**EXERCISES**

**Exercise 12-1 (25 minutes)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Statement of Cash Flows** | | | **Noncash** |  |
|  | **Operating Activities** | **Investing Activities** | **Financing Activities** | **Investing & Financing Activities** | **Not Reported**  **on Statement or in Notes** |
| **a. Declared and paid a cash dividend** |  |  | **X** |  |  |
| **b. Recorded depreciation expense** | **X** |  |  |  |  |
| **c. Paid cash to settle long-term note payable** |  |  | **X** |  |  |
| **d. Prepaid expenses increased in the year** | **X** |  |  |  |  |
| **e. Accounts receivable decreased in the year** | **X** |  |  |  |  |
| **f. Purchased land by issuing common stock** |  |  |  | **X** |  |
| **g. Inventory increased in the year** | **X** |  |  |  |  |
| **h. Sold equipment for cash, yielding a loss** | **X** | **X** |  |  |  |
| **i. Accounts payable decreased in the year** | **X** |  |  |  |  |
| **j. Income taxes payable increased in the year** | **X** |  |  |  |  |

**Exercise 12-2 (20 minutes)**

|  |  |  |
| --- | --- | --- |
| **Cash flows from operating activities—indirect method** |  |  |
| **Net income** | **$ 24,000** |  |
| **Adjustments to reconcile net income to net cash provided by operating activities**  **Income statement items not affecting cash** |  |  |
| **Depreciation expense** | **12,000** |  |
| **Changes in current operating assets and liabilities** |  |  |
| **Accounts receivable increase** | **(10,000** | **)** |
| **Inventory decrease** | **16,000** |  |
| **Salaries payable increase** | **1,000** |  |
| **Net cash provided by operating activities** | **$ 43,000** |  |

**Exercise 12-3 (30 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **1.** | **Cash flows from operating activities—indirect method** |  |  |
| **Net income (loss)** | **$ (16,000** | **)** |
| **Adjustments to reconcile net income to net cash provided by operating activities**  **Income statement items not affecting cash** |  |  |
| **Depreciation expense** | **14,600** |  |
| **Changes in current operating assets and liabilities** |  |  |
| **Accounts receivable decrease** | **24,000** |  |
| **Salaries payable increase** | **18,000** |  |
| **Accrued liabilities decrease** | **(8,000** | **)** |
| **Net cash provided by operating activities** | **$ 32,600** |  |

**2. One reason for the net loss was depreciation expense. Depreciation expense is added to net income to adjust for the effects of a noncash expense that was deducted in determining net income. It does not involve an inflow of cash. Depreciation expense, along with a decrease in accounts receivable and an increase in salaries payable, turned the net loss into positive operating cash flow.**

**3. Differences between cash flow from operations and net income can be caused by various items. The most important causes for investors are differences arising from: (1) changes in management of operating activities and (2) changes in revenue and expense recognition.**

**Exercise 12-4 (30 minutes)**

|  |  |
| --- | --- |
| Cash flows from operating activities |  |
| Net income | **$ 481,540** |
| Adjustments to reconcile net income to net cash **provided by operating activities** |  | |
| **Income statement items not affecting cash** |  |
| **Depreciation expense** | **44,200** |
| **Amortization expense—Patents** | **4,200** |
| **Gain on sale of equipment** | **(6,200)** | |
| **Changes in current operating assets and liabilities** |  | |
| **Increase in accounts receivable** | **(30,500)** | |
| **Increase in inventory** | **(25,000)** | |
| **Decrease in accounts payable** | **(12,500)** | |
| **Decrease in salaries payable** | **(3,500)** | |
| **Net cash provided by operating activities** | **$ 452,240** |

**Exercise 12-5 (20 minutes)**

|  |  |
| --- | --- |
| Cash flows from operating activities |  |
| Net income | **$374,000** |
| **Adjustments to reconcile net income to net cash**  **provided by operating activities** |  |
| **Income statement items not affecting cash** |  |
| **Depreciation expense** | **44,000** |
| **Amortization expense** | **7,200** |
| **Gain on sale of plant assets** | **(6,000)** | |
| **Changes in current operating assets and liabilities** |  |
| **Decrease in accounts receivable** | **17,100** |
| **Decrease in inventory** | **42,000** |
| **Increase in prepaid expenses** | **(4,700)** | |
| **Decrease in accounts payable** | **(8,200)** | |
| **Increase in salaries payable** | **1,200** |
| **Net cash provided by operating activities** | **$466,600** |

