

MBO 102-Financial Reporting and Statement Analysis

LO 1-2

M1-1 Matching Financial Statement Items to Balance Sheet and Income Statement Categories

For each of the following items in **Procter and Gamble** 's financial statements, indicate (1) whether it is reported in the income statement (I/S) or balance sheet (B/S) and (2) whether it is an asset (A), liability (L), stockholders' equity (SE), revenue (R), or expense (E) account. The first item is given as an example.

Item	(1) Statement	(2) Account Type
(Example) Cash	B/S	A
1. Accounts Payable		
2. Accounts Receivable		
3. Income Tax Expense		
4. Sales Revenue		
5. Notes Payable		
6. Retained Earnings		

SOLUTION:

	<u>Statement</u>	<u>Account Type</u>
Cash (Example)	B/S	A
(1) Accounts Payable	B/S	L
(2) Accounts Receivable	B/S	A
(3) Income Tax Expense	I/S	E
(4) Sales Revenue	I/S	R
(5) Notes Payable	B/S	L
(6) Retained Earnings	B/S	SE

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M1-2 Matching Financial Statement Items to Balance Sheet and Income Statement Categories

For each item, indicate (1) whether it is reported on the income statement (I/S) or balance sheet (B/S) and (2) the type of account (A = asset, L = liability, SE = stockholders' equity, R = revenue, E = expense).

Item	(1) Statement	(2) Account Type
1. Accounts Receivable		
2. Sales Revenue		
3. Equipment		
4. Supplies Expense		
5. Cash		
6. Advertising Expense		
7. Accounts Payable		
8. Retained Earnings		

SOLUTION:

(1) Accounts Receivable	B/S	A
(2) Sales Revenue	I/S	R
(3) Equipment	B/S	A
(4) Supplies Expense	I/S	E
(5) Cash	B/S	A
(6) Advertising Expense	I/S	E
(7) Accounts Payable	B/S	L
(8) Retained Earnings	B/S	SE

LO 1-2**M1-3 Matching Financial Statement Items to Balance Sheet and Income Statement Categories**

Tootsie Roll Industries manufactures and sells more than 64 million Tootsie Rolls and 20 million Tootsie Roll Pops each day. The following items were listed on Tootsie Roll's recent income statement and balance sheet. For each item, indicate (1) the type of account (A 5 asset, L 5 liability, SE 5 stockholders' equity, R 5 revenue, E 5 expense) and (2) whether it is reported on the income statement (I/S) or balance sheet (B/S).

1. Accounts Receivable
2. Office Expenses
3. Cash
4. Equipment
5. Advertising Expense
6. Sales Revenue
7. Notes Payable
8. Retained Earnings
9. Accounts Payable

SOLUTION:

(1) Accounts Receivable	A	B/S
(2) Office Expenses	E	I/S
(3) Cash	A	B/S
(4) Equipment	A	B/S
(5) Advertising Expense	E	I/S
(6) Sales Revenue	R	I/S
(7) Notes Payable	L	B/S
(8) Retained Earnings	SE	B/S
(9) Accounts Payable	L	B/S

LO 1-2**M1-4 Matching Financial Statement Items to Balance Sheet and Income Statement Categories**

General Mills is a manufacturer of food products, such as Lucky Charms cereal, Pillsbury crescent rolls, and Green Giant vegetables. The following items were presented in the company's financial statements. For each item, indicate (1) the type of account (A 5 asset, L 5 liability, SE 5 stockholders' equity, R 5 revenue, E 5 expense) and (2) whether it is reported on the income statement (I/S) or balance sheet (B/S).

1. Accounts Payable
2. Common Stock
3. Equipment
4. Accounts Receivable
5. Notes Payable
6. Cash
7. Retained Earnings
8. Office Expenses
9. Sales Revenue
10. Supplies

SOLUTION:

	<u>Type</u>	<u>Statement</u>
(1) Accounts Payable	L	B/S
(2) Common Stock	SE	B/S
(3) Equipment	A	B/S
(4) Accounts Receivable	A	B/S
(5) Notes Payable	L	B/S
(6) Cash	A	B/S
(7) Retained Earnings	SE	B/S
(8) Office Expenses	E	I/S
(9) Sales Revenue	R	I/S
(10) Supplies	A	B/S

LO 1-2**M1-5 Matching Financial Statement Items to the Basic Financial Statements**

Oakley, Inc., reported the following items in its financial statements. For each item, indicate (1) the type of account (A = asset, L = liability, SE = stockholders' equity, R = revenue, E = expense, D = dividend) and (2) whether it is reported on the income statement (I/S), statement of retained earnings (SRE), and/or balance sheet (B/S).

