investors of the firm* |  |
|  | Sale of long-term debt | –$13,800 |
|  | Sale of common stock | –5,000 |
|  | Dividends paid | 13,800 |
|  | Cash flows to investors of the firm | –$5,000 |

**13.** *a.* The interest expense for the company is the amount of debt times the interest rate on the debt. So, the income statement for the company is:

Income Statement

Sales $895,000

Cost of goods sold 461,000

Selling costs 215,000

Depreciation 108,000

EBIT $111,000

Interest 27,400

Taxable income $ 83,600

Taxes 17,556

Net income $ 66,044

*b.* And the operating cash flow is:

OCF = EBIT + Depreciation – Taxes

OCF = $111,000 + 108,000 – 17,556

OCF = $201,444

**14.** To find the OCF, we first calculate net income.

Income Statement

Sales $336,000

Costs 194,700

Other expenses 9,800

Depreciation 20,600

EBIT $110,900

Interest 14,200

Taxable income $96,700

Taxes 21,275

Net income $ 75,425

Dividends $21,450

Additions to RE $53,975

*a*. OCF = EBIT + Depreciation – Taxes

OCF = $110,900 + 20,600 – 21,275

OCF = $110,225

*b.* CFC = Interest – Net new LTD

CFC = $14,200 – (–5,400)

CFC = $19,600

Note that the net new long-term debt is negative because the company repaid part of its long-

term debt.

*c.* CFS = Dividends – Net new equity

CFS = $21,450 – 7,100

CFS = $14,350

*d.* We know that CFA = CFC + CFS, so:

CFA = $19,600 + 14,350

CFA = $33,950

CFA is also equal to OCF – Net capital spending – Change in NWC. We already know OCF. Net capital spending is equal to:

Net capital spending = Increase in NFA + Depreciation

Net capital spending = $53,200 + 20,600

Net capital spending = $73,800

Now we can use:

CFA = OCF – Net capital spending – Change in NWC

$33,950 = $110,225 – 73,800 – Change in NWC

Change in NWC = $2,475

This means that the company increased its NWC by $2,475.

**15.** The solution to this question works the income statement backwards. Starting at the bottom:

Net income = Dividends + Addition to retained earnings = $2,370 + 6,800 = $9,170

Now, looking at the income statement:

EBT – EBT × Tax rate = Net income

Recognize that EBT × Tax rate is the calculation for taxes. Solving this for EBT yields:

EBT = NI/(1 – Tax rate) = $9,170/(1 – .22) = $11,756

Now you can calculate:

EBIT = EBT + Interest = $11,756 + 5,300 = $17,056

The last step is to use:

EBIT = Sales – Costs – Depreciation

$17,056 = $76,800 – 36,900 – Depreciation

Depreciation = $22,844

**16.** The market value of shareholders’ equity cannot be negative. A negative market value in this case would imply that the company would pay you to own the stock. The market value of shareholders’ equity can be stated as: Shareholders’ equity = Max [(TA – TL), 0]. So, if TA is $11,600, equity is equal to $1,300, and if TA is $9,400, equity is equal to $0. We should note here that while the market value of equity cannot be negative, the book value of shareholders’ equity can be negative.

**17.** Income Statement

Sales $865,000

COGS 535,000

A&S expenses 125,000

Depreciation 170,000

EBIT $35,000

Interest 90,000

Taxable income –$55,000

Taxes (25%) 0

*a.* Net income –$55,000

*b.* OCF = EBIT + Depreciation – Taxes

OCF = $35,000 + 170,000 – 0

OCF = $205,000

*c.* Net income was negative because of the tax deductibility of depreciation and interest expense. However, the actual cash flow from operations was positive because depreciation is a non-cash expense and interest is a financing expense, not an operating expense.

**18.** A firm can still pay out dividends if net income is negative; it just has to be sure there is sufficient cash flow to make the dividend payments.

Change in NWC = Net capital spending = Net new equity = 0 (Given)

Cash flow from assets = OCF – Change in NWC – Net capital spending

Cash flow from assets = $205,000 – 0 – 0 = $205,000

Cash flow to stockholders = Dividends – Net new equity

Cash flow to stockholders = $128,000 – 0 = $128,000

Cash flow to creditors = Cash flow from assets – Cash flow to stockholders

Cash flow to creditors = $205,000 – 128,000

Cash flow to creditors = $77,000

Cash flow to creditors is also:

Cash flow to creditors = Interest – Net new LTD

So:

Net new LTD = Interest – Cash flow to creditors

Net new LTD = $90,000 – 77,000

Net new LTD = $13,000

**19.** *a.*

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Income Statement | |
|  |  | Sales | $38,072 |
|  |  | Cost of goods sold | 27,168 |
|  |  | Depreciation | 6,759 |
|  |  | EBIT | $ 4,145 |
|  |  | Interest | 3,050 |
|  |  | Taxable income | $ 1,095 |
|  |  | Taxes (22%) | 241 |
|  |  | Net income | $ 854 |

*b.* OCF = EBIT + Depreciation – Taxes

= $4,145 + 6,759 – 241 = $10,663

*c.* Change in NWC = NWCend – NWCbeg

= (CAend – CLend) – (CAbeg – CLbeg)

= ($9,904 – 5,261) – ($8,025 – 4,511)

= $1,129

Net capital spending = NFAend – NFAbeg + Depreciation

= $28,053 – 22,790 + 6,759 = $12,022

CFA = OCF – Change in NWC – Net capital spending

= $10,663 – 1,129 – 12,022 = –$2,488

The cash flow from assets can be positive or negative, since it represents whether the firm raised funds or distributed funds on a net basis. In this problem, even though net income and OCF are positive, the firm invested heavily in both fixed assets and net working capital; it had to raise a net $2,488 in funds from its stockholders and creditors to make these investments.

