B EXERCISES

(LO 1) **E4-1B (Computation of Net Income)** Presented below are changes in all the account balances of Chris Park Furniture Co. during the current year, except for retained earnings.

	Increase (Decrease)		Increase (Decrease)
Cash	$ 252,800	Accounts Payable	$(163,200)
Accounts Receivable (net)	144,000	Bonds Payable	262,400
Inventory	406,400	Common Stock	400,000
Investments	(150,400)	Additional Paid-in Capital	41,600

Instructions

Compute the net income for the current year, assuming that there were no entries in the Retained Earnings account except for net income and a dividend declaration of $60,800 which was paid in the current year.

(LO 1) **E4-2B (Income Statement Items)** Presented below are certain account balances of Patel Products Co.

Rental revenue	$ 5,200	Sales discounts	$ 6,240
Interest expense	10,160	Selling expenses	79,520
Beginning retained earnings	91,520	Sales	312,000
Ending retained earnings	107,200	Income tax	24,800
Dividend revenue	56,800	Cost of goods sold	147,520
Sales returns	9,920	Administrative expenses	66,000

Instructions

From the foregoing, compute the following: **(a)** total net revenue, **(b)** net income, **(c)** dividends declared during the current year.

(LO 2) **E4-3B (Single-step Income Statement)** The financial records of Leon Paul Inc. were destroyed by fire at the end of 2007. Fortunately the controller had kept certain statistical data related to the income statement as presented below.

1. The beginning merchandise inventory was $184,000 and decreased 20% during the current year.
2. Sales discounts amount to $34,000.
3. 20,000 shares of common stock were outstanding for the entire year.
4. Interest expense was $40,000.
5. The income tax rate is 30%.
6. Cost of goods sold amounts to $1,000,000.
7. Administrative expenses are 20% of cost of goods sold but only 8% of gross sales.
8. Four-fifths of the operating expenses relate to sales activities. Operating expenses consist of selling and administrative expenses.

Instructions

From the foregoing information, prepare an income statement for the year 2007 in single-step form.

(LO 2, 3) **E4-4B (Multiple-step and Single-step)** Two accountants for the firm of Pham and Pun are arguing about the merits of presenting an income statement in a multiple-step versus a single-step format. The discussion involves the following 2007 information related to Saghir Company ($000 omitted).

Administrative expense	
Officers' salaries	$ 6,860
Depreciation of office furniture and equipment	5,544
Cost of goods sold	84,798
Rental revenue	24,122
Selling expense	
Transportation-out	3,766
Sales commissions	11,172
Depreciation of sales equipment	9,072
Sales	135,100
Income tax	12,698
Interest expense	2,604

Instructions

(a) Prepare an income statement for the year 2007 using the multiple-step form. Common shares outstanding for 2007 total 40,550 (000 omitted).
(b) Prepare an income statement for the year 2007 using the single-step form.
(c) Which one do you prefer? Discuss.

(LO 3) **E4-5B (Multiple-step and Extraordinary Items)** The following balances were taken from the books of Schimank Corp. on December 31, 2007.

Interest revenue	$ 120,400	Accumulated depreciation—equipment	$ 56,000
Cash	71,400	Accumulated depreciation—building	39,200
Sales	1,932,000	Notes receivable	217,000
Accounts receivable	210,000	Selling expenses	271,600
Prepaid insurance	28,000	Accounts payable	238,000
Sales returns and allowances	210,000	Bonds payable	140,000
Allowance for doubtful accounts	9,800	Administrative and general expenses	135,800
Sales discounts	63,000	Accrued liabilities	44,800
Land	140,000	Interest expense	84,000
Equipment	280,000	Notes payable	140,000
Building	196,000	Loss from earthquake damage (extraordinary item)	210,000
Cost of goods sold	869,400	Common stock	700,000
		Retained earnings	29,400

Assume the total effective tax rate on all items is 34%.

Instructions

Prepare a multiple-step income statement; 100,000 shares of common stock were outstanding during the year.

(LO 2, 3) **E4-6B (Multiple-step and Single-step)** The accountant of Tabel Shoe Co. has compiled the following information from the company's records as a basis for an income statement for the year ended December 31, 2007.

Rental revenue	$ 87,000
Interest on notes payable	54,000
Market appreciation on land above cost	93,000
Wages and salaries—sales	344,400
Materials and supplies—sales	52,800
Income tax	112,200
Wages and salaries—administrative	407,700
Other administrative expenses	155,100
Cost of goods sold	1,488,000
Net sales	2,940,000
Depreciation on plant assets (70% selling, 30% administrative)	195,000
Dividends declared	48,000

There were 20,000 shares of common stock outstanding during the year.

Instructions

(a) Prepare a multiple-step income statement.
(b) Prepare a single-step income statement.
(c) Which format do you prefer? Discuss.

(LO 2, 4, 6) **E4-7B (Income Statement, EPS)** Presented below are selected ledger accounts of Tran Corporation as of December 31, 2007.

