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| A comparative balance sheet and income statement for Eaton Company follow: |

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| Eaton CompanyComparative Balance SheetDecember 31, 2011 and 2010 |
|  | 2011 | 2010 |
| **Assets** |  |  |  |  |
| Cash | $ | 9  | $ | 25  |
| Accounts receivable |  | 550  |  | 350  |
| Inventory |  | 160  |  | 225  |
| Prepaid expenses |  | 7  |  | 5  |
|  |  |  |  |  |
| Total current assets |  | 726  |  | 605  |
|  |  |  |  |  |
| Property, plant, and equipment |  | 660  |  | 550  |
| Less accumulated depreciation |  | 65  |  | 40  |
|  |  |  |  |  |
| Net property, plant, and equipment |  | 595  |  | 510  |
|  |  |  |  |  |
| Long-term investments |  | 6  |  | 45  |
|  |  |  |  |  |
| Total assets | $ | 1,327  | $ | 1,160  |
|  |  |  |  |  |
| **Liabilities and Stockholders' Equity** |  |  |  |  |
| Accounts payable | $ | 370  | $ | 275  |
| Accrued liabilities |  | 65  |  | 80  |
| Income taxes payable |  | 82  |  | 75  |
|  |  |  |  |  |
| Total current liabilities |  | 517  |  | 430  |
| Bonds payable |  | 330  |  | 250  |
|  |  |  |  |  |
| Total liabilities |  | 847  |  | 680  |
|  |  |  |  |  |
| Common stock |  | 320  |  | 400  |
| Retained earnings |  | 160  |  | 80  |
|  |  |  |  |  |
| Total stockholders’ equity |  | 480  |  | 480  |
|  |  |  |  |  |
| Total liabilities and stockholders' equity | $ | 1,327  | $ | 1,160  |
|  |  |  |  |  |
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| Eaton CompanyIncome Statement For the Year Ended December 31, 2011 |
| Sales |  |  | $ | 850  |
| Cost of goods sold |  |  |  | 475  |
|  |  |  |  |  |
| Gross margin |  |  |  | 375  |
| Selling and administrative expenses |  |  |  | 237  |
|  |  |  |  |  |
| Net operating income |  |  |  | 138  |
| Nonoperating items: |  |  |  |  |
| Gain on sale of investments | $ | 5  |  |  |
| Loss on sale of equipment |  | (3)  |  | 2  |
|  |  |  |  |  |
| Income before taxes |  |  |  | 140  |
| Income taxes |  |  |  | 42  |
|  |  |  |  |  |
| Net income |  |  | $ | 98  |
|  |  |  |  |  |
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| During 2011, Eaton sold some equipment for $16 that had cost $46 and on which there was accumulated depreciation of $27. In addition, the company sold long-term investments for $44 that had cost $39 when purchased several years ago. A cash dividend was paid during 2011 and the company, repurchased $80 of its own stock. Eaton did not retire any bonds during 2011. |

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| **Required:** |
| **1.** | Using the direct method, adjust the company’s income statement for 2011 to a cash basis. **(Adjustment amounts that are to be deducted should be indicated with a minus sign. Omit the "$" sign in your response.)** |

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| Eaton CompanyDirect Method of Determining the Net Cash flows from Operating activities |
| Sales | $  |  |
| Adjustments to a cash basis: |  |  |
|  |  | $  |
|  |  |  |
| Cost of goods sold |  |  |
| Adjustments to a cash basis: |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Selling and administrative expenses |  |  |
| Adjustments to a cash basis: |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Income taxes |  |  |
| Adjustments to a cash basis: |  |  |
|  |  |  |
|  |  |  |
| Net cash operating activities |  | $  |
|  |  |  |
|  |

|  |  |
| --- | --- |
| **2.** | Using the information obtained in (1) above, along with an analysis of the remaining balance sheet accounts, prepare a statement of cash flows for 2011. **(Cash outflows and amounts to be deducted should be indicated with a minus sign. Omit the "$" sign in your response.)** |

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| Eaton CompanyStatement of Cash FlowsFor the Year Ended December 31, 2011 |
| Operating activities: |  |  |
| Cash received from customers |  | $  |
| Less cash disbursements for: |  |  |
|  | $  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Total cash disbursements |  |  |
|  |  |  |
| Net cash operating activities |  |  |
| Investing activities: |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Net cash investing activities |  |  |
| Financing activities: |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Net cash financing activities |  |  |
|  |  |  |
|  |  |  |
| Cash balance, beginning |  |  |
|  |  |  |
| Cash balance, ending |  | $  |
|  |  |  |