Chapter 12 Alternate Demonstration Problem

**The Carpet Company’s 2021 and 2022 balance sheets included the following items:**

|  |  |
| --- | --- |
|  | **December 31** |
|  | **2022** | **2021** |
| **Debits** |  |  |
| **Cash**  | **$10,500** | **$ 4,000** |
| **Accounts receivable**  | **8,000** | **9,000** |
| **Merchandise inventory**  | **21,000** | **18,000** |
| **Equipment**  |  **18,000** |  **15,000** |
|  **Totals**  | **$57,500** | **$46,000** |
|  |  |  |
| **Credits** |  |  |
| **Accumulated depreciation, equipment**  | **$ 4,000** | **$ 3,000** |
| **Accounts payable**  | **7,000** | **5,000** |
| **Taxes payable**  | **1,000** | **2,000** |
| **Dividends payable**  | **1,500** | **0** |
| **Common stock, $10 par value**  | **27,000** | **25,000** |
| **Contributed capital in excess of par, common stock**  | **6,000** | **5,000** |
| **Retained earnings**  |  **11,000** |  **6,000** |
|  **Totals**  | **$57,500** | **$46,000** |
|  |  |  |

**The Carpet Company’s income statement was as follows:**

|  |
| --- |
| CARPET COMPANYIncome StatementFor the Year Ended December 31, 2022 |
|  |  |  |
| **Sales**  |  | **$61,000** |
| **Cost of goods sold**  | **$40,000** |  |
| **Wages and other operating expenses**  | **6,300** |  |
| **Income taxes expense**  | **4,200** |  |
| **Depreciation expense**  |  **1,500** |  **52,000** |
| **Net income**  |  | **$ 9,000** |

**Required:**

**Prepare the statement of cash flows under both the direct method and the indirect method for the year ended December 31, 2022. Additional information includes the following:**

1. **Equipment costing $3,500 was purchased during the year.**
2. **Fully depreciated equipment that cost $500 was discarded and its cost and accumulated depreciation were removed from the accounts.**
3. **Two hundred shares of stock were sold and issued at $15 per share.**
4. **The company declared $4,000 of cash dividends and paid $2,500.**

Chapter 12 Solution: Alternate Demonstration Problem

**Direct Method:**

|  |  |
| --- | --- |
| CARPET COMPANYStatement of Cash FlowsFor Year Ended December 31, 2022 |  |
|  |  |  |  |  |
| **Cash flows from operating activities:** |  |  |  |  |
|  **Cash received from customers**  | **$ 62,000** |  |  |  |
|  **Cash paid for merchandise**  | **(41,000** | **)** |  |  |
|  **Cash paid for wages and other operating  expenses**  | **(6,300** | **)** |  |  |
|  **Cash paid for taxes**  |  **(5,200** | **)** |  |  |
|  **Net cash provided by operating activities**  |  |  | **$ 9,500** |  |
|  |  |  |  |  |
| **Cash flows from investing activities:** |  |  |  |  |
|  **Cash paid for purchase of plant assets**  |  **(3,500** | **)** |  |  |
|  **Net cash used by investing activities**  |  |  | **(3,500** | **)** |
|  |  |  |  |  |
| **Cash flows from financing activities:** |  |  |  |  |
|  **Cash received from issuing stock**  |  **3,000** |  |  |  |
|  **Cash paid for dividends**  |  **( 2,500** | **)** |  |  |
|  **Net cash provided by financing activities**  |  |  |  **500** |  |
|  |  |  |  |  |
| **Net increase in cash**  |  |  | **$ 6,500** |  |
| **Cash balance at end of 2021**  |  |  |  **4,000** |  |
| **Cash balance at end of 2022**  |  |  | **$10,500** |  |

## Indirect Method:

|  |
| --- |
| CARPET COMPANYStatement of Cash FlowsFor Year Ended December 31, 2022 |
|  |  |  |  |  |
| **Cash flows from operating activities:** |  |  |  |  |
| **Net income**  | **$ 9,000** |  |  |  |
| **Adjustments to reconcile net income to net cash provided by operating activities:** |  |  |  |  |
|  **Decrease in accounts receivable**  | **1,000** |  |  |  |
|  **Increase in merchandise inventory**  | **(3,000** | **)** |  |  |
|  **Increase in accounts payable**  | **2,000** |  |  |  |
|  **Decrease in taxes payable**  | **(1,000** | **)** |  |  |
|  **Depreciation expense**  |  **1,500** |  |  |  |
|  **Net cash provided by operating activities**  |  |  | **$ 9,500** |  |
|  |  |  |  |  |
| **Cash flows from investing activities:** |  |  |  |  |
|  **Cash paid for purchase of plant asset**  |  **(3,500** | **)** |  |  |
|  **Net cash used by investing activities**  |  |  | **(3,500** | **)** |
|  |  |  |  |  |
| **Cash flows from financing activities:** |  |  |  |  |
|  **Cash received from issuing stock**  | **3,000** |  |  |  |
|  **Cash paid for dividends**  |  **(2,500** | **)** |  |  |
|  **Net cash provided by financing activities**  |  |  |  **500** |  |
|  |  |  |  |  |
| **Net increase in cash**  |  |  | **6,500** |  |
| **Cash balance at end of 2021**  |  |  |  **4,000** |  |
| **Cash balance at end of 2022**  |  |  | **$10,500** |  |