1. Dividends
2. Common Stock
3. Sales Revenue
4. Equipment
5. Cash
6. Note Payable
7. Accounts Payable
8. Retained Earnings, Beginning of Year

SOLUTION:

(1) Dividends	D	SRE
(2) Common Stock	SE	B/S
(3) Sales Revenue	R	I/S
(4) Equipment	A	B/S
(5) Cash	A	B/S
(6) Note Payable	L	B/S
(7) Accounts Payable	L	B/S
(8) Retained Earnings, Beginning of Year	SE	SRE

LO 1-2**M1-6 Matching Financial Statement Items to the Four Basic Financial Statements**

Match each element with its financial statement by entering the appropriate letter in the space provided.

- | | |
|---|-----------------------------------|
| 1. Cash Flows from Financing Activities | |
| 2. Expenses | A. Balance Sheet |
| 3. Cash Flows from Investing Activities | B. Income Statement |
| 4. Assets | C. Statement of Retained Earnings |
| 5. Dividends | D. Statement of Cash Flows |
| 6. Revenues | |
| 7. Cash Flows from Operating Activities | |
| 8. Liabilities | |

SOLUTION:

Element	Financial Statement
(1) Cash Flows from Financing Activities	Statement of Cash Flows
(2) Expenses	Income Statement
(3) Cash Flows from Investing Activities	Statement of Cash Flows
(4) Assets	Balance Sheet
(5) Dividends	Statement of Retained Earnings
(6) Revenues	Income Statement
(7) Cash Flows from Operating Activities	Statement of Cash Flows
(8) Liabilities	Balance Sheet

LO 1-2**M1-7 Reporting Amounts on the Statement of Cash Flows**

Learning which items belong in each cash flow statement category is an important first step in understanding their meaning. Use a letter to mark each item in the following list as a cash flow from Operating, Investing, or Financing activities. **Put parentheses around the letter if it is a cash *outflow* and use no parentheses if it's an *inflow*.**

1. Cash paid for dividends
2. Cash collected from customers
3. Cash received when signing a note
4. Cash paid to employees
5. Cash paid to purchase equipment
6. Cash received from issuing stock

<u>(F)</u>	(1) Cash paid for dividends
<u>O</u>	(2) Cash collected from customers
<u>F</u>	(3) Cash received when signing a note
<u>(O)</u>	(4) Cash paid to employees
<u>(I)</u>	(5) Cash paid to purchase equipment
<u>F</u>	(6) Cash received from issuing stock

LO 1-2**M1-8 Reporting Amounts on the Statement of Cash Flows**

Learning which items belong in each category of the statement of cash flows is an important first step in understanding their meaning. Use a letter to mark each item in the following list as a cash flow from Operating, Investing, or Financing activities. **Put parentheses around the letter if it is a cash *outflow* and use no parentheses if it's an *inflow*.**

1. Cash paid to purchase land
2. Cash collected from clients
3. Cash received from selling equipment
4. Cash paid for dividends
5. Cash paid to suppliers
6. Cash received from issuing stock

SOLUTION:

<u>(I)</u>	(1) Cash paid to purchase land
<u>O</u>	(2) Cash collected from clients
<u>I</u>	(3) Cash received from selling equipment
<u>(F)</u>	(4) Cash paid for dividends
<u>(O)</u>	(5) Cash paid to suppliers
<u>F</u>	(6) Cash received from issuing stock

LO 1-2**M1-9 Preparing a Statement of Retained Earnings**

Stone Culture Corporation was organized on January 1, 2014. For its first two years of operations, it reported the following:

Net Income for 2014 \$40,000	Dividends for 2015 \$ 20,000
Net Income for 2015 45,000	Total assets at the end of 2014 125,000
Dividends for 2014 15,000	Total assets at the end of 2015 242,000

On the basis of the data given, prepare a statement of retained earnings for 2014 (its first year of Operations) and 2015.

