

**Problem 12-1A: Statement of cash flows (indirect method) L.O. C2, C3, A1, P1, P2, P3**

Forten Company, a merchandiser, recently completed its calendar-year 2008 operations. For the year, (1) all sales are credit sales, (2) all credits to Accounts Receivable reflect cash receipts from customers, (3) all purchases of inventory are on credit, (4) all debits to Accounts Payable reflect cash payments for inventory, and (5) Other Expenses are paid in advance and are initially debited to Prepaid Expenses. Forten's balance sheets and income statement follow:

FORTEN COMPANY  
Comparative Balance Sheets  
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash	\$ 49,800	\$ 73,500
Accounts receivable	65,810	50,625
Merchandise inventory	275,656	251,800
Prepaid expenses	1,250	1,875
Equipment	157,500	108,000
Accum. depreciation—Equipment	(36,625)	(46,000)
Total assets	<u>\$513,391</u>	<u>\$439,800</u>
<b>Liabilities and Equity</b>		
Accounts payable	\$ 53,141	\$114,675
Short-term notes payable	10,000	6,000
Long-term notes payable	65,000	48,750
Common stock, \$5 par value	162,750	150,250
Paid-in capital in excess of par, common stock	37,500	0
Retained earnings	<u>185,000</u>	<u>120,125</u>
Total liabilities and equity	<u>\$513,391</u>	<u>\$439,800</u>

FORTEN COMPANY  
Income Statement  
For Year Ended December 31, 2008

Sales	\$582,500
Cost of goods sold	<u>285,000</u>
Gross profit	297,500
Operating expenses	
Depreciation expense	\$ 20,750

Other expenses	132,400	153,150
Other gains (losses)		
Loss on sale of equipment		5,125
Income before taxes		\$139,125
Income taxes expense		24,250
Net income		<u>\$114,975</u>

#### Additional Information on Year 2008 Transactions

- The loss on the cash sale of equipment was \$5,125 (details in *b*).
- Sold equipment costing \$46,875, with accumulated depreciation of \$30,125, for \$11,625 cash.
- Purchased equipment costing \$96,375 by paying \$30,000 cash and signing a long-term note payable for the balance.
- Borrowed \$4,000 cash by signing a short-term note payable.
- Paid \$50,125 cash to reduce the long-term notes payable.
- Issued 2,500 shares of common stock for \$20 cash per share.
- Declared and paid cash dividends of \$50,100.

#### Required:

Prepare a complete statement of cash flows; report its operating activities using the *indirect method*. **(Negative amount should be indicated by a minus sign. Omit the "\$" sign in your response.)**

#### FORTEN COMPANY Statement of Cash Flows For Year Ended December 31, 2008

Cash flows from operating activities		
Net income	\$ 114975	
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable Increase		
Inventory Increase		
Prepaid expenses Decrease		
Accounts payable Decrease		
Depreciation expense	20750	
Loss on disposal of equipment		
Net cash provided by operating activities		\$
Cash flows from investing activities		
Cash received from sale of equipment		

Cash paid for equipment

Net cash used in investing activities

Cash flows from financing activities

Cash received from issuing stock

Cash paid on long-term note

Cash paid for dividends

Cash borrowed on short-term note

Net cash used in financing activities

Net Decrease in Cash

Cash balance at December 31, 2007

Cash balance at December 31, 2008

\$

\$