

Cash Flows by Activity

| Transaction | Operating | Investing | Financing |
|-------------------|-----------|-----------|-----------|
| Sell shares | | | 250,000 |
| Legal Fees | (3,900) | | |
| Buy Bldg. & Land | | (155,000) | 124,000 |
| Bldg. Renovations | | (33,000) | |
| Buy Metal Det. | | (120,000) | |
| Buy Software | | (2,100) | |
| Buy Advertising | (8,000) | | |
| Loan to Park | (5,000) | | |
| Pay Supplier | (2,000) | | |
| Pay Dividends | | | (2,500) |
| Rental prepayment | 1,200 | | |
| Met Det revenues | 120,100 | | |
| Buy Inventory | (38,000) | | |
| Sundries sales | 35,000 | | |
| Pay Salaries | (82,000) | | |
| | 17,400 | (310,100) | 371,500 |

Relic Spotter Income Statement

Year ended 12/31/2012

| | |
|---------------------------|-----------------|
| Total Revenue | 159,400 |
| Met Det Depreciation Exp. | (30,000) |
| Software Amortization | (350) |
| Cost of Goods Sold | <u>(30,000)</u> |
| Total Costs of Revenue | <u>(60,350)</u> |
| Gross Profit | 99,050 |
| Salaries and Wages | (82,000) |
| Legal Fees | (3,900) |
| Advertising | (4,000) |
| Bldg. Depreciation | <u>(1,500)</u> |
| Total SG&A Expenses | <u>(91,400)</u> |
| Operating Income | 7,650 |
| Interest Revenue | 250 |
| Interest Expense | <u>(4,900)</u> |
| Pre-tax income | 3,000 |
| Income Tax Expense | <u>(630)</u> |
| Net Income | 2,370 |

Relic Spotter Balance Sheet

| <u>Assets</u> | <u>12/31/2012</u> | <u>12/31/2011</u> | <u>Liabilities and Owners' Equity</u> | <u>12/31/2012</u> | <u>12/31/2011</u> |
|----------------------|-------------------|-------------------|---------------------------------------|-------------------|-------------------|
| Cash | 78,800 | 0 | Accounts Payable | 2,000 | 0 |
| Accounts Receivable | 4,200 | 0 | Interest Payable | 4,900 | 0 |
| Notes Receivable | 5,000 | 0 | Income Taxes Payable | 630 | 0 |
| Interest Receivable | 250 | 0 | Unearned Rental Revenue | 1,100 | 0 |
| Inventory | 12,000 | 0 | Total Current Liabilities | 8,630 | 0 |
| Prepaid Advertising | 4,000 | 0 | | | |
| Total Current Assets | 104,250 | 0 | Mortgage Payable | 124,000 | 0 |
| | | | Total Liabilities | 132,630 | 0 |
| Land | 103,000 | 0 | | | |
| Buildings | 85,000 | 0 | Common Stock | 25,000 | 0 |
| Metal Detectors | 120,000 | 0 | Additional Paid-in-Capital | 225,000 | 0 |
| Less Accum Depr | (31,500) | 0 | Retained Earnings | (130) | 0 |
| Net PP&E | 276,500 | 0 | Total Shareholders' Equity | 249,870 | 0 |
| Software | 1,750 | 0 | | | |
| | | | | | |
| Total Assets | 382,500 | 0 | Total Liab and Equity | 382,500 | 0 |

Direct Method: Investing Activities

| Transaction | Investing | Cash Flow from Investing Activities | |
|-------------------|-----------|-------------------------------------|-----------|
| Sell shares | | Purchase of land | (103,000) |
| Legal Fees | | Purchase of buildings | (85,000) |
| Buy Bldg. & Land | (155,000) | Purchase of metal detectors | (120,000) |
| Bldg. Renovations | (33,000) | Purchase of software | (2,100) |
| Buy Metal Det. | (120,000) | Net Cash from Investing Activities | (310,100) |
| Buy Software | (2,100) | | |
| Buy Advertising | | | |
| Loan to Park | | | |
| Pay Supplier | | | |
| Pay Dividends | | | |
| Rental prepayment | | | |
| Met Det revenues | | | |
| Buy Inventory | | | |
| Sundries sales | | | |
| Pay Salaries | | | |
| | (310,100) | | |

Direct Method: Financing Activities

| Transaction | Financing | Cash Flow from Financing Activities | |
|-------------------|-----------|-------------------------------------|---------|
| Sell shares | 250,000 | Payment of Dividends | (2,500) |
| Legal Fees | | Proceeds from Sale of Stock | 250,000 |
| Buy Bldg. & Land | 124,000 | Proceeds from Mortgage Payable | 124,000 |
| Bldg. Renovations | | Net Cash from Financing Activities | 371,500 |
| Buy Metal Det. | | | |
| Buy Software | | | |
| Buy Advertising | | | |
| Loan to Park | | | |
| Pay Supplier | | | |
| Pay Dividends | (2,500) | | |
| Rental prepayment | | | |
| Met Det revenues | | | |
| Buy Inventory | | | |
| Sundries sales | | | |
| Pay Salaries | | | |
| | 371,500 | | |