*d.* Cash flow to creditors = Interest – Net new LTD = $3,050 – 0 = $3,050

Cash flow to stockholders = Cash flow from assets – Cash flow to creditors

= –$2,488 – 3,050 = –$5,538

We can also calculate the cash flow to stockholders as:

Cash flow to stockholders = Dividends – Net new equity

Solving for net new equity, we get:

Net new equity = $2,170 – (–5,538) = $7,708

The firm had positive earnings in an accounting sense (NI > 0) and had positive cash flow from operations. The firm invested $1,129 in new net working capital and $12,022 in new fixed assets. The firm had to raise $2,488 from its stakeholders to support this new investment. It accomplished this by raising $7,708 in the form of new equity. After paying out $2,170 of this in the form of dividends to shareholders and $3,050 in the form of interest to creditors, $2,488 was left to meet the firm’s cash flow needs for investment.

**20.** *a.* Total assets2020 = $1,327 + 5,470 = $6,797

Total liabilities2020 = $530 + 2,891 = $3,421

Owners’ equity2020 = $6,797 – 3,421 = $3,376

Total assets2021 = $1,438 + 6,587 = $8,025

Total liabilities2021 = $595 + 3,075 = $3,670

Owners’ equity2021 = $8,025 – 3,670 = $4,355

*b.* NWC2020 = CA2020 – CL2020 = $1,327 – 530 = $797

NWC2021 = CA2021 – CL2021 = $1,438 – 595 = $843

Change in NWC = NWC2021 – NWC2020 = $843 – 797 = $46

*c.* We can calculate net capital spending as:

Net capital spending = Net fixed assets2021 – Net fixed assets2020 + Depreciation

Net capital spending = $6,587 – 5,470 + 1,499 = $2,616

So, the company had a net capital spending cash flow of $2,616. We also know that net capital spending is:

Net capital spending = Fixed assets bought – Fixed assets sold

$2,616 = $2,740 – Fixed assets sold

Fixed assets sold = $2,740 – 2,616 = $124

To calculate the cash flow from assets, we must first calculate the operating cash flow. The income statement is:

|  |  |  |
| --- | --- | --- |
|  | *Income Statement* | |
|  | Sales | $16,831 |
|  | Costs | 7,849 |
|  | Depreciation expense | 1,499 |
|  | EBIT | $ 7,483 |
|  | Interest expense | 427 |
|  | EBT | $ 7,056 |
|  | Taxes (21%) | 1,482 |
|  | Net income | $ 5,574 |

So, the operating cash flow is:

OCF = EBIT + Depreciation – Taxes = $7,483 + 1,499 – 1,482 = $7,500

And the cash flow from assets is:

Cash flow from assets = OCF – Change in NWC – Net capital spending

= $7,500 – 46 – 2,616 = $4,838

*d.* Net new borrowing = LTD2021 – LTD2020 = $3,075 – 2,891 = $184

Cash flow to creditors = Interest – Net new LTD = $427 – 184 = $243

Net new borrowing = $184 = Debt issued – Debt retired

Debt retired = $554 – 184 = $370

**21.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Balance sheet as of Dec. 31, 2020 | | | | | | |
|  | Cash | $3,994 |  |  |  | Accounts payable | $4,195 |
|  | Accounts receivable | 4,387 |  |  |  | Notes payable | 772 |
|  | Inventory | 9,400 |  |  |  | Current liabilities | $4,967 |
|  | Current assets | $17,781 |  |  |  |  |  |
|  |  |  |  |  |  | Long-term debt | $13,083 |
|  | Net fixed assets | $33,490 |  |  |  | Owners' equity | 33,221 |
|  | Total assets | $51,271 |  |  |  | Total liab. & equity | $51,271 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Balance sheet as of Dec. 31, 2021 | | | | | | |
|  | Cash | $5,058 |  |  |  | Accounts payable | $4,068 | |
|  | Accounts receivable | 5,955 |  |  |  | Notes payable | 725 | |
|  | Inventory | 9,660 |  |  |  | Current liabilities | $4,793 | |
|  | Current assets | $20,673 |  |  |  |  |  | |
|  |  |  |  |  |  | Long-term debt | $15,601 | |
|  | Net fixed assets | $35,144 |  |  |  | Owners' equity | 35,423 | |
|  | Total assets | $55,817 |  |  |  | Total liab. & equity | $55,817 | |

