25. What is the purpose of a statement of cash flows? How does it differ from a balance sheet and an income statement?

26. The net income for the year for Won Long, Inc. is $750,000, but the statement of cash flows reports that the cash provided by operating activities is $640,000. What might account for the difference?

27. Net income for the year for Jenkins, Inc. was $750,000, but the statement of cash flows reports that cash provided by operating activities was $860,000. What might account for the difference?

28. Differentiate between operating activities, investing activities, and financing activities.

29. Each of the following items must be considered in preparing a statement of cash flows. Indicate where each item is to be reported in the statement, if at all. Assume that net income is reported as $90,000.

(a) Accounts receivable increased from $32,000 to $39,000 from the beginning to the end of the year.

(b) During the year, 10,000 shares of preferred stock with a par value of $100 a share were issued at $115 per share.

(c) Depreciation expense amounted to $14,000, and bond premium amortization amounted to $5,000.

(d) Land increased from $10,000 to $30,000.

30. Marker Co. has net cash provided by operating activities of $900,000. Its average current liabilities for the period are $1,000,000, and its average total liabilities are $1,500,000. Comment on the company's liquidity and financial flexibility, given this information.

31. Net income for the year for Hatfield, Inc. was $750,000, but the statement of cash flows reports that cash provided by operating activities was $860,000. Hatfield also reported capital expenditures of $75,000 and paid dividends in the amount of $20,000. Compute Hatfield's free cash flow.

32. What is the purpose of a free cash flow analysis?

WILEY PLUS

BRIEF EXERCISES

(LO 3) **BE5-1** Jodi Corporation's adjusted trial balance contained the following asset accounts at December 31, 2007: Cash $7,000; Land $40,000; Patents $12,500; Accounts Receivable $90,000; Prepaid Insurance $5,200; Inventory $34,000; Allowance for Doubtful Accounts $4,000; Trading Securities $11,000. Prepare the current assets section of the balance sheet, listing the accounts in proper sequence.

(LO 3) **BE5-2** La Bouche Corporation has the following accounts included in its December 31, 2007, trial balance: Accounts Receivable $110,000; Inventories $290,000; Allowance for Doubtful Accounts $8,000; Patents $72,000; Prepaid Insurance $9,500; Accounts Payable $77,000; Cash $27,000. Prepare the current assets section of the balance sheet listing the accounts in proper sequence.

(LO 3) **BE5-3** Included in Goo Goo Dolls Company's December 31, 2007, trial balance are the following accounts: Prepaid Rent $5,200; Held-to-Maturity Securities $61,000; Unearned Fees $17,000; Land Held for Investment $39,000; Long-term Receivables $42,000. Prepare the long-term investments section of the balance sheet.

(LO 3) **BE5-4** Adam Ant Company's December 31, 2007, trial balance includes the following accounts: Inventories $120,000; Buildings $207,000; Accumulated Depreciation–Equipment $19,000; Equipment $190,000; Land Held for Investment $46,000; Accumulated Depreciation–Buildings $45,000; Land $61,000; Timberland $70,000. Prepare the property, plant, and equipment section of the balance sheet.

(LO 3) **BE5-5** Mickey Snyder Corporation's adjusted trial balance contained the following asset accounts at December 31, 2007: Prepaid Rent $12,000; Goodwill $40,000; Franchise Fees Receivable $2,000; Franchises $47,000; Patents $33,000; Trademarks $10,000. Prepare the intangible assets section of the balance sheet.

(LO 3) **BE5-6** Mason Corporation has the following accounts included in its December 31, 2007, trial balance: Trading Securities $21,000; Goodwill $150,000; Prepaid Insurance $12,000; Patents $220,000; Franchises $110,000. Prepare the intangible assets section of the balance sheet.

(LO 3) **BE5-7** John Hawk Corporation's adjusted trial balance contained the following liability accounts at December 31, 2007. Bonds Payable (due in 3 years) $100,000; Accounts Payable $72,000; Notes Payable (due in 90 days) $12,500; Accrued Salaries $4,000; Income Taxes Payable $7,000. Prepare the current liabilities section of the balance sheet.

(LO 3) **BE5-8** Included in Ewing Company's December 31, 2007, trial balance are the following accounts: Accounts Payable $240,000; Pension Liability $375,000; Discount on Bonds Payable $24,000; Advances from Customers $41,000; Bonds Payable $400,000; Wages Payable $27,000; Interest Payable $12,000; Income Taxes Payable $29,000. Prepare the current liabilities section of the balance sheet.

