### Pat Metheny Company

#### STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2002

(Indirect Method)

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$810</td>
</tr>
<tr>
<td>Adjustments to reconcile by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation expenses ($1,200 – $1,170)</td>
<td>$ 30</td>
</tr>
<tr>
<td>Gain on sale of investments</td>
<td>(80)</td>
</tr>
<tr>
<td>Decrease in inventory</td>
<td>300</td>
</tr>
<tr>
<td>Increase in accounts payable</td>
<td>300</td>
</tr>
<tr>
<td>Increase in receivables</td>
<td>(450)</td>
</tr>
<tr>
<td>Decrease in accrued liabilities</td>
<td>(50)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>860</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of held-to-maturity investments</td>
<td></td>
</tr>
<tr>
<td>[($1,420 – $1,300) + $80]</td>
<td>200</td>
</tr>
<tr>
<td>Purchase of plant assets [($1,900 – $1,700) – $70]</td>
<td>(130)</td>
</tr>
<tr>
<td><strong>Net cash provided by investing activities</strong></td>
<td><strong>70</strong></td>
</tr>
</tbody>
</table>

**EXERCISE 24-11 (Continued)**

<table>
<thead>
<tr>
<th>Cash flows from financing activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance of capital stock [($1,900 – $1,700) – $70]</td>
<td>130</td>
</tr>
<tr>
<td>Retirement of bonds payable</td>
<td>(150)</td>
</tr>
<tr>
<td>Payment of cash dividends</td>
<td>(260)</td>
</tr>
<tr>
<td><strong>Net cash used by financing activities</strong></td>
<td><strong>(280)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net increase in cash</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>650</td>
</tr>
<tr>
<td>Cash, January 1, 2002</td>
<td>1,150</td>
</tr>
<tr>
<td>Cash, December 31, 2002</td>
<td><strong>$1,800</strong></td>
</tr>
</tbody>
</table>

**Noncash investing and financing activities**

| Issuance of common stock for plant assets | $70 |
EXERCISE 24-13 (30-40 minutes)

McCoy Tyner Company
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002
(Indirect Method)

Cash flows from operating activities
Net income $258,000
Adjustments to reconcile net income to net cash provided by operating activities:
  Gain on sale of investments $(5,000)
  Loss on sale of plant assets 12,000
  Depreciation expense 42,000
  Increase in accounts payable 34,800
  Increase in receivables (74,200)
  Increase in inventories (54,600) (45,000)
Net cash provided by operating activities 213,000

Cash flows from investing activities
Sale of plant assets 1,500*
Sale of available-for-sale investments 16,000**
Purchase of plant assets (85,000)
Net cash provided by investing activities (67,500)

Cash flows from financing activities
Issuance of common stock
  [($175,000 – $131,100) – $20,000] 23,900
Retirement of mortgage (27,000)
Cash dividends paid (20,000)
Net cash used by financing activities (23,100)

Net increase in cash 122,400
Cash, January 1, 2002 38,400
Cash, December 31, 2002 $160,800
EXERCISE 24-13 (Continued)

Noncash investing and financing activities

Issuance of common stock for plant assets  $20,000

*Plant assets disposed $77,500 = $212,500 + $105,000 – $240,000
  Acc. depr. for the sale $64,000 = $52,000 + $42,000 – $30,000
  Cash from the disposition $1,500 = $77,500 – $64,000 – $12,000

**($101,000 – $90,000) + $5,000

Supplemental disclosures of cash flow information:

Cash paid during the year for:
  Interest $3,000
  Income taxes $5,000

EXERCISE 24-16 (30-40 minutes)

Brecker, Inc.

