**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**  |  |