

Problem 12-3B**Indirect:** Statement of cash flows

A1 P2 P3

Gazelle Corporation's current-year income statement, comparative balance sheets, and additional information follow. 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, and (4) all debits to Accounts Payable reflect cash payments for inventory.

GAZELLE CORPORATION Comparative Balance Sheets			
At December 31	Current Year	Prior Year	
Assets			
Cash	\$123,450	\$ 61,550	
Accounts receivable	77,100	80,750	
Inventory	240,600	250,700	
Prepaid expenses	15,100	17,000	
Total current assets	456,250	410,000	
Equipment	262,250	200,000	
Accum. depreciation—Equipment	(110,750)	(95,000)	
Total assets	<u>\$607,750</u>	<u>\$515,000</u>	
Liabilities and Equity			
Accounts payable	\$ 17,750	\$102,000	
Long-term notes payable	115,000	87,500	
Total liabilities	132,750	189,500	
Equity			
Common stock, \$5 par	215,000	200,000	
Paid-in capital in excess of par, common stock	30,000	0	
Retained earnings	<u>230,000</u>	<u>125,500</u>	
Total liabilities and equity	<u>\$607,750</u>	<u>\$515,000</u>	

GAZELLE CORPORATION Income Statement For Current Year Ended December 31	
Sales	\$1,185,000
Cost of goods sold	595,000
Gross profit	590,000
Operating expenses (excluding depreciation) ..	362,850
Depreciation expense	38,600
	<u>188,550</u>
Other gains (losses)	
Loss on sale of equipment	(2,100)
Income before taxes	186,450
Income taxes expense	28,350
Net income	<u>\$ 158,100</u>

Additional Information on Current-Year Transactions

- The loss on the cash sale of equipment was \$2,100 (details in b).
- Sold equipment costing \$51,000, with accumulated depreciation of \$22,850, for \$26,050 cash.
- Purchased equipment costing \$113,250 by paying \$43,250 cash and signing a long-term notes payable for the balance.
- Paid \$42,500 cash to reduce the long-term notes payable.
- Issued 3,000 shares of common stock for \$15 cash per share.
- Declared and paid cash dividends of \$53,600.

Required

- Prepare a complete statement of cash flows using the *indirect method* for the current year. Disclose any noncash investing and financing activities in a note.

Check Cash from operating activities, \$130,200

Analysis Component

- Analyze and discuss the statement of cash flows prepared in part 1, giving special attention to the wisdom of the cash dividend payment.