

Accounting Cycle Exercises I

Larry M. Walther; Christopher J. Skousen



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Larry M. Walther & Christopher J. Skousen

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d) Juniper paid \$300,000 in dividends, and raised \$1,150,000 via issuances of additional shares of stock.

Solution 1

	Dec. 31, 20X8	Dec. 31, 20X9
Total Assets	\$2,500,000	\$3,800,000
Total Liabilities	900,000	1,300,000
Total Equity	<u>\$ 1,600,000</u>	<u>\$ 2,500,000</u>

Ending Equity	\$ 2,500,000
Beginning Equity	1,600,000
Change in Equity	<u>\$ 900,000</u>

a) Juniper paid no dividends, and no additional capital was raised via share issuances.

Because there were no dividends and no issues of stock, the \$900,000 increase in equity is all attributable to net income.

$$\$1,600,000 + \$0 \text{ for stock issuances} - \$0 \text{ for dividends} + \text{net income } (\$900,000) = \$2,500,000$$

b) Juniper paid \$300,000 in dividends, and no additional capital was raised via share issuances.

Because there were \$300,000 in dividends and no issues of stock, the \$900,000 increase in equity would require a \$1,200,000 net income.

$$\$1,600,000 + \$0 \text{ for stock issuances} - \$300,000 \text{ for dividends} + \text{net income } (\$1,200,000) = \$2,500,000$$

c) Juniper paid no dividends, but raised \$1,500,000 via issuances of additional shares of stock.

Because there were no dividends, but \$1,500,000 of stock issuances, Juniper had a net loss of \$600,000.

$$\$1,600,000 + \$1,500,000 \text{ for stock issuances} - \$0 \text{ for dividends} + \text{net income } (-\$600,000) = \$2,500,000$$

d) Juniper paid \$300,000 in dividends, and raised \$1,150,000 via issuances of additional shares of stock.

Because there were \$300,000 in dividends, and \$1,150,000 of stock issuances, Juniper had a net income of \$50,000.

$$\$1,600,000 + \$1,150,000 \text{ for stock} - \$300,000 \text{ for dividends} + \text{net income } (\$50,000) = \$2,500,000$$

Problem 2

TOP Corporation was formed at the beginning of 20X2, and presents the following incomplete financial statements for three years. TOP has requested your help in completing the missing values for each year.

Hint: Begin by solving the unknowns in the 20X2 year, and work forward to subsequent years. Remember that 20X2 is the first year of business, so TOP begins with a zero balance in 20X2 beginning retained earnings.

TOP CORPORATION						
Income Statement						
For the Years Ending December 31, 20XX						
	20X4		20X3		20X2	
Revenues						
Services to customers		\$ 100,000		?		\$ 50,000
Expenses						
Wages	?		\$ 58,500		?	
Interest	1,500	?	1,500	?	2,500	?
Net income		<u>?</u>		<u>\$ 20,000</u>		<u>?</u>

TOP CORPORATION			
Statement of Retained Earnings			
For the Years Ending December 31, 20XX			
	20X4	20X3	20X2
Beginning retained earnings	?	?	\$ -
Plus: Net income	<u>?</u>	<u>20,000</u>	<u>?</u>
	?	?	\$ 12,500
Less: Dividends	<u>15,000</u>	<u>?</u>	<u>?</u>
Ending retained earnings	<u>\$ 30,000</u>	<u>?</u>	<u>?</u>

TOP CORPORATION						
Balance Sheet						
December 31, 20XX						
	20X4		20X3		20X2	
Assets						
Cash		?		?		\$ 25,000
Accounts receivable		32,500		25,000		?
Land		90,000		90,000		90,000
Total assets		<u>?</u>		<u>\$ 144,500</u>		<u>?</u>
Liabilities						
Interest payable	?		\$ 500		\$ 1,000	
Loan payable	5,000		?		?	
Total liabilities		\$ 5,500		\$ 15,500		
Stockholders' equity						
Capital stock	?		?		\$114,000	
Retained earnings	?		15,000		?	
Total stockholders' equity		?		?		119,000
Total Liabilities and equity		<u>\$ 149,500</u>		<u>?</u>		<u>\$ 150,000</u>

Worksheet 2

TOP CORPORATION						
Income Statement						
For the Years Ending December 31, 20XX						
	20X4		20X3		20X2	
Revenues						
Services to customers		\$ 100,000		?		\$ 50,000
Expenses						
Wages	?		\$ 58,500		?	
Interest	1,500	?	1,500	?	2,500	?
Net income		<u>?</u>		<u>\$ 20,000</u>		<u>?</u>

