**CHAPTER** **14**

**STATEMENT** **OF** **CASH** **FLOWS**

**DISCUSSION** **QUESTIONS**

**1.** It is costly to accumulate the data needed and to prepare the statement of cash flows.

**2.** It focuses on the differences between net income and cash flows from operating activities,

and the data needed are generally more readily available and less costly to obtain than is the

case for the direct method.

**3.** In a separate schedule of noncash investing and financing activities accompanying the

statement of cash flows.

**4.** The $30,000 increase must be added to income from operations because the amount of cash

paid to merchandise creditors was $30,000 less than the amount of purchases included in the

cost of merchandise sold.

**5.** The $25,000 decrease in salaries payable should be deducted from income to determine the

amount of cash flows from operating activities. The effect of the decrease in the amount of

salaries owed was to pay $25,000 more cash during the year than had been recorded as an

expense.

**6.** **a.** $100,000 gain

**b.** Cash inflow of $600,000

**c.** The gain of $100,000 would be deducted from net income in determining net cash flow

from operating activities; $600,000 would be reported as cash flows from investing

activities.

**7.** Cash flows from financing activities—issuance of bonds, $1,960,000 ($2,000,000 × 98%)

**8.** **a.** Cash flows from investing activities—Cash received from the disposal of fixed assets,

$15,000

The $15,000 gain on asset disposal should be deducted from net income in determining

net cash flow from operating activities under the indirect method.

**b.** No effect

**9.** The same. The total amount reported as the net cash flow from operating activities is not affected

by the use of the direct or indirect method.

**10.** Cash received from customers, cash payments for merchandise, cash payments for operating

expenses, cash payments for interest, cash payments for income taxes.

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**PRACTICE** **EXERCISES**

**PE** **14–1A**

**a.** **Financing** **d.** **Financing**

**b.** **Operating** **e.** **Investing**

**c.** **Operating** **f.** **Operating**

**PE** **14–1B**

**a.** **Investing** **d.** **Operating**

**b.** **Investing** **e.** **Operating**

**c.** **Operating** **f.** **Financing**

**PE** **14–2A**

**Net** **income…………………………………………………………………………………** **$120,400**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow** **from**

**operating** **activities:**

**Depreciation……………………………………...……………………………………** **8,400**

**Amortization** **of** **patents………………………………...……………………………** **3,080**

**Loss** **from** **sale** **of** **land…………………………..…………………………………** **4,480**

**Net** **cash** **flow** **from** **operating** **activities………………………..……………………** **$136,360**

**PE** **14–2B**

**Net** **income……………………………………………………………………...…………** **$175,000**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow** **from**

**operating** **activities:**

**Depreciation……………………………………………………..……………………** **8,750**

**Amortization** **of** **patents…………………………………..…………………………** **3,250**

**Gain** **from** **sale** **of** **investments…………………………….……………………**  **(18,750)**

**Net** **cash** **flow** **from** **operating** **activities……………………..……………………… $168,250**

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**PE** **14–3A**

**Net** **income…………………………….……………………………………………………** **$207,000**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow** **from**

**operating** **activities:**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Decrease** **in** **accounts** **receivable………………………………...……………** **5,400**

**Increase** **in** **inventory…………………………………..…………………………** **(2,520)**

**Increase** **in** **accounts** **payable……………………………….…………………** **1,980**

**Net** **cash** **flow** **from** **operating** **activities…………………………..………………… $211,860**

***Note:*** **The** **change** **in** **dividends** **payable** **impacts** **the** **cash** **paid** **for** **dividends,**

**which** **is** **disclosed** **under** **financing** **activities.**

**PE** **14–3B**

**Net** **income…………………………………..………………………………………………** **$160,000**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow** **from**

**operating** **activities:**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Increase** **in** **accounts** **receivable………………………………...……………** **(3,600)**

**Increase** **in** **inventory…………………………….………………………………** **(5,100)**

**Increase** **in** **accounts** **payable………………………….………………………** **6,900**

**Net** **cash** **flow** **from** **operating** **activities………………….……………………………** **$158,200**

***Note:*** **The** **change** **in** **dividends** **payable** **impacts** **the** **cash** **paid** **for** **dividends,**

**which** **is** **disclosed** **under** **financing** **activities.**

**PE** **14–4A**

**Cash** **flows** **from** **operating** **activities:**

**Net** **income……………………………………….……………………** **$405,000**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow**

**from** **operating** **activities:**

**Depreciation…………………………………………...…………** **45,000**

**Gain** **on** **disposal** **of** **equipment………………………………** **(36,900)**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Decrease** **in** **accounts** **receivable……………………..…** **25,200**

**Decrease** **in** **accounts** **payable……………………………** **(6,480)**

**Net** **cash** **flow** **from** **operating** **activities……………………..……** **$431,820**

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**PE** **14–4B**

**Cash** **flows** **from** **operating** **activities:**

**Net** **income…………………………………….…………………………** **$280,000**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow**

**from** **operating** **activities:**

**Depreciation………………………………...………………………** **48,000**

**Loss** **on** **disposal** **of** **equipment……………………………..…** **19,520**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Increase** **in** **accounts** **receivable……………………………** **(17,280)**

**Increase** **in** **accounts** **payable……………………….………** **8,960**

**Net** **cash** **flow** **from** **operating** **activities……………………...……** **$339,200**

**PE** **14–5A**

**The** **loss** **on** **the** **sale** **of** **land** **is** **added** **to** **net** **income** **in** **the** **Operating** **Activities** **section.**

**Loss** **on** **sale** **of** **land……………………………………….……………………………** **$** **90,000**

**The** **purchase** **and** **sale** **of** **land** **is** **reported** **as** **part** **of** **cash** **flows** **from** **investing**

**activities** **as** **shown** **below.**

**Cash** **received** **from** **sale** **of** **land…………………...…………………………………** **180,000**

**Cash** **paid** **for** **purchase** **of** **land……………………………...………………………** **(540,000)**

**PE** **14–5B**

**The** **gain** **on** **the** **sale** **of** **land** **is** **subtracted** **from** **net** **income** **in** **the** **Operating** **Activities**

**section.**

**Gain** **on** **sale** **of** **land………………………….…………………………………………$** **(40,000)**

**The** **purchase** **and** **sale** **of** **land** **is** **reported** **as** **part** **of** **cash** **flows** **from** **investing**

**activities** **as** **shown** **below.**

**Cash** **received** **from** **sale** **of** **land…………………..…………………………………** **240,000**

**Cash** **paid** **for** **purchase** **of** **land………………………..……………………………** **(400,000)**

**PE** **14–6A**

**Sales…………………………………………………………………………………………** **$480,000**

**Deduct** **increase** **in** **accounts** **receivable………………………………………………** **54,000**

**Cash** **received** **from** **customers…………………………………………………………** **$426,000**

**PE** **14–6B**

**Sales…………………………………………………………………………………………** **$112,000**

**Add** **decrease** **in** **accounts** **receivable…………………………………………………** **10,500**

**Cash** **received** **from** **customers…………………………………………………………** **$122,500**

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**\*** **\*\***

**\*** **\*\***

**PE** **14–7A**

**Cost** **of** **merchandise** **sold……………………………………………………………** **$770,000**

**Deduct** **decrease** **in** **inventories……………………………………………………** **(66,000)**

**Add** **decrease** **in** **accounts** **payable………………………………………………** **44,000**

**Cash** **paid** **for** **merchandise…………………………………………………………** **$748,000**

**PE** **14–7B**

**Cost** **of** **merchandise** **sold……………………………………………………………** **$240,000**

**Add** **increase** **in** **inventories…………………………………………………………** **19,200**

**Deduct** **increase** **in** **accounts** **payable……………………………………………** **(12,000)**

**Cash** **paid** **for** **merchandise…………………………………………………………** **$247,200**

**PE** **14–8A**

**a.** **Net** **cash** **flow** **from** **operating** **activities………………** **$** **294,000** **$** **280,000**

**Less:** **Investments** **in** **fixed** **assets**

**to** **replace** **existing** **capacity……………………** **(156,800)** **(176,400)**

**Free** **cash** **flow……………………………………………** **$** **137,200** **$** **103,600**

**\*** **70%** **×** **$224,000**

**\*\*** **70%** **×** **$252,000**

**b.** **The** **change** **from** **$103,600** **to** **$137,200** **indicates** **a** **positive** **trend.**

**PE** **14–8B**

**a.** **Net** **cash** **flow** **from** **operating** **activities………………** **$** **476,000** **$** **455,000**

**Less:** **Investments** **in** **fixed** **assets**

**to** **replace** **existing** **capacity……………………** **(341,600)** **(302,400)**

**Free** **cash** **flow……………………………………………** **$** **134,400** **$** **152,600**

**\*** **80%** **×** **$427,000**

**\*\*** **80%** **×** **$378,000**

**b.** **The** **change** **from** **$152,600** **to** **$134,400** **indicates** **a** **negative** **trend.**

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**EXERCISES**

**Ex.** **14–1**

**There** **were** **net** **additions** **to** **the** **net** **loss** **reported** **on** **the** **income** **statement** **to** **convert**

**the** **net** **loss** **from** **the** **accrual** **basis** **to** **the** **cash** **basis.** **For** **example,** **depreciation** **is**

**an** **expense** **in** **determining** **net** **income,** **but** **it** **does** **not** **result** **in** **a** **cash** **outflow.**

**Thus,** **depreciation** **is** **added** **back** **to** **the** **net** **loss** **in** **order** **to** **determine** **net** **cash** **flow**

**from** **operations.** **A** **second** **large** **item** **that** **is** **added** **to** **the** **net** **loss** **is** **the** **increase**

**in** **advanced** **ticket** **sales** **of** **$246** **million.** **This** **represents** **an** **increase** **in** **unused,** **but**

**paid,** **tickets** **(unearned** **revenue)** **between** **the** **two** **balance** **sheet** **dates.** **This** **is** **a**

**significant** **item** **that** **is** **largely** **unique** **to** **the** **airline** **industry.**

**The** **cash** **flows** **from** **operating** **activities** **detail** **is** **provided** **as** **follows** **for** **class**

**discussion:**

|  |  |
| --- | --- |
| **UNITED** **CONTINENTAL** **HOLDINGS,** **INC.**  **Cash** **Flows** **from** **Operating** **Activities**  **(Selected** **from** **Statement** **of** **Cash** **Flows)**  **(in** **millions)** | |
| **CASH** **FLOWS** **FROM** **OPERATING** **ACTIVITIES** |  |
| **Net** **income** **(loss)** | **$** **(723)** |
| **Adjustments** **to** **reconcile** **net** **income** **(loss)** **to** **net** **cash** **flow** |  |
| **provided** **by** **operating** **activities:** |  |
| **Depreciation** **and** **amortization** | **1,522** |
| **Special** **charges** | **389** |
| **Debt** **and** **lease** **discount** **amortization** | **(247)** |
| **Share** **based** **compensation** | **14** |
| **Other,** **net** | **251** |
| **Changes** **in** **certain** **assets** **and** **liabilities:** |  |
| **Decrease** **(increase)** **in** **accounts** **receivable** | **(21)** |
| **Decrease** **(increase)** **in** **other** **assets** | **(484)** |
| **Increase** **(decrease)** **in** **accounts** **payable** | **285** |
| **Increase** **(decrease)** **in** **advanced** **ticket** **sales** | **246** |
| **Increase** **(decrease)** **in** **frequent** **flyer** **deferred** **revenue** | **(712)** |
| **Increase** **(decrease)** **in** **other** **liabilities** | **415** |
| **Net** **cash** **flows** **from** **(used** **for)** **operating** **activities** | **$** **935** |
|  |  |

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**Ex.** **14–2**

**a.** **Cash** **payment,** **$525,000** **e.** **Cash** **payment,** **$75,000**

**b.** **Cash** **receipt,** **$180,000** **f.** **Cash** **receipt,** **$303,000**

**c.** **Cash** **receipt,** **$117,500** **g.** **Cash** **payment,** **$125,000**

**d.** **Cash** **payment,** **$322,000** **h.** **Cash** **payment,** **$80,000**

**Ex.** **14–3**

**a.** **operating** **g.** **financing**

**b.** **financing** **h.** **investing**

**c.** **financing** **i.** **financing**

**d.** **financing** **j.** **investing**

**e.** **financing** **k.** **investing**

**f.** **investing**

**Ex.** **14–4**

**a.** **added** **g.** **added**

**b.** **deducted** **h.** **added**

**c.** **added** **i.** **added**

**d.** **added** **j.** **added**

**e.** **added** **k.** **deducted**

**f.** **added**

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**Ex.** **14–5**

**a.** **Net** **income………………………………………………………………** **$400,000**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash**

**flow** **from** **operating** **activities:**

**Depreciation………………………………………………………** **16,000**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Increase** **in** **accounts** **receivable…………………………** **(2,400)**