(LO 3) **BE5-9** Use the information presented in BE5-8 for Ewing Company to prepare the long-term liabilities section of the balance sheet.

(LO 3) **BE5-10** Young Company's December 31, 2007, trial balance includes the following accounts: Investment in Common Stock $70,000; Retained Earnings $114,000; Trademarks $31,000; Preferred Stock $172,000; Common Stock $55,000; Deferred Income Taxes $88,000; Additional Paid-in Capital $174,000. Prepare the stockholders' equity section of the balance sheet.

(LO 3) **BE5-11** Kevin Flynn Corporation's adjusted trial balance contained the following accounts at December 31, 2007: Retained Earnings $120,000; Common Stock $700,000; Bonds Payable $100,000; Additional Paid-in Capital $200,000; Goodwill $55,000; Accumulated Other Comprehensive Loss $150,000. Prepare the stockholders' equity section of the balance sheet.

(LO 8) **BE5-12** Kes Company reported 2007 net income of $151,000. During 2007, accounts receivable increased by $13,000 and accounts payable increased by $9,500. Depreciation expense was $39,000. Prepare the cash flows from operating activities section of the statement of cash flows.

(LO 8) **BE5-13** Midwest Beverage Company reported the following items in the most recent year.

Net income	$40,000
Dividends paid	5,000
Increase in accounts receivable	10,000
Increase in accounts payable	5,000
Purchase of equipment (capital expenditure)	8,000
Depreciation expense	4,000
Issue of notes payable	20,000

Compute net cash provided by operating activities, the net change in cash during the year, and free cash flow.

(LO 8) **BE5-14** Yorkis Perez Corporation engaged in the following cash transactions during 2007.

Sale of land and building	$181,000
Purchase of treasury stock	40,000
Purchase of land	37,000
Payment of cash dividend	85,000
Purchase of equipment	53,000
Issuance of common stock	147,000
Retirement of bonds	100,000

Compute the net cash provided (used) by investing activities.

(LO 8) **BE5-15** Use the information presented in BE5-14 for Yorkis Perez Corporation to compute the net cash used (provided) by financing activities.

(LO 9) **BE5-16** Using the information in BE5-14, determine Yorkis Perez's free cash flow, assuming that it reported net cash provided by operating activities of $400,000.

EXERCISES

WILEY PLUS

(LO 2, 3) **E5-1 (Classification of Balance Sheet Accounts)** Presented below are the captions of Chan Company's balance sheet.

(a) Current assets.
(b) Investments.
(c) Property, plant, and equipment.
(d) Intangible assets.
(e) Other assets.
(f) Current liabilities.
(g) Non-current liabilities.
(h) Capital stock.
(i) Additional paid-in capital.
(j) Retained earnings.

Instructions

Indicate by letter where each of the following items would be classified.

1. Cash surrender value of life insurance.
2. Prepaid insurance.
3. Taxes payable.
4. Bonds payable.
5. Notes payable (due next year).
6. Bond sinking fund.
7. Common stock.
8. Merchandise inventory.
9. Office supplies.
10. Land.
11. Trading securities.
12. Preferred stock.

13. Allowance for doubtful accounts.
14. Accounts receivable.
15. Goodwill.
16. Current portion of long-term debt.
17. Wages payable.
18. Buildings.
19. Premium on bonds payable.
20. Trade accounts payable.

(LO 2, 3) **E5-2 (Classification of Balance Sheet Accounts)** Assume that Fielder Enterprises uses the following headings on its balance sheet.

(a) Current assets.
(b) Investments.
(c) Property, plant, and equipment.
(d) Intangible assets.
(e) Other assets.
(f) Current liabilities.
(g) Long-term liabilities.
(h) Capital stock.
(i) Paid-in capital in excess of par.
(j) Retained earnings.

Instructions

Indicate by letter how each of the following usually should be classified. If an item should appear in a note to the financial statements, use the letter "N" to indicate this fact. If an item need not be reported at all on the balance sheet, use the letter "X."

1. Unexpired insurance.
2. Stock owned in affiliated companies.
3. Unearned subscriptions revenue.
4. Advances to suppliers.
5. Unearned rent revenue.
6. Preferred stock.
7. Premium on preferred stock.
8. Copyrights.
9. Petty cash fund.
10. Sales tax payable.
11. Accrued interest on notes receivable.
12. Twenty-year issue of bonds payable that will mature within the next year. (No sinking fund exists, and refunding is not planned.)
13. Machinery retired from use and held for sale.
14. Fully depreciated machine still in use.
15. Accrued interest on bonds payable.
16. Salaries that company budget shows will be paid to employees within the next year.
17. Discount on bonds payable. (Assume related to bonds payable in No. 12.)
18. Accumulated depreciation.

