Intro Handout - Solution

1. Indicate whether each account should appear on the Balance Sheet (B/S) Income Statement (I/S) or Neither (N)

a. Utility Expense	______I/S________
b. Cost of Goods Sold	______I/S________
c. Dividends Paid	______N_________
d. Notes Receivable	______B/S________
e. Cash from Operations	______N_________
f. Operating Income	______I/S________
g. Accumulated Depreciation	______B/S________
h. Shareholder's Equity	______B/S________
i. Prepaid Rent Expense	______B/S________
j. Cash and Cash Equivalents	______B/S________
k. Sales, General, and Administrative Expense	______I/S_________
l. Cash from Financing Activities	______N__________
m. Income Tax Payable	______B/S________
n. Treasury Stock	______B/S________
o. Interest Expense	______I/S_________
p. Interest Revenue	______I/S_________
q. Long-Term Debt	______B/S________
r. Retained Earnings	______B/S________

2. On January 1, 2015, Grant Corporation was incorporated. Grant had $810,000 in assets, $210,000 in liabilities, $200,000 in common stock and $360,000 in additional paid-in capital at year-end. Dividends of $35,000 were paid during 2015.

   a. What was the balance of owners' equity at December 31, 2015?

   Solution:

   Assets = Liabilities + Owner's Equity
   $810,000 = $210,000 + Owner's Equity, and
   Owner's Equity = $600,000

   b. What was net income for 2015?

   Solution:

   Owner's Equity = Common Stock + Additional Paid-in Capital + Ending Retained Earnings, and
   Ending Retained Earnings = Beginning Retained earnings + Net income – Dividends, then
   Owner's Equity = Common Stock + Additional Paid-in Capital + Beginning Retained earnings + Net income – Dividends
   $600,000 = $200,000 + $360,000 + $0 + Net Income – $35,000, and
   Net Income = $75,000

3. On January 1, 2014, Benton Corp. was capitalized with $1,200,000 of stock and $600,000 of debt. Revenue for the first year of business was $187,500. Benton's assets were $2,140,000 and it liabilities increased by $200,000 during 2014. Dividends of $16,000 were paid. How much were Benton's expenses in 2014?

   Solution:

   Assets = Liabilities + Owner's Equity
   Owner's Equity = Paid-in Capital + (Beg. RE + NI – DIV)
   NI = REV - EXP
   Note: Beg. RE = 0 since it is a new company

   $2,140,000 = $800,000 + $1,200,000 + NI - $16,000
   NI = $156,000
   REV – EXP = $187,500 – EXP
   So $156,000 = $187,500 – EXP
   EXP = $31,500

4. Solution:

a)

Waverly Corp. Balance Sheet As of June 30, 2014			
Assets:		**Liabilities:**	
Cash	6,000	Accounts Payable	3,000
Inventories	7,000	Notes Payable	2,000
Building	26,000	Salaries Payable	900
Accumulated Depreciation	(1,700)	**Stockholders' Equity:**	
Total Assets	37,300	Common Stock	12,000
		Retained Earnings	19,400
		Total Liabilities and Stockholders' Equity	37,300

NI = \$17,400; Ending RE = Beg Re + NI – DIV = \$4,000 +\$17,400 - \$2,000 = \$19,400

Note: You have to back into the salaries payable amount after working backward from Total Liabilities and Stockholders' equity (which must equal total assets).

Waverly Corp. Income Statement FYE June 30, 2014	
Revenues	28,000
Less:	
COGS	2,000
Depreciation Expense	700
Salaries Expense	7,900
Net Income	$17,400

b) The ending inventory (\$7,000) is the beginning inventory (\$9,000) less COGS (\$2,000). The accumulated depreciation balance (\$1,700) assumes the beginning accumulated depreciation is \$1,000 plus the depreciation expense of (\$700).