Given the financial information for the A.E. Neuman Corporation,

(a) Prepare a Statement of Cash Flows for the year ended December 31, 2003.

(b) What is the dividend payout ratio for 2003?

(c) If we increased the dividend payout ratio to 100%, what would happen to retained earnings?

**A.E. Neuman Corporation – Balance Sheet**

ASSETS 2002 2003

Cash $ 45,000 $ 50,000

Marketable Securities 175,000 160,000

Accounts Receivable 240,000 220,000

Inventories 230,000 275,000

Investments 70,000 55,000

Plant and Equipment 1,300,000 1,550,000

Less Accumulated Depreciation -450,000 -600,000

Net Plant and Equipment 850,000 950,000

Total Assets $1,610,000 $1,710,000

LIABILITIES AND STOCKHOLDERS’ EQUITY

Accounts Payable $ 110,000 $ 85,000

Notes Payable 65,000 10,000

Accrued Expenses 30,000 5,000

Income Taxes Payable 5,000 10,000

Bonds Payable (1999) 800,000 900,000

Common Stock (100,000 shares, $1 par) 100,000 100,000

Capital Paid in Excess of Par 100,000 100,000

Retained Earnings 400,000 500,000

Total Liabilities and Stockholders’ Equity $1,610,000 $1,710,000

1. **E. Neuman Corporation**

Income Statement For The Year December 31, 2003

Sales $5,500,000

Less: Cost of Goods Sold 4,200,000

Gross Profit 1,300,000

Less: Selling and Administrative Expenses 260,000

Operating Profit 1,040,000

Less: Depreciation Expenses 150,000

Earnings Before Interest and Taxes 890,000

Less: Interest Expense 90,000

Earnings Before Taxes 800,000

Less: Taxes (50%) 400,000

Net Income $ 400,000

Dividends Paid $ 300,000