(LO 2, 3) **E5-3 (Preparation of a Classified Balance Sheet)** Assume that Denis Savard Inc. has the following accounts at the end of the current year.

1. Common Stock.
2. Discount on Bonds Payable.
3. Treasury Stock (at cost).
4. Note Payable, short-term.
5. Raw Materials.
6. Preferred Stock Investments—Long-term.
7. Unearned Rent Revenue.
8. Work in Process.
9. Copyrights.
10. Buildings.
11. Notes Receivable (short-term).
12. Cash.
13. Accrued Salaries Payable.
14. Accumulated Depreciation—Buildings.
15. Cash Restricted for Plant Expansion.
16. Land Held for Future Plant Site.
17. Allowance for Doubtful Accounts—Accounts Receivable.
18. Retained Earnings.
19. Premium on Common Stock.
20. Unearned Subscriptions Revenue.
21. Receivables—Officers (due in one year).
22. Finished Goods.
23. Accounts Receivable.
24. Bonds Payable (due in 4 years).

Instructions

Prepare a classified balance sheet in good form. (No monetary amounts are necessary.)

(LO 2, 3) **E5-4 (Balance Sheet Classifications)** Presented below are a number of balance sheet accounts of Deep Blue Something, Inc.

(a) Investment in Preferred Stock.
(b) Treasury Stock.
(c) Common Stock.
(d) Cash Dividends Payable.
(e) Accumulated Depreciation.
(f) Warehouse in Process of Construction.
(g) Petty Cash.
(h) Accrued Interest on Notes Payable.
(i) Deficit.
(j) Trading Securities.
(k) Income Taxes Payable.
(l) Unearned Subscription Revenue.
(m) Work in Process.
(n) Accrued Vacation Pay.

Instructions

For each of the accounts above, indicate the proper balance sheet classification. In the case of borderline items, indicate the additional information that would be required to determine the proper classification.

(LO 2, 3) **E5-5 (Corrections of a Balance Sheet)** The bookkeeper for Geronimo Company has prepared the following balance sheet as of July 31, 2007.

GERONIMO COMPANY
BALANCE SHEET
AS OF JULY 31, 2007

Cash	$ 69,000	Notes and accounts payable	$ 44,000
Accounts receivable (net)	40,500	Long-term liabilities	75,000
Inventories	60,000	Stockholders' equity	155,500
Equipment (net)	84,000		$274,500
Patents	21,000		
	$274,500		

The following additional information is provided.

1. Cash includes $1,200 in a petty cash fund and $15,000 in a bond sinking fund.
2. The net accounts receivable balance is comprised of the following three items: (a) accounts receivable—debit balances $52,000; (b) accounts receivable—credit balances $8,000; (c) allowance for doubtful accounts $3,500.
3. Merchandise inventory costing $5,300 was shipped out on consignment on July 31, 2007. The ending inventory balance does not include the consigned goods. Receivables in the amount of $5,300 were recognized on these consigned goods.
4. Equipment had a cost of $112,000 and an accumulated depreciation balance of $28,000.
5. Taxes payable of $6,000 were accrued on July 31. Geronimo Company, however, had set up a cash fund to meet this obligation. This cash fund was not included in the cash balance, but was offset against the taxes payable amount.

Instructions

Prepare a corrected classified balance sheet as of July 31, 2007, from the available information, adjusting the account balances using the additional information.

(LO 2, 3) **E5-6 (Current Assets and Current Liabilities)** The current assets and current liabilities sections of the balance sheet of Allessandro Scarlatti Company appear as follows.

ALLESSANDRO SCARLATTI COMPANY
BALANCE SHEET (PARTIAL)
DECEMBER 31, 2007

Cash		$ 40,000	Accounts payable	$ 61,000
Accounts receivable	$89,000		Notes payable	67,000
Less: Allowance for doubtful accounts	7,000	82,000		$128,000
Inventories		171,000		
Prepaid expenses		9,000		
		$302,000		

The following errors in the corporation's accounting have been discovered:

1. January 2008 cash disbursements entered as of December 2007 included payments of accounts payable in the amount of $39,000, on which a cash discount of 2% was taken.
2. The inventory included $27,000 of merchandise that had been received at December 31 but for which no purchase invoices had been received or entered. Of this amount, $12,000 had been received on consignment; the remainder was purchased f.o.b. destination, terms 2/10, n/30.
3. Sales for the first four days in January 2008 in the amount of $30,000 were entered in the sales book as of December 31, 2007. Of these, $21,500 were sales on account and the remainder were cash sales.
4. Cash, not including cash sales, collected in January 2008 and entered as of December 31, 2007, totaled $35,324. Of this amount, $23,324 was received on account after cash discounts of 2% had been deducted; the remainder represented the proceeds of a bank loan.