TOP CORPORATION			
Statement of Retained Earnings			
For the Years Ending December 31, 20XX			
	20X4	20X3	20X2
Beginning retained earnings	?	?	\$ -
Plus: Net income	?	20,000	?
	?	?	\$ 12,500
Less: Dividends	15,000	?	?
Ending retained earnings	<u>\$ 30,000</u>	<u>?</u>	<u>?</u>

TOP CORPORATION			
Balance Sheet			
December 31, 20XX			
	20X4	20X3	20X2
Assets			
Cash	?	?	\$ 25,000
Accounts receivable	32,500	25,000	?
Land	90,000	90,000	90,000
Total assets	<u>?</u>	<u>\$ 144,500</u>	<u>?</u>
Liabilities			
Interest payable	?	\$ 500	\$ 1,000
Loan payable	5,000	?	?
Total liabilities	\$ 5,500	\$ 15,500	?
Stockholders' equity			
Capital stock	?	?	\$114,000
Retained earnings	?	15,000	?
Total stockholders' equity	?	?	119,000
Total Liabilities and equity	<u>\$ 149,500</u>	<u>?</u>	<u>\$ 150,000</u>

Solution 2

TOP CORPORATION					
Income Statement					
For the Years Ending December 31, 20XX					
	20X4		20X3		20X2
Revenues					
Services to customers		\$ 100,000		\$ 80,000	\$ 50,000
Expenses					
Wages	\$ 68,500		\$ 58,500		35,000
Interest	1,500	70,000	1,500	60,000	2,500 37,500
Net income		<u>\$ 30,000</u>		<u>\$ 20,000</u>	<u>\$ 12,500</u>

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TOP CORPORATION			
Statement of Retained Earnings			
For the Years Ending December 31, 20XX			
	20X4	20X3	20X2
Beginning retained earnings	\$ 15,000	\$ 5,000	\$ -
Plus: Net income	<u>30,000</u>	<u>20,000</u>	<u>\$ 12,500</u>
	\$ 45,000	\$ 25,000	\$ 12,500
Less: Dividends	<u>15,000</u>	<u>10,000</u>	<u>7,500</u>
Ending retained earnings	<u><u>\$ 30,000</u></u>	<u><u>\$ 15,000</u></u>	<u><u>\$ 5,000</u></u>

TOP CORPORATION			
Balance Sheet			
December 31, 20XX			
	20X4	20X3	20X2
Assets			
Cash	\$ 27,000	\$ 29,500	\$ 25,000
Accounts receivable	32,500	25,000	35,000
Land	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>
Total assets	<u><u>\$ 149,500</u></u>	<u><u>\$ 144,500</u></u>	<u><u>\$ 150,000</u></u>
Liabilities			
Interest payable	\$ 500	\$ 500	\$ 1,000
Loan payable	<u>5,000</u>	<u>15,000</u>	<u>30,000</u>
Total liabilities	\$ 5,500	\$ 15,500	\$ 31,000
Stockholders' equity			
Capital stock	\$114,000	\$114,000	\$114,000
Retained earnings	<u>30,000</u>	<u>15,000</u>	<u>5,000</u>
Total stockholders' equity	144,000	129,000	119,000
Total Liabilities and equity	<u><u>\$ 149,500</u></u>	<u><u>\$ 144,500</u></u>	<u><u>\$ 150,000</u></u>

Problem 3

Prepare Bologna's income statement, statement of retained earnings, and balance sheet for the year ending December 31, 20X5. The following information is all that is available. Be sure to prepare proper headings and dates on each financial statement.

Capital stock	\$102,500
Wage expense	92,500
Revenue	225,000
Cash	22,500
Utilities expense	15,000
Beginning retained earnings	27,500
Rent expense	25,000
Accounts payable	10,000
Equipment	200,000
Dividends	12,500
Accounts receivable	47,500
Notes payable	50,000

Worksheet 3

BOLOGNA COMPANY	
Income Statement	
Revenues	
Services to customers	
Expenses	

	=====

BOLOGNA COMPANY	

Ending retained earnings	=====

Assets	
Total assets	
Liabilities	
Total liabilities	
Stockholders' equity	
Total stockholders' equity	
Total liabilities and equity	

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Solution 3

BOLOGNA COMPANY			
Income Statement			
For the Year Ending December 31, 20X5			
Revenues			
Services to customers			\$ 225,000
Expenses			
Wages	\$ 92,500		
Utilities	\$ 15,000		
Rent	\$ 25,000	\$ 132,500	
Net income			<u>\$ 92,500</u>

BOLOGNA COMPANY	
Statement of Retained Earnings	
For the Year Ending December 31, 20X5	
Beginning retained earnings	\$ 27,500
Plus: Net income	\$ 92,500
	<u>\$ 120,000</u>
Less: Dividends	\$ 12,500
Ending retained earnings	<u>\$ 107,500</u>