2020 Income Statement 2021 Income Statement

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Sales | $7,616.00 |  | Sales | $8,174.00 |
|  | COGS | 2,621.00 |  | COGS | 2,975.00 |
|  | Other expenses | 621.00 |  | Other expenses | 519.00 |
|  | Depreciation | 1,094.00 |  | Depreciation | 1,094.00 |
|  | EBIT | $3,280.00 |  | EBIT | $3,586.00 |
|  | Interest | 510.00 |  | Interest | 587.00 |
|  | EBT | $2,770.00 |  | EBT | $2,999.00 |
|  | Taxes | 581.70 |  | Taxes | 629.79 |
|  | Net income | $2,188.30 |  | Net income | $2,369.21 |
|  |  |  |  |  |  |
|  | Dividends | $929.00 |  | Dividends | $1,022.00 |
|  | Additions to RE | 1,259.30 |  | Additions to RE | 1,347.21 |

**22.** OCF = EBIT + Depreciation – Taxes

OCF = $3,586 + 1,094 – 629.79

OCF = $4,050.21

Change in NWC = NWCend – NWCbeg = (CA – CL)end – (CA – CL)beg

Change in NWC = ($20,673 – 4,793) – ($17,781 – 4,967)

Change in NWC = $3,066

Net capital spending = NFAend – NFAbeg + Depreciation

Net capital spending = $35,144 – 33,490 + 1,094

Net capital spending = $2,748

Cash flow from assets = OCF – Change in NWC – Net capital spending

Cash flow from assets = $4,050.21 – 3,066 – 2,748

Cash flow from assets = –$1,763.79

Cash flow to creditors = Interest – Net new LTD

Net new LTD = LTDend – LTDbeg

Cash flow to creditors = $587 – ($15,601 – 13,083)

Cash flow to creditors = –$1,931

Net new equity = Common stockend – Common stockbeg

Common stock + Retained earnings = Total owners’ equity

Net new equity = (OE – RE)end – (OE – RE)beg

Net new equity = OEend – OEbeg + REbeg – REend

REend= REbeg+ Additions to RE

1. Net new equity = OEend – OEbeg+ REbeg – (REbeg + Additions to RE)

= OEend – OEbeg – Additions to RE

Net new equity = $35,423 – 33,221 – 1,347.21 = $854.79

Cash flow to stockholders = Dividends – Net new equity

Cash flow to stockholders = $1,022 – 854.79

Cash flow to stockholders = $167.21

As a check, cash flow from assets is –$1,763.79

Cash flow from assets = Cash flow from creditors + Cash flow to stockholders

Cash flow from assets = –$1,931 + 167.21

Cash flow from assets = –$1,763.79

*Challenge*

**23.** We will begin by calculating the operating cash flow. First, we need the EBIT, which can be calculated as:

EBIT = Net income + Current taxes + Deferred taxes + Interest

EBIT = $187 + 81 + 11 + 38

EBIT = $317

Now we can calculate the operating cash flow as:

|  |  |  |
| --- | --- | --- |
|  | *Operating cash flow* |  |
|  | Earnings before interest and taxes | $317 |
|  | Depreciation | 74 |
|  | Current taxes | –81 |
|  | Operating cash flow | $310 |

The cash flow from assets is found in the investing activities portion of the accounting statement of cash flows, so:

|  |  |  |
| --- | --- | --- |
|  | *Cash flow from assets* |  |
|  | Acquisition of fixed assets | $194 |
|  | Sale of fixed assets | –19 |
|  | Capital spending | $175 |

The net working capital cash flows are all found in the operations cash flow section of the accounting statement of cash flows. However, instead of calculating the net working capital cash flows as the change in net working capital, we must calculate each item individually. Doing so, we find:

|  |  |  |
| --- | --- | --- |
|  | *Net working capital cash flow* |  |
|  | Cash | $12 |
|  | Accounts receivable | 12 |
|  | Inventories | –15 |
|  | Accounts payable | –11 |
|  | Accrued expenses | 6 |
|  | Other | –2 |
|  | NWC cash flow | $2 |

Except for the interest expense, the cash flow to creditors is found in the financing activities of the accounting statement of cash flows. The interest expense from the income statement is given, so:

|  |  |  |
| --- | --- | --- |
|  | *Cash flow to creditors* |  |
|  | Interest | $38 |
|  | Retirement of debt | 145 |
|  | Debt service | $183 |
|  | Proceeds from sale of long-term debt | –110 |
|  | Total | $73 |

And we can find the cash flow to stockholders in the financing section of the accounting statement of cash flows. The cash flow to stockholders was:

|  |  |  |
| --- | --- | --- |
|  | *Cash flow to stockholders* |  |
|  | Dividends | $67 |
|  | Repurchase of stock | 32 |
|  | Cash to stockholders | $99 |
|  | Proceeds from new stock issue | –39 |
|  | Total | $60 |

**24.** Net capital spending = NFAend – NFAbeg + Depreciation

= (NFAend – NFAbeg) + (Depreciation + ADbeg) – ADbeg

= (NFAend – NFAbeg)+ ADend – ADbeg

= (NFAend + ADend) – (NFAbeg + ADbeg) = FAend – FAbeg