Cooper Machinery, Inc.

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ABSTRACT

This case emphasizes one of the most important analytical tools that an accounting graduate should possess. It is the opinion of the authors that an accounting graduate should be able to convert from the accrual basis of accounting to the cash basis. A solid understanding of this area and others, such as time value of money concepts, is necessary in order for one to consider himself/herself "accounting literate". The purpose of this case is to evaluate and help students understand the relationship between the balance sheet, statement of income, and statement of cash flows in addition to the theory and mechanics of converting from the accrual basis of accounting to the cash basis. Furthermore, it helps students develop analytical skills and form an opinion about the usefulness of the direct method presentation of the statement of cash flows compared to the indirect method. Thus students are forced to complete missing information on the balance sheet, statement of income, and statement of cash flow by deducing which transactions occurred. The assumption used in the case is that the company employs the accrual basis of accounting. There were no cash sales or expenses paid in cash.

BACKGROUND

Cooper Machinery, Inc. is a closely-held corporation. It was established in 2002 and is a distributor of mixing, grinding, and blending machines. The machines along with spare parts are purchased from a manufacturer in Germany. No manufacturing is done at the company's plant in Wayne, New Jersey. Sales in 2005 were particularly robust. The machines sell from $50,000 per unit to $800,000 depending on use and complexity. The Company sells to customers in the printing, chemical, agricultural, explosive, and food industries.

In February, 2006, the Company experienced a fire which completely destroyed its facilities. The Company lost everything including its accounting records. Although they were adequately insured including business interruption, it is necessary for insurance purposes and in order to complete its tax filings with the Internal Revenue Service, to reconstruct its records to the best of its ability.

The good news is that the controller took some accounting records home with him because he intended to work in his home office all weekend. His intentions were to prepare schedules for the auditors who planned to commence the annual audit during the first week of March. Included in the materials that the controller took home were detailed accounts receivable and accounts payable subsidiary ledgers, inventory summary sheets, and analyses of selected expenses, such as commissions and Federal and State income taxes. Moreover, because he intended to review the various Federal and State year-end payroll reports, he had the payroll records in his possession.

The controller contacted the bank and was able to obtain bank statements for the months of January and February including copies of deposits, disbursements, and any debit or credit memos. The controller also was able to obtain copies of last year's financials and Federal and New Jersey state tax returns from the auditors, and several schedules containing historical information about several accounts including fixed assets and depreciation. Finally, the controller was able to obtain valuable information regarding premiums paid for insurance from the Company's insurance broker.

ASSUMPTIONS

1. The Company utilizes the full accrual basis of accounting. Thus all sales are on account and all purchases are on account. The Company does not sell anything for cash nor does it buy anything for cash.
2. The Company uses the allowance method to account for bad debts and estimates the allowance based on a percentage of receivables. This percentage has historically been around 4%.
3. The Company's historical cost of sales (excluding depreciation) percentage has been 60%.
4. The income tax rate is 40%.
5. The certificates of deposit earn interest at 2% per annum. The certificates are one year CDs and terminate on January 1st of each year.
6. The interest rate for the stockholders' loans was 8%.
7. The interest rate for the loans from bank (Long-term debt) is 6%.
8. The Company did not issue any common stock during the year nor did it pay dividends.
9. There were not any sales or retirements of fixed assets during the year.
10. Payments to suppliers on the cash flow statement relate to accounts payable, inventory, and cost of sales.
11. Payments for operating expenses relate to prepaid expenses and other liabilities.
12. Payments for salaries, benefits, and payroll taxes relate to accrued salaries.