**Exercise 12-6 (10 minutes)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Cash flows from operating activities |  | |  | | |
| Net income |  | | **$400,000** | | |
| **Adjustments to reconcile net income to operating cash flow** | |  | |  |
| **Income statement items not affecting cash** |  | |  | | |
| **Depreciation** | **$80,000** | |  | | |
| **Gain on sale of machinery** | **(20,000)** | |  | | |
| **Changes in current operating assets and liabilities** |  | |  | | |
| **Accounts receivable increase** | **(40,000)** | |  | | |
| **Prepaid expense decrease** | **12,000** | |  | | |
| **Accounts payable increase** | **6,000** | |  | | |
| **Wages payable decrease** | **(2,000)** | | **36,000** | | |
| **Net cash provided from operating activities** |  | | **$436,000** | | |

**Exercise 12-7 (10 minutes)**

**Cash flows from investing activities**

|  |  |
| --- | --- |
| **Cash received from the sale of equipment\*** | **$ 51,300** |
| **Cash paid for new truck** | **(89,000)** | |
| **Cash received from the sale of land** | **198,000** |
| **Cash received from the sale of long-term stock investments** | **60,800** |
| **Net cash provided by investing activities** | **$221,100** |
| ***\* Cash received from sale of equipment = Book value - loss = $65,300 - $14,000 = $51,300*** | |

**Exercise 12-8 (10 minutes)**

**Cash flows from financing activities**

|  |  |
| --- | --- |
| **Sale of common stock** | **$ 64,000** |
| **Paid cash dividend** | **(14,600)** | |
| **Repaid note payable** | **(50,000)** | |
| **Purchased treasury stock** | **(12,000)** | |
| **Net cash used by financing activities** | **$(12,600)** | |

**Exercise 12-9 (20 minutes)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PEUGEOT S.A.**  **Statement of Cash Flows (Indirect Method)**  **For Year Ended December 31, 2016** | | | | | |
| **Cash flows from operating activities** |  |  | | |  |
| **Net income (loss)** | **€ 1,944** |  | | |  |
| **Adjustments to reconcile net income to net cash provided by operating activities** |  |  | | |  |
| **Income statement items not affecting cash** |  |  | | |  |
| **Depreciation, amortization, and impairment** | **2,497** |  | | |  |
| **Losses on disposals and other** | **94** |  | | |  |
| **Changes in current operating assets and liabilities** |  |  | | |  |
| **Net decrease in current operating assets & other** | **1,935** |  | | |  |
| **Net cash from operating activities** |  | **€ 6,470** | | |  |
| **Cash flows from investing activities** |  |  | | |  |
| **Cash from disposal of plant assets & intangibles** | **243** |  | | |  |
| **Cash paid for plant assets, intangibles & other** | **(2,793)** | | |  |  |
| **Net cash used in investing activities** |  | **(2,550)** | | |  |
| **Cash flows from financing activities** |  |  | | |  |
| **Cash from issuances of shares** | **327** | |  | |  |
| **Cash paid for dividends** | **(14)** | |  | |  |
| **Cash paid for other financing activities** | **(1,995)** | |  | |  |
| **Net cash from financing activities** |  | **(1,682)** | | |  |
| **Net increase in cash** |  | **€ 2,238** | | |  |
| **Cash and cash equivalents, Dec 31, 2015** |  | **11,292** | | |  |
| **Cash and cash equivalents, Dec 31, 2016** |  | **€13,530** | | |  |

**Exercise 12-10 (15 minutes)**

**Year 1: $102,920 / $1,240,000 = 8.3%**

**Year 2: $138,920 / $1,510,000 = 9.2%**

***Interpretation*: Both years’ ratios are good in that they are positive and at reasonable levels (that is, most businesses can survive with annual returns at ~10%). Further, the ratio improved from 8.3% to 9.2%, which is a good increase.**

