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Accounting Cycle Exercises I

Christopher J. Skousen; Larry M. Walther

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Larry M. Walther & Christopher J. Skousen

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Accounting Cycle Exercises I
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Problem 1

Juniper Corporation provided the following summary balance sheet information:

	Dec. 31, 20X8	Dec. 31, 20X9
Total assets	$2,500,000	$3,800,000
Total liabilities	900,000	1,300,000

Compute net income for the year ending December 31, 20X9, under each of the following independent scenarios:

a) Juniper paid no dividends, and no additional capital was raised via share issuances.
b) Juniper paid $300,000 in dividends, and no additional capital was raised via share issuances.
c) Juniper paid no dividends, but raised $1,500,000 via issuances of additional shares of stock.
d) Juniper paid $300,000 in dividends, and raised $1,150,000 via issuances of additional shares of stock.

Worksheet 1

	Dec. 31, 20X8	Dec. 31, 20X9
Total assets	$2,500,000	$3,800,000
Total liabilities	900,000	1,300,000
Total Equity		

Ending Equity	
Total liabilities	
Total Equity	

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

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

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

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

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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	$ 1,600,000	$ 2,500,000

Ending Equity	$ 2,500,000
Beginning Equity	1,600,000
Change in Equity	$ 900,000

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 for stock issuances - $0 for dividends + 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 for stock issuances - $300,000 for dividends + 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 for stock issuances - $0 for dividends + 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 for stock - $300,000 for dividends + net income ($50,000) = $2,500,000

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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 subsquent 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		?		$ 20,000		?

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	$ 30,000	?	?

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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		?		$ 144,500		?
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		$ 149,500		?		$ 150,000

`

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		?		$ 20,000		?

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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	$ 30,000	?	?

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		?		$ 144,500		?
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		$ 149,500		?		$ 150,000

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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		$ 30,000		$ 20,000		$ 12,500

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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	30,000	20,000	$ 12,500
	$ 45,000	$ 25,000	$ 12,500
Less: Dividends	15,000	10,000	7,500
Ending retained earnings	$ 30,000	$ 15,000	$ 5,000

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		90,000		90,000		90,000
Total assets		$ 149,500		$ 144,500		$ 150,000
Liabilities						
Interest payable	$ 500		$ 500		$ 1,000	
Loan payable	5,000		15,000		30,000	
Total liabilities		$ 5,500		$ 15,500		$ 31,000
Stockholders' equity						
Capital stock	$114,000		$114,000		$114,000	
Retained earnings	30,000		15,000		5,000	
Total stockholders' equity		144,000		129,000		119,000
Total Liabilities and equity		$ 149,500		$ 144,500		$ 150,000

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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	7,500
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	

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BOLOGNA COMPANY	
Ending retained earnings	

