

**Exercise 14-2 Net Cash Provided by Operating Activities [LO14-2] – for extra practice only!!**

For the just completed year, Hanna Company had net income of \$35,000. Balances in the company's current asset and current liability accounts at the beginning and end of the year were as follows:

	December 31	
	End of Year	Beginning of Year
Current assets:		
Cash	\$ 30,000	\$ 40,000
Accounts receivable	\$ 125,000	\$ 106,000
Inventory	\$ 213,000	\$ 180,000
Prepaid expenses	\$ 6,000	\$ 7,000
Current liabilities:		
Accounts payable	\$ 210,000	\$ 195,000
Accrued liabilities	\$ 4,000	\$ 6,000
Income taxes payable	\$ 34,000	\$ 30,000

The Accumulated Depreciation account had total credits of \$20,000 during the year. Hanna Company did not record any gains or losses during the year.

**Required:**

Using the indirect method, determine the net cash provided by operating activities for the year. **(List any deduction in cash and cash outflows as negative amounts.)**

Hanna Company		
Statement of Cash Flows—Indirect Method (partial)		
Net income		\$ 35,000
Adjustments to convert net income to a cash basis:		
Depreciation	\$ 20,000	
Increase in accounts receivable	(19,000)	
Increase in inventory	(33,000)	
Decrease in prepaid expenses	1,000	
Increase in accounts payable	15,000	
Decrease in accrued liabilities	(2,000)	
Increase in income taxes payable	4,000	
		F (14,000)
Net cash provided by operating activities		F\$ 21,000

*Explanation:*

	Increase in Account Balance	Decrease in Account Balance
<b>Current assets:</b>		
Accounts receivable	-19,000	
Inventory	-33,000	
Prepaid expenses		+ 1,000
<b>Current liabilities:</b>		
Accounts payable	+15,000	
Accrued liabilities		- 2,000
Income taxes payable	+ 4,000	

The noncash expenses are added to net income to arrive at the total increase or decrease to cash.