FACTS RE: DECEMBER 31, 2005

1. Based on the bank statements obtained from the bank, the controller concluded that the certificate of deposits decreased by $200,000 from 2004. As previously stated this redemption occurred on January 1, 2005.
2. Based on a review of the detailed accounts receivable subsidiary ledger, the controller ascertained that the total for accounts receivable at December 31, 2005 was $2,188,000. Further, he ascertained that during the year the Company wrote off $4,000 of uncollectible accounts, and that the allowance for uncollectible accounts should be $88,000 at December 31, 2005. He also determined that the sales for the year were $7,000,000. Finally, he concluded that the Company had $1,020,000 in customer deposits on hand at December 31, 2005.
3. The controller met with the Company's insurance brokers. He was able to reconstruct the amount of prepaid insurance at December 31, 2005 and thus concluded that it was $72,000.
4. Thanks to his good memory, the controller remembered that only two capital purchases were made during the year. One was for a new roof in the amount of $40,000, and the other was for a new copy machine in the amount $9,000. The controller then met with the auditors to review their workpapers. By updating the auditors' depreciation lapsing schedules with the aforementioned information, he determined that the depreciation for 2005 would be $90,000. The Company's policy was to charge 1/3 of the total depreciation expense to cost of sales.
5. The bank reminded him that they loaned the Company $500,000 on January 3, 2005 and that they then paid off the stockholders' loans in the amount of $1,000,000 on that date. Interest on the bank loan will be paid annually. Thus the first payment was due on January 3, 2006.
6. A review of the payroll records indicates that accrued salaries at December 31, 2005 were $18,000 and that $448,000 was paid out in salaries and wages during 2005. This number reconciled with the 2005 W-2 forms furnished by Autopay, the company's payroll service. The outsourcing company also handled payment of payroll taxes which were $43,000. Other fringes (such as the company's 401-K plan, hospitalization, and workmen's' compensation insurance) paid during the year totaled $46,000. These amounts were determined by contacting the respective vendors (providers of these benefits).
7. The auditors had done some preliminary audit work in November. Based on discussions with them, the controller concluded that two accounts, commissions payable and other liabilities would have the same balances at year-end as the amounts in the auditors' workpapers as of October 31, 2005. Specifically, commissions payable at year-end should be $85,000 and other liabilities should be $100,000. Commissions relate to an $850,000 sale to China and the $100,000 relates to legal fees incurred but not paid relative to a settled lawsuit, an accrual for audit fees, and unpaid computer consulting expenses.
8. A review of the detailed accounts payable subsidiary ledger disclosed that accounts payable at December 31, 2005 should be $678,000.

9. The summary inventory sheets that the controller had in his possession indicated an inventory balance of $2,500,000 at December 31, 2005.
10. Finally, the schedules of selected analyses of expenses showed that the Company paid out $15,000 in commissions during the year. There was also a schedule showing the calculation of the provision for Federal and State income taxes in the amount of $520,000.
11. After working with the subsequent bank statements, the controller determined that the ending December 31, 2005 cash book balance was $416,000. Fortunately, there were not a large number of outstanding checks and no deposits in transit.

INSTRUCTIONS

Based on the above assumptions and facts:

1. Prepare the transactions (in the form of journal entries) that occurred during the year. In doing so, indicate which transactions are given (e.g. recording sales for the year), and which one are derived (that is, those that you had to determine through analysis of the activity that occurred). After you prepare the journal entries, prepare a "T" account for the accounts in the financial statements for which there were changes in activity.
2. Summarize the "T" accounts and reconstruct a balance sheet as of December 31, 2005 and statements of income and cash flows for the year ended December 31, 2005.
3. In addition, prepare a cash flow statement using the indirect method. Use Excel to develop a worksheet to arrive at the changes needed for the operating, financing, and investing activities sections of the statement of cash flows.
4. Which method (direct or indirect) do you think is preferable? Why?

TEACHING NOTES

1. The transactions are summarized in Exhibit 2. Note that they are broken down into two types, namely, given and derived. That is, certain transactions are practically given to the student, and based on the facts and assumptions in the case merely can be journalized. For instance, debit accounts receivable and credit sales. On the other hand, most of the transactions have to be determined based on analyses of the facts, assumptions, and changes in activity. Also note that this schedule is in the form of a worksheet to easily determine the activity for the cash flow statement.
2. "T" accounts and postings are summarized in Exhibit 1. This schedule helps in the preparation of the balance sheet as of December 31, 2005 and the statement of income for the year ended December 31, 2005. It also assists in the proof of the statement of cash flow for the year ended December 31, 2005. The solved Balance Sheets, Statements of Income, and Statements of Cash Flow are detailed in Exhibits 3, 4 and 5.
3. A Statement of Cash Flow for the year ended December 31, 2005 using the indirect method is illustrated in Exhibit 6. Once the proper format is set up, these numbers can easily be obtained from the "T" accounts in Exhibit 1.
4. You will receive a variety of answers relative to which method (direct or indirect) is preferable. Usually students see that the direct method have advantages over the indirect method and many cite the fact that FAS-95 encourages but does not require enterprises to use the direct method. Many students see that the direct method is better from an "accounting purist" viewpoint because it reflects the gross amount of the main components of cash receipts and cash payments as a result of operating activities whereas the indirect method does not.

