

Problem 16-3A**Indirect:** Statement of cash flows

A1 P1 P2 P3

Forten Company, a merchandiser, recently completed its calendar-year 2015 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, and (5) Other Expenses are paid in advance and are initially debited to Prepaid Expenses. The company's income statement and balance sheets follow.

FORTEN COMPANY
Income Statement
 For Year Ended December 31, 2015

Sales	\$582,500	
Cost of goods sold	<u>285,000</u>	
Gross profit		297,500
Operating expenses		
Depreciation expense	\$ 20,750	
Other expenses	<u>132,400</u>	153,150
Other gains (losses)		
Loss on sale of equipment	<u>(5,125)</u>	
Income before taxes		139,225
Income taxes expense	<u>24,250</u>	
Net income		<u>\$114,975</u>

FORTEN COMPANY
Comparative Balance Sheet
 December 31, 2015 and 2014

	2015	2014
Assets		
Cash	\$ 49,800	\$ 73,500
Accounts receivable	65,810	50,625
Inventory	275,656	251,800
Prepaid expenses	<u>1,250</u>	<u>1,875</u>
Total current assets	392,516	377,800
Equipment	157,500	108,000
Accum. depreciation—Equipment	<u>(36,625)</u>	<u>(46,000)</u>
Total assets	<u>\$513,391</u>	<u>\$439,800</u>
Liabilities and Equity		
Accounts payable	\$ 53,141	\$114,675
Short-term notes payable	<u>10,000</u>	<u>6,000</u>
Total current liabilities	63,141	120,675
Long-term notes payable	<u>65,000</u>	<u>48,750</u>
Total liabilities	128,141	169,425
Equity		
Common stock, \$5 par value	162,750	150,250
Paid-in capital in excess of par, common stock	37,500	0
Retained earnings	<u>185,000</u>	<u>120,125</u>
Total liabilities and equity	<u>\$513,391</u>	<u>\$439,800</u>

Additional Information on Year 2015 Transactions

- The loss on the cash sale of equipment was \$5,125 (details in b).
- Sold equipment costing \$46,875, with accumulated depreciation of \$30,125, for \$11,625 cash.
- Purchased equipment costing \$96,375 by paying \$30,000 cash and signing a long-term note payable for the balance.
- Borrowed \$4,000 cash by signing a short-term note payable.
- Paid \$50,125 cash to reduce the long-term notes payable.
- Issued 2,500 shares of common stock for \$20 cash per share.
- Declared and paid cash dividends of \$50,100.

Required

- Prepare a complete statement of cash flows; report its operating activities using the *indirect method*. Disclose any noncash investing and financing activities in a note.

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.

Check Cash from operating activities, \$40,900