Instructions

(a) Restate the current assets and current liabilities sections of the balance sheet in accordance with good accounting practice. (Assume that both accounts receivable and accounts payable are recorded gross.)

(b) State the net effect of your adjustments on Allesandro Scarlatti Company's retained earnings balance.

(LO 2) **E5-7 (Current vs. Long-term Liabilities)** Constantin Corporation is preparing its December 31, 2007, balance sheet. The following items may be reported as either a current or long-term liability.

1. At December 31, bonds payable of $200,000,000 are outstanding. The bonds pay 12% interest every September 30 and mature in installments of $50,000,000 every September 30, beginning September 30, 2008.
2. On December 15, 2007, Constantin declared a cash dividend of $5.00 per share to stockholders of record on December 31. The dividend is payable on January 15, 2008. Constantin has issued 1,000,000 shares of common stock, of which 50,000 shares are held in treasury.
3. Also on December 31, Constantin declared a 10% stock dividend to stockholders of record on January 15, 2008. The dividend will be distributed on January 31, 2008. Constantin's common stock has a par value of $20 per share and a market value of $76 per share.
4. At December 31, 2006, customer advances were $24,000,000. During 2007, Constantin collected $60,000,000 of customer advances, and advances of $50,000,000 were earned.

Instructions

For each item above, indicate the dollar amounts to be reported as a current liability and as a long-term liability, if any.

(LO 3) **E5-8 (Current Assets Section of the Balance Sheet)** Presented below are selected accounts of Yasunari Kawabata Company at December 31, 2007.

Finished Goods	$ 52,000	Cost of Goods Sold	$2,100,000
Revenue Received in Advance	90,000	Notes Receivable	40,000
Equipment	253,000	Accounts Receivable	161,000
Work-in-Process	34,000	Raw Materials	207,000
Cash	37,000	Supplies Expense	60,000
Short-term Investments in Stock	31,000	Allowance for Doubtful Accounts	12,000
Customer Advances	36,000	Licenses	18,000
Cash Restricted for Plant Expansion	50,000	Additional Paid-in Capital	88,000
		Treasury Stock	22,000

The following additional information is available.

1. Inventories are valued at lower of cost or market using LIFO.
2. Equipment is recorded at cost. Accumulated depreciation, computed on a straight-line basis, is $50,600.
3. The short-term investments have a fair value of $29,000. (Assume they are trading securities.)
4. The notes receivable are due April 30, 2009, with interest receivable every April 30. The notes bear interest at 6%. (*Hint:* Accrue interest due on December 31, 2007.)
5. The allowance for doubtful accounts applies to the accounts receivable. Accounts receivable of $50,000 are pledged as collateral on a bank loan.
6. Licenses are recorded net of accumulated amortization of $14,000.
7. Treasury stock is recorded at cost.

Instructions

Prepare the current assets section of Yasunari Kawabata Company's December 31, 2007, balance sheet, with appropriate disclosures.

(LO 3) **E5-9 (Preparation of a Corrected Balance Sheet)** Uhura Company has decided to expand its operations. The bookkeeper recently completed the balance sheet presented below and on the following page in order to obtain additional funds for expansion.

UHURA COMPANY
BALANCE SHEET
FOR THE YEAR ENDED 2007

Current assets	
Cash	$230,000
Accounts receivable (net)	340,000
Inventories at lower of average cost or market	401,000
Trading securities—at cost (fair value $120,000)	140,000

Property, plant, and equipment	
Building (net)	570,000
Office equipment (net)	160,000
Land held for future use	175,000
Intangible assets	
Goodwill	80,000
Cash surrender value of life insurance	90,000
Prepaid expenses	12,000
Current liabilities	
Accounts payable	135,000
Notes payable (due next year)	125,000
Pension obligation	82,000
Rent payable	49,000
Premium on bonds payable	53,000
Long-term liabilities	
Bonds payable	500,000
Stockholders' equity	
Common stock, $1.00 par, authorized 400,000 shares, issued 290,000	290,000
Additional paid-in capital	160,000
Retained earnings	?

Instructions

Prepare a revised balance sheet given the available information. Assume that the accumulated depreciation balance for the buildings is $160,000 and for the office equipment, $105,000. The allowance for doubtful accounts has a balance of $17,000. The pension obligation is considered a long-term liability.

