

PROBLEM 12-7A

(a)

TRAHAN COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2010

Cash flows from operating activities		
Net income		\$32,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$17,500*	
Increase in accounts payable	9,000	
Decrease in income taxes payable.....	(1,000)	
Increase in merchandise inventory.....	(7,000)	
Increase in accounts receivable	(19,000)	(500)
Net cash provided by operating activities.....		<u>31,500</u>
Cash flows from investing activities		
Sale of equipment		8,500
Cash flows from financing activities		
Issuance of common stock.....	4,000	
Redemption of bonds	(6,000)	
Payment of dividends.....	(20,000)	
Net cash used by financing activities.....		<u>(22,000)</u>
Net increase in cash.....		18,000
Cash at beginning of period		<u>20,000</u>
Cash at end of period		<u>\$38,000</u>

$$*\$32,000 - (\$24,000 - \$9,500^{(A)}) = \$17,500$$

^(A)\$18,000 (cost of equipment) – \$8,500 (book value) = \$9,500 (accumulated depreciation for equipment sold)

PROBLEM 12-7A (Continued)

(b) 1.
$$\frac{\$31,500}{[\text{Per Part (a)}]} \div \frac{\$23,000^* + \$31,000^{**}}{2} = 1.17 \text{ times}$$

$$*\$15,000 + \$8,000 \quad **\$24,000 + \$7,000$$

2.
$$\$31,500 \div \frac{\$56,000^* + \$58,000^{**}}{2} = .55 \text{ times}$$

$$*\$15,000 + \$8,000 + \$33,000 \quad **\$24,000 + \$7,000 + \$27,000$$

3.
$$\$31,500 - \$0 - \$20,000 = \$11,500$$