Cash	$ 125,000
Administrative expenses	250,000
Selling expenses	200,000
Net sales	1,350,000
Cost of goods sold	525,000
Cash dividends declared (2007)	50,000
Cash dividends paid (2007)	37,500
Discontinued operations (loss before income taxes)	100,000
Depreciation expense, not recorded in 2006	75,000
Retained earnings, December 31, 2006	225,000
Effective tax rate = 30%	

Instructions

(a) Compute net income for 2007.
(b) Prepare a partial income statement beginning with income from continuing operations before income tax, and including appropriate earnings per share information. Assume 10,000 shares of common stock were outstanding during 2007.

(LO 3, 4, 5, 6, 7) **E4-8B (Multiple-step Statement with Retained Earnings)** Presented below is information related to Trieu Corp. for the year 2007.

Net sales	$2,600,000	Write-off of inventory due to obsolescence	$ 160,000
Cost of goods sold	1,560,000	Depreciation expense omitted by accident in 2006	110,000
Selling expenses	130,000	Casualty loss (extraordinary item) before taxes	100,000
Administrative expenses	96,000	Dividends declared	90,000
Dividend revenue	40,000	Retained earnings at December 31, 2006	1,960,000
Interest revenue	14,000	Effective tax rate of 34% on all items	

Instructions

(a) Prepare a multiple-step income statement for 2007. Assume that 60,000 shares of common stock are outstanding.

(b) Prepare a separate retained earnings statement for 2007.

(LO 6) **E4-9B (Earnings Per Share)** The stockholders' equity section of Udokah Corporation appears below as of December 31, 2007.

8% cumulative preferred stock, $10 par value, authorized 100,000 shares, outstanding 90,000 shares		$ 900,000
Common stock, $0.20 par, authorized and issued 10 million shares		2,000,000
Additional paid-in capital		4,100,000
Retained earnings	$26,800,000	
Net income	6,600,000	33,400,000
		$40,400,000

Net income for 2007 reflects a total effective tax rate of 34%. Included in the net income figure is a loss of $3,600,000 (before tax) as a result of a major casualty.

Instructions

Compute earnings per share data as it should appear on the income statement of Udokah Corporation.

(LO 2) **E4-10B (Condensed Income Statement—Periodic Inventory Method)** Presented below are selected ledger accounts of Vu Corporation at December 31, 2007.

Cash	$ 92,500	Travel and entertainment—sales	$ 34,500
Merchandise inventory	267,500	Accounting and legal services	16,500
Sales	2,137,500	Insurance expense—office	12,000
Advances from customers	58,500	Advertising	27,000
Purchases	1,393,000	Transportation-out	46,500
Sales discounts	17,000	Depreciation of office equipment	24,000
Purchase discounts	13,500	Depreciation of sales equipment	18,000
Sales salaries	142,000	Telephone—sales	8,500
Office salaries	173,000	Utilities—office	16,000
Purchase returns	7,500	Miscellaneous office expenses	4,000
Sales returns	39,500	Rental revenue	120,000
Transportation-in	36,000	Extraordinary loss (before tax)	35,000
Accounts receivable	71,250	Interest expense	88,000
Sales commissions	41,500	Common stock ($10 par)	450,000

Vu's effective tax rate on all items is 34%. A physical inventory indicates that the ending inventory is $343,000.

Instructions

Prepare a condensed 2007 income statement for Vu Corporation.

(LO 7) **E4-11B (Retained Earnings Statement)** Jason Woo Corporation began operations on January 1, 2004. During its first 3 years of operations, Woo reported net income and declared dividends as follows.

	Net income	Dividends declared
2004	$160,000	$ –0–
2005	500,000	200,000
2006	640,000	200,000

The following information relates to 2007.

Income before income tax	$960,000
Prior period adjustment: understatement of 2005 depreciation expense (before taxes)	$100,000
Cumulative decrease in income from change in inventory methods (before taxes)	$140,000
Dividends declared (of this amount, $100,000 will be paid on Jan. 15, 2008)	$400,000
Effective tax rate	40%

Instructions

(a) Prepare a 2007 retained earnings statement for Jason Woo Corporation.

(b) Assume Jason Woo Corp. restricted retained earnings in the amount of $280,000 on December 31, 2007. After this action, what would Woo report as total retained earnings in its December 31, 2007, balance sheet?

(LO 4) **E4-12B (Change in Accounting Principle)** Tom Zuluaga Company placed an asset in service on January 2, 2005. Its cost was $1,350,000 with an estimated service life of 6 years. Salvage value was estimated to be $90,000. Using the double-declining-balance method of depreciation, the depreciation for 2005, 2006, and 2007 would be $450,000, $300,000, and $200,000 respectively. During 2007 the company's management decided to change to the straight-line method of depreciation. Assume a 35% tax rate.