**Decrease** **in** **merchandise** **inventory………………………** **4,000**

**Increase** **in** **prepaid** **expenses……………………………** **(1,200)**

**Increase** **in** **accounts** **payable………………………………** **4,000**

**Decrease** **in** **wages** **payable………………………………** **(2,800)**

**Net** **cash** **flow** **from** **operating** **activities……………………………** **$417,600**

**b.** **Cash** **flows** **from** **operating** **activities** **shows** **the** **cash** **inflow** **or** **outflow** **from** **a**

**company’s** **day-to-day** **operations.** **Net** **income** **reports** **the** **excess** **of** **revenues** **over**

**expenses** **for** **a** **company** **using** **the** **accrual** **basis** **of** **accounting.** **Revenues** **are**

**recorded** **when** **they** **are** **earned,** **not** **necessarily** **when** **cash** **is** **received.** **Expenses**

**are** **recorded** **when** **they** **are** **incurred** **and** **matched** **against** **revenue,** **not** **necessarily**

**when** **cash** **is** **paid.** **As** **a** **result,** **the** **cash** **flows** **from** **operating** **activities** **differs**

**from** **net** **income** **because** **it** **does** **not** **use** **the** **accrual** **basis** **of** **accounting.**

**Ex.** **14–6**

**a.** **Cash** **flows** **from** **operating** **activities:**

**Net** **income………………………………………………………………** **$320,000**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash**

**flow** **from** **operating** **activities:**

**Depreciation………………………………………………………** **96,000**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Decrease** **in** **accounts** **receivable…………………………** **6,400**

**Increase** **in** **inventories………………………………………** **(24,000)**

**Decrease** **in** **prepaid** **expenses……………………………** **1,600**

**Decrease** **in** **accounts** **payable……………………………** **(8,000)**

**Increase** **in** **salaries** **payable………………………………** **2,400**

**Net** **cash** **flow** **from** **operating** **activities……………………………** **$394,400**

**b.** **Yes.** **The** **amount** **of** **cash** **flows** **from** **operating** **activities** **reported** **on** **the** **statement**

**of** **cash** **flows** **is** **not** **affected** **by** **the** **method** **of** **reporting** **such** **flows.**

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**Ex.** **14–7**

**a.** **Cash** **flows** **from** **operating** **activities:**

**Net** **income……………………………………………………………** **$508,000**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash**

**flow** **from** **operating** **activities:**

**Depreciation……………………………………………………** **57,600**

**Gain** **on** **disposal** **of** **equipment……………………………** **(33,600)**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Increase** **in** **accounts** **receivable………………………** **(8,960)**

**Decrease** **in** **inventory……………………………………** **5,120**

**Decrease** **in** **prepaid** **insurance…………………………** **1,920**

**Decrease** **in** **accounts** **payable…………………………** **(6,080)**

**Increase** **in** **income** **taxes** **payable………………………** **1,410**

**Net** **cash** **flow** **from** **operating** **activities…………………………** **$525,410**

***Note:*** **The** **change** **in** **dividends** **payable** **would** **be** **used** **to** **adjust** **the** **dividends**

**declared** **in** **obtaining** **the** **cash** **paid** **for** **dividends** **in** **the** **Financing** **Activities**

**section** **of** **the** **statement** **of** **cash** **flows.**

**b.** **Cash** **flows** **from** **operating** **activities** **reports** **the** **cash** **inflow** **or** **outflow** **from** **a**

**company’s** **day-to-day** **operations.** **Net** **income** **reports** **the** **excess** **of** **revenues** **over**

**expenses** **for** **a** **company** **using** **the** **accrual** **basis** **of** **accounting.** **Revenues** **are**

**recorded** **when** **they** **are** **earned,** **not** **necessarily** **when** **cash** **is** **received.** **Expenses**

**are** **recorded** **when** **they** **are** **incurred** **and** **matched** **against** **revenue,** **not** **necessarily**

**when** **cash** **is** **paid.** **As** **a** **result,** **the** **cash** **flows** **from** **operating** **activities** **differs**

**from** **net** **income** **because** **it** **does** **not** **use** **the** **accrual** **basis** **of** **accounting.**

**Ex.** **14–8**

**Dividends** **declared………………………………………………………………………** **$585,000**

**Add** **decrease** **in** **dividends** **payable……………………………………………………** **21,375**

**Dividends** **paid** **to** **stockholders** **during** **the** **year……………………………………** **$606,375**

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**Ex.** **14–9**

**Cash** **flows** **from** **investing** **activities:**

**Cash** **received** **from** **sale** **of** **equipment…………………………………………** **$101,250**

**The** **loss** **on** **the** **sale,** **$16,875** **($101,250** **proceeds** **from** **sale** **less** **$118,125**

**book** **value),** **would** **be** **added** **to** **net** **income** **in** **determining** **the** **cash** **flows**

**from** **operating** **activities** **if** **the** **indirect** **method** **of** **reporting** **cash** **flows** **from**

**operations** **is** **used.**

**Ex.** **14–10**

**Cash** **flows** **from** **investing** **activities:**

**Cash** **received** **from** **sale** **of** **equipment…………………………………………** **$37,200**

**The** **loss** **on** **the** **sale,** **$6,800** **($37,200** **proceeds** **from** **sale** **less** **$44,000**

**book** **value),** **would** **be** **added** **to** **net** **income** **in** **determining** **the** **cash** **flows**

**from** **operating** **activities** **if** **the** **indirect** **method** **of** **reporting** **cash** **flows** **from**

**operations** **is** **used.**

**Ex.** **14–11**

**Cash** **flows** **from** **investing** **activities:**

**Cash** **received** **from** **sale** **of** **land…………………………………………………** **$** **95,550**

**Less:** **Cash** **paid** **for** **purchase** **of** **land……………………………………………** **104,300**

**The** **gain** **on** **the** **sale** **of** **land,** **$31,710,** **would** **be** **deducted** **from** **net** **income** **in**

**determining** **the** **cash** **flows** **from** **operating** **activities** **if** **the** **indirect** **method** **of**

**reporting** **cash** **flows** **from** **operations** **is** **used.**

**Ex.** **14–12**

**Cash** **flows** **from** **financing** **activities:**

**Cash** **received** **from** **sale** **of** **common** **stock……………………………………** **$1,920,000**

**Less:** **Cash** **paid** **for** **dividends……………………………………………………** **463,200**

***Note:*** **The** **stock** **dividend** **is** **not** **disclosed** **on** **the** **statement** **of** **cash** **flows.**

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**Ex.** **14–13**

**Cash** **flows** **from** **investing** **activities:**

**Cash** **paid** **for** **purchase** **of** **land………………………………………………………** **$246,000**

**A** **separate** **schedule** **of** **noncash** **investing** **and** **financing** **activities** **would** **report**

**the** **purchase** **of** **$324,000** **land** **with** **a** **long-term** **mortgage** **note,** **as** **follows:**

**Purchase** **of** **land** **by** **issuing** **long-term** **mortgage** **note……………………………** **$324,000**

**Ex.** **14–14**

**Cash** **flows** **from** **financing** **activities:**

**Cash** **received** **from** **issuing** **bonds** **payable………………………………………** **$420,000**

**Less:** **Cash** **paid** **to** **redeem** **bonds** **payable……………………………………** **138,000**

***Note:*** **The** **discount** **amortization** **of** **$2,625** **would** **be** **shown** **as** **an** **adjusting** **item**

**(increase)** **in** **the** **Cash** **Flows** **from** **Operating** **Activities** **section** **under** **the** **indirect**

**method.**

**Ex.** **14–15**

**a.** **Net** **cash** **flow** **from** **operating** **activities……………………………** **$357,500**

**Add:** **Increase** **in** **accounts** **receivable……………………………** **$14,300**

**Increase** **in** **prepaid** **expenses………………………………** **2,970**

**Decrease** **in** **income** **taxes** **payable…………………………** **7,700**

**Gain** **on** **sale** **of** **investments** **13,200** **38,170**

**$395,670**

**Deduct:** **Depreciation…………………………………………………$29,480**

**Decrease** **in** **inventories…………………………………** **19,140**

**Increase** **in** **accounts** **payable……………………………** **5,280** **53,900**

**Net** **income,** **per** **income** **statement…………………………………** **$341,770**

***Note*** ***to*** ***Instructors:*** **The** **net** **income** **must** **be** **determined** **by** **working** **backward**

**through** **the** **Cash** **Flows** **from** **Operating** **Activities** **section** **of** **the** **statement** **of**

**cash** **flows.** **Hence,** **those** **items** **that** **were** **added** **(deducted)** **to** **determine** **net** **cash**

**flow** **from** **operating** **activities** **must** **be** **deducted** **(added)** **to** **determine** **net** **income.**

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|  |  |  |
| --- | --- | --- |
| **NATIONAL** **BEVERAGE** **CO.**  **Cash** **Flows** **from** **Operating** **Activities**  **(in** **thousands)** | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |
| **Net** **loss** | **$(43,993)** |  |
| **Adjustments** **to** **reconcile** **net** **loss** **to** **net** |  |  |
| **cash** **flow** **from** **operating** **activities:** |  |  |
| **Depreciation** | **10,174** |  |
| **Stock-based** **compensation** **expense** **(noncash)** | **290** |  |
| **Losses** **on** **inventory** **write-down** **and** **fixed** **assets** | **7** |  |
| **Changes** **in** **current** **operating** **assets** **and** |  |  |
| **liabilities:** |  |  |
| **Increase** **in** **accounts** **receivable** | **(5,679)** |  |
| **Increase** **in** **inventory** | **(7,509)** |  |
| **Decrease** **in** **prepaid** **expenses** | **2,239** |  |
| **Decrease** **in** **accounts** **payable** |  |  |
| **and** **other** **current** **liabilities** | **(1,341)** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  | **$(45,812)** |
|  |  |  |

**Ex.** **14–15** **(Concluded)**

**b.** **Curwen’s** **net** **income** **differed** **from** **cash** **flows** **from** **operations** **because** **of:**

**●** **$29,480** **of** **depreciation** **expense** **which** **has** **no** **effect** **on** **cash** **flows** **from**

**operating** **activities,**

**●** **a** **$13,200** **gain** **on** **the** **sale** **of** **investments.** **The** **proceeds** **from** **this** **sale,** **which**

**include** **the** **gain,** **are** **reported** **in** **the** **Investing** **Activities** **section** **of** **the**

**statement** **of** **cash** **flows.**

**●** **Changes** **in** **current** **operating** **assets** **and** **liabilities** **that** **are** **added** **or**

**deducted,** **depending** **on** **their** **effect** **on** **cash** **flows:**

**Increase** **in** **accounts** **receivable,** **$14,300**

**Increase** **in** **prepaid** **expenses,** **$2,970**

**Decrease** **in** **income** **taxes** **payable,** **$7,700**

**Decrease** **in** **inventories,** **$19,140**

**Increase** **in** **accounts** **payable,** **$5,280**

**Ex.** **14–16**

**a.**

**b.** **National** **Beverage** **is** **doing** **well** **financially.** **The** **company** **has** **positive** **earnings** **and**

**positive** **net** **cash** **flow** **from** **operating** **activities.** **The** **company** **continues** **to** **grow,**

**and** **the** **trend** **in** **recent** **years** **has** **been** **positive.** **The** **increase** **in** **accounts** **receivable**

**is** **a** **positive** **sign,** **indicating** **an** **increase** **in** **sales.** **The** **increase** **in** **inventory** **supports**

**this** **trend.** **In** **addition,** **the** **company** **is** **using** **its** **cash** **to** **decrease** **its** **accounts**

**payable** **balance,** **which** **indicates** **that** **the** **company** **is** **generating** **enough** **cash** **from**

**operations** **to** **pay** **for** **its** **inventory** **in** **cash.** **This** **is** **a** **healthy** **trend.**

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|  |  |  |
| --- | --- | --- |
| **PELICAN** **JOE** **INDUSTRIES** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |
| **Net** **income** | **$325** |  |
| **Adjustments** **to** **reconcile** **net** **income** **to** **net** |  |  |
| **cash** **flow** **from** **operating** **activities:** |  |  |
| **Depreciation** | **30** |  |
| **Gain** **on** **sale** **of** **land** | **(75)** |  |
| **Changes** **in** **current** **operating** **assets** **and** |  |  |
| **liabilities:** |  |  |
| **Increase** **in** **accounts** **receivable** | **(80)** |  |
| **Increase** **in** **inventories** | **(65)** |  |
| **Increase** **in** **accounts** **payable** | **15** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  | **$150** |
|  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |
| **Cash** **received** **from** **sale** **of** **land** | **$125** |  |
| **Less** **cash** **paid** **for** **purchase** **of** **equipment** | **50** |  |
| **Net** **cash** **flow** **from** **investing** **activities** |  | **75** |
|  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |
| **Cash** **received** **from** **sale** **of** **common** **stock** | **$175** |  |
| **Less** **cash** **paid** **for** **dividends\*** | **70** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  | **105** |
| **Increase** **in** **cash** |  | **$330** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  | **160** |
| **Cash** **at** **the** **end** **of** **the** **year** |  | **$490** |
|  |  |  |

**Ex.** **14–17**

**a.**

**\*** **$100** **–** **$30** **=** **$70**

**b.** **Pelican** **Joe** **Industries** **Inc.’s** **net** **income** **was** **more** **than** **the** **cash** **flows** **from**