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

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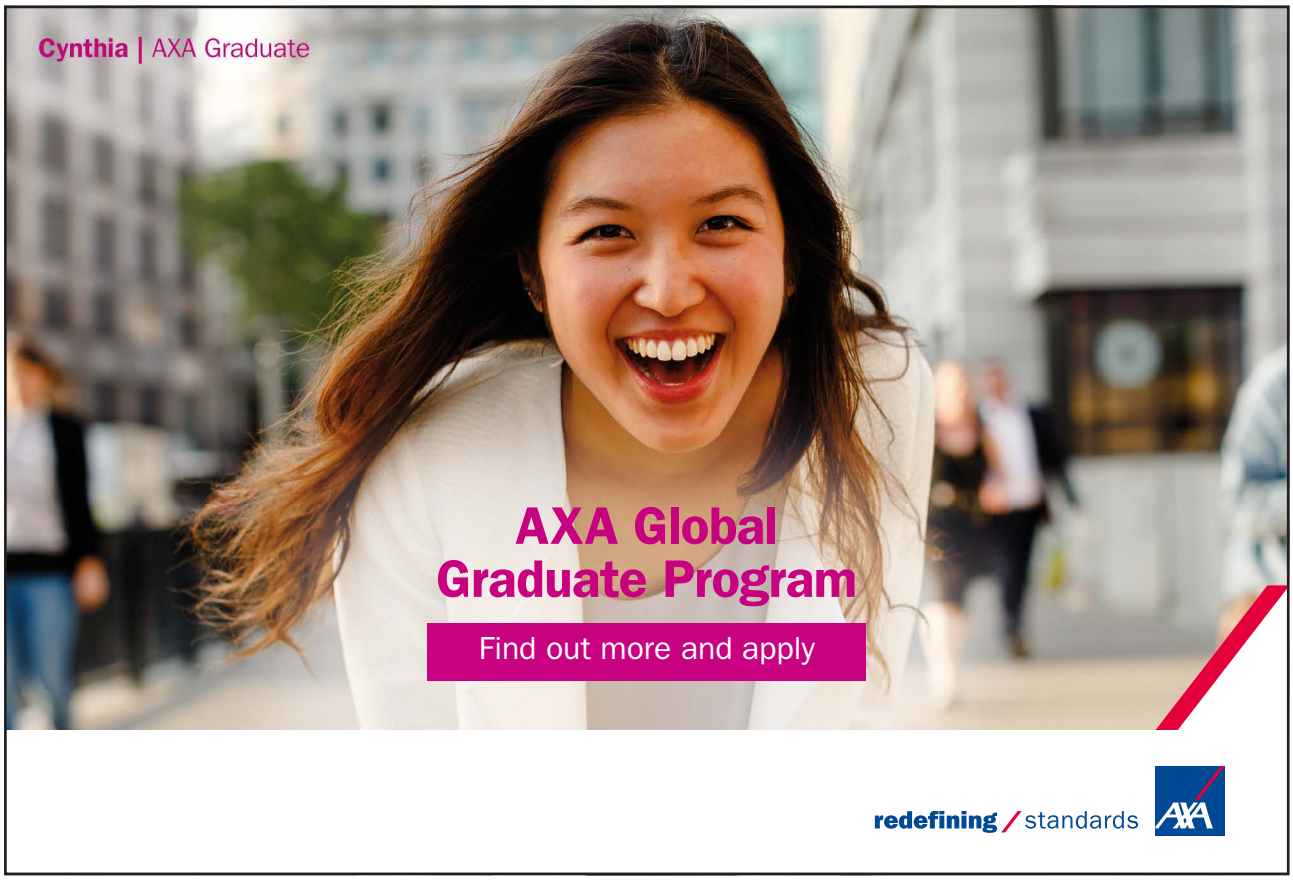
Solution 3

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			$	92,500



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

BOLOGNA COMPANY Balance Sheet December 31, 20X5				
Assets				
Cash			$	22,500
Accounts receivable			$	47,500
Equipment			$	200,000
Total assets			$	270,000
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			$	270,000

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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**

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Solution 4

- **20X6**

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

- **20X7**

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

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- **20X8**

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

- **20X9**

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

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

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Problem 5

Rajagopul Corporation is a newly formed company. Below are the first 10 transactions that Rajagopul 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.

Worksheet 5

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

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

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RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #1		
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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RAJAGOPUL CORPORATION Income Statement For the Month (through transaction #2)		
Revenues		
Services to customers		$ -
Expenses		
Wages	$ -	
Utilities	-	-
Net income		$ -

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

RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #2		
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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RAJAGOPUL CORPORATION Income Statement For the Month (through transaction #3)		
Revenues		
Services to customers		$ -
Expenses		
Wages	$ -	
Utilities	-	-
Net income		$ -

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

RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #3		
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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RAJAGOPUL CORPORATION Income Statement For the Month (through transaction #4)		
Revenues		
Services to customers		$ -
Expenses		
Wages	$ -	
Utilities	-	-
Net income		$ -

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

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RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #4		
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		$ -

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

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

RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #5		
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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RAJAGOPUL CORPORATION Income Statement For the Month (through transaction #6)		
Revenues		
Services to customers		$ -
Expenses		
Wages	$ -	
Utilities	-	-
Net income		$ -

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

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RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #6		
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		$ -

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

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

RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #7		
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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RAJAGOPUL CORPORATION Income Statement For the Month (through transaction #8)		
Revenues		
Services to customers		$ -
Expenses		
Wages	$ -	
Utilities	-	-
Net income		$ -

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

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RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #8		
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		$ -

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

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

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RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #9		
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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RAJAGOPUL CORPORATION Income Statement For the Month (through transaction #10)		
Revenues		
Services to customers		$ -
Expenses		
Wages	$ -	
Utilities	-	-
Net income		$ -

