**16-4A** – Gallery Corp., a merchandiser, recently compiled its 2011 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, (5) Other Expenses are all cash expenses, and (6) any change in Income Taxes Payable reflects the accrual and cash payment of taxes. The company’s balance sheets and income statement follow.

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| **GALLEY CORPORATION****Comparative Balance Sheets****December 31, 2011 and 2010** **2011 2010****Assets**Cash…………………………………………………………. $ 174,000 $117,000Accounts receivable………………………………………… 93,000 81,000Merchandise inventory……………………………………… 609,000 534,000Equipment…………………………………………………… 333,000 297,000Accum depreciation – Equipment……………………………. (156,000) (102,000)**Total assets**………………………………………………….. $1,053,000 $927,000**Liabilities**Accounts payable……………………………………………..$69,000 $96,000Income tax payable……………………………………………27,000 24,000Common stock $2 par value………………………………….582,000 558,000Paid-in capital in excess of par value common stock………. 198,000 162,000Retained earnings…………………………………………….177,000 87,000**Total liabilities and equity**…………………………………$1,053,000 $927,000   |
| **GALLEY CORPORATION****Income Statement****For Year Ended December 31, 2011** Sales………………………………………………………………………………$1,992,000Cost of goods sold……………………………………………………………….. 1,194,000Gross profit……………………………………………………………………… 798,000Operating expenses Depreciation expense……………..$54,000 Other expenses……………………501,000 555,000Income before taxes……………………………........................................................ 243,000Income taxes expense………………………………………………………………. 42,000Net income…………………………………………………………………………. $201,000 |

**Additional Information on Year 2011 Transactions**

1. Purchased equipment for $36,000 cash.
2. Issued 12,000 shares of common stock for $5 cash per share.
3. Declared and paid $111,000 in cash dividends.

**Required**

Prepare a complete statement of cash flows; report its cash inflows and cash outflows from operating activities according to the ***indirect method***.