**operations** **because** **of:**

**●** **$30** **of** **depreciation** **expense,** **which** **has** **no** **effect** **on** **cash.**

**●** **A** **$75** **gain** **on** **the** **sale** **of** **land.** **The** **proceeds** **from** **this** **sale** **of** **$125,** **which**

**include** **the** **gain,** **are** **reported** **in** **the** **Investing** **Activities** **section** **of** **the**

**statement** **of** **cash** **flows.**

**●** **Changes** **in** **current** **operating** **assets** **and** **liabilities** **that** **are** **added** **or** **deducted,**

**depending** **on** **their** **effect** **on** **cash** **flows:**

**Increase** **in** **accounts** **receivable,** **$80** **deducted**

**Increase** **in** **inventories,** **$65** **deducted**

**Increase** **in** **accounts** **payable,** **$15** **added**

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**Ex.** **14–18**

**1.** **The** **increase** **in** **accounts** **receivable** **should** **be** **deducted** **from** **net** **income** **in** **the**

**Cash** **Flows** **from** **Operating** **Activities** **section.**

**2.** **The** **gain** **on** **the** **sale** **of** **investments** **should** **be** **deducted** **from** **net** **income** **in** **the**

**Cash** **Flows** **from** **Operating** **Activities** **section.**

**3.** **The** **increase** **in** **accounts** **payable** **should** **be** **added** **to** **net** **income** **in** **the** **Cash**

**Flows** **from** **Operating** **Activities** **section.**

**4.** **The** **correct** **amount** **of** **cash** **at** **the** **beginning** **of** **the** **year,** **$240,000,** **should** **be**

**added** **to** **the** **increase** **in** **cash.**

**5.** **The** **final** **amount** **should** **be** **the** **amount** **of** **cash** **at** **the** **end** **of** **the** **year,** **$350,160.**

**6.** **The** **final** **amount** **of** **net** **cash** **flow** **from** **operating** **activities** **is** **$381,360.**

**7.** **The** **“cash** **paid** **for** **dividends”** **should** **be** **preceded** **by** **“Less:”.**

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**Ex.** **14–18** **(Concluded)**

**A** **correct** **statement** **of** **cash** **flows** **would** **be** **as** **follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **SHASTA** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Net** **income** |  | **$360,000** |  |
| **Adjustments** **to** **reconcile** **net** **income** **to** |  |  |  |
| **net** **cash** **flow** **from** **operating** **activities:** |  |  |  |
| **Depreciation** |  | **100,800** |  |
| **Gain** **on** **sale** **of** **investments** |  | **(17,280)** |  |
| **Changes** **in** **current** **operating** **assets** |  |  |  |
| **and** **liabilities:** |  |  |  |
| **Increase** **in** **accounts** **receivable** |  | **(27,360)** |  |
| **Increase** **in** **inventories** |  | **(36,000)** |  |
| **Increase** **in** **accounts** **payable** |  | **3,600** |  |
| **Decrease** **in** **accrued** **expenses** |  |  |  |
| **payable** |  | **(2,400)** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **381,360** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **investments** |  | **$240,000** |  |
| **Less:** **Cash** **paid** **for** **purchase** **of** **land** | **$259,200** |  |  |
| **Cash** **paid** **for** **purchase** **of** **equip.** | **432,000** | **691,200** |  |
| **Net** **cash** **flow** **used** **for** **investing** **activities** |  |  | **(451,200)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **common** **stock** |  | **$312,000** |  |
| **Less:** **Cash** **paid** **for** **dividends** |  | **132,000** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **180,000** |
| **Increase** **in** **cash** |  |  | **$** **110,160** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **240,000** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **350,160** |
|  |  |  |  |

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**Ex.** **14–19**

**a.** **Sales…………………………………………………………………………………** **$753,500**

**Plus** **decrease** **in** **accounts** **receivable** **balance……………………………** **48,400**

**Cash** **received** **from** **customers…………………………………………………** **$801,900**

**b.** **Income** **tax** **expense………………………………………………………………** **$** **50,600**

**Plus** **decrease** **in** **income** **tax** **payable…………………………………………** **5,500**

**Cash** **payments** **for** **income** **taxes………………………………………………** **$** **56,100**

**c.** **Because** **the** **customers** **paid** **more** **than** **the** **amount** **of** **sales** **for** **the** **period,**

**cash** **received** **from** **customers** **exceeded** **sales** **made** **on** **account** **by**

**$48,400** **during** **the** **current** **year.**

**Ex.** **14–20**

**Cost** **of** **merchandise** **sold\*……………………………………………………………** **$11,625**

**Add** **increase** **in** **merchandise** **inventories…………………………………………** **163**

**Deduct** **increase** **in** **accounts** **payable………………………………………………** **(95)**

**Cash** **paid** **for** **merchandise…………………………………………………………** **$11,693**

**\*In** **millions**

**Ex.** **14–21**

**a.** **Cost** **of** **merchandise** **sold………………………………………………………** **$1,031,550**

**Add** **decrease** **in** **accounts** **payable……………………………………………** **9,660**

**$1,041,210**

**Deduct** **decrease** **in** **inventories………………………………………………** **(15,410)**

**Cash** **payments** **for** **merchandise………………………………………………** **$1,025,800**

**b.** **Operating** **expenses** **other** **than** **depreciation………………………………** **$** **179,400**

**Add** **decrease** **in** **accrued** **expenses** **payable………………………………** **1,380**

**$** **180,780**

**Deduct** **decrease** **in** **prepaid** **expenses………………………………………**  **(1,610)**

**Cash** **payments** **for** **operating** **expenses……………………………………** **$** **179,170**

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**1**

**2**

**3**

**4**

**Ex.** **14–22**

**a.** **Cash** **flows** **from** **operating** **activities:**

**Cash** **received** **from** **customers…………………** **$522,760**

**Deduct:** **Cash** **payments** **for** **merchandise……** **$302,400**

**Cash** **payments** **for** **operating**

**expenses………………………………** **99,960**

**Cash** **payments** **for** **income** **taxes……** **24,360** **426,720**

**Net** **cash** **flow** **from** **operating** **activities………** **$** **96,040**

**Computations:**

**1.** **Sales………………………………………………………………** **$511,000**

**Add** **decrease** **in** **accounts** **receivable………………………** **11,760**

**Cash** **received** **from** **customers………………………………** **$522,760**

**2.** **Cost** **of** **merchandise** **sold……………………………………** **$290,500**

**Add:** **Increase** **in** **inventories…………………………………** **$3,920**

**Decrease** **in** **accounts** **payable………………………** **7,980** **11,900**

**Cash** **payments** **for** **merchandise……………………………** **$302,400**

**3.** **Operating** **expenses** **other** **than** **depreciation……………** **$105,000**

**Deduct:** **Decrease** **in** **prepaid** **expenses……………………** **$3,780**

**Increase** **in** **accrued** **expenses**

**payable………………………………………………** **1,260** **5,040**

**Cash** **payments** **for** **operating** **expenses……………………** **$** **99,960**

**4.** **Income** **tax** **expense……………………………………………** **$** **21,700**

**Add** **decrease** **in** **income** **tax** **payable………………………** **2,660**

**Cash** **payments** **for** **income** **taxes……………………………** **$** **24,360**

**b.** **The** ***direct*** ***method*** **directly** **reports** **cash** **receipts** **and** **payments.** **The** **cash** **received**

**less** **the** **cash** **payments** **is** **the** **net** **cash** **flow** **from** **operating** **activities.** **Individual**

**cash** **receipts** **and** **payments** **are** **reported** **in** **the** **Cash** **Flows** **from** **Operating**

**Activities** **section.**

**The** ***indirect*** ***method*** **adjusts** **accrual-basis** **net** **income** **for** **revenues** **and** **expenses**

**that** **do** **not** **involve** **the** **receipt** **or** **payment** **of** **cash** **to** **arrive** **at** **cash** **flows** **from**

**operating** **activities.**

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**Ex.** **14–23**

**Cash** **flows** **from** **operating** **activities:**

**Cash** **received** **from** **customers……………………** **$440,440**

**Deduct:** **Cash** **payments** **for** **merchandise………** **$161,2602**

**Cash** **payments** **for** **operating**

**expenses…………………………………** **115,7203**

**Cash** **payments** **for** **income** **taxes………** **39,600** **316,580**

**1**

**Net** **cash** **flow** **from** **operating** **activities…………** **$123,860**

**Computations:**

**1.** **Sales…………………………………………………………………………………** **$445,500**

**Deduct** **increase** **in** **accounts** **receivable………………………………………** **5,060**

**Cash** **received** **from** **customers…………………………………………………** **$440,440**

**2.** **Cost** **of** **merchandise** **sold………………………………………………………** **$154,000**

**Add** **increase** **in** **inventories……………………………………………………** **12,100**

**$166,100**

**Deduct** **increase** **in** **accounts** **payable…………………………………………** **4,840**

**Cash** **payments** **for** **merchandise………………………………………………** **$161,260**

**3.** **Operating** **expenses** **other** **than** **depreciation…………………………………** **$115,280**

**Add** **decrease** **in** **accrued** **expenses** **payable…………………………………** **1,760**

**$117,040**

**Deduct** **decrease** **in** **prepaid** **expenses…………………………………………** **1,320**

**Cash** **payments** **for** **operating** **expenses………………………………………** **$115,720**

**Ex.** **14–24**

**a.** **Cash** **flows** **from** **investment** **in** **PPE……………………………………………** **$210,000**

**Replacement** **percentage…………………………………………………………** **75%**

**Cash** **paid** **for** **maintaining** **property,** **plant,** **and** **equipment………………** **$157,500**

**Cash** **flows** **from** **operating** **activities…………………………………………** **$539,000**

**Less** **cash** **paid** **for** **maintaining** **property,** **plant,** **and** **equipment…………** **157,500**

**Free** **cash** **flow……………………………………………………………………** **$381,500**

**b.** **Free** **cash** **flow** **is** **often** **used** **to** **measure** **the** **financial** **strength** **of** **a** **business.** **The**

**more** **free** **cash** **flow** **that** **a** **business** **has,** **the** **easier** **it** **will** **be** **for** **the** **company** **to**

**pay** **the** **interest** **on** **the** **loan** **and** **repay** **the** **loan** **principal.** **Sweeter’s** **free** **cash** **flow**

**is** **$381,500,** **which** **is** **very** **strong.**

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**Ex.** **14–25**

**a.**

**Recent** **Fiscal** **Year** **End**

**(all** **numbers** **in** **thousands)\***

**Cash** **flows** **from** **investment** **in** **PPE……………………………** **$** **636**

**Replacement** **percentage…………………………………………** **90**

**Cash** **paid** **for** **maintaining** **PPE…………………………………** **$** **572**

**Cash** **flows** **from** **operating** **activities…………………………** **$3,027**

**%**

**Less** **cash** **paid** **for** **maintaining** **PPE…………………………** **(572)**

**$2,455**

**\*Rounded**

**b.** **Free** **cash** **flow** **is** **often** **used** **to** **measure** **the** **financial** **strength** **of** **a** **business.** **The**

**more** **free** **cash** **flow** **that** **a** **business** **has,** **the** **easier** **it** **will** **be** **for** **the** **company** **to**

**pay** **the** **interest** **on** **the** **loan** **and** **repay** **the** **loan** **principal.**

**c.** **Yes.** **Nike’s** **free** **cash** **flow** **is** **extremely** **strong** **and** **is** **3.7** **times** **greater** **than** **the**

**capital** **expenditures** **necessary** **to** **maintain** **capacity.**

**Ex.** **14–26**

**Cash** **flows** **from** **investment** **in** **PPE……………………………………………** **$440,000**

**Replacement** **percentage…………………………………………………………** **85**

**Cash** **paid** **for** **maintaining** **PPE…………………………………………………** **$374,000**

**Net** **cash** **flow** **from** **operating** **activities…………………………………………** **$720,000**

**Less** **investments** **in** **fixed** **assets** **to** **maintain** **current**

**production…………………………………………………………………………** **374,000**

**Free** **cash** **flow………………………………………………………………………** **$346,000**

**%**

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**PROBLEMS**

**Prob.** **14–1A**

|  |  |  |  |
| --- | --- | --- | --- |
| **CROMME** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Net** **income** |  | **$** **199,540** |  |
| **Adjustments** **to** **reconcile** **net** **income** **to** |  |  |  |
| **net** **cash** **flow** **from** **operating** **activities:** |  |  |  |
| **Depreciation** |  | **18,400** |  |
| **Gain** **on** **sale** **of** **investments** |  | **(40,000)** |  |
| **Changes** **in** **current** **operating** **assets** |  |  |  |
| **and** **liabilities:** |  |  |  |
| **Increase** **in** **accounts** **receivable** |  | **(18,880)** |  |
| **Increase** **in** **inventories** |  | **(24,640)** |  |
| **Increase** **in** **accounts** **payable** |  | **19,520** |  |
| **Decrease** **in** **accrued** **expenses** |  |  |  |
| **payable** |  | **(10,400)** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **143,540** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **investments** |  | **$** **280,000** |  |
| **Less:** **Cash** **paid** **for** **purchase** **of** **land** | **$328,000** |  |  |
| **Cash** **paid** **for** **purchase** **of** |  |  |  |
| **equipment** | **152,000** | **480,000** |  |
| **Net** **cash** **flow** **used** **for** **investing** **activities** |  |  | **(200,000)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **common** **stock** |  | **$** **187,500** |  |
| **Less** **cash** **paid** **for** **dividends\*** |  | **91,200** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **96,300** |
| **Increase** **in** **cash** |  |  | **$** **39,840** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **585,920** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **625,760** |
|  |  |  |  |

