Ron Nord and Lisa Smith are examining the following statement of cash flows for Carpino Company for the year ended January 31, 2007.

| **CARPINO COMPANY** | |
| --- | --- |
| **Statement of Cash Flows** | |
| **For the Year Ended January 31, 2007** | |
| Sources of cash |  |
| From sales of merchandise | $380,000 |
| From sale of capital stock | 420,000 |
| From sale of investment (purchased below) | 80,000 |
| From depreciation | 55,000 |
| From issuance of note for truck | 20,000 |
| From interest on investments | 6,000 |
| Total sources of cash | 961,000 |
| Uses of cash |  |
| For purchase of fixtures and equipment | 330,000 |
| For merchandise purchased for resale | 258,000 |
| For operating expenses (including depreciation) | 160,000 |
| For purchase of investment | 75,000 |
| For purchase of truck by issuance of note | 20,000 |
| For purchase of treasury stock | 10,000 |
| For interest on note payable | 3,000 |
| Total uses of cash | 856,000 |
| Net increase in cash | $ 105,000 |
|  |  |

Ron claims that Carpino's statement of cash flows is an excellent portrayal of a superb first year with cash increasing $105,000. Lisa replies that it was not a superb first year. Rather, she says, the year was an operating failure, that the statement is presented incorrectly, and that $105,000 is not the actual increase in cash. The cash balance at the beginning of the year was $140,000.

**CARPINO COMPANY**

**Statement of Cash Flows**

**For the Year Ended January 31, 2007**

Cash Flows from Operating Activities

Net Income 220,000

Noncash Expenses, Revenues, Losses, and Gains Included in Income:

Increase: Depreciation Expense 55,000

Decrease: Decrease in Accounts Payable 258,000

Net Cash Flow from Operating Activities 17,000

Cash Flows from Investing Activities

Increase: Cash received from interest on investments 6,000

Cash received from sale of investment 80,000

Decrease: Cash used to buy fixtures and equipment 330,000

Cash used for purchase of investment 75,000

Cash used to buy truck 20,000

Net Cash Flow from Investing Activities (339,000)

Cash Flows from Financing Activities

Increase: Cash from sale of capital stock 420,000

Cash from issuance of notes payable 20,000

Decrease: Cash used for purchase of treasury stock 10,000

Cash used for interest on note payable 3,000

Net Cash Flow from Financing Activities 427,000

Net Increase in Cash 105,000