COOPER MACHINERY INC.
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

ASSETS

	2005	2004
CURRENT ASSETS		
Cash		$ 230,000
Certificates of deposit		1,000,000
Interest receivable		20,000
Accounts receivable, net of allowance for uncollectible accounts of $, and $50,000		1,200,000
Inventories		2,200,000
Prepaid expenses		50,000
Total Current Assets	$ -	$ 4,700,000
FIXED ASSETS		
Building and building improvements		$ 381,000
Office equipment and furniture		200,000
	$ -	$ 581,000
Less accumulated depreciation		(420,000)
Net Fixed Assets	-	$ 161,000
TOTAL ASSETS	$ -	$ 4,861,000

LIABILITIES AND STOCKHOLDERS' INVESTMENT

	2005	2004
CURRENT LIABILITIES		
Loans from stockholder	-	1,000,000
Accounts payable		391,000
Customers' deposits		506,000
Commissions and payable		70,000
Accrued salaries		15,000
Other liabilites		60,000
Income taxes payable		78,000
Interest payable	-	20,000
Current Liabilities	-	2,140,000
LONG TERM DEBT	-	-
STOCKHOLDERS' INVESTMENT		
Common stock, no par value, 1,000 shares authorized; 20 shares issued and outstanding		10,000
Capital contributed in excess of par value		923,000
Accumulated earnings		1,788,000
Total Stockholders' Investment	-	2,721,000
TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT	-	4,861,000

COOPER MACHINERY INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
INCOME		
Sales		$ 5,000,000
Cost of sales		3,028,000
Gross profit on sales		$ 1,972,000
Interest income		20,000
Total income	$ -	$ 1,992,000
EXPENSES		
Salaries, benefits and payroll taxes		$ 485,000
Operating expense		620,000
Depreciation		56,000
Commissions		36,000
Bad debts expense		35,000
Interest expense		80,000
TOTAL OPERATING EXPENSES	$ -	$ 1,312,000
INCOME BEFORE INCOME TAXES	$ -	$ 680,000
Provision for income taxes		272,000
NET INCOME		$ 408,000
ACCUMULATED EARNINGS, BEGINNING	1,788,000	1,380,000
ACCUMULATED EARNINGS, ENDING	$ -	$ 1,788,000

COOPER MACHINERY INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Collections from customers		$ 5,400,000
Interest received on certificates of deposit		20,000
Payments to suppliers		(3,009,000)
Payments for salaries, benefits, and payroll taxes		(480,000)
Payments for operating expenses		(610,000)
Payments for commissions		(75,000)
Payments for interest		(90,000)
Payments for income taxes		(210,000)
Cash Provided by Operating Activities		$ 946,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of stockholders' loans		$ -
Loan received from bank		-
Cash Used for Financing Activities		$ -
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of building improvements		$ (50,000)
Purchase of office equipment		(12,000)
Cash Used for Investing Activities		$ (62,000)
Net Cash Inflow (Outflow)		$ 884,000
Cash and cash equivalents, beginning of year	1,230,000	346,000
Cash and cash equivalents, end of year		$ 1,230,000

EXHIBIT 1

Cooper Machinery Inc.
"T" Accounts

Cash

230,000	
	(G) 22,000
(A) 200,000	(H) 49,000
(D) 514,000	(K) 1,000,000
(F) 6,058,000	(L) 448,000
(J) 500,000	(M) 89,000
(W) 20,000	(P) 15,000
	(U) 4,213,000
	(Y) 20,000
	(AA) 506,000
	(BB) 744,000
416,000	

