

Presented below are the balance sheets of Farrell Corporation as of December 31, 1998 and 1997, and the statement of income and retained earnings for the year ended December 31, 1998.

*Farrell Corporation*  
**BALANCE SHEETS**  
*December 31, 1998 and 1997*

	1998	1997	Increase (Decrease)
<b>Assets</b>			
Cash	\$ 275,000	\$ 180,000	\$ 95,000
Accounts receivable, net	295,000	305,000	(10,000)
Inventories	549,000	431,000	118,000
Investment in Hall, Inc., at equity	73,000	60,000	13,000
Land	350,000	200,000	150,000
Plant and equipment	624,000	606,000	18,000
Less accumulated depreciation	(139,000)	(107,000)	(32,000)
Patent	16,000	20,000	(4,000)
	\$ 2,043,000	\$ 1,695,000	\$ 348,000
<b>Liabilities and Stockholders' Equity</b>			
Accounts payable and accrued expenses	\$ 604,000	\$ 563,000	\$ 41,000
Note payable, long-term	150,000	—	150,000
Bonds payable	160,000	210,000	(50,000)
Deferred income taxes	41,000	30,000	11,000
Common stock, par value \$10	430,000	400,000	30,000
Additional paid-in capital	226,000	175,000	51,000
Retained earnings	432,000	334,000	98,000
Treasury stock, at cost	—	(17,000)	17,000
	\$ 2,043,000	\$ 1,695,000	\$ 348,000

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*Farrell Corporation*  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
*For the Year Ended December 31, 1998*

Net sales	<u>\$ 1,950,000</u>
Operating expenses:	
Cost of sales	1,150,000
Selling & Administrative expenses	505,000
Depreciation	53,000
	<u>1,708,000</u>
Operating income	<u>242,000</u>
Other (income) expense:	
Interest expense	15,000
Equity in net income of Hall, Inc	(13,000)
Loss on sale of equipment	5,000
Amortization of patent	4,000
	<u>11,000</u>
Income before taxes	<u>231,000</u>
Income taxes:	
Current	79,000
Deferred	11,000
Provision for income taxes	<u>90,000</u>
Net income	141,000
Retained earnings, January 1, 1998	<u>334,000</u>
	475,000
Cash dividends, paid August 14, 1998	<u>(43,000)</u>
Retained earnings, December 31, 1998	<u><u>\$ 432,000</u></u>

Additional Information

1. On January 2, 1998, Farrell sold equipment costing \$45,000, with a book value of \$24,000, for \$19,000 cash.
2. On April 1, 1998, Farrell issued 1,000 shares of common stock for \$23,000 cash.
3. On May 15, 1998, Farrell sold all of its treasury stock for \$25,000 cash.
4. On June 1, 1998, individuals holding \$50,000 face value of Farrell's bonds exercised their conversion privilege. Each of the 50 bonds was converted into 40 shares of Farrell's common stock.
5. On July 1, 1998, Farrell purchased equipment for \$63,000 cash.
6. On December 31, 1998, land with a fair market value of \$150,000 was purchased through the issuance of a long-term note in the amount of \$150,000. The note bears interest at the rate of 15% and is due on December 31, 2000.
7. Deferred income taxes represent temporary differences relating to the use of accelerated depreciation methods for income tax reporting and the straight-line method for financial statement reporting.

**Required:**

Prepare a formal cash flow statement for Farrell Corporation for the year ended December 31, 1998. All necessary disclosures per FAS No. 95 should be presented.