(LO 3) **E5-10 (Balance Sheet Preparation)** Presented below is the adjusted trial balance of Kelly Corporation at December 31, 2007.

	Debits	Credits
Cash	$?	
Office Supplies	1,200	
Prepaid Insurance	1,000	
Equipment	48,000	
Accumulated Depreciation—Equipment		$ 4,000
Trademarks	950	
Accounts Payable		10,000
Wages Payable		500
Unearned Service Revenue		2,000
Bonds Payable, due 2014		9,000
Common Stock		10,000
Retained Earnings		25,000
Service Revenue		10,000
Wages Expense	9,000	
Insurance Expense	1,400	
Rent Expense	1,200	
Interest Expense	900	
Total	$?	$?

Additional information:

1. Net loss for the year was $2,500.
2. No dividends were declared during 2007.

Instructions

Prepare a classified balance sheet as of December 31, 2007.

(LO 3) **E5-11 (Preparation of a Balance Sheet)** Presented on the next page is the trial balance of Do Corporation at December 31, 2007.

	Debits	Credits
Cash	$ 98,500	
Sales		$4,050,000
Trading Securities (at cost, $145,000)	76,500	
Cost of Goods Sold	2,400,000	
Long-term Investments in Bonds	149,500	
Long-term Investments in Stocks	138,500	
Short-term Notes Payable		45,000
Accounts Payable		227,500
Selling Expenses	1,000,000	
Investment Revenue		31,500
Land	130,000	
Buildings	520,000	
Dividends Payable		68,000
Accrued Liabilities		48,000
Accounts Receivable	217,500	
Accumulated Depreciation—Buildings		76,000
Allowance for Doubtful Accounts		12,500
Administrative Expenses	450,000	
Interest Expense	105,500	
Inventories	298,500	
Extraordinary Gain		40,000
Prior Period Adjustment—Depr. Error	70,000	
Long-term Notes Payable		450,000
Equipment	300,000	
Bonds Payable		500,000
Accumulated Depreciation—Equipment		30,000
Franchise (net of $80,000 amortization)	80,000	
Common Stock ($5 par)		500,000
Treasury Stock	95,500	
Patent (net of $30,000 amortization)	97,500	
Retained Earnings		109,000
Additional Paid-in Capital		40,000
Totals	$6,227,500	$6,227,500

Instructions

Prepare a balance sheet at December 31, 2007, for Do Corporation. Ignore income taxes.

(LO 3, 4) **E5-12 (Current Liabilities)** Norma Smith is the controller of Baylor Corporation and is responsible for the preparation of the year-end financial statements. The following transactions occurred during the year.

(a) On December 20, 2007, an employee filed a legal action against Baylor for $100,000 for wrongful dismissal. Management believes the action to be frivolous and without merit. The likelihood of payment to the employee is remote.

(b) Bonuses to key employees based on net income for 2007 are estimated to be $150,000.

(c) On December 1, 2007, the company borrowed $600,000 at 8% per year. Interest is paid quarterly.

(d) Credit sales for the year amounted to $10,000,000. Baylor's expense provision for doubtful accounts is estimated to be 3% of credit sales.

(e) On December 15, 2007, the company declared a $2.00 per share dividend on the 40,000 shares of common stock outstanding, to be paid on January 5, 2008.

(f) During the year, customer advances of $160,000 were received; $50,000 of this amount was earned by December 31, 2007.

Instructions

For each item above, indicate the dollar amount to be reported as a current liability. If a liability is not reported, explain why.

(LO 7) **E5-13 (Statement of Cash Flows—Classifications)** The major classifications of activities reported in the statement of cash flows are operating, investing, and financing. Classify each of the transactions listed below as:

1. Operating activity—add to net income.
2. Operating activity—deduct from net income.
3. Investing activity.
4. Financing activity.
5. Not reported as a cash flow.

The transactions are as follows.

(a) Depreciation of machinery.
(b) Payment of cash dividends.
(c) Purchase of treasury stock.
(d) Decrease in accounts payable during the year.
(e) Increase in accounts receivable during the year.
(f) Loss on sale of equipment.
(g) Exchange of furniture for office equipment.
(h) Sale of equipment.
(i) Purchase of land and building.
(j) Amortization of patent.
(k) Issuance of bonds for plant assets.
(l) Redemption of bonds.
(m) Issuance of capital stock.

(LO 3, 8) **E5-14 (Preparation of a Statement of Cash Flows and a Balance Sheet)** Grant Wood Corporation's balance sheet at the end of 2006 included the following items.