**\*** **$96,000** **+** **$19,200** **–** **$24,000** **=** **$91,200**

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**Prob.** **14–1A** **(Concluded)**

**(Optional)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **CROMME** **INC.**  **Spreadsheet** **(Work** **Sheet)** **for** **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | | |
| **Account** **Title** | **Balance,**  **Dec.** **31,** **2015** | **Transactions** | | **Balance,**  **Dec.** **31,** **2016** |
| **Debit** | **Credit** |
| **Cash** | **585,920** | **(m)** **39,840** |  | **625,760** |
| **Accounts** **receivable** **(net)** | **208,960** | **(l)** **18,880** |  | **227,840** |
| **Inventories** | **617,120** | **(k)** **24,640** |  | **641,760** |
| **Investments** | **240,000** |  | **(j)** **240,000** | **0** |
| **Land** | **0** | **(i)** **328,000** |  | **328,000** |
| **Equipment** | **553,120** | **(h)** **152,000** |  | **705,120** |
| **Accum.** **depr.—equipment** | **(148,000)** |  | **(g)** **18,400** | **(166,400)** |
| **Accounts** **payable** | **(404,960)** |  | **(f)** **19,520** | **(424,480)** |
| **Accrued** **expenses** **payable** | **(52,640)** | **(e)** **10,400** |  | **(42,240)** |
| **Dividends** **payable** | **(19,200)** |  | **(d)** **4,800** | **(24,000)** |
| **Common** **stock,** **$2** **par** | **(100,000)** |  | **(c)** **50,000** | **(150,000)** |
| **Paid-in** **capital** **in** **excess** |  |  |  |  |
| **of** **par—common** **stock** | **(280,000)** |  | **(c)** **137,500** | **(417,500)** |
| **Retained** **earnings** | **(1,200,320)** | **(b)** **96,000** | **(a)** **199,540** | **(1,303,860)** |
| **Totals** | **0** | **669,760** | **669,760** | **0** |
| **Operating** **activities:** |  |  |  |  |
| **Net** **income** |  | **(a)** **199,540** |  |  |
| **Depreciation** |  | **(g)** **18,400** |  |  |
| **Gain** **on** **sale** **of** **investments** |  |  | **(j)** **40,000** |  |
| **Increase** **in** **accounts** |  |  |  |  |
| **receivable** |  |  | **(l)** **18,880** |  |
| **Increase** **in** **inventories** |  |  | **(k)** **24,640** |  |
| **Increase** **in** **accounts** **payable** |  | **(f)** **19,520** |  |  |
| **Decrease** **in** **accrued** |  |  |  |  |
| **expenses** **payable** |  |  | **(e)** **10,400** |  |
| **Investing** **activities:** |  |  |  |  |
| **Purchase** **of** **equipment** |  |  | **(h)** **152,000** |  |
| **Purchase** **of** **land** |  |  | **(i)** **328,000** |  |
| **Sale** **of** **investments** |  | **(j)** **280,000** |  |  |
| **Financing** **activities:** |  |  |  |  |
| **Declaration** **of** **cash** **dividends** |  |  | **(b)** **96,000** |  |
| **Sale** **of** **common** **stock** |  | **(c)** **187,500** |  |  |
| **Increase** **in** **dividends** **payable** |  | **(d)** **4,800** |  |  |
| **Net** **increase** **in** **cash** |  |  | **(m)** **39,840** |  |
| **Totals** |  | **709,760** | **709,760** |  |
|  |  |  |  |  |

**The** **letters** **in** **the** **debit** **and** **credit** **columns** **are** **included** **for** **reference** **purposes.** **They** **do**

**not** **correspond** **to** **the** **letters** **in** **the** **additional** **data** **section** **of** **this** **problem.**

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**Prob.** **14–2A**

|  |  |  |  |
| --- | --- | --- | --- |
| **DEL** **RAY** **ENTERPRISES** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Net** **income** |  | **$** **332,000** |  |
| **Adjustments** **to** **reconcile** **net** **income** **to** |  |  |  |
| **net** **cash** **flow** **from** **operating** **activities:** |  |  |  |
| **Depreciation** |  | **83,400** |  |
| **Changes** **in** **current** **operating** **assets** |  |  |  |
| **and** **liabilities:** |  |  |  |
| **Decrease** **in** **accounts** **receivable** |  | **17,400** |  |
| **Increase** **in** **inventory** |  | **(22,400)** |  |
| **Increase** **in** **prepaid** **expenses** |  | **(3,800)** |  |
| **Increase** **in** **accounts** **payable** |  | **12,600** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **419,200** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **paid** **for** **equipment** |  | **$(162,800)** |  |
| **Net** **cash** **flow** **used** **for** **investing** |  |  |  |
| **activities** |  |  | **(162,800)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **common** **stock** |  | **$** **200,000** |  |
| **Less:** **Cash** **paid** **for** **dividends** | **$153,600** |  |  |
| **Cash** **paid** **to** **retire** **mortgage** |  |  |  |
| **note** **payable** | **336,000** | **489,600** |  |
| **Net** **cash** **flow** **used** **for** **financing** |  |  |  |
| **activities** |  |  | **(289,600)** |
| **Decrease** **in** **cash** |  |  | **$** **(33,200)** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **179,800** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **146,600** |
|  |  |  |  |

***Note*** ***to*** ***Instructors:*** **The** **disposal** **of** **fully** **depreciated** **equipment** **is** **not** **included** **in** **the**

**cash** **flow** **statement** **because** **there** **is** **no** **associated** **cash** **flow.** **This** **transaction** **strictly**

**involves** **the** **removal** **of** **$44,800** **from** **the** **equipment** **and** **accumulated** **depreciation—**

**equipment** **accounts.**

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**Prob.** **14–2A** **(Concluded)**

**(Optional)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DEL** **RAY** **ENTERPRISES** **INC.**  **Spreadsheet** **(Work** **Sheet)** **for** **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | | |
| **Account** **Title** | **Balance,**  **Dec.** **31,** **2015** | **Transactions** | | **Balance,**  **Dec.** **31,** **2016** |
| **Debit** | **Credit** |
| **Cash** | **179,800** |  | **(l)** **33,200** | **146,600** |
| **Accounts** **receivable** **(net)** | **242,000** |  | **(k)** **17,400** | **224,600** |
| **Merchandise** **inventory** | **299,200** | **(j)** **22,400** |  | **321,600** |
| **Prepaid** **expenses** | **9,600** | **(i)** **3,800** |  | **13,400** |
| **Equipment** | **537,000** | **(h)** **162,800** | **(g)** **44,800** | **655,000** |
| **Accum.** **depr.—equipment** | **(132,200)** | **(g)** **44,800** | **(f)** **83,400** | **(170,800)** |
| **Accounts** **payable** | **(237,600)** |  | **(e)** **12,600** | **(250,200)** |
| **Mortgage** **note** **payable** | **(336,000)** | **(d)** **336,000** |  | **0** |
| **Common** **stock,** **$25** **par** | **(24,000)** |  | **(c)** **50,000** | **(74,000)** |
| **Paid-in** **capital** **in** **excess** |  |  |  |  |
| **of** **par—common** **stock** | **(320,000)** |  | **(c)** **150,000** | **(470,000)** |
| **Retained** **earnings** | **(217,800)** | **(b)** **153,600** | **(a)** **332,000** | **(396,200)** |
| **Totals** | **0** | **723,400** | **723,400** | **0** |
| **Operating** **activities:** |  |  |  |  |
| **Net** **income** |  | **(a)** **332,000** |  |  |
| **Depreciation** |  | **(f)** **83,400** |  |  |
| **Decrease** **in** **accts.** **receivable** |  | **(k)** **17,400** |  |  |
| **Increase** **in** **merchandise** |  |  |  |  |
| **inventory** |  |  | **(j)** **22,400** |  |
| **Increase** **in** **prepaid** **expenses** |  |  | **(i)** **3,800** |  |
| **Increase** **in** **accounts** **payable** |  | **(e)** **12,600** |  |  |
| **Investing** **activities:** |  |  |  |  |
| **Purchase** **of** **equipment** |  |  | **(h)** **162,800** |  |
| **Financing** **activities:** |  |  |  |  |
| **Payment** **of** **cash** **dividends** |  |  | **(b)** **153,600** |  |
| **Sale** **of** **common** **stock** |  | **(c)** **200,000** |  |  |
| **Payment** **of** **mortgage** **note** |  |  |  |  |
| **payable** |  |  | **(d)** **336,000** |  |
| **Net** **decrease** **in** **cash** |  | **(l)** **33,200** |  |  |
| **Totals** |  | **678,600** | **678,600** |  |
|  |  |  |  |  |

**The** **letters** **in** **the** **debit** **and** **credit** **columns** **are** **included** **for** **reference** **purposes.** **They**

**do** **not** **correspond** **to** **the** **letters** **in** **the** **additional** **data** **section** **of** **this** **problem.**

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**Prob.** **14–3A**

|  |  |  |  |
| --- | --- | --- | --- |
| **WHITMAN** **CO.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Net** **loss** |  | **$** **(35,320)** |  |
| **Adjustments** **to** **reconcile** **net** **loss** **to** |  |  |  |
| **net** **cash** **flow** **from** **operating** **activities:** |  |  |  |
| **Depreciation\*** |  | **55,620** |  |
| **Loss** **on** **sale** **of** **land\*\*** |  | **12,600** |  |
| **Changes** **in** **current** **operating** **assets** |  |  |  |
| **and** **liabilities:** |  |  |  |
| **Increase** **in** **accounts** **receivable** |  | **(66,960)** |  |
| **Increase** **in** **inventories** |  | **(105,480)** |  |
| **Decrease** **in** **prepaid** **expenses** |  | **5,760** |  |
| **Decrease** **in** **accounts** **payable** |  | **(35,820)** |  |
| **Net** **cash** **flow** **used** **for** **operating** **activities** |  |  | **$(169,600)** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **land** **sold** |  | **$151,200** |  |
| **Less:** **Cash** **paid** **for** **acquisition** |  |  |  |
| **of** **building** | **$561,600** |  |  |
| **Cash** **paid** **for** **purchase** |  |  |  |
| **of** **equipment** | **104,400** | **666,000** |  |
| **Net** **cash** **flow** **used** **for** **investing** **activities** |  |  | **(514,800)** |
| **activities** |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **issuance** **of** |  |  |  |
| **bonds** **payable** | **$270,000** |  |  |
| **Cash** **received** **from** **issuance** **of** |  |  |  |
| **common** **stock** | **400,000** | **$670,000** |  |
| **Less** **cash** **paid** **for** **dividends** |  | **32,400** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **637,600** |
| **Decrease** **in** **cash** |  |  | **$** **(46,800)** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **964,800** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **918,000** |
|  |  |  |  |

**\*** **$26,280** **+** **$29,340**

**\*\*** **$151,200** **–** **$163,800**

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**Prob.** **14–3A** **(Concluded)**