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

Cash flows from operating activities

Net income $27,000

Adjustments to reconcile net income to net cash provided by operating activities:
  Depreciation expense $24,000* 42,000
  Amortization goodwill 4,000
  Gain on sale of equipment 20,000
  Decrease in inventories 20,000
  Increase in wages payable 4,000
  Increase in accounts payable 6,000
  Increase in prepaid rent 10,000
  Increase in accounts receivable 11,000
  Decrease in income taxes payable 2,000

Total adjustments 42,000

Net cash provided by operating activities 69,000

Cash flows from investing activities

Sale of equipment [($20,000 X 30%) + $2,000] 8,000
Purchase of equipment (44,000)
Purchase of available-for-sale investments (17,000)
Net cash used by investing activities (53,000)

Cash flows from financing activities
Principal payment on short-term loan (2,000)
Principal payment on long-term loan (9,000)
Dividend payments (6,000)
Net cash used by financing activities (17,000)

Net decrease in cash (1,000)
Cash, January 1, 2002 7,000
Cash, December 31, 2002 $  6,000

EXERCISE 24-16 (Continued)

Supplemental disclosures of cash flow information:

Cash paid during the year for:
Interest $9,400
Income taxes $8,750

*($35,000 – [$25,000 – ($20,000 x 70%)])

EXERCISE 24-17 (25-35 minutes)

Antonio Brasileiro Company
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

Cash flows from operating activities
Net income* $46,000
Adjustments to reconcile net income to net
cash provided by operating activities:
Depreciation expense $20,000
Loss on sale of investments 9,000
Loss on sale of plant assets 2,000
Increase in current assets other than cash (25,000)
Increase in current liabilities 18,000 24,000
Net cash provided by operating activities  70,000

Cash flows from investing activities
Sale of plant assets  8,000
Sale of held-to-maturity investments  34,000
Purchase of plant assets** (170,000)
Net cash used by investing activities (128,000)

Cash flows from financing activities
Issuance of bonds payable  75,000
Payment of dividends (10,000)
Net cash provided by financing activities  65,000

EXERCISE 24-17 (Continued)

Net increase in cash  7,000
Cash balance, January 1, 2002  8,000
Cash balance, December 31, 2002 $15,000

*Net income $57,000 – $9,000 – $2,000 = $46,000
**Supporting computation
(purchase of plant assets)
  Plant assets, December 31, 2001 $215,000
  Less: Plant assets sold (50,000)
  165,000
  Plant assets, December 31, 2002 335,000
  Plant assets purchased during 2002 $170,000

PROBLEM 24-1

Method Man Corp.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

Cash flows from operating activities
Net income $370,000
Adjustments to reconcile net income
to net cash provided by operating activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>$150,000</td>
</tr>
<tr>
<td>Gain on sale of equipment</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Equity in earnings of Blige Co.</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Decrease in accounts receivable</td>
<td>40,000</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(135,000)</td>
</tr>
<tr>
<td>Increase in accounts payable</td>
<td>60,000</td>
</tr>
<tr>
<td>Decrease in income taxes payable</td>
<td>(20,000)</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities        | 430,000 |

Cash flows from investing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of equipment</td>
<td>40,000</td>
</tr>
<tr>
<td>Loan to TLC Co.</td>
<td>(300,000)</td>
</tr>
<tr>
<td>Principal payment of loan receivable</td>
<td>37,500</td>
</tr>
</tbody>
</table>

Net cash used by investing activities             | (222,500)|

Cash flows from financing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends paid</td>
<td>(100,000)</td>
</tr>
</tbody>
</table>

Net cash used by financing activities             | (100,000)|

Net increase in cash                              | 107,500  |
Cash, January 1, 2002                              | $700,000 |
Cash, December 31, 2002                            | $807,500 |
PROBLEM 24-1 (Continued)

Schedule at bottom of statement of cash flows:

**Noncash investing and financing activities:**

| Issuance of lease obligation for capital lease | $400,000 |

Explanation of Amounts

[a] **Depreciation**

Net increase in accumulated depreciation for the year ended December 31, 2002 $125,000

Accumulated depreciation on equipment sold:

| Cost       | $60,000 |
| Carrying value | 35,000  | 25,000 |
| Depreciation for 2002 | $150,000 |

[b] **Gain on sale of equipment**

| Proceeds | $40,000 |
| Carrying value | (35,000) |
| Gain      | $5,000  |

[c] **Equity in earnings of Blige Co.**

| Blige’s net income for 2002 | $120,000 |
| Method Man’s ownership       | 25%      |
| Undistributed earnings of Blige Co. | $30,000 |
Shenandoah Corporation
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