BOLOGNA COMPANY		
Balance Sheet		
December 31, 20X5		
Assets		
Cash		\$ 22,500
Accounts receivable		\$ 47,500
Equipment		\$ 200,000
Total assets		<u>\$ 270,000</u>
Liabilities		
Accounts payable	\$ 10,000	
Notes payable	\$ 50,000	
Total liabilities		\$ 60,000
Stockholders' equity		
Capital stock	\$ 102,500	
Retained earnings	\$ 107,500	
Total stockholders' equity		\$ 210,000
Total liabilities and equity		<u>\$ 270,000</u>

Problem 4

Scream Clean Company provided the following very limited set of data. Use this information to determine net income for the years ending December 31, 20X6, 20X7, 20X8, and 20X9. The company was formed at the beginning of January, 20X6 by issuing \$350,000 of capital stock. No additional shares were issued during the 4-year period. The company's 20X9 dividends were equal to 50% of the 20X9 net income.

Revenues, 20X7	\$315.000
Dividends, 20X8	52.500
Total equity, December 31, 20X8	735.000
Total liabilities, December 31, 20X8	770.000
Retained earnings, December 31, 20X6	143.500
Expenses, 20X7	154.000
Retained earnings, December 31, 20X7	280.000
Dividends, 20X6	35.000
Total assets, December 31, 20X9	1.750.000
Increase in liabilities, 20X9	175.000

Worksheet 4

- **20X6**

- **20X7**

- **20X8**

- **20X9**

Solution 4

• 20X6

Retained earnings, December 31, 20X6	\$ 143,500
Plus: Dividends paid during 20X6	<u>35,000</u>
Net income for the year ending December 31, 20X6	<u><u>\$ 178,500</u></u>

• 20X7

Revenues for the year ending December 31, 20X7	\$ 315,000
Less: Expenses for the year ending December 31, 20X7	<u>154,000</u>
Net income for the year ending December 31, 20X7	<u><u>\$ 161,000</u></u>

• 20X8

Total equity, December 31, 20X8	\$ 735,000
Less: Capital stock	<u>350,000</u>
Retained earnings, December 31, 20X8	\$ 385,000
Less: Retained earnings, December 31, 20X7	<u>280,000</u>
Increase in retained earnings during 20X8	\$ 105,000
Plus: Dividends paid during 20X8	<u>52,500</u>
Net income for the year ending December 31, 20X8	<u><u>\$ 157,500</u></u>

• 20X9

Total liabilities, December 31, 20X8	\$ 770,000
Plus: Increase in liabilities during 20X9	<u>175,000</u>
Total liabilities, December 31, 20X9	<u><u>\$ 945,000</u></u>
	\$ -
Total assets, December 31, 20X9	\$ 1,750,000
Less: Total liabilities, December 31, 20X9	<u>945,000</u>
Total equity, December 31, 20X9	\$ 805,000
Less: Capital stock	<u>350,000</u>
Retained earnings, December 31, 20X9	\$ 455,000
Less: Retained earnings, December 31, 20X8	<u>385,000</u>
Increase in retained earnings during 20X9	<u><u>\$ 70,000</u></u>

The 20X9 net income was \$140,000

Proof:

Dividends = Net Income X 50%
Increase in Retained Earnings = Net Income - Dividends

thus:

\$70,000 = Net income - (Net income X 50%)
\$70,000 = 0.5 X Net Income
Net Income = \$140,000

Problem 5

Rajagopol Corporation is a newly formed company. Below are the first 10 transactions that Rajagopol encountered. Prepare an income statement, statement of retained earnings, and balance sheet immediately following each of these consecutive transactions.

- 1) Issued capital stock for \$100,000 cash.
- 2) Purchased building for \$240,000, making a \$40,000 down payment and signing a promissory note payable for the balance.
- 3) Paid wages expense of \$10,000.
- 4) Provided services to customers for \$30,000 cash.
- 5) Paid utilities expense of \$4,000.
- 6) Reduced note payable with an \$16,000 cash payment (ignore interest costs).
- 7) Provided services to customers on account, \$20,000.
- 8) Incurred wages expense of \$6,000, to be paid in the future.
- 9) Collected \$8,000 on an outstanding account receivable.
- 10) Declared and paid dividend of \$12,000.

