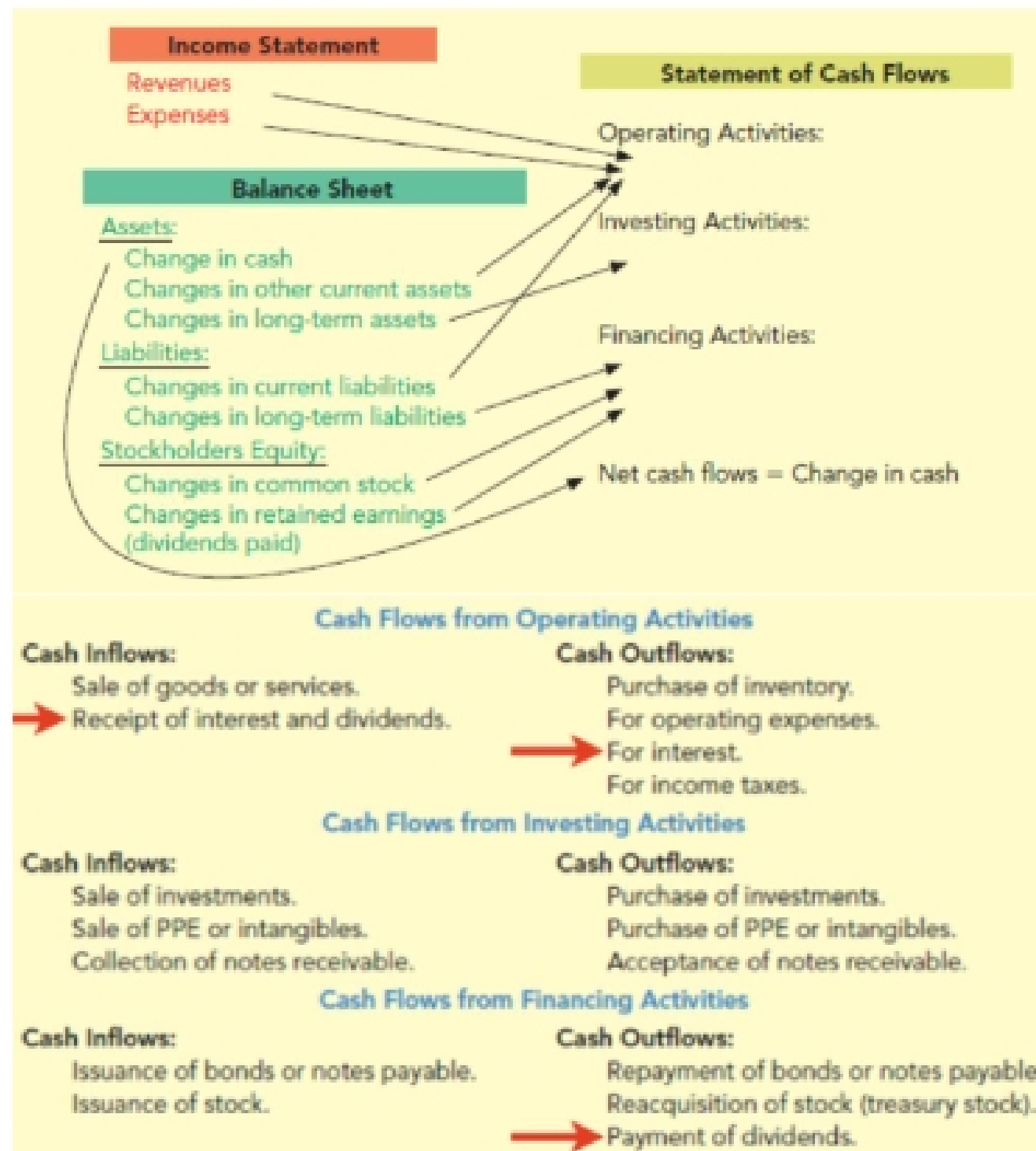


Review from Class

- The Statement of Cash Flows break cash transactions into three categories:
 - Operating: related to revenue and expenses reported on the income statement
 - Investing: related to purchase and sale of long-term assets and investment securities
 - Financing: related to debt and equity transactions



First, measure the change in each *balance sheet* account.

- The change in balance sheet accounts will help reconcile the income statement amounts, which are accrual basis.

Second, classify each balance sheet account as operating, investing, or financial.

Third, use the income statement as supplemental information.

Indirect Method for Operating:

- 1) Start with Net Income
- 2) Adjust for "non-cash" revenues/gains and expenses/losses
- 3) Adjust net income for changes in current assets and current liabilities
- 4) Sum amounts to get net cash from operating activities

The income statement, balance sheets, and additional information for Video Phones, Inc. are provided.

Video Phones, Inc.		
Balance Sheet		
December 31, 2012		
	2012	2011
Assets		
Current assets		
Cash	186,000	144,000
Accounts receivable	81,000	60,000
Inventory	105,000	135,000
Prepaid rent	12,000	6,000
Long-term assets		
Investment in bonds	105,000	0
Land	210,000	240,000
Equipment	270,000	210,000
Accumulated depreciation	<u>(69,000)</u>	<u>(42,000)</u>
Total assets	900,000	753,000
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	66,000	81,000
Interest payable	6,000	10,000
Income tax payable	15,000	14,000
Long-term liabilities		
Notes payable	285,000	225,000
Stockholders' equity		
Common stock	300,000	300,000
Retained earnings	<u>228,000</u>	<u>123,000</u>
Total liabilities and equity	900,000	753,000

Video Phones, Inc.
Income Statement
For the Year Ended Dec 31, 2012

Revenues		3,036,000
Expenses:		
Cost of goods sold	1,950,000	
Operating expenses	858,000	
Depreciation expenses	27,000	
Loss on sale of land	8,000	
Interest expense	15,000	
Income tax expense	<u>48,000</u>	
Total expenses		<u>2,906,000</u>
Net income		<u>130,000</u>

Additional information for 2012:

- a) Purchase investment in bonds for \$105,000.
- b) Sell land costing \$30,000 for only \$22,000, resulting in an \$8,000 loss on sale of land.
- c) Purchase \$60,000 in equipment by borrowing \$60,000 with a note payable due in three years.
No cash is exchanged in the transaction.
- d) Declare and pay a cash dividend of \$25,000.

Requirement:

1. Prepare the cash flow statement using the indirect method.