**Exercise 12-11 (40 minutes)**

## Part 1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **IKIBAN, INC.**  **Statement of Cash Flows (Indirect Method)**  **For Year Ended June 30, 2018** | | | | | |
| **Cash flows from operating activities** |  |  | |  | |
| **Net income** | **$ 99,510** |  | |  | |
| **Adjustments to reconcile net income to net cash provided by operating activities** |  |  | |  | |
| **Income statement items not affecting cash** |  |  | |  | |
| **Depreciation expense** | **58,600** |  | |  | |
| **Gain on sale of plant assets** | **(2,000)** |  | |  | |
| **Changes in current operating assets and liabilities** |  |  | |  | |
| **Increase in accounts receivable** | **(14,000)** |  | |  | |
| **Decrease in inventory** | **22,700** |  | |  | |
| **Decrease in prepaid expenses** | **1,000** |  | |  | |
| **Decrease in accounts payable** | **(5,000)** |  | |  | |
| **Decrease in wages payable** | **(9,000)** |  | |  | |
| **Decrease in income taxes payables** | **(400)** |  | |  | |
| **Net cash provided by operating activities** |  | **$151,410** | |  | |
| **Cash flows from investing activities** |  |  | |  | |
| **Cash received from sale of equip. (Note 1)** | **10,000** |  | |  | |
| **Cash paid for equipment (Note 1—given)** | **(57,600)** | |  | |  | |
| **Net cash used in investing activities** |  | **(47,600)** | | |  | |
| **Cash flows from financing activities** |  |  | |  | |
| **Cash received from stock issuance** | **60,000** |  | |  | |
| **Cash paid to retire notes (Note 2—given)** | **(30,000)** | |  | |  | |
| **Cash paid for dividends (Note 3)** | **(90,310)** | |  | |  | |
| **Net cash used in financing activities** |  | **(60,310)** | | |  | |
| **Net increase in cash** |  | **$ 43,500** | |  | |
| **Cash balance at prior year-end** |  | **44,000** | |  | |
| **Cash balance at current year-end** |  | **$ 87,500** | |  | |

**(Notes 1, 2, and 3 on next page.)**

**Exercise 12-11 *(Part 1 continued)***

|  |  |  |
| --- | --- | --- |
| **(1)** | **Cost of equipment sold (given)** | **$ 48,600** |
|  | **Accumulated depreciation of equipment sold\*** | **(40,600)** |
|  | **Book value of equipment sold** | **8,000** |
|  | **Gain on sale of equipment (given)** | **2,000** |
|  | **Cash receipt from sale of equipment** | **$ 10,000** |
|  |  |  |
|  | **Cost of equipment sold** | **$ 48,600** |
|  | **Plus net increase in the equipment account balance** | **9,000** |
|  | **Cash paid for new equipment (given)** | **$ 57,600** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Equipment** | | |  | **Accumulated Depreciation, Equipment** | | |
| **Bal., 6/30/2017** | **115,000** |  |  |  | **Bal., 6/30/2017** | **9,000** |
| **Purchase** | **57,600** | **Sale 48,600** |  | **Sale (plug) \*40,600** | **Depr. Expense** | **58,600** |
| **Bal., 6/30/2018** | **124,000** |  |  |  | **Bal., 6/30/2018** | **27,000** |

|  |  |  |
| --- | --- | --- |
| **(2)** | **Carrying value of notes retired** | **$ 30,000** |
|  | **Cash payment to retire notes** | **$ 30,000** |
|  |  |  |

**(3)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Retained Earnings** | | | |
|  |  | **Bal., 6/30/2017** | **24,100** |
| **Dividends (plug)** | **90,310** | **Net income** | **99,510** |
|  |  | **Bal., 6/30/2018** | **33,300** |

