

# ADM 2342A

## 2013 FALL SEMESTER

### CASH FLOW QUESTION

The comparative balance sheets of Gelinas Limited, a privately held company, show the following information as at December 31, 2010.

	<u>2010</u>	<u>2009</u>
Cash	\$ 38,500	\$ 13,000
Accounts Receivable	12,250	10,000
Inventory	12,000	9,000
Investments (long-term)	0	3,000
Building	0	29,750
Equipment	40,000	20,000
Patent	<u>5,000</u>	<u>6,250</u>
Totals	<b><u>\$107,750</u></b>	<b><u>\$ 91,000</u></b>
Allowance for Doubtful Accounts	\$ 3,000	\$ 4,500
Accumulated Depreciation - Equipment	2,000	4,500
Accumulated Depreciation - Building	0	6,000
Accounts Payable	5,000	3,000
Dividends Payable	0	6,000
Notes Payable (short-term)(trade)	3,000	4,000
Long Term Notes Payable	31,000	25,000
Common Shares	43,000	33,000
Retained Earnings	<u>20,750</u>	<u>5,000</u>
Totals	<b><u>\$107,750</u></b>	<b><u>\$ 91,000</u></b>

Additional data relating to 2010 are as follows:

1. Equipment that had cost \$11,000 and was 40% depreciated at the time of disposal was sold for \$2,500.
2. \$10,000 of the long-term note payable was paid by issuing common shares.
3. Cash dividends paid were \$6,000.
4. In early 2010, an unused building was expropriated by the federal government. Proceeds received were \$33,000.

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5. Investments (long-term) were sold for \$2,500 above their cost.
6. Cash of \$15,000 was paid for the acquisition of equipment.
7. A long-term note for \$16,000 was issued for the acquisition of equipment.
8. Interest of \$2,000 and income taxes of \$5,000 were paid in cash.

**Required:**

Prepare a properly formatted Cash Flow Statement for the year ended December 31, 2010 using the indirect method. Gelinas elected to report the government expropriation as an unusual item. Gelinas follows ASPE.

## SOLUTION

**Gelinas Limited**  
**Cash Flow Statement**  
**For the period ending December 31, 2010**  
**(Indirect Method)**

Operating Activities	
Net income	\$ 15,750
Add back (deduct) non-cash expenses, gains and losses:	
Gain on sale of long-term investments	\$ (2,500)
Gain from expropriation	(9,250)
Loss on disposal of equipment	4,100
Depreciation expense - patent	1,250
Depreciation expense - equipment	<u>1,900</u> (4,500)
Changes in non-cash working capital accounts	
Increase in net accounts receivable	(3,750)
Increase in inventory	(3,000)
Increase in accounts payable	<u>2,000</u> (4,750)
Cash flow provided from operating activities	6,500
Investing Activities	
Proceeds from sale of investments	\$ 5,500
Proceeds from sale of equipment	2,500
Purchase of equipment	(15,000)
Proceeds received from expropriation of building	<u>33,000</u>
Cash flow provided by investing activities	26,000
Financing Activities	
Dividends paid	\$ (6,000)
Repayment of short-term note payable	<u>(1,000)</u>
Cash flow provided by financing activities	(7,000)
Increase in cash during period	25,500
Cash balance, January 1, 2010	<u>13,000</u>
Cash balance, December 31, 2010	<b>\$ <u>38,500</u></b>

Supplementary disclosures

Interest paid	\$ 2,000
Income taxes paid	\$ 5,000
Long-term note for \$10,000 paid off through issuance of shares.	
Long term note for \$16,000 issued for acquisition of equipment.	