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

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		$ -

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

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

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

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

RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #2			
Assets			
Cash		$ 60,000	Cash increases $ 40.000
Accounts receivable		-	
Building		240,000	Building stock increases $ 240.000
Total assets		$ 300,000	
Liabilities			
Wages payable	$ -		
Notes payable	200,000		Notes payable increases $ 200.000
Total liabilities		$ 200,000	
Stockholders' equity			
Capital stock	$ 100,000		
Retained earnings	-		
Total stockholders' equity		100,000	
Total liabilities and equity		$ 300,000	

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

Wages Expense increases $ 10.000

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

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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		$ 290,000
Liabilities		
Wages payable	$ -	
Notes payable	200,000	
Total liabilities		$ 200,000
Stockholders' equity		
Capital stock	$ 100,000	
Retained earnings	(10,000)	
Total stockholders' equity		90,000
Total liabilities and equity		$ 290,000

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	-	10,000
Net income		$ 20,000

Revenue inreases $ 30.000

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

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

Cash inreases $ 30.000

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

Utilities Expense increases $ 4.000

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

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RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #5			
Assets			
Cash		$ 76,000	Cash decreases $ 4.000
Accounts receivable		-	
Building		240,000	
Total assets		$ 316,000	
Liabilities			
Wages payable	$ -		
Notes payable	200,000		
Total liabilities		$ 200,000	
Stockholders' equity			
Capital stock	$ 100,000		
Retained earnings	16,000		
Total stockholders' equity		116,000	
Total liabilities and equity		$ 316,000	

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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		$ 16,000

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

RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #6			
Assets			
Cash		$ 60,000	Cash decreases $ 16.000
Accounts receivable		-	
Building		240,000	
Total assets		$ 300,000	
Liabilities			
Wages payable	$ -		
Notes payable	184,000		Notes payable decreases $ 16.000
Total liabilities		$ 184,000	
Stockholders' equity			
Capital stock	$ 100,000		
Retained earnings	16,000		
Total stockholders' equity		116,000	
Total liabilities and equity		$ 300,000	

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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		$ 36,000

Revenue increases $ 20.000

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

RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #7		
Assets		
Cash		$ 60,000
Accounts receivable		20,000
Building		240,000
Total assets		$ 320,000
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		$ 320,000

Accounts receivable increases $ 20.000

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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		$ 30,000

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
	$ 30,000
Less: Dividends	-
Ending retained earnings	$ 30,000

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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		$ 320,000
Liabilities		
Wages payable	$ 6,000	
Notes payable	184,000	
Total liabilities		$ 190,000
Stockholders' equity		
Capital stock	$ 100,000	
Retained earnings	30,000	
Total stockholders' equity		130,000
Total liabilities and equity		$ 320,000

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	4,000	20,000
Net income		$ 30,000

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

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

Cash increases $ 8.000

Accounts Receivable decreases $ 8.000

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		$ 30,000

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

Dividends increases $ 12.000

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RAJAGOPUL CORPORATION Balance Sheet As of Completion of Transaction #10			
Assets			
Cash		$ 56,000	Cash decreases $ 12.000
Accounts receivable		12,000	
Building		240,000	
Total assets		$ 308,000	
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		$ 308,000	

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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

a) Determine Glasgow's net income for the year ending December 31, 20X9.
b) How much are Total assets of the company, as of December 31, 20X9?
c) 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)

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Solution 6

a)

Revenue		$ 120,000
Less expenses		
Wage expense	$ 60,000	
Rent expense	33,000	
Utilities expense	16,500	109,500
Net income		$ 10,500

b)

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

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.

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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.

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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.

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		$ -

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

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 divindends		-		
For land, building, equipment		-		
For repayment of loans		-		-
Ending cash			$	-

d)

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

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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		30,000		2,512,000
Net income			$	688,000

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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
	$	688,000
Less: Dividends		150,000
Ending retained earnings	$	538,000

c)

Cash received:	$	2,950,000		
From customers ($3,200,000 – $250,000)		2,000,000		
From stockholders		1,500,000	$	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 divindends		150,000		
For land, building, equipment		2,000,000		
For repayment of loans		100,000		4,670,000
Ending cash			$	1,780,000

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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			$	4,030,000
Liabilities				
Rent payable	$	20,000		
Wages payable		60,000		
Interest payable		12,000		
Loan payable		1,400,000		
Total liabilities			$	1,492,000
Stockholders' equity				
Capital stock	$	2,000,000		
Retained earnings		538,000		
Total stockholders' equity				2,538,000
Total liabilities and equity			$	4,030,000

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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	3,000
Net income		$ 42,000

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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.

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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			$	-

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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 it 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

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