SOLUTION:

STONE CULTURE CORPORATION
 Statement of Retained Earnings
 For the Year Ended December 31, 2014

Retained Earnings, January 1, 2014	\$ 0
Add: Net Income	40,000
Subtract: Dividends	<u>(15,000)</u>
Retained Earnings, December 31, 2014	<u><u>\$ 25,000</u></u>

STONE CULTURE CORPORATION
 Statement of Retained Earnings
 For the Year Ended December 31, 2015

Retained Earnings, January 1, 2015	\$ 25,000
Add: Net Income	45,000
Subtract: Dividends	<u>(20,000)</u>
Retained Earnings, December 31, 2015	<u><u>\$ 50,000</u></u>

M1-10 Relationships among Financial Statements

Items from the income statement, statement of retained earnings, and balance sheet are listed below in alphabetical order. For the companies shown in each column, solve for the missing amounts.

TIP: Use Exhibit 1.7 to identify relations among the items, then solve for amounts.

	Apple, Inc.	Google, Inc.	Intel Corp.
Common Stock	\$20	\$23	\$19
Dividends	0	0	11
Net Income	(a)	(d)	(g)
Retained Earnings, Beginning of Year	104	38	30
Retained Earnings, End of Year	(b)	(e)	(h)
Total Assets	(c)	(f)	(i)
Total Expenses	122	34	39
Total Liabilities	83	22	33
Total Revenues	171	50	53

SOLUTION:

	Apple, Inc.	Google, Inc.	Intel Corp.
Common Stock	\$20	\$23	\$19
Dividends	0	0	11
Net Income	(a) 49	(d) 16	(g) 14
Retained Earnings, Beginning of Year	104	38	30
Retained Earnings, End of Year	(b) 153	(e) 54	(h) 33
Total Assets	(c) 256	(f) 99	(i) 85
Total Expenses	122	34	39
Total Liabilities	83	22	33
Total Revenues	171	50	53

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M1-11 Relationships among Financial Statements

Items from the income statement, statement of retained earnings, and balance sheet are listed below in alphabetical order. For the companies shown in each column, solve for the missing amounts.

	Amazon' Corp.	Best Tech, Inc.	Colossal Corp.
Common Stock	\$ 5	\$15	\$100
Dividends	10	5	50
Net Income	(a)	(d)	(g)
Retained Earnings, Beginning of Year	30	0	200
Retained Earnings, End of Year	(b)	(e)	(h)
Total Assets	(c)	(f)	(i)
Total Expenses	75	30	200
Total Liabilities	30	30	350
Total Revenues	100	50	300

Statement 2-Accounting Process-Part I

SOLUTION:

	Amazin' Corp.	Best Tech, Inc.	Colossal Corp.
Common Stock	\$5	\$15	\$100
Dividends	10	5	50
Net Income	(a) 25	(d) 20	(g) 100
Retained Earnings, Beginning of Year	30	0	200
Retained Earnings, End of Year	(b) 45	(e) 15	(h) 250
Total Assets	(c) 80	(f) 60	(i) 700
Total Expenses	75	30	200
Total Liabilities	30	30	350
Total Revenues	100	50	300

LO 1-2

M1-12 Relationships among Financial Statements

Items from the 2013 income statement, statement of retained earnings, and balance sheet of **Electronic Arts, Inc.**, are listed below in alphabetical order. Solve for the missing amounts, and explain whether the company was profitable.

TIP: Use Exhibit 1.7 to identify relations among the items, then work backward to solve for amounts.

Note that the beginning Retained Earnings in this mini-exercise is negative.

	Electronic Arts, Inc.
Common Stock	\$2,280
Dividends	0
Net Income (Loss)	(a)
Retained Earnings, Beginning of Year	(80)
Retained Earnings, End of Year	(b)
Total Assets	5,100
Total Expenses	(c)
Total Liabilities	2,800
Total Revenues	3,800

SOLUTION:

(a) 100 (b) 20 (c) 3,700. Electronic Arts was profitable because its revenues (\$3,800) were greater than its expenses (\$3,700), resulting in the net income of \$100 reported on the income statement.

