

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			
	<hr/> (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
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