Cash flows from operating activities

Net income (a) $14,750

Adjustments to reconcile net income to net cash provided by operating activities:

Loss on sale of equipment (b) $5,200
Gain from flood damage (8,250)
Depreciation expense (c) 800
Patent amortization 1,250
Gain on sale of investments (3,700)
Increase in accounts receivable (net) (3,750)
Increase in inventory (3,000)
Increase in accounts payable 2,000
(9,450)

Net cash provided by operating activities 5,300

Cash flows from investing activities

Sale of investments 6,700
Sale of equipment 2,500
Purchase of equipment (15,000)
Proceeds from flood damage to building 32,000

Net cash provided by investing activities 26,200

Cash flows from financing activities
Payment of dividends  (5,000)
Payment of short-term note payable  (1,000)
Net cash used by financing activities  (6,000)

Increase in cash  25,500
Cash, January 1, 2002  13,000
Cash, December 31, 2002  $38,500

PROBLEM 24-2 (Continued)

Supplemental disclosures of cash flow information:

Cash paid during the year for:
   Interest  $2,000
   Income taxes:  $6,500

Noncash investing and financing activities
   Retired note payable by issuing common stock  $10,000
   Purchased equipment by issuing note payable  16,000
       $26,000

Supporting Computations:

a.  Ending retained earnings  $20,750
    Beginning retained earnings  (6,000)
    Net income  $14,750

b.  Cost  $11,000
    Accumulated depreciation (30% X $11,000)  (3,300)
    Book value  $ 7,700
Proceeds from sale  \( (2,500) \)
Loss on sale  \$ 5,200

c. Accumulated depreciation on equipment sold  \$3,300
Decrease in accumulated depreciation  \( (2,500) \)
Depreciation expense  \$ 800

PROBLEM 24-5

Michael W. Smith Inc.
STATEMENT OF CASH FLOWS
For the Year Ended 12/31/01

Cash flows from operating activities
Net income  \$257,120

Adjustments to reconcile net income to net cash provided by operating activities:

- Depreciation/amortization expense (a)  \$ 67,000
- Decrease in prepaid insurance  6,000
- Decrease in office supplies  3,000
- Increase in accounts payable  25,000
- Increase in taxes payable  11,000
- Increase in accrued liabilities  7,000
- Amortization of bond discount  13,880
- Gain on sale of equipment  (15,000)
- Equity in earnings of investee, net of dividends ($115,000 – $40,000)  (75,000)
- Increase in accounts receivable  (34,000)
- Increase in inventory  (50,000)

Total adjustments  \( (41,120) \)

Net cash provided by operating activities  \$216,000
Cash flows from investing activities

Proceeds from sale of equipment 60,000
Purchase of available-for-sale investments (35,000)
Purchase of land (165,000)
Net cash used by investing activities (140,000)

Cash flows from financing activities

Proceeds from issuance of preferred stock 135,000
Proceeds from sale of treasury stock 20,000
Principal payment of long-term debt (5,000)
Payment of dividends (210,000)
Net cash used by financing activities (60,000)

Net increase in cash 16,000
Cash, January 1, 2001 30,000
Cash, December 31, 2001 $ 46,000

PROBLEM 24-5 (Continued)

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest $ 85,000
Income taxes $160,413

(a) Depreciation expense—building $40,000
Depreciation expense—equipment 25,000*
Amortization of goodwill 2,000
Total depreciation/amortization expense $67,000

*Cost of equipment sold $  50,000
Less:  Book value (45,000)
Accumulated depreciation on equipment sold 5,000
Ending accumulated depreciation—equipment 155,000

Beginning accumulated depreciation—equipment (135,000)
Depreciation expense—equipment $  25,000

PROBLEM 24-7

Shirley Caesar Corporation
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002
(Indirect Method)