The above amounts are determined using the various relationships that exist in the financial statements. Because this exercise excludes two pieces of information from both the income statement and statement of retained earnings, students must first work backwards from the balance sheet to the statement of retained earnings to the income statement. Although not required, the following statements show the given and missing information. The ?s in the balance sheet are determined from $A = L + SE$.

**Electronic Arts, Inc.
Income Statement
For the Year Ended xxxx**

Revenues	\$3,800
Expenses	<u>(c)</u>
Net Income (Loss)	<u>(a)</u>

**Electronic Arts, Inc.
Statement of Retained Earnings
For the Year Ended xxxx**

RE, beginning	\$(80)
Net income (loss)	(a)
Dividends	<u>(0)</u>
RE, ending	<u>(b)</u>

Electronic Arts, Inc.

Balance Sheet

At xxxx

Total Assets	<u>\$5,100</u>
Liabilities and Shareholders' Equity	
Total Liabilities	<u>\$2,800</u>
Shareholders' Equity	
Common Stock	2,280
Retained earnings	<u>(b)</u>
Total SE	<u>?</u>
Total Liabilities & SE	<u>?</u>

LO 1-2, 1-3

M1-13 Preparing an Income Statement, Statement of Retained Earnings, and Balance Sheet

The following information was reported in the December 31, 2012, financial statements of **Southwest Airlines, Inc.** (listed alphabetically, amounts in millions).

Accounts Payable	\$4,650	Interest Expense	\$130
Accounts Receivable	580	Landing Fees Expense	3,100
Aircraft Fuel Expense	8,700	Notes Payable	6,950
Cash	2,970	Repairs and Maintenance Expense	1,200
Common Stock	1,220	Retained Earnings (as of December 31, 2012)	5,780
Dividends	20	Salaries and Wages Expense	3,280
Equipment	14,370	Supplies	680
Income Tax Expense	260	Ticket Revenues	17,100

Statement 2-Accounting Process-Part I

1. Prepare an income statement for the year ended December 31, 2012.
 2. Prepare a statement of retained earnings for the year ended December 31, 2012.
- TIP:** Assume the balance in Retained Earnings was \$5,370 (million) at January 1, 2012.
3. Prepare a balance sheet at December 31, 2012.
 4. Using the balance sheet, indicate whether the total assets of Southwest Airlines at the end of the year were financed primarily by liabilities or stockholders' equity.

SOLUTION:

Req. 1

SOUTHWEST AIRLINES, INC.
Income Statement
For the Year Ended December 31, 2012
(Amounts in millions)

Revenues	
Ticket Revenues	\$ 17,100
Total Revenue	<u>17,100</u>
Expenses	
Salaries and Wages Expense	3,280
Aircraft Fuel Expense	8,700
Repairs and Maintenance Expense	1,200
Landing Fees Expense	3,100
Interest Expense	130
Income Tax Expense	<u>260</u>
Total Expenses	<u>16,670</u>
Net Income	<u><u>\$ 430</u></u>

Req. 2

SOUTHWEST AIRLINES, INC.
Statement of Retained Earnings
For the Year Ended December 31, 2012
(Amounts in millions)

Retained Earnings, January 1, 2012	\$ 5,370
Add: Net Income	430
Subtract: Dividends	<u>(20)</u>
Retained Earnings, December 31, 2012	<u><u>\$ 5,780</u></u>

Req. 3

SOUTHWEST AIRLINES, INC.
Balance Sheet
At December 31, 2012
(Amounts in millions)

Assets	
Cash	\$ 2,970
Accounts Receivable	580
Supplies	680
Equipment	14,370
Total Assets	<u>\$18,600</u>
Liabilities	
Accounts Payable	\$4,650
Notes Payable	6,950
Total Liabilities	<u>11,600</u>
Stockholders' Equity	
Common Stock	1,220
Retained Earnings	5,780
Total Stockholders' Equity	<u>7,000</u>
Total Liabilities and Stockholders' Equity	<u>\$18,600</u>

Req. 4

Southwest Airlines financed its assets primarily with liabilities (\$11,600) as opposed to stockholders' equity (\$7,000).