

Harish Company was formed on January 1, 20X1. The company's accountant prepared the following income statement, statement of retained earnings, and balance sheet at the conclusion of the first full year of operations. Mr. Harish desires for the company to declare and pay a dividend equivalent to the company's net income for the year.

<b>HARISH COMPANY</b>		
<b>Income Statement</b>		
<b>For the Year Ending December 31, 20X1</b>		
<b>Revenues</b>		
Services to customers		\$70,000
<b>Expenses</b>		
Wages	\$30,000	
Rent	<u>12,000</u>	<u>42,000</u>
<b>Net income</b>		<u><u>\$28,000</u></u>
<b>HARISH COMPANY</b>		
<b>Statement of Retained Earnings</b>		
<b>For the Year Ending December 31, 20X1</b>		
Beginning retained earnings		\$ -
Plus: Net income		<u>28,000</u>
		\$28,000
Less: Dividends		<u>-</u>
Ending retained earnings		<u><u>\$28,000</u></u>
<b>HARISH COMPANY</b>		
<b>Balance Sheet</b>		
<b>December 31, 20X1</b>		
<b>Assets</b>		
Cash		\$ 4,000
Accounts receivable		15,000
Equipment		<u>50,000</u>
<b>Total assets</b>		<u><u>\$69,000</u></u>
<b>Liabilities</b>		
Rent payable	\$ 1,000	
Notes payable	<u>30,000</u>	
<b>Total liabilities</b>		\$31,000
<b>Stockholders' equity</b>		
Capital stock	\$10,000	
Retained earnings	<u>28,000</u>	
<b>Total stockholders' equity</b>		<u><u>38,000</u></u>
<b>Total liabilities and equity</b>		<u><u>\$69,000</u></u>

- (a) Is the company currently able to declare and pay the dividend? Why or why not?
- (b) Explain why net income can differ from cash provided by operations.
- (c) In addition to operating activities, what other "categories" of business activity can generate or expend cash? Provide examples for each category.
- (d) Prepare a statement of cash flows for Harish Company for the year ending December 31, 20X1.