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Worksheet 5

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #1)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	-
Net income		<u><u>\$ -</u></u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #1)		
Beginning retained earnings		\$ -
Plus: Net income		-
		\$ -
Less: Dividends		-
Ending retained earnings		<u><u>\$ -</u></u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #1		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u><u>\$ -</u></u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities		<u>\$ -</u>
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u><u>\$ -</u></u>

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #2)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	-
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #2)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #2		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u>\$ -</u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities		<u>\$ -</u>
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #3)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	-
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #3)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

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RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #3		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u>\$ -</u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities		<u>\$ -</u>
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #4)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #4)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #4		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u>\$ -</u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities		<u>\$ -</u>
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #5)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #5)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #5		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u>\$ -</u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities	<u>-</u>	\$ -
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u>\$ -</u>

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RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #6)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	-
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #6)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #6		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u>\$ -</u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities		<u>\$ -</u>
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #7)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	-
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #7)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #7		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u>\$ -</u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities		<u>\$ -</u>
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #8)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	-
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #8)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

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RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #8		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u>\$ -</u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities		<u>\$ -</u>
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #9)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #9)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #9		
Assets		
Cash		\$ -
Accounts receivable		-
Building		-
Total assets		<u>\$ -</u>
Liabilities		
Wages payable	\$ -	
Notes payable	-	
Total liabilities		<u>\$ -</u>
Stockholders' equity		
Capital stock	\$ -	
Retained earnings	-	
Total stockholders' equity		<u>-</u>
Total liabilities and equity		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #10)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #10)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION	
Balance Sheet	
As of Completion of Transaction #10	
Assets	
Cash	\$ -
Accounts receivable	-
Building	-
Total assets	\$ -
Liabilities	
Wages payable	\$ -
Notes payable	-
Total liabilities	\$ -
Stockholders' equity	
Capital stock	\$ -
Retained earnings	-
Total stockholders' equity	-
Total liabilities and equity	\$ -

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Solution 5

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #1)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	-
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #1)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION			
Balance Sheet			
As of Completion of Transaction #1			
Assets			
Cash		\$ 100,000	Cash increases
Accounts receivable		-	\$ 100.000
Building		-	
Total assets		<u>\$ 100,000</u>	
Liabilities			
Wages payable	\$ -		
Notes payable	-		
Total liabilities		<u>\$ -</u>	
Stockholders' equity			
Capital stock	\$ 100,000		Capital stock
Retained earnings	-		increases
Total stockholders' equity		<u>100,000</u>	\$ 100.000
Total liabilities and equity		<u>\$ 100,000</u>	

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #2)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ -	
Utilities	-	-
Net income		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #2)		
Beginning retained earnings		\$ -
Plus: Net income		-
		<u>\$ -</u>
Less: Dividends		-
Ending retained earnings		<u>\$ -</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #2		
Assets		
Cash		\$ 60,000
Accounts receivable		-
Building		240,000
Total assets		<u>\$ 300,000</u>
Liabilities		
Wages payable	\$ -	
Notes payable	200,000	
Total liabilities		\$ 200,000
Stockholders' equity		
Capital stock	\$ 100,000	
Retained earnings	-	
Total stockholders' equity		100,000
Total liabilities and equity		<u>\$ 300,000</u>

Cash increases
\$ 40,000

Building stock
increases
\$ 240,000

Notes payable
increases
\$ 200,000

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #3)		
Revenues		
Services to customers		\$ -
Expenses		
Wages	\$ 100,000	
Utilities	-	10,000
Net income		<u><u>\$ (10,000)</u></u>

Wages Expense increases \$ 10,000

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #3)		
Beginning retained earnings		\$ -
Plus: Net income		<u>(10,000)</u>
		\$ (10,000)
Less: Dividends		<u>-</u>
Ending retained earnings		<u><u>\$ (10,000)</u></u>

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RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #3		
Assets		
Cash		\$ 50,000
Accounts receivable		-
Building		240,000
Total assets		<u>\$ 290,000</u>
Liabilities		
Wages payable	\$ -	
Notes payable	<u>200,000</u>	
Total liabilities		\$ 200,000
Stockholders' equity		
Capital stock	\$ 100,000	
Retained earnings	<u>(10,000)</u>	
Total stockholders' equity		90,000
Total liabilities and equity		<u>\$ 290,000</u>

Cash decreases
\$ 10.000

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #4)		
Revenues		
Services to customers		\$ 30,000
Expenses		
Wages	\$ 10,000	
Utilities	<u>-</u>	10,000
Net income		<u>\$ 20,000</u>

Revenue increases
\$ 30.000

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #4)		
Beginning retained earnings		\$ -
Plus: Net income		<u>20,000</u>
		\$ 20,000
Less: Dividends		<u>-</u>
Ending retained earnings		<u>\$ 20,000</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #4		
Assets		
Cash		\$ 80,000
Accounts receivable		-
Building		240,000
Total assets		<u>\$ 320,000</u>
Liabilities		
Wages payable	\$ -	
Notes payable	<u>200,000</u>	
Total liabilities		\$ 200,000
Stockholders' equity		
Capital stock	\$ 100,000	
Retained earnings	<u>20,000</u>	
Total stockholders' equity		120,000
Total liabilities and equity		<u>\$ 320,000</u>