## Part 2

**Cash flow on total assets ratio = Operating cash flows / Average total assets**

**= $151,410 / [($317,700 + $292,900)/2]**

**= $151,410 / $305,300**

**= 49.6%**

***Interpretation*: A 49.6% result on the cash flow on total assets ratio is indicative of very good performance.**

**Exercise 12-12B (40 minutes)**

***Part 1***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **IKIBAN, INC.**  **Statement of Cash Flows (Direct Method)**  **For Year Ended June 30, 2018** | | | | | | | |
| **Cash flows from operating activities** |  |  | | |  | | |
| **Cash received from customers (Note 1)** | **$664,000** |  | | |  | | |
| **Cash paid for inventory (Note 2)** | **(393,300)** | |  | | |  | |
| **Cash paid for operating expenses (Note 3)** | **(75,000)** | |  | | |  | |
| **Cash paid for income taxes (Note 4)** | **(44,290)** | |  | | |  | |
| **Net cash provided by operating activities** |  | **$151,410** | | |  | | |
| **Cash flows from investing activities** |  |  | | |  | | |
| **Cash received from sale of equip. (Note 5)** | **10,000** |  | | |  | | |
| **Cash paid for equipment (Note 5—given)** | **(57,600)** | | |  | | |  |
| **Net cash used in investing activities** |  | **(47,600)** | | | | |  |
| **Cash flows from financing activities** |  |  | | |  | | |
| **Cash received from stock issuance** | **60,000** |  | | |  | | |
| **Cash paid to retire notes (Note 6)** | **(30,000)** | | |  | | |  |
| **Cash paid for dividends (Note 7)** | **(90,310)** | | |  | | |  |
| **Net cash used in financing activities** |  | **(60,310)** | | | | |  |
| **Net increase in cash** |  | **$ 43,500** | | |  | | |
| **Cash balance at prior year-end** |  | **44,000** | | |  | | |
| **Cash balance at current year-end** |  | **$ 87,500** | | |  | | |

**(See notes on next page)**

**Exercise 12-12B *(continued)***

|  |  |  |
| --- | --- | --- |
| **Notes** | |  |
| **(1)** | **Sales** | **$678,000** |
|  | **Less increase in accounts receivable** | **(14,000)** |
|  | **Cash received from customers** | **$664,000** |
|  |  |  |
| **(2)** | **Cost of goods sold** | **$411,000** |
|  | Less decrease in inventory | **(22,700)** |
|  | **Purchases** | **388,300** |
|  | **Plus decrease in accounts payable** | **5,000** |
|  | **Cash paid for inventory** | **$393,300** |
|  |  |  |
| **(3)** | **Other operating expenses** | **$ 67,000** |
|  | **Plus decrease in wages payable** | **9,000** |
|  | **Less decrease in prepaid expenses** | **(1,000)** |
|  | **Cash paid for other operating expenses** | **$ 75,000** |
|  |  |  |
| **(4)** | **Income taxes expense** | **$ 43,890** |
|  | **Plus decrease in income taxes payable** | **400** |
|  | **Cash paid for income taxes** | **$ 44,290** |
|  |  |  |
| **(5)** | **Cost of equipment sold (Given)** | **$ 48,600** |
|  | **Accumulated depreciation of equipment sold\*** | **(40,600)** |
|  | **Book value of equipment sold** | **8,000** |
|  | **Gain on sale of equipment** | **2,000** |
|  | **Cash receipt from sale of equipment** | **$ 10,000** |
|  |  |  |
|  | **Cost of equipment sold** | **$ 48,600** |
|  | **Plus net increase in the equipment account balance** | **9,000** |
|  | **Cash paid for new equipment (given)** | **$ 57,600** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Equipment** | | |  | **Accumulated Depreciation, Equipment** | | |
| **Bal., 6/30/2017** | **115,000** |  |  |  | **Bal., 6/30/2017** | **9,000** |
| **Purchase** | **57,600** | **Sale 48,600** |  | **Sale \*40,600** | **Depr. Expense** | **58,600** |
| **Bal., 6/30/2018** | **124,000** |  |  |  | **Bal., 6/30/2018** | **27,000** |

|  |  |  |
| --- | --- | --- |
| **(6)** | **Carrying value of notes retired** | **$ 30,000** |
|  | **Cash payment to retire notes** | **$ 30,000** |
|  |  |  |

**(7)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Retained Earnings** | | | |
|  |  | **Bal., 6/30/2017** | **24,100** |
| **Dividends (plug)** | **90,310** | **Net income** | **99,510** |
|  |  | **Bal., 6/30/2018** | **33,300** |