Current assets	$235,000	Current liabilities	$150,000
Land	30,000	Bonds payable	100,000
Building	120,000	Common stock	180,000
Equipment	90,000	Retained earnings	44,000
Accum. depr.—building	(30,000)	Total	$474,000
Accum. depr.—equipment	(11,000)		
Patents	40,000		
Total	$474,000		

The following information is available for 2007.

1. Net income was $55,000.
2. Equipment (cost $20,000 and accumulated depreciation $8,000) was sold for $10,000.
3. Depreciation expense was $4,000 on the building and $9,000 on equipment.
4. Patent amortization was $2,500.
5. Current assets other than cash increased by $29,000. Current liabilities increased by $13,000.
6. An addition to the building was completed at a cost of $27,000.
7. A long-term investment in stock was purchased for $16,000.
8. Bonds payable of $50,000 were issued.
9. Cash dividends of $30,000 were declared and paid.
10. Treasury stock was purchased at a cost of $11,000.

Instructions

(Show only totals for current assets and current liabilities.)

(a) Prepare a statement of cash flows for 2007.
(b) Prepare a balance sheet at December 31, 2007.

(LO 8) **E5-15 (Preparation of a Statement of Cash Flows)** The comparative balance sheets of Constantine Cavamanlis Inc. at the beginning and the end of the year 2007 appear below.

CONSTANTINE CAVAMANLIS INC.
BALANCE SHEETS

Assets	Dec. 31, 2007	Jan. 1, 2007	Inc./Dec.
Cash	$ 45,000	$ 13,000	$32,000 Inc.
Accounts receivable	91,000	88,000	3,000 Inc.
Equipment	39,000	22,000	17,000 Inc.
Less: Accumulated depreciation	(17,000)	(11,000)	6,000 Inc.
Total	$158,000	$112,000	
Liabilities and Stockholders' Equity			
Accounts payable	$ 20,000	$ 15,000	5,000 Inc.
Common stock	100,000	80,000	20,000 Inc.
Retained earnings	38,000	17,000	21,000 Inc.
Total	$158,000	$112,000	

Net income of $44,000 was reported, and dividends of $23,000 were paid in 2007. New equipment was purchased and none was sold.

Instructions

Prepare a statement of cash flows for the year 2007.

(LO 8, 9) **E5-16 (Preparation of a Statement of Cash Flows)** Presented on the next page is a condensed version of the comparative balance sheets for Zubin Mehta Corporation for the last two years at December 31.

Additional information:

1. Net income for 2007 was $125,000.
2. Cash dividends of $60,000 were declared and paid.
3. Bonds payable amounting to $50,000 were retired through issuance of common stock.

Instructions

(a) Prepare a statement of cash flows for 2007 for Shabbona Corporation.

(b) Determine Shabbona Corporation's current cash debt coverage ratio, cash debt coverage ratio, and free cash flow. Comment on its liquidity and financial flexibility.

See the book's website, www.wiley.com/college/kieso, for Additional Exercises.

PROBLEMS

(LO 3) **P5-1 (Balance Sheet Preparation)** Presented below are a number of balance sheet items for Letterman, Inc., for the current year, 2007.

Goodwill	$ 125,000	Accumulated depreciation—equipment	$ 292,000
Payroll taxes payable	177,591	Inventories	239,800
Bonds payable	300,000	Rent payable—short-term	45,000
Discount on bonds payable	15,000	Taxes payable	98,362
Cash	360,000	Long-term rental obligations	480,000
Land	480,000	Common stock, $1 par value	200,000
Notes receivable	545,700	Preferred stock, $10 par value	150,000
Notes payable to banks	265,000	Prepaid expenses	87,920
Accounts payable	590,000	Equipment	1,470,000
Retained earnings	?	Trading securities	121,000
Income taxes receivable	97,630	Accumulated depreciation—building	170,200
Unsecured notes payable (long-term)	1,600,000	Building	1,640,000

Instructions

Prepare a classified balance sheet in good form. Common stock authorized was 400,000 shares, and preferred stock authorized was 20,000 shares. Assume that notes receivable and notes payable are short-term, unless stated otherwise. Cost and fair value of trading securities are the same.

(LO 3) **P5–2 (Balance Sheet Adjustment and Preparation)** The adjusted trial balance of Side Kicks Company and other related information for the year 2007 are presented below and on the next page.