**(Optional)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **WHITMAN** **CO.**  **Spreadsheet** **(Work** **Sheet)** **for** **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | | |
| **Account** **Title** | **Balance,**  **Dec.** **31,** **2015** | **Transactions** | | **Balance,**  **Dec.** **31,** **2016** |
| **Debit** | **Credit** |
| **Cash** | **964,800** |  | **(o)** **46,800** | **918,000** |
| **Accounts** **receivable** | **761,940** | **(g)** **66,960** |  | **828,900** |
| **Inventories** | **1,162,980** | **(h)** **105,480** |  | **1,268,460** |
| **Prepaid** **expenses** | **35,100** |  | **(f)** **5,760** | **29,340** |
| **Land** | **479,700** |  | **(l)** **163,800** | **315,900** |
| **Buildings** | **900,900** | **(k)** **561,600** |  | **1,462,500** |
| **Accum.** **depr.—buildings** | **(382,320)** |  | **(e)** **26,280** | **(408,600)** |
| **Equipment** | **454,680** | **(i)** **104,400** | **(j)** **46,800** | **512,280** |
| **Accum.** **depr.—equipment** | **(158,760)** | **(j)** **46,800** | **(d)** **29,340** | **(141,300)** |
| **Accounts** **payable** | **(958,320)** | **(c)** **35,820** |  | **(922,500)** |
| **Bonds** **payable** | **0** |  | **(m)** **270,000** | **(270,000)** |
| **Common** **stock,** **$25** **par** | **(117,000)** |  | **(n)** **200,000** | **(317,000)** |
| **Paid-in** **capital** **in** **excess** **of** |  |  |  |  |
| **par—common** **stock** | **(558,000)** |  | **(n)** **200,000** | **(758,000)** |
| **Retained** **earnings** | **(2,585,700)** | **(a)** **35,320** |  | **(2,517,980)** |
|  |  | **(b)** **32,400** |  |  |
| **Totals** | **0** | **988,780** | **988,780** | **0** |
| **Operating** **activities:** |  |  |  |  |
| **Net** **loss** |  |  | **(a)** **35,320** |  |
| **Depreciation—equipment** |  | **(d)** **29,340** |  |  |
| **Depreciation—buildings** |  | **(e)** **26,280** |  |  |
| **Loss** **on** **sale** **of** **land** |  | **(l)** **12,600** |  |  |
| **Increase** **in** **accts.** **receivable** |  |  | **(g)** **66,960** |  |
| **Increase** **in** **inventories** |  |  | **(h)** **105,480** |  |
| **Decrease** **in** **prepaid** **expenses** |  | **(f)** **5,760** |  |  |
| **Decrease** **in** **accounts** **payable** |  |  | **(c)** **35,820** |  |
| **Investing** **activities:** |  |  |  |  |
| **Purchase** **of** **equipment** |  |  | **(i)** **104,400** |  |
| **Acquisition** **of** **building** |  |  | **(k)** **561,600** |  |
| **Sale** **of** **land** |  | **(l)** **151,200** |  |  |
| **Financing** **activities:** |  |  |  |  |
| **Payment** **of** **cash** **dividends** |  |  | **(b)** **32,400** |  |
| **Issuance** **of** **bonds** **payable** |  | **(m)** **270,000** |  |  |
| **Issuance** **of** **common** **stock** |  | **(n)** **400,000** |  |  |
| **Net** **decrease** **in** **cash** |  | **(o)** **46,800** |  |  |
| **Totals** |  | **941,980** | **941,980** |  |
|  |  |  |  |  |

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**Prob.** **14–4A**

|  |  |  |  |
| --- | --- | --- | --- |
| **CANACE** **PRODUCTS** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Cash** **received** **from** **customers1** |  | **$5,960,600** |  |
| **Deduct:** **Cash** **payments** **for** **merchandise2** | **$2,456,800** |  |  |
| **Cash** **payments** **for** **operating** |  |  |  |
| **expenses3** | **3,107,400** |  |  |
| **Cash** **payments** **for** **income** **taxes** | **102,800** | **5,667,000** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **293,600** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **investments** |  | **$** **176,000** |  |
| **Less:** **Cash** **paid** **for** **purchase** **of** **land** | **$** **520,000** |  |  |
| **Cash** **paid** **for** **purchase** **of** |  |  |  |
| **equipment** | **200,000** | **720,000** |  |
| **Net** **cash** **flow** **used** **for** **investing** **activities** |  |  | **(544,000)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **common** **stock** |  | **$** **240,000** |  |
| **Less** **cash** **paid** **for** **dividends\*** |  | **25,600** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **214,400** |
| **Decrease** **in** **cash** |  |  | **$** **(36,000)** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **679,400** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **643,400** |
|  |  |  |  |

**Reconciliation** **of** **Net** **Income** **with** **Cash** **Flows** **from** **Operating** **Activities:**

**Net** **income……………………………………………………………………………** **$217,200**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow**

**from** **operating** **activities:**

**Depreciation……………………………………………………………………** **44,000**

**Loss** **on** **sale** **of** **investments…………………………………………………** **64,000**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Increase** **in** **accounts** **receivable…………………………………………** **(19,400)**

**Increase** **in** **inventories……………………………………………………** **(28,200)**

**Increase** **in** **accounts** **payable……………………………………………** **23,400**

**Decrease** **in** **accrued** **expenses** **payable………………………………** **(7,400)**

**Net** **cash** **flow** **from** **operating** **activities…………………………………………** **$293,600**

**\*** **Dividends** **paid:** **$28,000** **+** **$6,400** **–** **$8,800** **=** **$25,600**

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**Prob.** **14–4A** **(Concluded)**

**Computations:**

**1.** **Sales…………………………………………………………………………………** **$5,980,000**

**Deduct** **increase** **in** **accounts** **receivable………………………………………** **19,400**

**Cash** **received** **from** **customers…………………………………………………** **$5,960,600**

**2.** **Cost** **of** **merchandise** **sold……………………………………………………… $2,452,000**

**Add** **increase** **in** **inventories………………………………………………………** **28,200**

**$2,480,200**

**Deduct** **increase** **in** **accounts** **payable…………………………………………** **23,400**

**Cash** **payments** **for** **merchandise………………………………………………** **$2,456,800**

**3.** **Operating** **expenses** **other** **than** **depreciation………………………………**  **$3,100,000**

**Add** **decrease** **in** **accrued** **expenses** **payable…………………………………** **7,400**

**Cash** **payments** **for** **operating** **expenses………………………………………** **$3,107,400**

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**Prob.** **14–5A**

|  |  |  |  |
| --- | --- | --- | --- |
| **CROMME** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Cash** **received** **from** **customers1** |  | **$5,353,679** |  |
| **Deduct:** **Cash** **payments** **for** **merchandise2** | **$3,311,310** |  |  |
| **Cash** **payments** **for** **operating** |  |  |  |
| **expenses3** | **1,765,802** |  |  |
| **Cash** **payments** **for** **income** **taxes** | **133,027** | **5,210,139** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **143,540** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **investments** |  | **$** **280,000** |  |
| **Less:** **Cash** **paid** **for** **purchase** **of** **land** | **$** **328,000** |  |  |
| **Cash** **paid** **for** **purchase** **of** **equipment** | **152,000** | **480,000** |  |
| **Net** **cash** **flow** **used** **for** **investing** **activities** |  |  | **(200,000)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **common** **stock** |  | **$** **187,500** |  |
| **Less:** **Cash** **paid** **for** **dividends4** |  | **91,200** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **96,300** |
| **Increase** **in** **cash** |  |  | **$** **39,840** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **585,920** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **625,760** |
|  |  |  |  |

**Reconciliation** **of** **Net** **Income** **with** **Cash** **Flows** **from** **Operating** **Activities:**

**Net** **income……………………………………………………………………………………** **$199,540**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow**

**from** **operating** **activities:**

**Depreciation……………………………………………………………………………** **18,400**

**Gain** **on** **sale** **of** **investments………………………………………………………** **(40,000)**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Increase** **in** **accounts** **receivable………………………………………………** **(18,880)**

**Increase** **in** **inventories…………………………………………………………** **(24,640)**

**Increase** **in** **accounts** **payable…………………………………………………** **19,520**

**Decrease** **in** **accrued** **expenses** **payable………………………………………** **(10,400)**

**Net** **cash** **flow** **from** **operating** **activities…………………………………………………** **$143,540**

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**Prob.** **14–5A** **(Concluded)**

**Computations:**

**1.** **Sales………………………………………………………………………………** **$5,372,559**

**Deduct** **increase** **in** **accounts** **receivable……………………………………** **18,880**

**Cash** **received** **from** **customers………………………………………………** **$5,353,679**

**2.** **Cost** **of** **merchandise** **sold………………………………………………………** **$3,306,190**

**Add** **increase** **in** **inventories……………………………………………………** **24,640**

**$3,330,830**

**Deduct** **increase** **in** **accounts** **payable………………………………………** **19,520**

**Cash** **payments** **for** **merchandise………………………………………………** **$3,311,310**

**3.** **Operating** **expenses** **other** **than** **depreciation………………………………** **$1,755,402**

**Add** **decrease** **in** **accrued** **expenses** **payable………………………………** **10,400**

**Cash** **payments** **for** **operating** **expenses……………………………………** **$1,765,802**

**4.** **Cash** **dividends** **declared………………………………………………………** **$** **96,000**

**Deduct** **increase** **in** **dividends** **payable………………………………………** **4,800**

**Cash** **payments** **for** **dividends…………………………………………………** **$** **91,200**

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**Prob.** **14–1B**

|  |  |  |  |
| --- | --- | --- | --- |
| **MERRICK** **EQUIPMENT** **CO.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Net** **income** |  | **$141,680** |  |
| **Adjustments** **to** **reconcile** **net** **income** **to** |  |  |  |
| **net** **cash** **flow** **from** **operating** **activities:** |  |  |  |
| **Depreciation** |  | **14,790** |  |
| **Loss** **on** **sale** **of** **investments** |  | **10,200** |  |
| **Changes** **in** **current** **operating** **assets** |  |  |  |
| **and** **liabilities:** |  |  |  |
| **Increase** **in** **accounts** **receivable** |  | **(19,040)** |  |
| **Increase** **in** **inventories** |  | **(8,670)** |  |
| **Increase** **in** **accounts** **payable** |  | **11,560** |  |
| **Increase** **in** **accrued** **expenses** |  |  |  |
| **payable** |  | **3,740** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **154,260** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **investments** |  | **$** **91,800** |  |
| **Less:** **Cash** **paid** **for** **purchase** **of** **land** | **$295,800** |  |  |
| **Cash** **paid** **for** **purchase** **of** |  |  |  |
| **equipment** | **80,580** | **376,380** |  |
| **Net** **cash** **flow** **used** **for** **investing** **activities** |  |  | **(284,580)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **common** **stock** |  | **$250,000** |  |
| **Less:** **Cash** **paid** **for** **dividends\*** |  | **96,900** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **153,100** |
| **Increase** **in** **cash** |  |  | **$** **22,780** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **47,940** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **70,720** |
|  |  |  |  |

**\*** **$102,000** **+** **$20,400** **–** **$25,500** **=** **$96,900**

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**Prob.** **14–1B** **(Concluded)**

**(Optional)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **MERRICK** **EQUIPMENT** **CO.**  **Spreadsheet** **(Work** **Sheet)** **for** **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | | |
| **Account** **Title** | **Balance,**  **Dec.** **31,** **2015** | **Transactions** | | **Balance,**  **Dec.** **31,** **2016** |
| **Debit** | **Credit** |
| **Cash** | **47,940** | **(m)** **22,780** |  | **70,720** |
| **Accounts** **receivable** **(net)** | **188,190** | **(l)** **19,040** |  | **207,230** |
| **Inventories** | **289,850** | **(k)** **8,670** |  | **298,520** |
| **Investments** | **102,000** |  | **(j)** **102,000** | **0** |
| **Land** | **0** | **(i)** **295,800** |  | **295,800** |
| **Equipment** | **358,020** | **(h)** **80,580** |  | **438,600** |
| **Accum.** **depr.—equipment** | **(84,320)** |  | **(g)** **14,790** | **(99,110)** |
| **Accounts** **payable** | **(194,140)** |  | **(f)** **11,560** | **(205,700)** |
| **Accrued** **expenses** **payable** | **(26,860)** |  | **(e)** **3,740** | **(30,600)** |
| **Dividends** **payable** | **(20,400)** |  | **(d)** **5,100** | **(25,500)** |
| **Common** **stock,** **$1** **par** | **(102,000)** |  | **(c)** **100,000** | **(202,000)** |
| **Paid-in** **capital** **in** **excess** |  |  |  |  |
| **of** **par—common** **stock** | **(204,000)** |  | **(c)** **150,000** | **(354,000)** |
| **Retained** **earnings** | **(354,280)** | **(b)** **102,000** | **(a)** **141,680** | **(393,960)** |
| **Totals** | **0** | **528,870** | **528,870** | **0** |
| **Operating** **activities:** |  |  |  |  |
| **Net** **income** |  | **(a)** **141,680** |  |  |
| **Depreciation** |  | **(g)** **14,790** |  |  |
| **Loss** **on** **sale** **of** **investments** |  | **(j)** **10,200** |  |  |
| **Increase** **in** **accounts** |  |  |  |  |
| **receivable** |  |  | **(l)** **19,040** |  |
| **Increase** **in** **inventories** |  |  | **(k)** **8,670** |  |
| **Increase** **in** **accounts** **payable** |  | **(f)** **11,560** |  |  |
| **Increase** **in** **accrued** **expenses** |  |  |  |  |
| **payable** |  | **(e)** **3,740** |  |  |
| **Investing** **activities:** |  |  |  |  |
| **Purchase** **of** **equipment** |  |  | **(h)** **80,580** |  |
| **Purchase** **of** **land** |  |  | **(i)** **295,800** |  |
| **Sale** **of** **investments** |  | **(j)** **91,800** |  |  |
| **Financing** **activities:** |  |  |  |  |
| **Declaration** **of** **cash** **dividends** |  |  | **(b)** **102,000** |  |
| **Sale** **of** **common** **stock** |  | **(c)** **250,000** |  |  |
| **Increase** **in** **dividends** **payable** |  | **(d)** **5,100** |  |  |
| **Net** **increase** **in** **cash** |  |  | **(m)** **22,780** |  |
| **Totals** |  | **528,870** | **528,870** |  |
|  |  |  |  |  |

