P16-8 (Computation of Basic and Diluted EPS) The information below pertains to Barkley Company for 2010.

Net income for the year $1,200,000

8% convertible bonds issued at par ($1,000 per bond). Each bond is convertible into 30 shares of common stock. 2,000,000

6% convertible, cumulative preferred stock, $100 par value. Each share is convertible into 3 shares of common stock. 4,000,000

Common stock, $10 par value 6,000,000

Tax rate for 2010 40%

Average market price of common stock $25 per share

There were no changes during 2010 in the number of common shares, preferred shares, or convertible bonds outstanding. There is no treasury stock. The company also has common stock options (granted in a prior year) to purchase 75,000 shares of common stock at $20 per share.

Instructions

(a) Compute basic earnings per share for 2010.

(b) Compute diluted earnings per share for 2010.

P23-6 (SCF—Indirect Method, and Net Cash Flow from Operating Activities, Direct Method)

Comparative balance sheet accounts of Marcus Inc. are presented below.

MARCUS INC.

COMPARATIVE BALANCE SHEET ACCOUNTS

AS OF DECEMBER 31, 2010 AND 2009

December 31

**Debit Accounts** 2010 2009

Cash $ 42,000 $ 33,750

Accounts Receivable 70,500 60,000

Merchandise Inventory 30,000 24,000

Investments (available-for-sale) 22,250 38,500

Machinery 30,000 18,750

Buildings 67,500 56,250

Land 7,500 7,500

$269,750 $238,750

**Credit Accounts**

Allowance for Doubtful Accounts $ 2,250 $ 1,500

Accumulated Depreciation—Machinery 5,625 2,250

Accumulated Depreciation—Buildings 13,500 9,000

Accounts Payable 35,000 24,750

Accrued Payables 3,375 2,625

Long-Term Note Payable 21,000 31,000

Common Stock, no par 150,000 125,000

Retained Earnings 39,000 42,625

$269,750 $238,750

Additional data (ignoring taxes):

1. Net income for the year was $42,500.

2. Cash dividends declared and paid during the year were $21,125.

3. A 20% stock dividend was declared during the year. $25,000 of retained earnings was capitalized.

4. Investments that cost $25,000 were sold during the year for $28,750.

5. Machinery that cost $3,750, on which $750 of depreciation had accumulated, was sold for $2,200.

Marcus’s 2010 income statement follows (ignoring taxes).

Sales $540,000

Less: Cost of goods sold 380,000

Gross margin 160,000

Less: Operating expenses (includes $8,625 depreciation and $5,400

bad debts) 120,450

Income from operations 39,550

Other: Gain on sale of investments $3,750

Loss on sale of machinery (800) 2,950

Net income $ 42,500

Instructions

(a) Compute net cash flow from operating activities using the direct method.

(b) Prepare a statement of cash flows using the indirect method.