P9-28 Prepare statement of cash flows (indirect method) using balance sheet data [LO 10, 11]

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| Following are comparative balance sheets for Millco, Inc., at January 31 and February 28, 2011: |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| MILLCO, INC. Balance Sheets February 28 and January 31, 2011 | | | | | |
| Assets | February 28 | | | January 31 | |
| Cash | $ | 42,000 |  | $ | 37,000 |
| Accounts receivable |  | 64,000 |  |  | 53,000 |
| Merchandise inventory |  | 81,000 |  |  | 94,000 |
|  |  | | |  | |
| Total current assets | $ | 187,000 |  | $ | 184,000 |
| Plant and equipment: |  |  |  |  |  |
| Production equipment |  | 166,000 |  |  | 152,000 |
| Less: Accumulated depreciation |  | (24,000 | ) |  | (21,000) |
|  |  | | |  | |
| Total assets | $ | 329,000 |  | $ | 315,000 |
|  |  | | |  | |
| Liabilities |  |  |  |  |  |
| Accounts payable | $ | 37,000 |  | $ | 41,000 |
| Short-term debt |  | 44,000 |  |  | 44,000 |
| Other accrued liabilities |  | 21,000 |  |  | 24,000 |
|  |  | | |  | |
| Total current liabilities | $ | 102,000 |  | $ | 109,000 |
| Long-term debt |  | 33,000 |  |  | 46,000 |
|  |  | | |  | |
| Total liabilities | $ | 135,000 |  | $ | 155,000 |
|  |  | | |  | |
| Owners' Equity |  |  |  |  |  |
| Common stock, no par value, 40,000 shares authorized,   30,000 and 28,000 shares issued, respectively | $ | 104,000 |  | $ | 96,000 |
| Retained earnings: |  |  |  |  |  |
| Beginning balance | $ | 64,000 |  | $ | 43,000 |
| Net income for month |  | 36,000 |  |  | 29,000 |
| Dividends |  | (10,000 | ) |  | (8,000) |
|  |  | | |  | |
| Ending balance | $ | 90,000 |  | $ | 64,000 |
|  |  | | |  | |
| Total owners' equity | $ | 194,000 |  | $ | 160,000 |
|  |  | | |  | |
| Total liabilities and owners' equity | $ | 329,000 |  | $ | 315,000 |
|  |  | | |  | |
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| **Required:** |

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| **(a)** | Calculate the change that occurred in cash during the month. You may assume that the change in each balance sheet amount is due to a single event (for example, the change in the amount of production equipment is not the result of both a purchase and sale of equipment). *(Hints: What is the purpose of the statement of cash flows? How is this purpose accomplished?)* Because the retained earnings section of the balance sheet is, in and of itself, an analysis of the change in the retained earnings account for the month, the row for net income and dividends should be entered as the February amount and not the change. Use the space to the right of the January 31 data to enter the difference between the February 28 and January 31 amounts of each balance sheet item. **(Negative amount should be indicated by a minus sign. Leave no cells blank - be certain to enter "0" wherever required.Omit the "$" sign in your response.)** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| MILLCO, INC. Balance Sheets February 28 and January 31, 2011 | | | | | | | |
| Assets | February 28 | | | January 31 | | | Change |
| Cash | $ | 42,000 |  | $ | 37,000 |  |  |
| Accounts receivable |  | 64,000 |  |  | 53,000 |  |  |
| Merchandise inventory |  | 81,000 |  |  | 94,000 |  |  |
|  |  | | |  | | |  |
| Total current assets | $ | 187,000 |  | $ | 184,000 |  |  |
| Plant and Equipment: |  |  |  |  |  |  |  |
| Production equipment |  | 166,000 |  |  | 152,000 |  |  |
| Less: Accumulated depreciation |  | (24,000 | ) |  | (21,000 | ) |  |
|  |  | | |  | | |  |
| Total assets | $ | 329,000 |  | $ | 315,000 |  |  |
|  |  | | |  | | |  |
| Liabilities: |  |  |  |  |  |  |  |
| Accounts payable | $ | 37,000 |  | $ | 41,000 |  |  |
| Short-term debt |  | 44,000 |  |  | 44,000 |  |  |
| Other accrued liabilities |  | 21,000 |  |  | 24,000 |  |  |
|  |  | | |  | | |  |
| Total current liabilities | $ | 102,000 |  | $ | 109,000 |  |  |
| Long-term debt |  | 33,000 |  |  | 46,000 |  |  |
|  |  | | |  | | |  |
| Total liabilities | $ | 135,000 |  | $ | 155,000 |  |  |
|  |  | | |  | | |  |
| Owners' Equity |  |  |  |  |  |  |  |
| Common stock, no par value, 40,000 shares authorized,    30,000 and 28,000 shares issued, respectively | $ | 104,000 |  | $ | 96,000 |  |  |
|  |  | | |  | | |  |
| Retained earnings: |  |  |  |  |  |  |  |
| Beginning balance | $ | 64,000 |  | $ | 43,000 |  |  |
| Net income for month |  | 36,000 |  |  | 29,000 |  |  |
| Dividends |  | (10,000 | ) |  | (8,000 | ) |  |
|  |  | | |  | | |  |
| Ending balance | $ | 90,000 |  | $ | 64,000 |  |  |
|  |  | | |  | | |  |
| Total owners' equity | $ | 194,000 |  | $ | 160,000 |  |  |
|  |  | | |  | | |  |
| Total liabilities and owners' equity | $ | 329,000 |  | $ | 315,000 |  |  |
|  |  | | |  | | |  |
|  | | | | | | | |

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| **(b)** | Prepare a statement of cash flows that explains above changes? **(Negative amount should be indicated by a minus sign.Omit the "$" sign in your response.)** |

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| --- | --- | --- |
| MILLCO, INC. Statement of Cash Flows For the Month Ended February 28, 2011 | | |
| Cash flows from operating activities: |  |  |
| Net income | $ |  |
| Add (deduct) items not affecting cash: |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Net cash by operating activities |  | $ |
| Cash flows from investing activities: |  |  |
| Purchases of production equipment |  |  |
| Cash flows from financing activities: |  |  |
|  | $ |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Net cash flows by financing activities |  |  |
|  |  |  |
| Net in cash for the year |  | $ |
|  |  |  |

**NOTE: under b, add (deduct) items not affecting cash the list is;**

**A. Decrease in accounts payable**

**Note payable**

**Decrease in other accrued liabilities**

**Investment**

**Depreciation expense**

**Increase in accounts receivable**

**Utilities expenses**

**Decrease in merchandise inventory**