

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.

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	<u>5,000</u>	<u>?</u>	<u>?</u>
Total liabilities	\$ 5,500	\$ 15,500	
Stockholders' equity			
Capital stock	?	?	\$114,000
Retained earnings	<u>?</u>	<u>15,000</u>	<u>?</u>
Total stockholders' equity	?	?	119,000
Total Liabilities and equity	<u>\$ 149,500</u>	<u>?</u>	<u>\$ 150,000</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	7,500
Rent expense	25,000
Accounts payable	10,000
Equipment	200,000
Dividends	12,500
Accounts receivable	47,500
Notes payable	50,000

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

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.

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?

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.

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.

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			<u>\$ 42,000</u>

Thai company Statement of Retained Earnings For the Year Ending December 31, 20X1	
Beginning retained earnings	\$ -
Plus: Net income	42,000
	<u>\$ 42,000</u>
Less: Dividends	-
Ending retained earnings	<u>\$ 42,000</u>

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

- Is the company currently able to declare and pay the dividend? Why or why not?
- Explain why net income can differ from cash provided by operations.
- In addition to operating activities, what other "categories" of business activity can generate or expend cash? Provide examples for each category.
- Prepare a statement of cash flows for Thai Company for the year ending December 31, 20X1.