Cash flows from operating activities
Net income* $115,000

Adjustments to reconcile net income
to net cash provided by operating activities:
Loss on sale of machinery (4) $  4,200
Gain on retirement of bonds (5) (425)
Depreciation of machinery (4) 48,200
Depreciation of building (8) 31,200
Amortization of patents (3) 10,000
Amortization of goodwill 10,000
Amortization of bond discount (6) 87
Amortization of bond premium (5) (75)
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity in earnings of subsidiary (7)</td>
<td>(10,500)</td>
</tr>
<tr>
<td>Increase in accounts receivable (net)</td>
<td>(131,124)</td>
</tr>
<tr>
<td>Increase in inventory</td>
<td>(131,700)</td>
</tr>
<tr>
<td>Increase in prepaid expenses</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Increase in taxes payable</td>
<td>10,650</td>
</tr>
<tr>
<td>Increase in accounts payable</td>
<td>19,280</td>
</tr>
<tr>
<td>Net cash used by operating activities</td>
<td>(144,207)</td>
</tr>
<tr>
<td></td>
<td>(29,207)</td>
</tr>
</tbody>
</table>

#### Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of machinery (4)</td>
<td>7,000</td>
</tr>
<tr>
<td>Investment in subsidiary (7)</td>
<td>(100,000)</td>
</tr>
<tr>
<td>Addition to buildings</td>
<td>(127,300)</td>
</tr>
<tr>
<td>Extraordinary repairs to building (8)</td>
<td>(7,200)</td>
</tr>
<tr>
<td>Purchase of machinery (4)</td>
<td>(33,400)</td>
</tr>
<tr>
<td>Purchase of patent (3)</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Increase in cash surrender value of life insurance</td>
<td>(504)</td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>(276,404)</td>
</tr>
</tbody>
</table>
PROBLEM 24-7 (Continued)

Cash flows from financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redemption of bonds (5)</td>
<td>(101,900)</td>
</tr>
<tr>
<td>Sale of bonds less expense of sale (6)</td>
<td>120,411</td>
</tr>
<tr>
<td>Sale of stock</td>
<td>257,000</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td><strong>275,511</strong></td>
</tr>
</tbody>
</table>

Decrease in cash

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in cash</td>
<td>(30,100)</td>
</tr>
<tr>
<td>Cash, January 1, 2002</td>
<td>298,000</td>
</tr>
<tr>
<td>Cash, December 31, 2002</td>
<td>267,900</td>
</tr>
</tbody>
</table>

*Net income per retained earnings statement $115,000

($25,000 + $90,000)

Supplemental disclosures of cash flow information:

Cash paid during the year for:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$10,500</td>
</tr>
<tr>
<td>Income taxes</td>
<td>$34,000</td>
</tr>
</tbody>
</table>

Noncash investing and financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in stated value of stock to eliminate</td>
<td>$425,000</td>
</tr>
<tr>
<td>deficit</td>
<td></td>
</tr>
</tbody>
</table>

Comments on Numbered Items

1. Write-off deficit has no effect on cash. Analysis of capital stock account shows the following:
Balance 12/31/01 $1,453,200
Restatement of stated value of stock 425,000
Balance 4/1/02 1,028,200

2. Sale of 29,600 shares 11/1/02 for $257,000 with stated value of $5 per share 148,000
Balance 12/31/02 $1,176,200

PROBLEM 24-7 (Continued)

3. A patent was purchased for $15,000 cash. The account activity is analyzed as follows:
   Balance 12/31/01 $64,000
   Purchase 15,000
   Total 79,000
   Balance 12/31/02 (69,000)
   Amortization charged against income which did not use cash $10,000

4. Analysis of the Machinery account shows the following:
   Balance 12/31/01 $190,000
   Disposition of machinery (16,400)
   Total 173,600
   Balance 12/31/02 (207,000)
   Additions requiring cash $(33,400)
   Loss on sale: $(16,400 – $5,200) – $7,000 $4,200
Cash received from disposition $7,000

Analysis of accumulated depreciation—
machinery:

Balance 12/31/01 of Accumulated Depreciation $130,000
Amount on asset sold (5,200)
Balance 124,800
Balance 12/31/02 (173,000)

Depreciation charged against income which did not use cash $(48,200)

PROBLEM 24-7 (Continued)

5. Funds to redeem bonds (net of taxes) $101,900

Face value of bonds $100,000
Unamortized premium 12/31/01 $2,400
Amortization to 3/31/02 not requiring cash
($6,000 ÷ 20) x 1/4 75
Balance at date of redemption 2,325
Book value of bonds $102,325
Gain on redemption $(102,325 – $101,900) $(425)