Cash increases
\$ 30,000

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #5)		
Revenues		
Services to customers		\$ 30,000
Expenses		
Wages	\$ 10,000	
Utilities	<u>4,000</u>	14,000
Net income		<u>\$ 16,000</u>

Utilities Expense
increases
\$ 4,000

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #5)		
Beginning retained earnings		\$ -
Plus: Net income		<u>16,000</u>
		\$ 16,000
Less: Dividends		<u>-</u>
Ending retained earnings		<u>\$ 16,000</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #5		
Assets		
Cash		\$ 76,000
Accounts receivable		-
Building		240,000
Total assets		<u>\$ 316,000</u>
Liabilities		
Wages payable	\$ -	
Notes payable	<u>200,000</u>	
Total liabilities		\$ 200,000
Stockholders' equity		
Capital stock	\$ 100,000	
Retained earnings	<u>16,000</u>	
Total stockholders' equity		<u>116,000</u>
Total liabilities and equity		<u>\$ 316,000</u>

Cash decreases
\$ 4.000

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RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #6)		
Revenues		
Services to customers		\$ 30,000
Expenses		
Wages	\$ 10,000	
Utilities	4,000	14,000
Net income		<u>\$ 16,000</u>

RAJAGOPUL CORPORATION	
Statement of Retained Earnings	
For the Month (through transaction #6)	
Beginning retained earnings	\$ -
Plus: Net income	16,000
	<u>\$ 16,000</u>
Less: Dividends	-
Ending retained earnings	<u>\$ 16,000</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #6		
Assets		
Cash		\$ 60,000
Accounts receivable		-
Building		240,000
Total assets		<u>\$ 300,000</u>
Liabilities		
Wages payable	\$ -	
Notes payable	184,000	
Total liabilities		\$ 184,000
Stockholders' equity		
Capital stock	\$ 100,000	
Retained earnings	16,000	
Total stockholders' equity		116,000
Total liabilities and equity		<u>\$ 300,000</u>

Cash decreases \$ 16,000

Notes payable decreases \$ 16,000

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #7)		
Revenues		
Services to customers		\$ 50,000
Expenses		
Wages	\$ 10,000	
Utilities	4,000	14,000
Net income		<u>\$ 36,000</u>

Revenue
increases
\$ 20,000

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #7)		
Beginning retained earnings		\$ -
Plus: Net income		36,000
		<u>\$ 36,000</u>
Less: Dividends		-
Ending retained earnings		<u>\$ 36,000</u>

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #7		
Assets		
Cash		\$ 60,000
Accounts receivable		20,000
Building		240,000
Total assets		<u>\$ 320,000</u>
Liabilities		
Wages payable	\$ -	
Notes payable	184,000	
Total liabilities		\$ 184,000
Stockholders' equity		
Capital stock	\$ 100,000	
Retained earnings	36,000	
Total stockholders' equity		136,000
Total liabilities and equity		<u>\$ 320,000</u>

Accounts
receivable
increases
\$ 20,000

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #8)		
Revenues		
Services to customers		\$ 50,000
Expenses		
Wages	\$ 16,000	
Utilities	4,000	20,000
Net income		<u>\$ 30,000</u>

Wage Expense increases \$ 6.000

RAJAGOPUL CORPORATION	
Statement of Retained Earnings	
For the Month (through transaction #8)	
Beginning retained earnings	\$ -
Plus: Net income	30,000
	<u>\$ 30,000</u>
Less: Dividends	-
Ending retained earnings	<u>\$ 30,000</u>

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RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #8		
Assets		
Cash		\$ 60,000
Accounts receivable		20,000
Building		240,000
Total assets		<u>\$ 320,000</u>
Liabilities		
Wages payable	\$ 6,000	
Notes payable	<u>184,000</u>	
Total liabilities		\$ 190,000
Stockholders' equity		
Capital stock	\$ 100,000	
Retained earnings	<u>30,000</u>	
Total stockholders' equity		130,000
Total liabilities and equity		<u>\$ 320,000</u>