Direct Method: Operating Activities

| <u>Transaction</u> | <u>Operating</u> | <u>Cash Flow from Operating Activities</u> | |
|--------------------|------------------|--|----------|
| Sell shares | | Cash Collected from Customers | 156,300 |
| Legal Fees | (3,900) | Cash Paid to Suppliers | (40,000) |
| Buy Bldg. & Land | | Cash Paid to Employees | (82,000) |
| Bldg. Renovations | | Cash Paid for Short-term Loans | (5,000) |
| Buy Metal Det. | | Cash Paid for Miscellaneous Expenses | (11,900) |
| Buy Software | | Net Cash from Operations | 17,400 |
| Buy Advertising | (8,000) | | |
| Loan to Park | (5,000) | | |
| Pay Supplier | (2,000) | | |
| Pay Dividends | | | |
| Rental prepayment | 1,200 | | |
| Met Det revenues | 120,100 | | |
| Buy Inventory | (38,000) | | |
| Sundries sales | 35,000 | | |
| Pay Salaries | (82,000) | | |
| | 17,400 | | |

Indirect Method

- **Start with Net Income**
- **Adjust for components of Net Income tied to noncash items or to investing activities**
 - Add back expenses or subtract revenues
 - Noncash items: Depreciation, amortization
 - Investing activities: Gains/losses on sale of PP&E or investments
- **Adjust for components of Net Income tied to assets or liabilities created through operating activities (i.e., working capital)**
 - Add or subtract change in asset/liability account balance
 - Use the balance sheet equation to determine whether to add or subtract:
Cash + Noncash Assets = Liabilities + Owners' Equity

Indirect Method: Operating Activities

| <u>Assets</u> | <u>12/31/2012</u> | <u>12/31/2011</u> | <u>Cash Flow from Operating Activities</u> | |
|----------------------|-------------------|-------------------|--|----------|
| Cash | 78,800 | 0 | Net Income | 2,370 |
| Accounts Receivable | 4,200 | 0 | Adjustments to reconcile Net Income to Cash from Operations: | |
| Notes Receivable | 5,000 | 0 | Depreciation & Amortization | 31,850 |
| Interest Receivable | 250 | 0 | Change in Accounts Receivable | (4,200) |
| Inventory | 12,000 | 0 | Change in Notes Receivable | (5,000) |
| Prepaid Advertising | 4,000 | 0 | Change in Interest Receivable | (250) |
| Total Current Assets | 104,250 | 0 | Change in Inventory | (12,000) |
| Land | 103,000 | 0 | Change in Prepaid Advertising | (4,000) |
| Buildings | 85,000 | 0 | | |
| Metal Detectors | 120,000 | 0 | | |
| Less Accum Depr | (31,500) | 0 | | |
| Net PP&E | 276,500 | 0 | | |
| Software | 1,750 | 0 | | |
| Total Assets | 382,500 | 0 | Net Cash from Operations | 17,400 |

Cash + Noncash Assets = Liabilities + Owners' Equity

Indirect Method: Operating Activities

| <u>Liabilities and Owners' Equity</u> | <u>12/31/12</u> | <u>12/31/11</u> | <u>Cash Flow from Operating Activities</u> | |
|---------------------------------------|-----------------|-----------------|--|----------|
| Accounts Payable | 2,000 | 0 | Net Income | 2,370 |
| Interest Payable | 4,900 | 0 | Adjustments to reconcile Net Income to Cash from Operations: | |
| Income Taxes Payable | 630 | 0 | Depreciation & Amortization | 31,850 |
| Unearned Rental Revenue | 1,100 | 0 | Change in Accounts Receivable | (4,200) |
| Total Current Liabilities | 8,630 | 0 | Change in Notes Receivable | (5,000) |
| Mortgage Payable | 124,000 | 0 | Change in Interest Receivable | (250) |
| Total Liabilities | 132,630 | 0 | Change in Inventory | (12,000) |
| Common Stock | 25,000 | 0 | Change in Prepaid Advertising | (4,000) |
| Additional Paid-in-Capital | 225,000 | 0 | Change in Accounts Payable | 2,000 |
| Retained Earnings | (130) | 0 | Change in Interest Payable | 4,900 |
| Total Shareholders' Equity | 249,870 | 0 | Change in Income Taxes Payable | 630 |
| Total Liab and Equity | 382,500 | 0 | Change in Unearned Rental Revenue | 1,100 |
| | | | Net Cash from Operations | 17,400 |

Cash + Noncash Assets = Liabilities + Owners' Equity

Statement of Cash Flows

Cash Flow from Operating Activities

| | |
|--|----------|
| Net Income | 2,370 |
| Adjustments to reconcile Net Income to Cash from Operations: | |
| Depreciation & Amortization | 31,850 |
| Change in Accounts Receivable | (4,200) |
| Change in Notes Receivable | (5,000) |
| Change in Interest Receivable | (250) |
| Change in Inventory | (12,000) |
| Change in Prepaid Advertising | (4,000) |
| Change in Accounts Payable | 2,000 |
| Change in Interest Payable | 4,900 |
| Change in Income Taxes Payable | 630 |
| Change in Unearned Rental Revenue | 1,100 |
| Net Cash from Operations | 17,400 |

Cash Flow from Investing Activities

| | |
|------------------------------------|-----------|
| Purchase of land | (103,000) |
| Purchase of buildings | (85,000) |
| Purchase of metal detectors | (120,000) |
| Purchase of software | (2,100) |
| Net Cash from Investing Activities | (310,100) |

Cash Flow from Financing Activities

| | |
|------------------------------------|---------|
| Payment of Dividends | (2,500) |
| Proceeds from Sale of Stock | 250,000 |
| Proceeds from Mortgage Payable | 124,000 |
| Net Cash from Financing Activities | 371,500 |

| | |
|--------------------|--------|
| Net Change in Cash | 78,800 |
|--------------------|--------|