

Sec. 02Due Date: June 29th, 2015

Due Hour: 6:00 p.m.

Sec. 01Due Date: June 30th, 2015

Due Hour: 6:00 p.m.

General Guidelines:

1. Organization and proper indication of answers will be taken into account in the grade.
2. No digital answers will be taken into account.
3. All calculations must be provided.

TOTAL WORTH: 5 points

- I. On the basis of the following data for Larson Co. for the year ending December 31, 2011 and the preceding year ended December 31, 2010, prepare a statement of cash flows. Use the indirect method of reporting cash flows from operating activities. In addition to the balance sheet data, assume that:

Equipment costing \$125,000 was purchased for cash.

Equipment costing \$85,000 with accumulated depreciation of \$65,000 was sold for \$15,000.

The stock was issued for cash.

The only entries in the retained earnings account were net income of \$51,000 and cash dividends declared of \$13,000.

	Year <u>2011</u>	Year <u>2010</u>
Cash	\$100,000	\$ 78,000
Accounts receivable (net)	78,000	85,000
Inventories	101,500	90,000
Equipment	410,000	370,000
Accumulated depreciation	(150,000)	(158,000)
	<u>\$539,500</u>	<u>\$465,000</u>
Accounts payable (merchandise creditors)	\$ 58,500	\$ 55,000
Cash dividends payable	5,000	4,000
Common stock, \$10 par	200,000	170,000
Paid-in capital in excess of par-- common stock	62,000	60,000
Retained earnings	<u>214,000</u>	<u>176,000</u>
	<u>\$539,500</u>	<u>\$465,000</u>

- II. The comparative balance sheet of Posner Company, for 2011 and the preceding year ended December 31, 2010, appears below in condensed form:

	Year 2011	Year 2010
Cash	\$ 53,000	\$ 50,000
Accounts receivable (net)	37,000	48,000
Inventories	108,500	100,000
Investments	70,000
Equipment	573,200	450,000
Accumulated depreciation-equipment	<u>(142,000)</u>	<u>(176,000)</u>
	<u>\$629,700</u>	<u>\$542,000</u>
Accounts payable	\$ 62,500	\$ 43,800
Bonds payable, due 2011	100,000
Common stock, \$10 par	325,000	285,000
Paid-in capital in excess of par-- common stock	80,000	55,000
Retained earnings	<u>162,200</u>	<u>58,200</u>
	<u>\$629,700</u>	<u>\$542,000</u>

The income statement for the current year is as follows:

Sales		\$625,700
Cost of merchandise sold		<u>340,000</u>
Gross profit		\$285,700
Operating expenses:		
Depreciation expense	\$26,000	
Other operating expenses	<u>68,000</u>	<u>94,000</u>
Income from operations		\$191,700
Other income:		
Gain on sale of investment	\$ 4,000	
Other expense:		
Interest expense	<u>6,000</u>	<u>(2,000)</u>
Income before income tax		\$189,700
Income tax		<u>60,700</u>
Net income		<u>\$129,000</u>

Additional data for the current year are as follows:

- (a) Fully depreciated equipment costing \$60,000 was scrapped, no salvage, and equipment was purchased for \$183,200.
- (b) Bonds payable for \$100,000 were retired by payment at their face amount.
- (c) 5,000 shares of common stock were issued at \$13 for cash.
- (d) Cash dividends declared and paid, \$25,000.

Prepare a statement of cash flows, using the indirect method of reporting cash flows from operating activities.