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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Eaton Company Comparative Balance Sheet December 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 |
|  |  |  |  |  |
|  | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Eaton Company Income 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 |
|  |  |  |  |  |
|  | | | | |

|  |
| --- |
| 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. |

|  |  |
| --- | --- |
| **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.)** |

|  |  |  |
| --- | --- | --- |
| Eaton Company Direct 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.)** |

|  |  |  |
| --- | --- | --- |
| Eaton Company Statement of Cash Flows For 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 |  | $ |
|  |  |  |