**Exercise 12-13A (30 minutes)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SCORETECK CORPORATION** | | | | | | | | | | | |
| **Spreadsheet for Statement of Cash Flows** | | | | | | | | | | | |
| **For Year Ended December 31, 2018** | | | | | | | | | | | |
|  |  |  |  | |  | |  | | |  | |
|  | **December**  **31, 2017** | Analysis of Changes | | | | | | | **December**  **31, 2018** | | |
|  | **Debit** | | | | **Credit** | | |
| **Balance sheet—debit bal. accounts** |  |  | |  | |  | |  |  | | |
| **Cash** | **$ 80,000** |  | |  | |  | |  | **$ 60,000** | | |
| **Accounts receivable** | **120,000** | **(f)** | | **$ 70,000** | |  | |  | **190,000** | | |
| **Inventory** | **250,000** |  | |  | | **(g)** | | **$ 20,000** | **230,000** | | |
| **Plant assets** | **600,000** | **(d)** | | **70,000** | |  | |  | **670,000** | | |
|  | **$1,050,000** |  | |  | |  | |  | **$1,150,000** | | |
| **Balance sheet—credit bal. accounts** |  |  | |  | |  | |  |  | | |
| **Accum. depreciation—Plant assets** | **$ 100,000** |  | |  | | **(c)** | | **70,000** | **$ 170,000** | | |
| **Accounts payable** | **150,000** | **(h)** | | **10,000** | |  | |  | **140,000** | | |
| **Notes payable** | **370,000** |  | |  | | **(e)** | | **20,000** | **390,000** | | |
| **Common stock** | **200,000** |  | |  | |  | |  | **200,000** | | |
| **Retained earnings** | **230,000** | **(b)** | | **80,000** | | **(a)** | | **100,000** | **250,000** | | |
|  | **$1,050,000** |  | |  | |  | |  | **$1,150,000** | | |
|  |  |  | |  | |  | |  |  | | |
| **Statement of cash flows** |  |  | |  | |  | |  |  | | |
|  |  |  | |  | |  | |  |  | | |
| **Operating activities** |  |  | |  | |  | |  |  | | |
| **Net income** |  | **(a)** | | **100,000** | |  | |  |  | | |
| **Increase in accounts receivable** |  |  | |  | | **(f)** | | **70,000** |  | | |
| **Decrease in merch. inventory** |  | **(g)** | | **20,000** | |  | |  |  | | |
| **Decrease in accounts payable** |  |  | |  | | **(h)** | | **10,000** |  | | |
| **Depreciation expense** |  | **(c)** | | **70,000** | |  | |  |  | | |
|  |  |  | |  | |  | |  |  | | |
| **Investing activities** |  |  | |  | |  | |  |  | | |
| **Payment for plant assets** |  |  | |  | | **(d)** | | **70,000** |  | | |
|  |  |  | |  | |  | |  |  | | |
| **Financing activities** |  |  | |  | |  | |  |  | | |
| **Paid cash dividends** |  |  | |  | | **(b)** | | **80,000** |  | | |
| **Issued note payable** |  | **(e)** | | **20,000** | |  | | **\_\_\_\_\_\_\_** |  | | |
|  |  |  | | **$440,000** | |  | | **$440,000** |  | |

**Exercise 12-14B (15 minutes)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Statement of Cash Flows** | | | | | **Noncash** | |  | |
|  | **Operating Activities** | | | **Investing Activities** | **Financing Activities** | **Investing & Financing Activities** | | **Not Reported**  **on Statement or in Notes** | |
| **a. Retired long-term notes payable by issuing stock** | |  |  | |  | | **X** | |  |
| **b. Paid cash toward accounts payable** | | **X** |  | |  | |  | |  |
| **c. Sold inventory for cash** | | **X** |  | |  | |  | |  |
| **d. Paid cash dividend that was declared in a prior period** | |  |  | | **X** | |  | |  |
| **e. Accepted six-month note receivable in exchange for plant assets** | |  |  | |  | | **X** | |  |
| **f. Recorded depreciation expense** | |  |  | |  | |  | | **X** |
| **g. Paid cash to acquire treasury stock** | |  |  | | **X** | |  | |  |
| **h. Collected cash from sales** | | **X** |  | |  | |  | |  |
| **i. Borrowed cash from bank by signing a 9-month note payable** | |  |  | | **X** | |  | |  |
| **j. Paid cash to purchase a patent** | |  | **X** | |  | |  | |  |