Certificates of Deposit

1,000,000	
	(A) 200,000
800,000	

Interest Receivable

20,000	
(V) 16,000	(W) 20,000
16,000	

Accounts Receivable

1,250,000	
(C) 7,000 000	(B) 4,000
	(F) 6,058,000
2,188,000	

Allowance for Uncollectible Accounts

	50,000
(B) 4,000	
	(E) 42,000
	88,000

Inventories

2,200,000	
(T) 4,500,000	(S) 4,200,000
2,500,000	

Prepaid Expenses

50,000	
(G) 22,000	
72,000	

Building and Building Improvements

381,000	
(H) 40,000	
421,000	

Office Equipment and Furniture

200,000	
(H) 9,000	
209,000	

Accumulated Depreciation

	420,000
	(I) 90,000
	510,000

Loans from Stockholders

	1,000,000
(K) 1,000,000	
	0

Accounts Payable

	391,000
(U) 4,213,000	(T) 4,500,000
	678,000

Customers' Deposits

	506,000
	(D) 514,000
	1,020,000

Commissions Payable

	70,000
(P) 15,000	(Q) 30,000
	85,000

Accrued Salaries

	15,000
(L) 448,000	(N) 451,000
(M) 43,000	(O) 89,000
(M) 46,000	
	18,000

EXHIBIT 1

Cooper Machinery Inc.
"T" Accounts
(continued)

Other Liabilities

	60,000
	(Z) 784,000
(BB) 744,000	
	100,000

Income Taxes Payable

	78,000
	(R) 520,000
(AA) 506,000	
	92,000

Interest Payable

	20,000
(Y) 20,000	(X) 30,000
	30,000

Long-term Debt

	0
	(J) 500,000
	500,000

Sales

	(C) 7,000 000
	7,000,000

Interest Revenues

	(V) 16,000
	16,000

Cost of Sales

(I) 30,000	
(S) 4,200,000	
4,230,000	

Salaries, Benefits and Payroll Taxes

(N) 451,000	
(O) 89,000	
540,000	

Commissions

(R) 30,000	
30,000	

Operating Expenses

(AA) 784,000	
784,000	

Depreciation

(I) 60,000	
60,000	

Interest Expense

(X) 30,000	
30,000	

Bad Debts Expense

(E) 42,000	
42,000	

Provision for Income Taxes

(R) 520,000	
520,000	

Cooper Machinery Inc
Worksheet for Statement of Cash Flow (Direct Method)
Year Ended December 31, 2005

EXHIBIT 2

Legend--
G = Given Transaction
D = Derived Transaction

				Operating									Investing Activities	
				Collec	Int	Pmts	Pmts	Pmts	Other Payments		Financing Activities		Purch	Purch
		Debit	Credit	Cust	Recd	Suppl	PR	Oper	Decription	Amount	Bank Loan	Stkhdlrs	Bldg Imp	Furn/Eq
G	(A) Cash	200,000												
G	(A) Certificates of deposit		200,000											
	To record redemption of certificate of deposit													
G	(B) Allowance for uncollectibe accounts	4,000												
G	(B) Accounts receivable		4,000											
	To record write off of accounts receivable													
G	(C) Accounts receivable	7,000,000												
G	(C) Sales		7,000,000											
	To record sales for the year													
D	(D) Cash	514,000		514,000										
D	(D) Customers deposit		514,000											
	To record additional customer deposits received during the year													
D	(E) Bad debts expense	42,000												
D	(E) Allowance for uncollectible accounts		42,000											
D	(F) Cash	6,058,000		6,058,000										
D	(F) Accounts receivable		6,058,000											
	To record collections of accounts receivable during the year													
D	(G) Prepaid expenses	22,000												
D	(G) Cash		22,000					(22,000)						
	To record payment for prepaid insurance													
G	(H) Building improvements	40,000												
G	(H) Furniture and equipment	9,000												
G	(H) Cash		49,000										(40,000)	(9,000)
	To record purchase of capital items													
G	(I) Depreciation expense	60,000												
G	(I) Cost of sales	30,000												
G	(I) Accumulated depreciation		90,000											
	To record depreciation for the year													
G	(J) Cash	500,000									500,000			
G	(J) Loan payable to bank		500,000											
	To record loan received from bank													
G	(K) Stockholders' loans	1,000,000												
G	(K) Cash		1,000,000									(1,000,000)		
	To record pay off of stockholders' loans													

