

XYZ Company:

An Exercise for Preparing the Statement of Cash Flows
Using the Direct and Indirect Methods

Transactions at 1/1/99:

- (T1) Issues stock and receives \$1,000 in cash.
- (T2) Issues 10%, 2-year bond for \$2,000 cash. Part of the principle (\$1,000) is due on 12/31/99. Interest is not paid until 12/31/00.
- (T3) Buys equipment, issuing an 8% note payable, for \$1,500. There is no expected salvage value, and the estimated useful life is 3 years.
- (T4) Buys inventory for \$1,000 cash.

Transactions during the year:

- (T5) Sells inventory with original cost of \$600 for \$5,000 on account.
- (T6) Collects \$500 of the receivables noted in T5.

Transactions at 12/31/99:

- (T7) Pays \$1,000 of the bond principle.
- (T8) Records interest accrued on the bond of \$200 (10% of \$2,000).
- (T9) Records and pays interest on the note payable of \$120 (8% of \$1,500).
- (T10) Records depreciation of \$500 on the equipment.
- (T11) Sells equipment for \$1,800 cash.
- (T12) Pays dividend to shareholder of \$2,000 cash.

Required:

1. Record the Balance Sheet Equation (BSE) effects of these 12 transactions.
2. Prepare a Statement of Cash Flows (SCF) for 1999, using the direct method for “Cash Flows from Operating Activities.”
3. Prepare an Income Statement for 1999.
4. Prepare a Balance Sheet as of 12/31/99.
5. Redo the Statement of Cash Flows (SCF) for 1999, using the indirect method for “Cash Flows from Operating Activities.”

Background reading: Pratt, Chapter 14 and/or *Understanding the Statement of Cash Flows* from the Course Pack. Some students find that the latter provides a more intuitive explanation of the Indirect method.

Transactions Template for XYZ Company

	Cash	+ Inv'y	+ A/R	+PP&E	- Acc. Dep.	=	Notes Payable	+ Int. Payable	+Bonds Payable	+ Cont. Capital	+ Ret. Earn.
BB	0	0	0	0	0	=	0	0	0	0	0
T1						=					
T2						=					
T3						=					
T4						=					
T5						=					
						=					
T6						=					
T7						=					
T8						=					
T9						=					
T10						=					
T11						=					
T12						=					
EB						=					

SCF -- Direct Method

Cash from Operations:

Cash Received from Customers:	_____	
Cash Paid to Suppliers:	_____	
Cash Paid for Interest:	_____	
Total		_____

Cash from Investing:

Proceeds from Selling PP&E	_____	
Total		_____

Cash from Financing:

Issuing Stock	_____	
Issuing Bonds	_____	
Repayments of Bonds	_____	
Payment of Dividends	_____	
Total		_____

Total Change in Cash		_____
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