SIDE KICKS COMPANY
ADJUSTED TRIAL BALANCE
DECEMBER 31, 2007

	Debits	Credits
Cash	$ 41,000	
Accounts Receivable	163,500	
Allowance for Doubtful Accounts		$ 8,700
Prepaid Insurance	5,900	
Inventory	308,500	
Long-term Investments	339,000	
Land	85,000	
Construction Work in Progress	124,000	
Patents	36,000	
Equipment	400,000	
Accumulated Depreciation of Equipment		140,000
Unamortized Discount on Bonds Payable	20,000	
Accounts Payable		148,000
Accrued Expenses		49,200
Notes Payable		94,000
Bonds Payable		400,000
Common Stock		500,000
Premium on Common Stock		45,000
Retained Earnings		138,000
	$1,522,900	$1,522,900

Additional information:

1. The LIFO method of inventory value is used.
2. The cost and fair value of the long-term investments that consist of stocks and bonds is the same.
3. The amount of the Construction Work in Progress account represents the costs expended to date on a building in the process of construction. (The company rents factory space at the present time.) The land on which the building is being constructed cost $85,000, as shown in the trial balance.
4. The patents were purchased by the company at a cost of $40,000 and are being amortized on a straight-line basis.
5. Of the unamortized discount on bonds payable, $2,000 will be amortized in 2008.
6. The notes payable represent bank loans that are secured by long-term investments carried at $120,000. These bank loans are due in 2008.
7. The bonds payable bear interest at 8% payable every December 31, and are due January 1, 2018.
8. 600,000 shares of common stock of a par value of $1 were authorized, of which 500,000 shares were issued and outstanding.

Instructions

Prepare a balance sheet as of December 31, 2007, so that all important information is fully disclosed.

(LO 3) **P5-3 (Preparation of a Classified Balance Sheet, Periodic Inventory)** Presented below is a list of accounts in alphabetical order.

Accounts Receivable	Land
Accrued Wages	Land for Future Plant Site
Accumulated Depreciation—Buildings	Loss from Flood
Accumulated Depreciation—Equipment	Notes Payable (due next year)
Advances to Employees	Patent
Advertising Expense	Payroll Taxes Payable
Allowance for Doubtful Accounts	Pension Obligations
Bond Sinking Fund	Petty Cash
Bonds Payable	Preferred Stock
Building	Premium on Bonds Payable
Cash in Bank	Premium on Preferred Stock
Cash on Hand	Prepaid Rent
Cash Surrender Value of Life Insurance	Purchases
Commission Expense	Purchase Returns and Allowances
Common Stock	Retained Earnings
Copyright	Sales
Dividends Payable	Sales Discounts
Equipment	Sales Salaries
Gain on Sale of Equipment	Trading Securities
Interest Receivable	Transportation-in
Inventory—Beginning	Treasury Stock (at cost)
Inventory—Ending	Unearned Subscriptions Revenue

Instructions

Prepare a classified balance sheet in good form. (No monetary amounts are to be shown.)

(LO 3) **P5-4 (Balance Sheet Adjustment and Preparation)** Presented below is the balance sheet of Stephen King Corporation for the current year, 2007.

STEPHEN KING CORPORATION
BALANCE SHEET
DECEMBER 31, 2007

Current assets	$ 449,000	Current liabilities	$ 344,000
Investments	640,000	Long-term liabilities	1,000,000
Property, plant, and equipment	1,720,000	Stockholders' equity	1,770,000
Intangible assets	305,000		
	$3,114,000		$3,114,000

The following information is presented.

1. The current assets section includes: cash $114,000, accounts receivable $170,000 less $10,000 for allowance for doubtful accounts, inventories $180,000, and unearned revenue $5,000. Inventories are stated on the lower of FIFO cost or market.

2. The investments section includes: the cash surrender value of a life insurance contract $40,000; investments in common stock, short-term (trading) $80,000 and long-term (available-for-sale) $270,000, and bond sinking fund $250,000. The cost and fair value of investments in common stock are the same.
3. Property, plant, and equipment includes: buildings $1,040,000 less accumulated depreciation $360,000; equipment $450,000 less accumulated depreciation $180,000; land $500,000; and land held for future use $270,000.
4. Intangible assets include: a franchise $165,000; goodwill $100,000; and discount on bonds payable $40,000.
5. Current liabilities include: accounts payable $104,000; notes payable—short-term $80,000 and long-term $120,000; and taxes payable $40,000.
6. Long-term liabilities are composed solely of 7% bonds payable due 2015.
7. Stockholders' equity has: preferred stock, no par value, authorized 200,000 shares, issued 70,000 shares for $450,000; and common stock, $1.00 par value, authorized 400,000 shares, issued 100,000 shares at an average price of $10. In addition, the corporation has retained earnings of $320,000.