**Exercise 12-15B (15 minutes)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Case X:** | | **Sales revenue** | |  | **$515,000** | | |
|  | | **Accounts receivable, Dec. 31, 2018** | | **$ 27,200** |  | | |
|  | | **Accounts receivable, Dec. 31, 2019** | | **(33,600)** | | |  |
|  | | **Less increase in accounts receivable** | |  | **(6,400)** | | | | |
|  | | **Cash received from customers** | |  | **$508,600** | | |
|  | |  | |  |  | | |
| **Case Y:** | | **Rent expense** | |  | **$139,800** | | |
|  | | **Rent payable, Dec. 31, 2018** | | **$ 7,800** |  | | |
|  | | **Rent payable, Dec. 31, 2019** | | **(6,200)** | | |  |
|  | | **Plus decrease in rent payable** | |  | **1,600** | | |
|  | | **Cash paid for rent** | |  | **$141,400** | | |
|  | |  | |  |  | | |
| **Case Z:** | | **Cost of goods sold** | |  | **$525,000** | | |
|  | | **Inventory, Dec. 31, 2019** | | **$130,400** |  | | |
|  | | **Inventory, Dec. 31, 2018** | | **(158,600)** | | |  | | | |
|  | | **Less decrease in merch. inventory** | |  | **(28,200)** | | | | |
|  | | **Cost of goods purchased** |  | | **496,800** | | |
|  | | **Accounts payable, Dec. 31, 2019** | **82,000** | |  | | |
|  | | **Accounts payable, Dec. 31, 2018** | **(66,700)** | | |  | |
|  | | **Less increase in accounts payable** |  | | **(15,300)** | | | |
|  | | **Cash paid for inventory** |  | | **$481,500** | | |

**Exercise 12-16B (20 minutes)**

|  |  |
| --- | --- |
| Cash flows from operating activities |  |
| **Receipts from customers (see note a)** | **$1,797,500** |
| **Payments for inventory (see note b)** | **(1,028,500)** | |
| **Payments for salaries (see note c)** | **(249,035)** | |
| **Payments for rent** | **(49,600)** | |
| **Payments for utilities** | **(18,125)** | |
| **Net cash provided by operating activities** | **$ 452,240** |

|  |
| --- |
| **Note a: Sales – Increase in receivables** |
| **$1,828,000 - $30,500 = $1,797,500** |
| **Note b: Cost of goods sold + Increase in inventory + Decrease in accounts payable** |
| **$991,000 + $25,000 + $12,500 = $1,028,500** |
| **Note c: Salaries expense + Decrease in salaries payable** |
| **$245,535 + $3,500 = $249,035** |

**Exercise 12-17B (20 minutes)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **FERRON COMPANY**  **Statement of Cash Flows**  **For Year Ended December 31, 2018** | | | | | | | | |
| **Cash flows from operating activities** | |  |  | | |  | | |
| Receipts from customers | | **$ 495,000** |  | | |  | | |
| **Receipts of interest** | | **3,500** |  | | |  | | |
| **Payments for inventory** | | **(254,500)** | | |  |  | | |
| **Payments for salaries** | | **(76,500)** | | |  |  | | |
| **Payments for other expenses** | | **(20,000)** | | |  |  | | |
| **Net cash provided by operating activities** | |  | **$147,500** | | |  | | |
| **Cash flows from investing activities** | |  |  | | |  | | |
| **Receipt from sale of equipment** | | **60,250** |  | | |  | | |
| **Payment for store equipment** | | **(24,750)** | | |  |  | | |
| **Net cash provided by investing activities** | |  | **35,500** | | |  | | |
| **Cash flows from financing activities** | |  |  | | |  | | |
| **Payment to retire long-term notes payable** | | **(100,000)** | | |  |  | | |
| **Receipt from borrowing on six-month note** | | **35,000** |  | | |  | | |
| **Payment of cash dividends** | | **(10,000)** | | |  |  | | |
| **Net cash used in financing activities** | |  | **(75,000)** | | | | |  |
| **Net increase in cash and cash equivalents** | |  | **$108,000** | | |  | | |
| **Cash and cash equivalents at prior year-end** | |  | **40,000** | | |  | | |
| Cash and cash equivalents at current year-end |  | | **$148,000** | | |  | |