**The** **letters** **in** **the** **debit** **and** **credit** **columns** **are** **included** **for** **reference** **purposes.** **They** **do**

**not** **correspond** **to** **the** **letters** **in** **the** **additional** **data** **section** **of** **this** **problem.**

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**Prob.** **14–2B**

|  |  |  |
| --- | --- | --- |
| **HARRIS** **INDUSTRIES** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |
| **Net** **income** | **$** **524,580** |  |
| **Adjustments** **to** **reconcile** **net** **income** **to** |  |  |
| **net** **cash** **flow** **from** **operating** **activities:** |  |  |
| **Depreciation** | **74,340** |  |
| **Patent** **amortization** | **5,040** |  |
| **Changes** **in** **current** **operating** **assets** |  |  |
| **and** **liabilities:** |  |  |
| **Increase** **in** **accounts** **receivable** | **(73,080)** |  |
| **Decrease** **in** **inventories** | **134,680** |  |
| **Increase** **in** **prepaid** **expenses** | **(6,440)** |  |
| **Decrease** **in** **accounts** **payable** | **(89,600)** |  |
| **Decrease** **in** **salaries** **payable** | **(8,120)** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  | **$** **561,400** |
|  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |
| **Cash** **paid** **for** **construction** **of** **building** | **$(579,600)** |  |
| **Net** **cash** **flow** **used** **for** **investing** **activities** |  | **(579,600)** |
|  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |
| **Cash** **received** **from** **issuance** **of** **mortgage** **note** | **$** **224,000** |  |
| **Less:** **Cash** **paid** **for** **dividends\*** | **123,480** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  | **100,520** |
| **Increase** **in** **cash** |  | **$** **82,320** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  | **360,920** |
| **Cash** **at** **the** **end** **of** **the** **year** |  | **$** **443,240** |
|  |  |  |
| **Schedule** **of** **Noncash** **Financing** **and** **Investing** **Activities:** |  |  |
| **Issuance** **of** **common** **stock** **to** **retire** **bonds** |  | **$** **390,000** |
|  |  |  |

**\*$131,040** **+** **$25,200** **–** **$32,760** **=** **$123,480**

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**Prob.** **14–2B** **(Continued)**

**(Optional)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **HARRIS** **INDUSTRIES** **INC.**  **Spreadsheet** **(Work** **Sheet)** **for** **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | | |
| **Account** **Title** | **Balance,**  **Dec.** **31,** **2015** | **Transactions** | | **Balance,**  **Dec.** **31,** **2016** |
| **Debit** | **Credit** |
| **Cash** | **360,920** | **(p)** **82,320** |  | **443,240** |
| **Accounts** **receivable** **(net)** | **592,200** | **(o)** **73,080** |  | **665,280** |
| **Inventories** | **1,022,560** |  | **(n)** **134,680** | **887,880** |
| **Prepaid** **expenses** | **25,200** | **(m)** **6,440** |  | **31,640** |
| **Land** | **302,400** |  |  | **302,400** |
| **Buildings** | **1,134,000** | **(l)** **579,600** |  | **1,713,600** |
| **Accum.** **depr.—buildings** | **(414,540)** |  | **(k)** **51,660** | **(466,200)** |
| **Machinery** **and** **equipment** | **781,200** |  |  | **781,200** |
| **Accum.** **depr.—machinery** |  |  |  |  |
| **and** **equipment** | **(191,520)** |  | **(j)** **22,680** | **(214,200)** |
| **Patents** | **112,000** |  | **(i)** **5,040** | **106,960** |
| **Accounts** **payable** | **(927,080)** | **(h)** **89,600** |  | **(837,480)** |
| **Dividends** **payable** | **(25,200)** |  | **(g)** **7,560** | **(32,760)** |
| **Salaries** **payable** | **(87,080)** | **(f)** **8,120** |  | **(78,960)** |
| **Mortgage** **note** **payable** | **0** |  | **(e)** **224,000** | **(224,000)** |
| **Bonds** **payable** | **(390,000)** | **(d)** **390,000** |  | **0** |
| **Common** **stock,** **$5** **par** | **(50,400)** |  | **(c)** **150,000** | **(200,400)** |
| **Paid-in** **capital** **in** **excess** **of** |  |  |  |  |
| **par—common** **stock** | **(126,000)** |  | **(c)** **240,000** | **(366,000)** |
| **Retained** **earnings** | **(2,118,660)** | **(b)** **131,040** | **(a)** **524,580** | **(2,512,200)** |
| **Totals** | **0** | **1,360,200** | **1,360,200** | **0** |
|  |  |  |  |  |

**The** **letters** **in** **the** **debit** **and** **credit** **columns** **are** **included** **for** **reference** **purposes.** **They**

**do** **not** **correspond** **to** **the** **letters** **in** **the** **additional** **data** **section** **of** **this** **problem.**

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**Prob.** **14–2B** **(Concluded)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **HARRIS** **INDUSTRIES** **INC.**  **Spreadsheet** **(Work** **Sheet)** **for** **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | | |
| **Account** **Title** | **Balance,**  **Dec.** **31,** **2015** | **Transactions** | | **Balance,**  **Dec.** **31,** **2016** |
| **Debit** | **Credit** |
| **Operating** **activities:** |  |  |  |  |
| **Net** **income** |  | **(a)** **524,580** |  |  |
| **Depreciation—buildings** |  | **(k)** **51,660** |  |  |
| **Depreciation—machinery** |  |  |  |  |
| **and** **equipment** |  | **(j)** **22,680** |  |  |
| **Amortization** **of** **patents** |  | **(i)** **5,040** |  |  |
| **Increase** **in** **accounts** |  |  |  |  |
| **receivable** |  |  | **(o)** **73,080** |  |
| **Decrease** **in** **inventories** |  | **(n)** **134,680** |  |  |
| **Increase** **in** **prepaid** **expenses** |  |  | **(m)** **6,440** |  |
| **Decrease** **in** **accounts** **payable** |  |  | **(h)** **89,600** |  |
| **Decrease** **in** **salaries** **payable** |  |  | **(f)** **8,120** |  |
| **Investing** **activities:** |  |  |  |  |
| **Construction** **of** **building** |  |  | **(l)** **579,600** |  |
| **Financial** **activities:** |  |  |  |  |
| **Declaration** **of** **cash** **dividends** |  |  | **(b)** **131,040** |  |
| **Issuance** **of** **mortgage** **note** |  |  |  |  |
| **payable** |  | **(e)** **224,000** |  |  |
| **Increase** **in** **dividends** **payable** |  | **(g)** **7,560** |  |  |
| **Schedule** **of** **noncash** **investing** |  |  |  |  |
| **and** **financing** **activities:** |  |  |  |  |
| **Issuance** **of** **common** **stock** |  |  |  |  |
| **to** **retire** **bonds** |  | **(c)** **390,000** | **(d)** **390,000** |  |
| **Net** **increase** **in** **cash** |  |  | **(p)** **82,320** |  |
| **Totals** |  | **1,360,200** | **1,360,200** |  |
|  |  |  |  |  |

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**Prob.** **14–3B**

|  |  |  |  |
| --- | --- | --- | --- |
| **COULSON** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Net** **income** |  | **$** **326,600** |  |
| **Adjustments** **to** **reconcile** **net** **income** **to** |  |  |  |
| **net** **cash** **flow** **from** **operating** **activities:** |  |  |  |
| **Depreciation** |  | **68,400** |  |
| **Gain** **on** **sale** **of** **land** |  | **(60,000)** |  |
| **Changes** **in** **current** **operating** **assets** |  |  |  |
| **and** **liabilities:** |  |  |  |
| **Increase** **in** **accounts** **receivable** |  | **(94,800)** |  |
| **Increase** **in** **inventories** |  | **(52,800)** |  |
| **Decrease** **in** **prepaid** **expenses** |  | **7,800** |  |
| **Decrease** **in** **accounts** **payable** |  | **(37,200)** |  |
| **Increase** **in** **income** **taxes** **payable** |  | **4,800** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **162,800** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **land** |  | **$** **456,000** |  |
| **Less:** **Cash** **paid** **for** **acquisition** |  |  |  |
| **of** **building** | **$990,000** |  |  |
| **Cash** **paid** **for** **purchase** |  |  |  |
| **of** **equipment** | **196,800** | **1,186,800** |  |
| **Net** **cash** **flow** **used** **for** **investing** **activities** |  |  | **(730,800)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **issuance** **of** |  |  |  |
| **bonds** **payable** | **$330,000** |  |  |
| **Cash** **received** **from** **issuance** **of** |  |  |  |
| **common** **stock** | **280,000** | **$** **610,000** |  |
| **Less** **cash** **paid** **for** **dividends** |  | **79,200** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **530,800** |
| **Decrease** **in** **cash** |  |  | **$** **(37,200)** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **337,800** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **300,600** |
|  |  |  |  |

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**Prob.** **14–3B** **(Concluded)**

**(Optional)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **COULSON** **INC.**  **Spreadsheet** **(Work** **Sheet)** **for** **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2015** | | | | |
| **Account** **Title** | **Balance,**  **Dec.** **31,** **2015** | **Transactions** | | **Balance,**  **Dec.** **31,** **2016** |
| **Debit** | **Credit** |
| **Cash** | **337,800** |  | **(p)** **37,200** | **300,600** |
| **Accounts** **receivable** **(net)** | **609,600** | **(i)** **94,800** |  | **704,400** |
| **Inventories** | **865,800** | **(h)** **52,800** |  | **918,600** |
| **Prepaid** **expenses** | **26,400** |  | **(g)** **7,800** | **18,600** |
| **Land** | **1,386,000** |  | **(m)** **396,000** | **990,000** |
| **Buildings** | **990,000** | **(l)** **990,000** |  | **1,980,000** |
| **Accum.** **depr.—buildings** | **(366,000)** |  | **(f)** **31,200** | **(397,200)** |
| **Equipment** | **529,800** | **(j)** **196,800** | **(k)** **66,000** | **660,600** |
| **Accum.** **depr.—equipment** | **(162,000)** | **(k)** **66,000** | **(e)** **37,200** | **(133,200)** |
| **Accounts** **payable** | **(631,200)** | **(d)** **37,200** |  | **(594,000)** |
| **Income** **taxes** **payable** | **(21,600)** |  | **(c)** **4,800** | **(26,400)** |
| **Bonds** **payable** | **0** |  | **(n)** **330,000** | **(330,000)** |
| **Common** **stock,** **$20** **par** | **(180,000)** |  | **(o)** **140,000** | **(320,000)** |
| **Paid-in** **capital** **in** **excess** **of** |  |  |  |  |
| **par—common** **stock** | **(810,000)** |  | **(o)** **140,000** | **(950,000)** |
| **Retained** **earnings** | **(2,574,600)** | **(b)** **79,200** | **(a)** **326,600** | **(2,822,000)** |
| **Totals** | **0** | **1,516,800** | **1,516,800** | **0** |
| **Operating** **activities:** |  |  |  |  |
| **Net** **income** |  | **(a)** **326,600** |  |  |
| **Depreciation—equipment** |  | **(e)** **37,200** |  |  |
| **Depreciation—buildings** |  | **(f)** **31,200** |  |  |
| **Gain** **on** **sale** **of** **land** |  |  | **(m)** **60,000** |  |
| **Increase** **in** **accts.** **receivable** |  |  | **(i)** **94,800** |  |
| **Increase** **in** **inventories** |  |  | **(h)** **52,800** |  |
| **Decrease** **in** **prepaid** **expenses** |  | **(g)** **7,800** |  |  |
| **Decrease** **in** **accounts** **payable** |  |  | **(d)** **37,200** |  |
| **Increase** **in** **income** **taxes** |  |  |  |  |
| **payable** |  | **(c)** **4,800** |  |  |
| **Investing** **activities:** |  |  |  |  |
| **Purchase** **of** **equipment** |  |  | **(j)** **196,800** |  |
| **Acquisition** **of** **building** |  |  | **(l)** **990,000** |  |
| **Sale** **of** **land** |  | **(m)** **456,000** |  |  |
| **Financing** **activities:** |  |  |  |  |
| **Payment** **of** **cash** **dividends** |  |  | **(b)** **79,200** |  |
| **Issuance** **of** **bonds** **payable** |  | **(n)** **330,000** |  |  |
| **Issuance** **of** **common** **stock** |  | **(o)** **280,000** |  |  |
| **Net** **decrease** **in** **cash** |  | **(p)** **37,200** |  |  |
| **Totals** |  | **1,510,800** | **1,510,800** |  |
|  |  |  |  |  |