Instructions

Prepare a balance sheet in good form, adjusting the amounts in each balance sheet classification as affected by the information given above.

LO 3, 4) **P5-5 (Preparation of a Corrected Balance Sheet)** Presented below is the balance sheet of Russell Crowe Corporation as of December 31, 2007.

RUSSELL CROWE CORPORATION
BALANCE SHEET
DECEMBER 31, 2007

Assets	
Goodwill (Note 2)	$ 120,000
Buildings (Note 1)	1,640,000
Inventories	312,100
Land	750,000
Accounts receivable	170,000
Treasury stock (50,000 shares)	87,000
Cash on hand	175,900
Assets allocated to trustee for plant expansion	
Cash in bank	70,000
U.S. Treasury notes, at cost and fair value	138,000
	$3,463,000
Equities	
Notes payable (Note 3)	$ 600,000
Common stock, authorized and issued, 1,000,000 shares, no par	1,150,000
Retained earnings	658,000
Appreciation capital (Note 1)	570,000
Federal income taxes payable	75,000
Reserve for depreciation recorded to date on the building	410,000
	$3,463,000

Note 1: Buildings are stated at cost, except for one building that was recorded at appraised value. The excess of appraisal value over cost was $570,000. Depreciation has been recorded based on cost.

Note 2: Goodwill in the amount of $120,000 was recognized because the company believed that book value was not an accurate representation of the fair market value of the company. The gain of $120,000 was credited to Retained Earnings.

Note 3: Notes payable are long-term except for the current installment due of $100,000.

Instructions

Prepare a corrected classified balance sheet in good form. The notes above are for information only.

P5-6 (Preparation of a Statement of Cash Flows and Balance Sheet) Jay Leno Inc. had the following balance sheet (presented on the next page) at December 31, 2006.

JAY LENO INC.
BALANCE SHEET
DECEMBER 31, 2006

Cash	$ 20,000	Accounts payable	$ 30,000
Accounts receivable	21,200	Bonds payable	41,000
Investments	32,000	Common stock	100,000
Plant assets (net)	81,000	Retained earnings	23,200
Land	40,000		$194,200
	$194,200		

During 2007, the following occurred.

1. Leno liquidated its available-for-sale investment portfolio at a loss of $3,000.
2. A tract of land was purchased for $38,000.
3. An additional $26,000 in common stock was issued at par.
4. Dividends totaling $10,000 were declared and paid to stockholders.
5. Net income for 2007 was $35,000, including $12,000 in depreciation expense.
6. Land was purchased through the issuance of $30,000 in additional bonds.
7. At December 31, 2007, Cash was $66,200, Accounts Receivable was $42,000, and Accounts Payable was $40,000.

Instructions

(a) Prepare a statement of cash flows for the year 2007 for Leno.
(b) Prepare the balance sheet as it would appear at December 31, 2007.
(c) Compute Leno's free cash flow and the current cash debt coverage ratio for 2007.
(d) Use the analysis of Leno to illustrate how information in the balance sheet and statement of cash flows helps the user of the financial statements.

(LO 3, 8, 9) **P5-7 (Preparation of a Statement of Cash Flows and a Balance Sheet)** Alistair Cooke Inc. had the balance sheet shown below at December 31, 2006.

ALISTAIR COOKE INC.
BALANCE SHEET
DECEMBER 31, 2006

Cash	$ 20,000	Accounts payable	$ 30,000
Accounts receivable	21,200	Long-term notes payable	41,000
Investments	32,000	Common stock	100,000
Plant assets (net)	81,000	Retained earnings	23,200
Land	40,000		$194,200
	$194,200		

During 2007, the following occurred.

1. Alistair Cooke Inc. sold part of its investment portfolio for $17,000. This transaction resulted in a gain of $3,400 for the firm. The company classifies its investments as available-for-sale.
2. A tract of land was purchased for $18,000 cash.
3. Long-term notes payable in the amount of $16,000 were retired before maturity by paying $16,000 cash.
4. An additional $24,000 in common stock was issued at par.
5. Dividends totalling $8,200 were declared and paid to stockholders.
6. Net income for 2007 was $32,000 after allowing for depreciation of $12,000.
7. Land was purchased through the issuance of $30,000 in bonds.
8. At December 31, 2007, Cash was $39,000, Accounts Receivable was $41,600, and Accounts Payable remained at $30,000.

Instructions

(a) Prepare a statement of cash flows for 2007.
(b) Prepare an unclassified balance sheet as it would appear at December 31, 2007.
(c) How might the statement of cash flows help the user of the financial statements? Compute two cash flow ratios.