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 COMPANY Income Statement For 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 COMPANY Statement of Cash Flows For 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 COMPANY Statement of Cash Flows For 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** |  |