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**Prob.** **14–4B**

|  |  |  |  |
| --- | --- | --- | --- |
| **MARTINEZ** **INC.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Cash** **received** **from** **customers1** |  | **$4,433,760** |  |
| **Deduct:** **Cash** **payments** **for** |  |  |  |
| **merchandise2** | **$2,269,200** |  |  |
| **Cash** **payments** **for** **operating** |  |  |  |
| **expenses3** | **1,356,240** |  |  |
| **Cash** **payments** **for** **income** **tax** | **299,100** | **3,924,540** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **509,220** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **investments** |  | **$** **588,000** |  |
| **Less:** **Cash** **paid** **for** **land** | **$** **960,000** |  |  |
| **Cash** **paid** **for** **equipment** | **240,000** | **1,200,000** |  |
| **Net** **cash** **flow** **used** **for** **investing** |  |  |  |
| **activities** |  |  | **(612,000)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** |  |  |  |
| **common** **stock** |  | **$** **600,000** |  |
| **Less:** **Cash** **paid** **for** **dividends\*** |  | **518,400** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **81,600** |
| **Decrease** **in** **cash** |  |  | **$** **(21,180)** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **683,100** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **661,920** |
|  |  |  |  |

**Reconciliation** **of** **Net** **Income** **with** **Cash** **Flows** **from** **Operating** **Activities:**

**Net** **income……………………………………………………………………………** **$** **558,960**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow**

**from** **operating** **activities:**

**Depreciation** **expense…………………………………………………………** **113,100**

**Gain** **on** **sale** **of** **investments…………………………………………………** **(156,000)**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Increase** **in** **accounts** **receivable………………………………………** **(78,240)**

**Increase** **in** **inventories……………………………………………………** **(30,600)**

**Increase** **in** **accounts** **payable……………………………………………** **113,400**

**Decrease** **in** **accrued** **expenses** **payable………………………………** **(11,400)**

**Net** **cash** **flow** **from** **operating** **activities…………………………………………** **$** **509,220**

**\*** **Dividends** **paid:** **$528,000** **+** **$91,200** **–** **$100,800** **=** **$518,400**

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**Prob.** **14–4B** **(Concluded)**

**Computations:**

**1.** **Sales……………………………………………………………………………** **$4,512,000**

**Deduct** **increase** **in** **accounts** **receivable………………………………** **78,240**

**Cash** **received** **from** **customers……………………………………………** **$4,433,760**

**2.** **Cost** **of** **merchandise** **sold…………………………………………………** **$2,352,000**

**Add** **increase** **in** **inventories………………………………………………** **30,600**

**$2,382,600**

**Deduct** **increase** **in** **accounts** **payable……………………………………** **113,400**

**Cash** **payments** **for** **merchandise…………………………………………** **$2,269,200**

**3.** **Operating** **expenses** **other** **than** **depreciation…………………………** **$1,344,840**

**Add** **decrease** **in** **accrued** **expenses** **payable……………………………** **11,400**

**Cash** **payments** **for** **operating** **expenses…………………………………** **$1,356,240**

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**Prob.** **14–5B**

|  |  |  |  |
| --- | --- | --- | --- |
| **MERRICK** **EQUIPMENT** **CO.**  **Statement** **of** **Cash** **Flows**  **For** **the** **Year** **Ended** **December** **31,** **2016** | | | |
| **Cash** **flows** **from** **operating** **activities:** |  |  |  |
| **Cash** **received** **from** **customers1** |  | **$2,004,858** |  |
| **Deduct:** **Cash** **payments** **for** **merchandise2** | **$1,242,586** |  |  |
| **Cash** **payments** **for** **operating** |  |  |  |
| **expenses3** | **513,559** |  |  |
| **Cash** **payments** **for** **income** **taxes** | **94,453** | **1,850,598** |  |
| **Net** **cash** **flow** **from** **operating** **activities** |  |  | **$** **154,260** |
|  |  |  |  |
| **Cash** **flows** **from** **investing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** **investments** |  | **$** **91,800** |  |
| **Less:** **Cash** **paid** **for** **purchase** **of** **land** | **$** **295,800** |  |  |
| **Cash** **paid** **for** **purchase** **of** |  |  |  |
| **equipment** | **80,580** | **376,380** |  |
| **Net** **cash** **flow** **used** **for** **investing** |  |  |  |
| **activities** |  |  | **(284,580)** |
|  |  |  |  |
| **Cash** **flows** **from** **financing** **activities:** |  |  |  |
| **Cash** **received** **from** **sale** **of** |  |  |  |
| **common** **stock** |  | **$** **250,000** |  |
| **Less:** **Cash** **paid** **for** **dividends\*** |  | **96,900** |  |
| **Net** **cash** **flow** **from** **financing** **activities** |  |  | **153,100** |
| **Increase** **in** **cash** |  |  | **$** **22,780** |
| **Cash** **at** **the** **beginning** **of** **the** **year** |  |  | **47,940** |
| **Cash** **at** **the** **end** **of** **the** **year** |  |  | **$** **70,720** |
|  |  |  |  |

**Reconciliation** **of** **Net** **Income** **with** **Cash** **Flows** **from** **Operating** **Activities:**

**Net** **income……………………………………………………………………………** **$141,680**

**Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **flow**

**from** **operating** **activities:**

**Depreciation……………………………………………………………………** **14,790**

**Loss** **on** **sale** **of** **investments…………………………………………………** **10,200**

**Changes** **in** **current** **operating** **assets** **and** **liabilities:**

**Increase** **in** **accounts** **receivable…………………………………………** **(19,040)**

**Increase** **in** **inventories……………………………………………………** **(8,670)**

**Increase** **in** **accounts** **payable……………………………………………** **11,560**

**Increase** **in** **accrued** **expenses** **payable…………………………………** **3,740**

**Net** **cash** **flow** **from** **operating** **activities………………………………………** **$154,260**

**\*** **Dividends** **paid:** **$102,000** **+** **$20,400** **–** **$25,500** **=** **$96,900**

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**Prob.** **14–5B** **(Concluded)**

**Computations:**

**1.** **Sales………………………………………………………………………………** **$2,023,898**

**Deduct** **increase** **in** **accounts** **receivable……………………………………** **19,040**

**Cash** **received** **from** **customers………………………………………………** **$2,004,858**

**2.** **Cost** **of** **merchandise** **sold………………………………………………………** **$1,245,476**

**Add** **increase** **in** **inventories……………………………………………………** **8,670**

**$1,254,146**

**Deduct** **increase** **in** **accounts** **payable………………………………………** **11,560**

**Cash** **payments** **for** **merchandise……………………………………………** **$1,242,586**

**3.** **Operating** **expenses** **other** **than** **depreciation………………………………** **$** **517,299**

**Deduct** **increase** **in** **accrued** **expenses** **payable……………………………** **3,740**

**Cash** **payments** **for** **operating** **expenses……………………………………** **$** **513,559**

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**CASES** **&** **PROJECTS**

**CP** **14–1**

**Although** **this** **situation** **might** **seem** **harmless** **at** **first,** **it** **is,** **in** **fact,** **a** **violation** **of**

**generally** **accepted** **accounting** **principles.** **The** **operating** **cash** **flow** **per** **share** **figure**

**should** **not** **be** **shown** **on** **the** **face** **of** **the** **income** **statement.** **The** **income** **statement** **is**

**constructed** **under** **accrual** **accounting** **concepts,** **while** **operating** **cash** **flow** **“undoes”**

**the** **accounting** **accruals.** **Thus,** **unlike** **Lucas’s** **assertion** **that** **this** **information** **would** **be**

**useful,** **more** **likely** **the** **information** **could** **be** **confusing** **to** **users.** **Some** **users** **might** **not**

**be** **able** **to** **distinguish** **between** **earnings** **and** **operating** **cash** **flow** **per** **share—or** **how** **to**

**interpret** **the** **difference.** **By** **agreeing** **with** **Lucas,** **John** **has** **breached** **his** **professional**

**ethics** **because** **the** **disclosure** **would** **violate** **generally** **accepted** **accounting** **principles.**

**On** **a** **more** **subtle** **note,** **Lucas** **is** **being** **somewhat** **disingenuous.** **Apparently,** **Lucas** **is**

**not** **pleased** **with** **this** **year’s** **operating** **performance** **and** **would** **like** **to** **cover** **the**

**earnings** **“bad** **news”** **with** **some** **cash** **flow** **“good** **news”** **disclosures.** **An** **interesting**

**question** **is:** **Would** **Lucas** **be** **as** **interested** **in** **the** **dual** **per** **share** **disclosures** **in** **the**

**opposite** **scenario—with** **earnings** **per** **share** **improving** **and** **cash** **flow** **per** **share**

**deteriorating?** **Probably** **not.**

**CP** **14–2**

**Start-up** **companies** **are** **unique** **in** **that** **they** **frequently** **will** **have** **negative** **retained**

**earnings** **and** **operating** **cash** **flows.** **The** **negative** **retained** **earnings** **are** **often** **due** **to**

**losses** **from** **high** **start-up** **expenses.** **The** **negative** **operating** **cash** **flows** **are** **typical**

**because** **growth** **requires** **cash.** **Growth** **must** **be** **financed** **with** **cash** **before** **the** **cash**

**returns.** **For** **example,** **a** **company** **must** **expend** **cash** **to** **provide** **the** **service** **in** **Period** **1**

**before** **selling** **it** **and** **receiving** **cash** **in** **Period** **2.** **The** **start-up** **company** **constantly** **faces**

**the** **problem** **of** **spending** **cash** **today** **for** **the** **next** **period’s** **growth.** **For** **Giraffe** **Inc.,** **the**

**money** **spent** **on** **salaries** **to** **develop** **the** **business** **is** **a** **cash** **outflow** **that** **must** **occur**

**before** **the** **service** **provides** **revenues.** **In** **addition,** **the** **company** **must** **use** **cash** **to** **market**

**its** **service** **to** **potential** **customers.** **In** **this** **situation,** **the** **only** **way** **the** **company** **stays** **in**

**business** **is** **from** **the** **capital** **provided** **by** **the** **owners.** **This** **owner-supplied** **capital** **is**

**the** **lifeblood** **of** **a** **start-up** **company.** **Banks** **will** **not** **likely** **lend** **money** **on** **this** **type** **of**

**venture** **(except** **with** **assets** **as** **security).** **Giraffe** **Inc.** **could** **be** **a** **good** **investment.**

**It** **all** **depends** **on** **whether** **the** **new** **service** **has** **promise.** **The** **financial** **figures** **will** **not**

**reveal** **this** **easily.** **Only** **actual** **sales** **will** **reveal** **if** **the** **service** **is** **a** **hit.** **Until** **such** **a** **time,** **the**

**company** **is** **at** **risk.** **If** **the** **service** **is** **not** **popular,** **the** **company** **will** **have** **no** **cash** **to** **fall**

**back** **on—it** **will** **likely** **go** **bankrupt.** **If,** **however,** **the** **service** **is** **successful,** **then**

**Giraffe** **Inc.** **should** **become** **self-sustaining** **and** **provide** **a** **good** **return** **for** **the**

**shareholders.**

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**CP** **14–3**

**a.** **1.** **Normal** **practice** **for** **determining** **the** **amount** **of** **cash** **flows** **from** **operating**

**activities** **during** **the** **year** **is** **to** **begin** **with** **the** **reported** **net** **income.** **This** **net**

**income** **must** **ordinarily** **be** **adjusted** **upward** **or** **downward** **to** **determine** **the**

**amount** **of** **cash** **flows.** **Although** **many** **operating** **expenses** **decrease** **cash,**

**depreciation** **does** **not.** **The** **amount** **of** **net** **income** **understates** **the** **amount** **of**

**cash** **flows** **provided** **by** **operations** **to** **the** **extent** **that** **depreciation** **expense** **is**

**deducted** **from** **revenue.** **The** **associated** **cash** **outflow** **occurs** **when** **the** **asset**

**is** **purchased** **and** **is** **reported** **as** **a** **cash** **outflow** **from** **investing** **activities.**

**Accordingly,** **the** **depreciation** **expense** **for** **the** **year** **must** **be** **added** **back** **to** **the**

**reported** **net** **income** **in** **arriving** **at** **cash** **flows** **from** **operating** **activities.**

**2.** **Generally** **accepted** **accounting** **principles** **require** **that** **significant** **transactions**

**affecting** **future** **cash** **flows** **should** **be** **reported** **in** **a** **separate** **schedule** **to** **the**

**statement,** **even** **though** **they** **do** **not** **affect** **cash.** **Accordingly,** **even** **though** **the**

**issuance** **of** **the** **common** **stock** **for** **land** **does** **not** **affect** **cash,** **the** **transaction**

**affects** **future** **cash** **flows** **and** **must** **be** **reported.**

**3.** **The** **$180,000** **cash** **received** **from** **the** **sale** **of** **the** **investments** **is** **reported** **in** **the**

**Cash** **Flows** **from** **Investing** **Activities** **section.** **Because** **the** **net** **income** **included**

**a** **gain** **of** **$30,000,** **the** **gain** **is** **deducted** **from** **net** **income** **to** **avoid** **double**

**reporting** **this** **amount** **and** **to** **remove** **it** **from** **the** **determination** **of** **cash** **flows**

**from** **operating** **activities.**

**4.** **The** **balance** **sheets** **for** **the** **last** **two** **years** **will** **indicate** **the** **increase** **in** **cash** **but**

**will** **not** **indicate** **the** **firm’s** **activities** **in** **meeting** **its** **financial** **obligations,** **paying**

**dividends,** **and** **maintaining** **and** **expanding** **operating** **capacity.** **Such** **information,**

**as** **provided** **by** **the** **statement** **of** **cash** **flows,** **assists** **creditors** **in** **assessing** **the**

