

**Solution:**

(1)

The effect on the balance sheet for the transactions are as follows:

Transaction	Effect on the Balance Sheet Equation		
	Assets =	Liabilities +	Stockholders' Equity
(a)	+\$1,000,000 (inventory)	+\$1,000,000 (accounts payable)	
(b) & (c)	-\$1,300,000 (inventory)		-\$1,300,000 (cost of goods sold)
	+\$200,000 (cash)		
	+\$1,500,000 (accounts receivable)		+\$1,700,000 (sales)
(d)	-\$45,000 (pre-paid rent)		-\$45,000 (rent expense)
	-\$84,000 (cash)		
	+\$63,000 (pre-paid rent)		-\$21,000 (rent expenses for 3 months)
(e)	-\$20,000 (equipment)		-\$20,000 (depreciation expense)
(f)	+\$1,250,000 (cash)		
	-\$1,250,000 (accounts receivable)		
(g)	-\$200,000 (cash)		-\$200,000 (wages expense)
(h)	-\$70,000 (cash)		-\$70,000 (sundry expenses)
(i)	-\$900,000 (cash)	-\$900,000 (accounts payable)	
(j)	-\$100,000 (cash)		-\$100,000 (dividends paid)

(2)

The income statement is prepared below, with the changes in retained earnings also included in it.

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**STATEMENT OF INCOME CUM RETAINED EARNINGS**  
**(Amounts in \$)**

Name: Gecko Toy Company  
As Of: Fiscal 2011

<b>Particulars</b>	<b>Amounts</b>
<b>INCOME:</b>	
Sales	1,700,000
Cost of Goods Sold	(1,300,000)
<b>Net Operating Income (Loss)</b>	<b>400,000</b>
<b>Other revenues (expenses):</b>	
Salaries & Wages	(200,000)
Rent	(66,000)
Depreciation	(20,000)
Sundry Expenses	(70,000)
Total other revenues (expenses)	(356,000)
<b>Net Income (Loss)</b>	<b>44,000</b>
<b>RETAINED EARNINGS:</b>	
Retained Earnings as of December 31, 2010	645,000
Add: Net Income	44,000
Less: Dividends Declared	(100,000)
<b>Retained Earnings as of December 31, 2011</b>	<b>589,000</b>

The balance sheet is developed on the next page

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**CLASSIFIED & CONSOLIDATED BALANCE SHEET**  
**(Amount in \$)**

**Name:** Gecko Toy Co.

**As Of:** December 31, 2011

<b>Particulars</b>	<b>Amount</b>
<b>ASSETS:</b>	
Cash	496,000
Accounts Receivables	650,000
Merchandise Inventory	560,000
Unexpired Rent	63,000
Equipment	80,000
<b>Total assets</b>	<b>1,849,000</b>
<b>LIABILITIES:</b>	
Accounts Payable	900,000
<b>Total liabilities</b>	<b>900,000</b>
<b>STOCKHOLDERS' EQUITY:</b>	
Paid in Capital	360,000
Retained Earnings as of December 31, 2011	589,000
<b>Total Stockholders' equity</b>	<b>949,000</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>1,849,000</b>

(3)

The liabilities will be increased by \$100,000 because the dividends become accrued expenses. The retained earnings will remain same, since dividends are declared. The cash will not deduct \$100,000 so it will be higher.