					Operating Activities							Financing Activities		Investing Activities	
					Collec	Int	Pmts	Pmts	Pmts	Other Payments		Bank	Stkhldrs	Purch	Purch
			Debit	Credit	Cust	Recd	Suppl	PR	Oper	Decription	Amount	Loans	Loans	Bldg Imp	Furn/Eq
G	(L)	Salaries and wages payable	448,000												
G	(L)	Cash		448,000				(448,000)							
		To record payment for salaries and wages													
G	(M)	Salaries and wages payable	43,000												
G	(M)	Salaries and wages payable	46,000												
		Cash		89,000				(89,000)							
		To record payment for payroll taxes and fringe benefits													
D	(N)	Salaries, wages, and benefits expense	451,000												
D	(N)	Salaries and wages payable		451,000											
		To record expense for salaries, wages, and benefits													
G	(O)	Salaries, wages, and benefits expense	43,000												
G	(O)	Salaries, wages, and benefits expense	46,000												
G	(O)	Salaries and wages payable		89,000											
		To record expense for payroll taxes and fringe benefits													
G	(P)	Commissions payable	15,000												
G	(P)	Cash		15,000						Commissions	(15,000)				
		To record payment for commissions													
D	(Q)	Commissions expense	30,000												
D	(Q)	Commissions payable		30,000											
		To record commissions expense for the year													
G	(R)	Provision for income taxes	520,000												
G	(R)	Income taxes payable		520,000											
		To record provision for income taxes													
D	(S)	Cost of sales	4,200,000												
D	(S)	Inventories		4,200,000											
		To record cost of sales @ 60% of sales													
D	(T)	Inventories	4,500,000												
D	(T)	Accounts payable		4,500,000											
		To record inventory purchases													
D	(U)	Accounts payable	4,213,000												
D	(U)	Cash		4,213,000			(4,213,000)								
		To record payments for accounts payable													

					Operating Activities							Financing Activities		Investing Activities	
					Collec	Int	Pmts	Pmts	Pmts	Other Payments		Financing Activities		Purch	Purch
			Debit	Credit	Cust	Recd	Suppl	PR	Oper	Decription	Amount	Bank Loan	Stkhdlrs	Bldg Imp	Furn/Eq
D	(V)	Interest receivable	16,000												
D	(V)	Interest revenues		16,000											
		To accrue interest earned on CD's @ 2%													
		(2% x $800,000)													
D	(W)	Cash	20,000			20,000									
D	(W)	Interest receivable		20,000											
		To record receipt of interest on CD's													
		(2% x $1,000,000)													
D	(X)	Interest expense	30,000												
D	(X)	Interest payable		30,000											
		To accrue interest expense on bank loan													
		(6% x $500,000)													
D	(Y)	Interest payable	20,000												
D	(Y)	Cash		20,000						Interest	(20,000)				
		To record payment of interest													
D	(Z)	Operating expenses	784,000												
D	(Z)	Other liabilities		784,000											
		To record operating expenses for the year													
D	(AA)	Income taxes payable	506,000												
D	(AA)	Cash		506,000						Taxes	(506,000)				
		To record income taxes paid during the year													
D	(BB)	Other liabilities	744,000												
D	(BB)	Cash		744,000					(744,000)						
		To record other liabilities paid during the year													
					6,572,000	20,000	(4,213,000)	(537,000)	(766,000)	-	(541,000)	500,000	(1,000,000)	(40,000)	(9,000)