Instructions

(a) How much depreciation expense will be reported in the income from continuing operations of the company's income statement for 2007? (*Hint:* Use the new depreciation in the current year.)

(b) What amount will be reported as an adjustment to the beginning balance of retained earnings to reflect the effect of the change in accounting principle?

(LO 3, 8) **E4-13B (Comprehensive Income)** Ari Corporation reported the following for 2007: net sales $6,000,000; cost of goods sold $3,750,000; selling and administrative expenses $1,600,000; and an unrealized holding gain on available-for-sale securities $90,000.

Instructions

Prepare a statement of comprehensive income, using the two-income statement format. Ignore income taxes and earnings per share.

(LO 7, 8) **E4-14B (Comprehensive Income)** Calvo Co. reports the following information for 2007: sales revenue $350,000; cost of goods sold $250,000; operating expenses $40,000; and an unrealized holding loss on available-for-sale securities for 2007 of $30,000. It declared and paid a cash dividend of $5,000 in 2007.

Calvo Co. has January 1, 2007, balances in common stock $175,000; accumulated other comprehensive income $40,000; and retained earnings $45,000. It issued no stock during 2007.

Instructions

Prepare a statement of stockholders' equity.

(LO 2, 4, 5, 6, 7, 8) **E4-15B (Various Reporting Formats)** The following information was taken from the records of Cantu Inc. for the year 2007. Income tax applicable to income from continuing operations $261,800; income tax applicable to loss on discontinued operations $35,700; income tax applicable to extraordinary gain $45,220; income tax applicable to extraordinary loss $28,560; and unrealized holding gain on available-for-sale securities $21,000.

Extraordinary gain	$133,000	Cash dividends declared	$ 210,000
Loss on discontinued operations	105,000	Retained earnings January 1, 2006	840,000
Administrative expenses	336,000	Cost of goods sold	1,190,000
Rent revenue	56,000	Selling expenses	420,000
Extraordinary loss	84,000	Sales	2,660,000

Shares outstanding during 2007 were 100,000.

Instructions

(a) Prepare a single-step income statement for 2007.

(b) Prepare a retained earnings statement for 2007.

(c) Show how comprehensive income is reported using the second income statement format.

(LO 7) **E4-16B (Computation of Net Income)** Presented below are ending balances in all the account balances of Jones Appliance Center during the current year, except for retained earnings. (All accounts have normal balances.)

Cash	$ 5,000
Accounts Receivable (net)	15,000
Inventory	22,000
Accounts Payable	5,000
Short-term Notes Payable	8,000
Equipment (net)	35,000
Building (net)	25,000
Bonds Payable	40,000
Common Stock	15,000
Additional Paid-in Capital	20,000

Instructions

Compute the net income for the current year. Beginning Retained Earnings was $10,000. There were no entries in the Retained Earnings account except for net income and a dividend declaration of $3,000 which was paid in the current year.

(LO 3) **E4-17B (Multiple-step Income Statement)** The following 2007 information related to McAndrews Company's income statement is provided.

Advertising expense	$ 1,000
Administrative salaries	6,000
Depreciation—building	5,000
Sales returns	500
Cost of goods sold	70,500
Gain on disposal of equipment	4,000
Rental revenue	19,000
Transportation-out	2,000
Sales salaries	9,000
Depreciation—sales equipment	7,000
Sales	105,500
Income tax	12,000
Interest expense	2,000

Common shares outstanding are 50,000.

Instructions

Prepare an income statement the multiple-step form.

(LO 2) **E4-18B (Single-step Income Statement)** Using the same information that is in E4-17B, prepare a single-step income statement.

(LO 4) **E4-19B (Change in Accounting Principle)** Johnson Corporation decided to change depreciation methods in December 2007. Data related to this change are presented below.

	Old Method	New Method
Depreciation in 2007	$ 20,000	$ 35,000
Accumulated depreciation as of 1/1/07	110,000	160,000

Assume a 40% tax rate.

Instructions

What amount will be reported as a change to the beginning balance of Retained Earnings as a result of the effect of the change in accounting principle for 2007? (Identify whether it is a debit or a credit.)

(LO 4) **E4-20B (Irregular Items)** Joseph Corporation reported income from continuing operations before taxes during 2007 of $120,000. Additional items occurring in 2007 but not considered in the $120,000 are as follows.

1. The corporation experienced an uninsured flood loss (extraordinary) in the amount of $30,000 during the year.
2. Joseph found that advertising expense was understated in 2004 by $10,000.
3. Sale of equipment resulted in a pre-tax loss of $7,000.
4. The corporation disposed of its recreational division. Losses from the operation from this division totaled $20,000, and the loss on the disposal of this division was $12,000. Assume that this transaction meets the criteria for discontinued operations.
5. The corporation changed depreciation methods, which resulted in an increase in accumulated depreciation in prior periods of $8,000.

Instructions

Prepare an income statement for the year 2007 starting with income from continuing operations before taxes. Assume a tax rate of 30%. Omit earnings per share data.