

13. TBS-00023

The following financial statement and supplemental information is available for Carolina & Company as of December 31, Year 3.

	<u>12/31/Y3</u>	<u>12/31/Y2</u>
Cash and cash equivalents	\$216,200	\$131,000
Accounts receivable, net	244,000	200,000
Inventory	32,000	45,000
Marketable securities	17,000	-
Land	237,000	187,000
Buildings and equipment	140,000	75,000
Less: Accumulated depreciation	<u>(53,500)</u>	<u>(43,000)</u>
Total Assets	\$832,700	\$595,000
Accounts payable	\$197,000	\$110,000
Bonds payable	110,000	60,000
Common stock (\$20 par)	230,000	210,000
Additional paid-in capital	130,000	115,000
Retained earnings	<u>165,700</u>	<u>100,000</u>
Total Liabilities and Equity	\$832,700	\$595,000
Net sales	\$600,000	
Cost of goods sold	<u>400,000</u>	
Gross profit	\$200,000	
SG&A expenses	(60,000)	
Depreciation	<u>(23,000)</u>	
Operating income	\$117,000	
Interest expense	(15,000)	
Gain on sale of equipment	<u>7,500</u>	
Income before taxes	\$109,500	
Income tax expense	<u>(43,800)</u>	
Net income	\$ 65,700	

Additional Information:

Carolina & Company uses U.S. GAAP.

- On March 1st the company sold a forklift with a book value of \$22,500 for \$30,000. The forklift was purchased for \$35,000.
- On June 5th the company issued 1,000 shares of common stock for \$35/share.
- \$50,000 in bonds were issued at par value on September 15th.
- On October 1st land and a building were purchased for a new distribution center in the amount of \$150,000. The land was appraised for \$50,000 by an independent appraiser.
- On December 30th the company purchased the stock of A & V for \$17,000. This investment is classified as available for sale.

Solution for Indirect Method

Carolina & Company
Statement of Cash Flows
For the Year Ended December 31, Year 3

Cash flows from operating activities:		
Net income		65,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23,000	
Gain on sale of equipment	(7,500)	
Increase in accounts receivable	(44,000)	
Decrease in inventory	13,000	
Increase in accounts payable	<u>87,000</u>	
Total adjustments		71,500
Net cash provided by operating activities		137,200
Cash flows from investing activities:		
Purchase of available for sale securities	(17,000)	
Purchase of land and building	(150,000)	
Sale of equipment	<u>30,000</u>	
Net cash used in investing activities		(137,000)
Cash flows from financing activities:		
Proceeds from issuance of bonds	50,000	
Proceeds from issuance of stock	<u>35,000</u>	
Net cash provided by financing activities		85,000
Increase in cash and cash equivalents		85,200
Beginning cash and cash equivalents		131,000
Ending cash and cash equivalents		216,200

Solution for Direct Method

Carolina & Company
Statement of Cash Flows
For the Year Ended December 31, Year 3

Cash flows from operating activities:		
Cash receipts from customers	556,000	
Cash payments to suppliers	(300,000)	
Cash payments for SG&A expenses	(60,000)	
Cash payments for interest expense	(15,000)	
Cash payments for income taxes	<u>(43,800)</u>	
Net cash provided by operating activities		137,200
Cash flows from investing activities:		
Purchase of available for sale securities	(17,000)	
Purchase of land and building	(150,000)	
Sale of equipment	<u>30,000</u>	
Net cash used in investing activities		(137,000)
Cash flows from financing activities:		
Proceeds from issuance of bonds	50,000	
Proceeds from issuance of stock	<u>35,000</u>	
Net cash provided by financing activities		85,000
Increase in cash and cash equivalents		85,200
Beginning cash and cash equivalents		131,000
Ending cash and cash equivalents		216,200