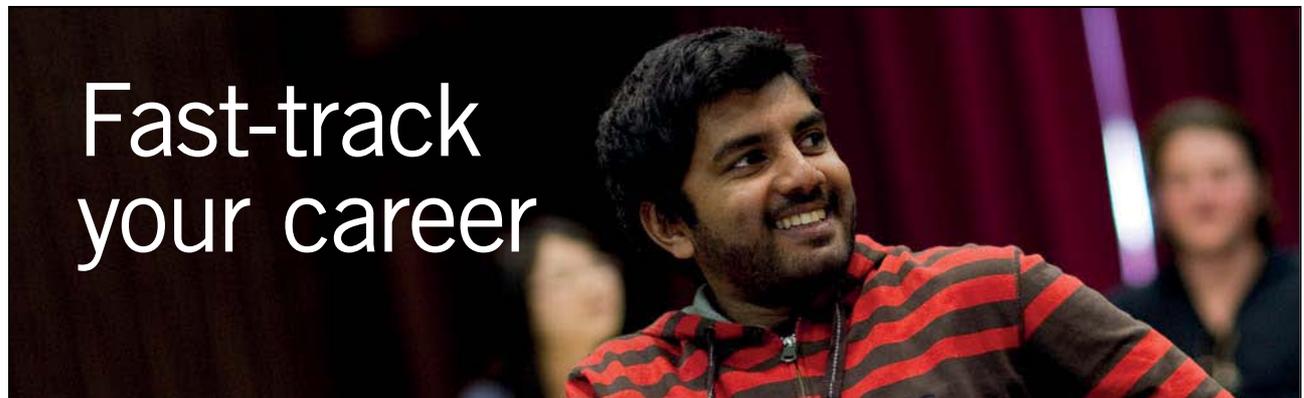
Wages Payable
increases
\$ 6.000

RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #9)		
Revenues		
Services to customers		\$ 50,000
Expenses		
Wages	\$ 16,000	
Utilities	<u>4,000</u>	20,000
Net income		<u>\$ 30,000</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #9)		
Beginning retained earnings		\$ -
Plus: Net income		<u>30,000</u>
		\$ 30,000
Less: Dividends		<u>-</u>
Ending retained earnings		<u>\$ 30,000</u>

RAJAGOPUL CORPORATION	
Balance Sheet	
As of Completion of Transaction #9	
Assets	
Cash	\$ 68,000
Accounts receivable	12,000
Building	240,000
Total assets	<u>\$ 320,000</u>
Liabilities	
Wages payable	\$ 6,000
Notes payable	<u>184,000</u>
Total liabilities	\$ 190,000
Stockholders' equity	
Capital stock	\$ 100,000
Retained earnings	<u>30,000</u>
Total stockholders' equity	130,000
Total liabilities and equity	<u>\$ 320,000</u>

Cash increases \$ 8.000
 Accounts Receivable decreases \$ 8.000



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RAJAGOPUL CORPORATION		
Income Statement		
For the Month (through transaction #10)		
Revenues		
Services to customers		\$ 50,000
Expenses		
Wages	\$ 16,000	
Utilities	4,000	20,000
Net income		<u>\$ 30,000</u>

RAJAGOPUL CORPORATION		
Statement of Retained Earnings		
For the Month (through transaction #10)		
Beginning retained earnings		\$ -
Plus: Net income		30,000
		<u>\$ 30,000</u>
Less: Dividends		12,000
Ending retained earnings		<u>\$ 18,000</u>

Dividends increases \$ 12,000

RAJAGOPUL CORPORATION		
Balance Sheet		
As of Completion of Transaction #10		
Assets		
Cash		\$ 56,000
Accounts receivable		12,000
Building		240,000
Total assets		<u>\$ 308,000</u>
Liabilities		
Wages payable	\$ 6,000	
Notes payable	184,000	
Total liabilities		\$ 190,000
Stockholders' equity		
Capital stock	\$ 100,000	
Retained earnings	18,000	
Total stockholders' equity		118,000
Total liabilities and equity		<u>\$ 308,000</u>

Cash decreases \$ 12,000

Problem 6

Glasgow Corporation provided the following listing of financial statement elements and their respective balances. The periodic amounts relate to the year ending December 31, 20X9, and the point-in-time amounts reflect balances as of December 31, 20X9, unless otherwise implied. Unfortunately, the company has been unable to locate its listing of assets, but all other information is complete, albeit in disarray.

Capital stock	\$375,000
Wage expense	60,000
Revenue	120,000
Rent expense	33,000
Beginning retained earnings	133,500
Utilities expense	16,500
Accounts payable	18,750
Dividends	3,750
Notes payable	75,000

- Determine Glasgow's net income for the year ending December 31, 20X9.
- How much are total assets of the company, as of December 31, 20X9?
- If you were told that assets included an accounts receivable of \$7,500 for services provided during 20X9, and that such transactions had been excluded in calculating the given "revenue" amount, how would this influence your answer to part (a) above?

