

QUESTION ONE

Kraco Inc.		
For the Year Ended December 31st 2019		
Sales		350,000
Less: Sales discount		3,500
Sales returns and allowances		32,500
Net Sales		314,000
Cost of goods sold		220,000
Gross profit		94,000
Operating Expenses:		
Selling expenses		
Advertising expenses	2,500	
Delivery expenses	10,000	
Total selling expenses		12,500
Administrative expenses		
Depreciation on Office buildings	20,000	
Other administrative expenses	6,750	
Total Administrative expenses		26,750
Total Expenses		39,250
Operating Income		54,750
Add: Other income		
Gain on sale of land		20,000
Income before interest and tax		74,750
Interest expense		6,000
Income before tax		68,750
Income tax expense		13,750
Net Income		55,000

QUESTION TWO

Kraco Inc.		
For the Year Ended December 31st 2019		
Cash flows from Operating Activities		
Net Profit		55,000.00

Adjustments to reconcile net profit to m t cash provided by Operating Activities		
Depreciation expense	72,000.00	
Gain on sale of Land	(20,000.00)	
Change in operating current assets and liabilities		
Increase in Accounts receivable	(45,000.00)	
Decrease in supplies	4,000.00	
Increase in Accounts payable	5,000.00	16,000.00
Net Cash from Operating Activities		71,000.00
Cashflows from Investing Activities		
Sale of Land	320,000.00	
Purchase of Buildings	(408,000.00)	
Net Cash from Investing Activities		(88,000.00)
Cash flows From Financing Activities		
Redemption of bonds payable	(110,000.00)	
Issuance of Common stock	180,000.00	
Cash dividend paid	(33,000.00)	
Net cash from Financing Activities		37,000.00
Net Increase (decrease) in cash		20,000.00
Cash Balance at Beginning of the year		8,000.00
Cash Balance at Beginning of the year		28,000.00

QUESTION THREE

Depreciation is a non-cash item and must be added back.

Gain on the sale of land is also a non-cash item

Increase in current assets reduces the cash flow and decrease increases cash flow

Increase In current liabilities increases the cash flow and decrease reduces the cash flow