**firm’s** **solvency** **and** **profitability—two** **very** **important** **factors** **bearing** **on** **the**

**evaluation** **of** **a** **potential** **loan.**

**b.** **The** **statement** **of** **cash** **flows** **indicates** **a** **strong** **liquidity** **position** **for** **Argon** **Inc.** **The**

**increase** **in** **cash** **of** **$291,000** **for** **the** **past** **year** **is** **more** **than** **adequate** **to** **cover** **the**

**$150,000** **of** **new** **building** **and** **store** **equipment** **costs** **that** **will** **not** **be** **provided** **by** **the**

**loan.** **Thus,** **the** **statement** **of** **cash** **flows** **most** **likely** **will** **enhance** **the** **company’s**

**chances** **of** **receiving** **a** **loan.** **However,** **other** **information,** **such** **as** **a** **projection** **of**

**future** **earnings,** **a** **description** **of** **collateral** **pledged** **to** **support** **the** **loan,** **and** **an**

**independent** **credit** **report,** **would** **normally** **be** **considered** **before** **a** **final** **loan**

**decision** **is** **made.**

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**CP** **14–4**

**The** **senior** **vice** **president** **is** **very** **focused** **on** **profitability** **but** **has** **been** **bleeding** **cash.**

**The** **increase** **in** **accounts** **receivable** **and** **inventory** **is** **striking.** **Apparently,** **the** **new**

**credit** **card** **campaign** **has** **found** **many** **new** **customers** **because** **the** **accounts** **receivable**

**is** **growing.** **Unfortunately,** **it** **appears** **as** **though** **the** **new** **campaign** **has** **done** **a** **poor** **job**

**of** **screening** **creditworthiness** **in** **these** **new** **customers.** **In** **other** **words,** **there** **are** **many**

**new** **credit** **card** **purchasers—unfortunately,** **they** **do** **not** **appear** **to** **be** **paying** **off** **their**

**balances.** **The** **new** **merchandise** **purchases** **appear** **to** **be** **backfiring.** **The** **company** **has**

**received** **some** **“good** **deals,”** **except** **that** **they** **are** **only** **“good** **deals”** **if** **it** **can** **resell** **the**

**merchandise.** **If** **the** **merchandise** **has** **no** **customer** **appeal,** **then** **that** **would** **explain** **the**

**inventory** **increase.** **In** **other** **words,** **the** **division** **is** **purchasing** **merchandise** **that** **sits** **on**

**the** **shelf,** **regardless** **of** **pricing.** **The** **reduction** **in** **payables** **is** **the** **result** **of** **the** **division**

**becoming** **overdue** **on** **payments.** **The** **memo** **reports** **that** **most** **of** **the** **past** **due** **payables**

**have** **been** **paid.** **This** **situation** **is** **critical** **in** **the** **retailing** **business.** **A** **retailer** **cannot**

**afford** **a** **poor** **payment** **history,** **or** **it** **will** **be** **denied** **future** **merchandise** **shipments.** **This**

**is** **a** **signal** **of** **severe** **cash** **problems.** **Overall,** **the** **picture** **is** **of** **a** **retailer** **having** **severe**

**operating** **cash** **flow** **difficulties.**

***Note*** ***to*** ***Instructors:*** **This** **scenario** **is** **essentially** **similar** **to** **Kmart’s** **path** **to** **eventual**

**bankruptcy.** **It** **reported** **earnings,** **while** **having** **significant** **negative** **cash** **flows** **from**

**operations** **due** **to** **expanding** **credit** **too** **liberally** **(increases** **in** **accounts** **receivable)** **and**

**purchasing** **too** **much** **unsaleable** **inventory** **(increases** **in** **inventory).** **Eventually,** **Kmart’s**

**inventory** **write-down** **resulted** **in** **significant** **losses** **about** **the** **time** **it** **entered** **bankruptcy.**

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**CP** **14–5**

**a.** **and** **b.**

**Recent** **statements** **of** **cash** **flows** **for** **Johnson** **&** **Johnson** **and** **JetBlue** **Airways** **Corp.** **are**

**shown** **on** **the** **following** **pages.** **The** **actual** **analysis** **may** **be** **different** **due** **to** **updated**

**information.** **However,** **this** **answer** **shows** **the** **structure** **for** **a** **possible** **response.**

**Johnson** **&** **Johnson**

**Johnson** **&** **Johnson** **(J&J)** **is** **a** **powerful** **generator** **of** **cash** **flows** **from** **operating**

**activities,** **with** **almost** **$15.4** **billion** **in** **cash** **flow** **from** **operations.** **This** **is** **enough** **to**

**support** **more** **than** **$4.5** **billion** **in** **investing** **activities,** **with** **cash** **left** **over** **to** **pay** **a** **sizable**

**dividend** **and** **repurchase** **shares** **of** **common** **stock.** **Overall,** **the** **statement** **of** **cash** **flows**

**indicates** **very** **favorable** **cash** **flows** **for** **J&J.** **J&J’s** **free** **cash** **flow** **is** **approximately** **$12.5**

**billion** **for** **the** **year** **($15.4** **–** **$2.9).**

**JetBlue** **Airways** **Corp.**

**JetBlue** **is** **weaker** **than** **J&J.** **JetBlue** **had** **cash** **flows** **from** **operating** **activities** **of**

**around** **$698** **million.** **In** **addition,** **JetBlue** **had** **net** **negative** **cash** **flows** **from** **investing**

**activities** **of** **$867** **million.** **The** **net** **cash** **outflows** **from** **financing** **activities** **was** **$322**

**million,** **which** **primarily** **came** **from** **the** **issuance** **of** **short-term** **and** **long-term** **debt.**

**JetBlue** **did** **not** **generate** **enough** **cash** **flow** **from** **operations** **to** **maintain** **the** **necessary**

**investment** **in** **its** **fixed** **assets.** **Free** **cash** **flow** **is** **approximately** **($127)** **million**

**($698** **–** **$825).** **JetBlue** **is** **in** **a** **much** **weaker** **cash** **flow** **position** **than** **Johnson** **&** **Johnson.**

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**CP** **14–5** **(Continued)**

|  |  |
| --- | --- |
| **JOHNSON** **&** **JOHNSON**  **Consolidated** **Statements** **of** **Cash** **Flows** | |
| **In** **Millions** **For** **Period** **Ended** **December** **31,** **2012** | **12/31/12** |
|  |  |
| **CASH** **FLOWS** **FROM** **OPERATING** **ACTIVITIES:** |  |
| **Net** **earnings** | **$** **10,514** |
| **Adjustments** **to** **reconcile** **net** **earnings** **to** **cash** **flows:** |  |
| **Depreciation** **and** **amortization** **of** **property** **and** **intangibles** | **3,666** |
| **Non-controlling** **interest** | **339** |
| **Asset** **write-downs** **and** **impairments** | **2,131** |
| **Stock** **based** **compensation** | **662** |
| **Deferred** **tax** **provision** | **(39)** |
| **Accounts** **receivable** **allowances** | **92** |
| **Changes** **in** **assets** **and** **liabilities,** **net** **of** **effects** **from** **acquisitions:** |  |
| **Increase** **in** **accounts** **receivable** | **(9)** |
| **(Increase)/decrease** **in** **inventories** | **(1)** |
| **(Decrease)/increase** **in** **accounts** **payable** **and** **accrued** **liabilities** | **2,768** |
| **(Decrease)/increase** **in** **other** **current** **and** **noncurrent** **assets** | **(2,171)** |
| **(Decrease)/increase** **in** **other** **current** **and** **noncurrent** **liabilities** | **(2,555)** |
| **NET** **CASH** **FLOWS** **FROM** **OPERATING** **ACTIVITIES** | **$** **15,397** |
|  |  |
| **CASH** **FLOWS** **FROM** **INVESTING** **ACTIVITIES:** |  |
| **Additions** **to** **property,** **plant** **and** **equipment** | **$** **(2,934)** |
| **Proceeds** **from** **the** **disposal** **of** **assets** | **1,509** |
| **Acquisitions,** **net** **of** **cash** **acquired** | **(4,486)** |
| **Purchases** **of** **investments** | **(13,434)** |
| **Sales** **of** **investments** | **14,797** |
| **Other** **(primarily** **intangibles)** | **37** |
| **NET** **CASH** **USED** **BY** **INVESTING** **ACTIVITIES** | **$** **(4,511)** |
|  |  |
| **CASH** **FLOWS** **FROM** **FINANCING** **ACTIVITIES:** |  |
| **Dividends** **to** **shareholders** | **$** **(6,614)** |
| **Repurchase** **of** **common** **stock** | **(12,919)** |
| **Proceeds** **from** **short-term** **debt** | **3,268** |
| **Retirement** **of** **short-term** **debt** | **(6,175)** |
| **Proceeds** **from** **long-term** **debt** | **45** |
| **Retirement** **of** **long-term** **debt** | **(804)** |
| **Proceeds** **from** **the** **exercise** **of** **stock** **options** | **2,720** |
| **Other** | **(83)** |
| **NET** **CASH** **USED** **BY** **FINANCING** **ACTIVITIES** | **$(20,562)** |
| **Effect** **of** **exchange** **rate** **changes** **on** **cash** **and** **cash** **equivalents** | **45** |
| **Increase** **in** **cash** **and** **cash** **equivalents** | **(9,631)** |
| **Cash** **and** **cash** **equivalents,** **beginning** **of** **year** | **24,542** |
| **CASH** **AND** **CASH** **EQUIVALENTS,** **END** **OF** **YEAR** | **$** **14,911** |
| **SUPPLEMENTAL** **SCHEDULE** **OF** **NONCASH** **INVESTING** **AND** |  |
| **FINANCING** **ACTIVITIES** |  |
| **Treasury** **stock** **issued** **for** **employee** **compensation** **and** |  |
| **stock** **option** **plans,** **net** **of** **cash** **proceeds** | **433** |
| **Conversion** **of** **debt** | **1** |
|  |  |

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**CP** **14–5** **(Concluded)**

|  |  |
| --- | --- |
| **JETBLUE** **AIRWAYS** **CORP.**  **Consolidated** **Statements** **of** **Cash** **Flows**  **31-Dec-12** | |
| **In** **Millions** **For** **Period** **Ended** **December** **31,** **2012** | **12/31/12** |
|  |  |
| **Cash** **Flow** **from** **Operating** **Activities:** |  |
| **Net** **income** | **$** **128** |
| **Adjustments** **to** **reconcile** **net** **income** **to** **net** **cash** **provided** **(used)** |  |
| **by** **operating** **activities:** |  |
| **Depreciation** | **230** |
| **Amortization** | **39** |
| **Stock-based** **compensation** | **13** |
| **Losses** **(Gains)** **on** **sale** **of** **flight** **equipment** **and** **extinguishment** **of** **debt** | **(17)** |
| **Deferred** **income** **taxes** | **76** |
| **Collateral** **returned** **(deposits)** **for** **derivative** **instruments** | **8** |
| **Changes** **in** **certain** **operating** **assets** **and** **liabilities:** |  |
| **Decrease** **(increase)** **in** **receivables** | **1** |
| **Increase** **(decrease)** **in** **inventories,** **prepaid** **and** **other** | **38** |
| **Increase** **(decrease)** **in** **air** **traffic** **liability** | **66** |
| **Increase** **(decrease)** **accounts** **payable** **and** **other** **accrued** **liabilities** | **92** |
| **Other,** **net** | **24** |
| **Net** **cash** **(used)** **provided** **by** **operating** **activities** | **$** **698** |
|  |  |
| **Cash** **Flow** **from** **Investing** **Activities:** |  |
| **Capital** **expenditures,** **including** **purchase** **deposits** **on** **flight** **equipment** | **$(541)** |
| **Predelivery** **deposits** **for** **flight** **equipment** | **(284)** |
| **Purchase** **of** **held-to-maturity** **investments** | **(444)** |
| **Proceeds** **from** **maturity** **of** **held-to-maturity** **investments** | **434** |
| **Purchase** **of** **available-for-sale** **securities** | **(532)** |
| **Sale** **of** **available-for-sale** **securities** | **438** |
| **Other** | **62** |
| **Net** **cash** **used** **for** **investing** **activities** | **$(867)** |
|  |  |
| **Cash** **Flow** **from** **Financing** **Activities:** |  |
| **Proceeds** **from:** |  |
| **Issuance** **of** **common** **stock** | **$** **9** |
| **Issuance** **of** **long-term** **debt** | **215** |
| **Short-term** **borrowings** | **375** |
| **Repayment** **of:** |  |
| **Long-term** **debt** **and** **capital** **lease** **obligations** | **(418)** |
| **Short-term** **borrowings** | **(463)** |
| **Other** | **(40)** |
| **Net** **cash** **provided** **by** **financing** **activities** | **$(322)** |
| **Net** **increase** **in** **cash** | **(491)** |
| **Cash** **at** **beginning** **of** **year** | **673** |
| **Cash** **at** **end** **of** **year** | **$** **182** |
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