**Note No. \_\_\_**

**Noncash investing and financing activities**

**(1) Issued common stock to retire $185,500 of bonds payable.**

**(2) Purchased land financed with a $105,250 long-term note payable.**

**Exercise 12-18B (40 minutes)**

## 1.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **THOMAS CORPORATION**  **Statement of Cash Flows**  **For Year Ended December 31, 2018** | | | | | | | | |
| **Cash flows from operating activities** | |  |  | | |  | | |
| **Cash received from customers** | | **$5,000,000** |  | | |  | | |
| **Cash received from dividends** | | **208,400** |  | | |  | | |
| **Cash paid for inventory** | | **(2,590,000)** | | |  | | |  | | |
| **Cash paid for wages** | | **(550,000)** | | |  | | |  | | |
| **Cash paid for rent** | | **(320,000)** | | |  | | |  | | |
| **Cash paid for interest** | | **(218,000)** | | |  | | |  | | |
| **Cash paid for taxes** | | **(450,000)** | | |  | | |  | | |
| **Net cash provided by operating activities** | |  | **$1,080,400** | | |  | | |
| **Cash flows from investing activities** | |  |  | | |  | | |
| **Cash paid for purchases of machinery** | | **(2,236,000)** | | |  |  | | |
| **Cash paid for purchases of stock investments** | | **(1,260,000)** | | |  |  | | |
| Cash received from sale of land | | **220,000** |  | | |  | | |
| **Cash received from sale of machinery** | | **710,000** |  | | |  | | |
| **Net cash used in investing activities** |  | | **(2,566,000)** | | |  | | |
| **Cash flows from financing activities** | |  |  | | |  | | |
| **Cash received from issuing stock** | | **1,540,000** |  | | |  | | |
| **Cash received from borrowing** | | **3,600,000** |  | | |  | | |
| **Cash paid for note payable** | | **(386,000)** | | |  |  | | |
| **Cash paid for dividends** | | **(500,000)** | | |  |  | | |
| **Cash paid for treasury stock purchases.** | | **(218,000)** | | |  |  | | |
| **Net cash provided by financing activities** | |  | **4,036,000** | | |  | | |
| **Net increase in cash** | |  | **$2,550,400** | | |  | | |
| **Beginning balance of cash** | |  | **333,000** | | |  | | |
| **Ending balance of cash** | |  | **$2,883,400** | | |  | | |

## 2.

**a. (i) Financing section reported the largest cash inflow of $4,036,000.**

**(ii) Investing section reported the largest cash outflow of $2,566,000.**

**b. The largest individual item among the investing cash outflows is the purchase of machinery at $2,236,000.**

**c. Proceeds for issuing notes are larger at $3,600,000 than for issuing stock equity at $1,540,000 (see financing section).**

**d. The company has a net cash inflow from borrowing. This is computed from the borrowing proceeds of $3,600,000 less the note payment of $386,000 (see financing section).**

**Exercise 12-19 (20 minutes)**

|  |  |  |
| --- | --- | --- |
| **Cash flows from operating activities—indirect method** |  |  |
| **Net income** | **$ 8,500** |  |
| **Adjustments to reconcile net income to net cash provided by operating activities**  **Income statement items not affecting cash** |  |  |
| **Amortization expense** | **1,500** |  |
| **Changes in current operating assets and liabilities** |  |  |
| **Prepaid expenses increase** | **(3,000** | **)** |
| **Inventory increase** | **(500** | **)** |
| **Accounts payable decrease** | **(1,000** | **)** |
| **Net cash provided by operating activities** | **$ 5,500** |  |