6. Face amount of bonds issued $125,000
Discount on $125,000 of bonds sold $3,750
Expense of issuance 839
Total $(4,589)
Proceeds of issue $120,411

- Amortization for nine months, which did not require cash (87)*
- Change in discount account $4,502

*(4,589/477 months) X 9 months = $87

<table>
<thead>
<tr>
<th>7. Purchase of stock requiring cash</th>
<th>$100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>70% of subsidiary’s income for year</td>
<td></td>
</tr>
<tr>
<td>($15,000), which did not provide</td>
<td>10,500</td>
</tr>
<tr>
<td>cash but was credited to income</td>
<td></td>
</tr>
<tr>
<td>Balance 12/31/02</td>
<td>$110,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>8. Analysis of accumulated depreciation—building</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Balance of accumulated depreciation 12/31/01</td>
</tr>
<tr>
<td>Charge for major repairs which used cash</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Balance 12/31/02</td>
</tr>
<tr>
<td>Depreciation charged against income which did not require cash</td>
</tr>
</tbody>
</table>

PROBLEM 24-7 (Continued)

**Comments on Other Items**

(not required)

- Increase in cash value of insurance required cash $504
- Increase in Buildings required cash 127,300
Decrease in Goodwill was a noncash charge against income 10,000
Dividends declared did not require cash 70,000

Appropriation for plant expansion had no effect on cash.

**PROBLEM 24-12**

(a) Seneca Corporation

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2001

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$15,750</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Loss on sale of equipment (b)</td>
<td>$ 4,100</td>
</tr>
<tr>
<td>Gain from flood damage</td>
<td>(13,250)</td>
</tr>
<tr>
<td>Depreciation expense (c)</td>
<td>1,900</td>
</tr>
<tr>
<td>Patent amortization</td>
<td>1,250</td>
</tr>
<tr>
<td>Gain on sale of investment</td>
<td>(2,500)</td>
</tr>
<tr>
<td>Increase in accounts receivable (net)</td>
<td>(3,750)</td>
</tr>
<tr>
<td>Increase in inventory</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Increase in accounts payable</td>
<td>2,000</td>
</tr>
<tr>
<td>Net cash flow provided by operating activities</td>
<td>2,500</td>
</tr>
</tbody>
</table>

| Cash flows from investing activities                                      |         |
| Sale of investments                                                       | 5,500   |
| Sale of equipment                                                          | 2,500   |
| Purchase of equipment (cash)                                               | (15,000)|
Proceeds from flood damage to building  37,000
Net cash provided by investing activities  30,000

Cash flows from financing activities
   Payment of dividends  (6,000)
   Payment of short-term note payable  (1,000)
   Net cash used by financing activities  (7,000)

Increase in cash  25,500
Cash, January 1, 2001  13,000
Cash, December 31, 2001  $38,500

Supplemental disclosures of cash flow information:
   Cash paid during the year for:
      Interest  $2,000
      Income taxes  $5,000

PROBLEM 24-12 (Continued)

Noncash investing and financing activities:
   Retired note payable by issuing common stock  $10,000
   Purchased equipment by issuing note payable  16,000
   $26,000

Supporting Computations:

a.   Ending retained earnings  $20,750
     Beginning retained earnings  (5,000)
     Net income  $15,750
b. Cost $11,000
   Accumulated depreciation (40% X $11,000) (4,400)
   Book value $ 6,600
   Proceeds from sale (2,500)
   Loss on sale $ 4,100

c. Accumulated depreciation on equipment sold $4,400
   Decrease in accumulated depreciation (2,500)
   Depreciation expense $1,900

(b) (1) For a severely financially troubled firm:

   Operating: Probably a small cash inflow or a cash outflow.
   Investing: Probably a cash flow as assets are sold to provide needed cash.
   Financing: Probably a cash inflow from debt financing (borrowing funds) as a source of cash at high interest cost.

(2) For a recently formed firm which is experiencing rapid growth:

   Operating: Probably a cash inflow.
   Investing: Probably a large cash outflow as the firm expands.
   Financing: Probably a large cash inflow to finance expansion.