The SCQ Corporation manufactures specialty medical tools ranging from $10,000 to$15,000 per unit. The tools are used in hospitals, clinics, and the home hospitality market. SCQ Corporation has contracted with YOUCPA to assist in creating its cash flow statement. In the past, its income statement and balance sheet have been prepared by the internal accountant.

It would like you to assist in preparing the cash flows using both the direct and indirect method. Sales and balance sheet information for the years 2009–2010 are below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Balance Sheet**  SCQ Corporation  For period ending 12/31/2010 | | | | | |
| **Assets** | **2010** | **2009** | **Liabilities** | **2010** | **2009** |
| Cash | 150 | 100 |  |  |  |
| Account receivable | 600 | 400 | Accounts payable | 400 | 300 |
| Inventory | 750 | 500 | Accrued taxes payable | 200 | 100 |
| Current assets | 1,500 | 1,000 | Current liabilities | 600 | 400 |
| Land | 50 | 50 |  |  |  |
| Equipment | 1,300 | 1,200 | Note payable | 330 | 300 |
| Less: Acc. depreciation | 700 | 600 | Deferred taxes | 35 | 20 |
| Net fixed assets | 600 | 600 | Equity: |  |  |
| Total fixed assets | 650 | 650 | Common stock | 640 | 500 |
|  |  |  | Paid-in capital | 80 | 80 |
|  |  |  | Retain earnings | 465 | 350 |
|  |  |  | Total equity | 1,185 | 930 |
| **Total assets** | **2,150** | **1,650** | **Total equity and liabilities** | **2,150** | **1,650** |

|  |  |  |
| --- | --- | --- |
| **Income Statement**  SCQ Corporation  For period ending 12/31/ 2010 | | |
|  |  |  |
| **Items** | **2010** | **2009** |
| Revenue | 1,000 | 900 |
| Cost of goods sold | 400 | 350 |
| Gross profit | 600 | 550 |
| Wages expense | 110 | 100 |
| Interest expense | 50 | 40 |
| Depreciation expense | 100 | 90 |
| Insurance expense | 50 | 50 |
| Other misc. expenses | 90 | 80 |
| Total expenses | 400 | 360 |
| Operating income | 200 | 190 |
| Taxes: |  |  |
| Deferred taxes | 15 | 20 |
| Taxes expense | 70 | 67 |
| Net income after taxes | 115 | 103 |
| Additions to retains earnings | 115 | 103 |

The information below can be used to complete the *direct method* of cash flow:

|  |  |
| --- | --- |
| **Cash flows from operating activities** | **2010** |
| Cash receipts |  |
| Received from sales of goods | 930 |
| Paid for inventory | 400 |
| Paid for employees | 110 |
| Paid for interest | 50 |
| Paid for taxes | 70 |
| Paid for other expenses | 320 |
| Cash paid for equipment | 100 |
| Cash received for common stock | 120 |
| Cash received from note payable | 30 |

**Guidelines:**

1. Indirect method cash flow/cash flow statement:
   1. What is the operational cash flow?
   2. What is the investing cash flow?
   3. What is the financing cash flow?
2. Direct method cash flow:
   1. What is the operational cash flow?
   2. What is the investing cash flow?
   3. What is the financing cash flow?
3. What are the differences in the cash flow concepts and procedures between the direct and indirect methods?