Worksheet 6

a) Revenue \$ 120,000

b)

c)

Solution 6

a)

Revenue		\$ 120,000
Less expenses		
Wage expense	\$ 60,000	
Rent expense	33,000	
Utilities expense	16,500	109,500
Net income		<u>\$ 10,500</u>

b)

Beginning retained earnings	\$ 133,500
Plus: Net income	10,500
	<u>\$ 144,000</u>
Less: Dividends	3,750
Ending retained earnings	<u>\$ 140,250</u>
Capital stock	\$ 375,000
Ending retained earnings	140,250
Total stockholders' equity	<u>\$ 515,250</u>
Accounts payable	\$ 18,750
Notes payable	75,000
Total liabilities	<u>\$ 93,750</u>
Total liabilities	\$ 93,750
Total stockholders' equity	515,250
Total assets	<u>\$ 609,000</u>

- c) If, indeed, \$7,500 of services was rendered on account, it should have been included in revenues. This would result in an increase in net income (and therefore retained earnings and total equity) to match the increase in total assets. Revenues are to be recorded as earned.

Problem 7

Smithson Exploration Corporation was formed on January 1, 20X3. The company was formed by Cliff Smithson with the goal of conducting geophysical support services related to natural gas drilling operations in the Unita Basin region of eastern Utah. The company's initial capitalization consisted of shareholder investments of \$2,000,000 and an additional bank loan of \$1,500,000.

During the first year of operation, the company purchased land, buildings, and equipment in the amount of \$400,000, \$1,000,000, and \$600,000, respectively. (Hint: In subsequent chapters you will be introduced to the concepts of depreciation relating to certain of these assets; for now you may ignore this issue).

During 20X3, the company signed contracts to deliver consulting services with a total value of \$5,000,000. By year's end, \$3,200,000 of services had been provided and billed under these agreements. The other \$1,800,000 of work will not be performed until 20X4. All amounts billed had been collected during 20X3, with the exception of December's billings in the amount of \$250,000. The Smithson's are quite confident that the December billing will be collected in the normal course of business in early 20X4.

Expenses paid during 20X3 included rent (\$280,000), wages (\$1,560,000), interest (\$150,000), and taxes (\$430,000). In addition, the company had incurred rent (\$20,000), wages (\$60,000), and interest (\$12,000) related to 20X3 activity that was not yet paid as of the end of 20X3.

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Smithson Exploration declared and paid dividends to shareholders in the amount of \$150,000 during 20X3. Smithson also repaid \$100,000 of the original bank loan.

- a) Prepare an income statement for Smithson Corporation for the year ending December 31, 20X3.
- b) Prepare a statement of retained earnings for Smithson Corporation for the year ending December 31, 20X3.
- c) Prepare calculations showing that cash is \$1,780,000 as of December 31, 20X3.
- d) Prepare a balance sheet for Smithson Corporation as of December 31, 20X3.

Worksheet

- a) and
- b)

SMITHSON CORPORATION		
Income Statement		
For the Year Ending December 31, 20X3		
Revenues		
Services to customers		\$ -
Expenses		
Rent	\$ -	
Wages	-	
Interest	-	
Taxes	-	-
Net income		<u><u>\$ -</u></u>

SMITHSON CORPORATION	
Statement of Retained Earnings	
For the Year Ending December 31, 20X3	
Beginning retained earnings	\$ -
Plus: Net income	-
	<u>\$ -</u>
Less: Dividends	-
Ending retained earnings	<u><u>\$ -</u></u>

c)

Cash received:	\$	-	
From customers (\$ 3,200,000 - \$ 250,000)		-	
From stockholders		-	\$ -
From lenders			
Cash payments:			
For rent	\$	-	
For wages		-	
For interest		-	
For taxes		-	
For dividends		-	
For land, building, equipment		-	
For repayment of loans		-	-
Ending cash			<u><u>\$ -</u></u>

d)

SMITHSON CORPORATION			
Balance Sheet			
December 31, 20X3			
Assets			
Cash		\$	-
Accounts receivable			-
Land			-
Building			-
Equipment			-
Total assets		\$	<u><u>-</u></u>
Liabilities			
Rent payable	\$	-	
Wages payable		-	
Interest payable		-	
Loan payable		-	
Total liabilities		\$	-
Stockholders' equity			
Capital stock	\$	-	
Retained earnings		-	
Total stockholders' equity			-
Total liabilities and equity		\$	<u><u>-</u></u>

Solution 7

- a) and
b)

SMITHSON CORPORATION		
Income Statement		
For the Year Ending December 31, 20X3		
Revenues		
Services to customers		\$3,200,000
Expenses		
Rent	\$ 300,000	
Wages	1,620,000	
Interest	162,000	
Taxes	430,000	2,512,000
Net income		<u>\$ 688,000</u>

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SMITHSON CORPORATION	
Statement of Retained Earnings	
For the Year Ending December 31, 20X3	
Beginning retained earnings	\$ -
Plus: Net income	688,000
	<u>\$ 688,000</u>
Less: Dividends	150,000
Ending retained earnings	<u><u>\$ 538,000</u></u>

c)