EXHIBIT 3

COOPER MACHINERY INC.
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	$ 416,000	$ 230,000
Certificates of deposit	800,000	1,000,000
Interest receivable	16,000	20,000
Accounts receivable, net of allowance for uncollectible accounts of $88,000 and $50,000	2,100,000	1,200,000
Inventories	2,500,000	2,200,000
Prepaid expenses	72,000	50,000
Total Current Assets	$ 5,904,000	$ 4,700,000
FIXED ASSETS		
Building and building improvements	$ 421,000	$ 381,000
Office equipment and furniture	209,000	200,000
	$ 630,000	$ 581,000
Less accumulated depreciation	(510,000)	(420,000)
Net Fixed Assets	120,000	$ 161,000
TOTAL ASSETS	$ 6,024,000	$ 4,861,000
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Loans from stockholder	$ -	$ 1,000,000
Accounts payable	678,000	391,000
Customers' deposits	1,020,000	506,000
Commissions payable	85,000	70,000
Accrued salaries	18,000	15,000
Other liabilites	100,000	60,000
Income taxes payable	92,000	78,000
Interest payable	30,000	20,000
Current Liabilities	$ 2,023,000	$ 2,140,000
LONG TERM DEBT	$ 500,000	$ -
STOCKHOLDERS' INVESTMENT		
Common stock, no par value, 1,000 shares authorized; 20 shares issued and outstanding	$ 10,000	$ 10,000
Capital contributed in excess of par value	923,000	923,000
Accumulated earnings	2,568,000	1,788,000
Total Stockholders' Investment	$ 3,501,000	$ 2,721,000
TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT	$ 6,024,000	$ 4,861,000

EXHIBIT 4

COOPER MACHINERY INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005		2004	
INCOME				
Sales	$	7,000,000	$	5,000,000
Cost of sales		4,230,000		3,028,000
Gross profit on sales	$	2,770,000	$	1,972,000
Interest income		16,000		20,000
Total income	$	2,786,000	$	1,992,000
EXPENSES				
Salaries, benefits and payroll taxes	$	540,000	$	485,000
Operating expense		784,000		620,000
Depreciation		60,000		56,000
Commissions		30,000		36,000
Bad debts expense		42,000		35,000
Interest expense		30,000		80,000
TOTAL OPERATING EXPENSES	$	1,486,000	$	1,312,000
INCOME BEFORE INCOME TAXES	$	1,300,000	$	680,000
Provision for income taxes		520,000		272,000
NET INCOME	$	780,000	$	408,000
ACCUMULATED EARNINGS, BEGINNING		1,788,000		1,380,000
ACCUMULATED EARNINGS, ENDING	$	2,568,000	$	1,788,000

EXHIBIT 5

COOPER MACHINERY INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005		2004	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Collections from customers	$	6,572,000	$	5,400,000
Interest received on certificates of deposit		20,000		20,000
Payments to suppliers		(4,213,000)		(3,009,000)
Payments for salaries, benefits, and payroll taxes		(537,000)		(480,000)
Payments for operating expenses		(766,000)		(610,000)
Payments for commissions		(15,000)		(75,000)
Payments for interest		(20,000)		(90,000)
Payments for income taxes		(506,000)		(210,000)
Cash Provided by Operating Activities	$	535,000	$	946,000
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of stockholders' loans	$	(1,000,000)	$	-
Loan received from bank		500,000		-
Cash Used for Financing Activities	$	(500,000)	$	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of building improvements	$	(40,000)	$	(50,000)
Purchase of furniture and equipment		(9,000)		(12,000)
Cash Used for Investing Activities	$	(49,000)	$	(62,000)
Net Cash Inflow (Outflow)	$	(14,000)	$	884,000
Cash and cash equivalents, beginning of year		1,230,000		346,000
Cash and cash equivalents, end of year	$	1,216,000	$	1,230,000

EXHIBIT 6

COOPER MACHINERY INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

(INDIRECT METHOD)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$	780,000
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation		90,000
Provision for uncollectible accounts receivable		42,000
Changes in operating assets and liabilities:		
Decrease in interest receivable		4,000
Increase in accounts receivable		(942,000)
Increase in inventory		(300,000)
Increase in prepaid expenses		(22,000)
Increase in accounts payable		287,000
Increase in customers' deposits		514,000
Increase in commissions payable		15,000
Increase in salaries payable		3,000
Increase in other liabilities		40,000
Increase in income taxes payable		14,000
Increase in interest payable		10,000
Cash Provided by Operating Activities	$	535,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of stockholders' loans	$	(1,000,000)
Loan received from bank		500,000
Cash Used for Financing Activities	$	(500,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of building improvements	$	(40,000)
Purchase of furniture and equipment		(9,000)
Cash Used for Investing Activities	$	(49,000)
Net Cash Inflow (Outflow)	$	(14,000)
Cash and cash equivalents, beginning of year		1,230,000
Cash and cash equivalents, end of year	$	1,216,000

NOTES