Cash received:	\$ 2,950,000	
From customers (\$ 3,200,000 - \$ 250,000)	2,000,000	
From stockholders	<u>1,500,000</u>	\$ 6,450,000
From lenders		
Cash payments:		
For rent	\$ 280,000	
For wages	1,560,000	
For interest	150,000	
For taxes	430,000	
For dividends	150,000	
For land, building, equipment	2,000,000	
For repayment of loans	<u>100,000</u>	4,670,000
Ending cash		<u><u>\$ 1,780,000</u></u>

d)

SMITHSON CORPORATION	
Balance Sheet	
December 31, 20X3	
Assets	
Cash	\$1,780,000
Accounts receivable	250,000
Land	400,000
Building	1,000,000
Equipment	600,000
Total assets	<u>\$4,030,000</u>
Liabilities	
Rent payable	\$ 20,000
Wages payable	60,000
Interest payable	12,000
Loan payable	<u>1,400,000</u>
Total liabilities	\$1,492,000
Stockholders' equity	
Capital stock	\$2,000,000
Retained earnings	<u>538,000</u>
Total stockholders' equity	2,538,000
Total liabilities and equity	<u>\$4,030,000</u>

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Problem 8

Thai 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. Thai desires for the company to declare and pay a dividend equivalent to the company's net income for the year.

THAI COMPANY		
Income Statement		
For the Year Ending December 31, 20X1		
Revenues		
Services to customers		\$ 105,000
Expenses		
Wages	\$ 45,000	
Rent	18,000	63,000
Net income		\$ 42,000

THAI COMPANY	
Statement of Retained Earnings	
For the Year Ending December 31, 20X1	
Beginning retained earnings	\$ -
Plus: Net income	42,000
	\$ 42,000
Less: Dividends	-
Ending retained earnings	\$ 42,000

THAI COMPANY		
Balance Sheet		
December 31, 20X1		
Assets		
Cash		\$ 6,000
Accounts receivable		22,500
Equipment		75,000
Total assets		\$ 103,500
Liabilities		
Rent payable	\$ 1,500	
Notes payable	45,000	
Total liabilities	\$ 46,500	
Stockholders' equity		
Capital stock	\$ 15,000	
Retained earnings	42,000	
Total stockholders' equity		57,000
Total liabilities and equity		\$ 103,500

- 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 Thai Company for the year ending December 31, 20X1.

Worksheet 8

- a)
- b)
- c)
- d) At this point in your study, you will be challenged to prepare the following statement of cash flows! If you avoid changing the formulas in column “F” of the electronic spreadsheet, you should simplify your search for the correct answer.

THAI COMPANY			
Statement of Cash Flows			
For the Year Ending December 31, 20X1			
Operating activities			
Cash received from customers	\$	-	
Cash paid for wages		-	
Cash paid for rent		-	
		-	
Cash provided by operations		\$	-
Investing activities			
Purchase of equipment		-	
Financing activities			
Issue stock	\$	-	
Proceeds of loan		-	-
		-	-
Increase in cash		\$	-
Cash, January 1			-
Cash, December 31		\$	-

Solution 8

- a) Thai is unable to pay a \$42,000 dividend. The company only has \$6,000 in available cash.
- b) In the short run, many things will cause net income to differ from cash provided by operations. For example, various revenues and expenses may have occurred but not yet be funded. In Thai's case, notice that \$22,500 of the revenues have not yet been collected, as evidenced by the increase in accounts receivable. Conversely, \$1,500 of the rent cost has not yet been paid, as evidenced by the rent payable liability.
- c) A business will generate or expend cash from investing activities (like buying and selling property, investment securities, and so forth). A business will also have financing activities that can be a source or use of cash (examples include issuing stock, paying dividends, and borrowing/repaying loans).
- d) At this point in their studies, most students will be challenged to prepare the following statement of cash flows! The student worksheet includes substantial preformatting to aid the process. Be sure to tell your students to not be discouraged by this complex problem - focus on the central theme that this is an important financial statement. The preparation and use is the subject of a complete chapter much later in the book.

THAI COMPANY		
Statement of Cash Flows		
For the Year Ending December 31, 20X1		
Operating activities		
Cash received from customers	\$ 82,500	
Cash paid for wages	(45,000)	
Cash paid for rent	(16,500)	
Cash provided by operations		\$ 21,000
Investing activities		
Purchase of equipment	-	(75,000)
Financing activities		
Issue stock	\$ 15,000	
Proceeds of loan	45,000	60,000
Increase in cash		\$ 6,000
Cash, January 1		-
Cash, December 31		\$ 6,000