

Basic Financial Statements

Theoretical Questions

1. *What do you mean by financial statements? Write the main components of financial statements.*
 - ✗ The financial statements are the medium by which a company discloses information concerning its financial performance. Balance sheet, income statement, statement of retained earnings, and cash flows statement are four common financial reports, which are prepared on the basis of Generally Accepted Accounting Principle (GAAP). Financial statements contain the basic financial information about revenues, expenses, assets, liabilities, equity and cash flows during a specific period. They are prepared at the end of fiscal year but they can be prepared periodically if needed. If they are prepared periodically, they are called interim financial statements. Financial statements are a central feature of accounting because they are the principal means of communicating accounting information to the users. Financial Statements include the following:
 - Income statement
 - Statement of retained earnings
 - Balance sheet
 - Statement of cash flows.
2. *What is income statement?*
 - ✗ Income statement, known as Statement of Profit or Loss also, reports the revenues expenses for a period of time, based on the matching concept. This concept is applied by matching the expenses incurred during a period with the revenue that those expenses generated. The excess of the revenue over the expenses is called net income or net profit or earnings and the excess of the expenses over the revenue is termed as net loss. By measuring the net income earned or net loss suffered by a business, the income statement reports the success or failure of the company's operations for a period of time.
3. *What is statement of retained earning?*
 - ✗ The statement of retained earnings reports the changes in the retained earnings for a period of time. It is prepared after income statement because net income or net loss for the period must be reported in this statement. Similarly, it is prepared before balance sheet since the amount of retained earnings at the end of the period must be reported on the balance sheet. Therefore, statement of retained earnings is viewed as the connecting link between income statement and balance sheet. The basic format of statement of retained earnings is as follows:

... Company
Statement of Retained Earnings
 for the period ended...

Details	Amount (Rs.)
Opening balance of retained earnings	xxx
Add: Net profit after tax (NPAT)	xxx
Income available	xxx
Less: Dividend	xxx
Closing balance of retained earnings	xxx

4. *What do you mean by balance sheet?*

Balance sheet is a statement which shows company's assets, liabilities and shareholders' equity at a particular point of time. On one side of the balance sheet, firms list their assets and on the other side, they list their liabilities and shareholders' equity. Sometimes, balance sheets show assets at the top, and liabilities with shareholders' equity at the bottom.

Balance sheet provides useful information about different types of fixed assets and their sources of financing. It also highlights assets that are expected to be realized within the current operating cycle and liabilities that are due for settlement within the same period. The balance sheet is prepared at the end of accounting period and after completing the trading account, profit and loss account, and profit and loss appropriation account or income statement. Assets, liabilities and shareholders' equity are the three major components of the balance sheet.

5. *Write the meaning of statement of cash flows.*

Cash flow statement report a company's inflows and outflows of cash during the accounting period. It is useful in providing the users the basis to access the ability to generate cash and the area of its applications. This is important because a company needs to have enough cash on hand to pay its expenses and purchase assets. The main purpose of cash flow statement is to know the changes in cash position of a firm between two balance sheet dates. Thus, it shows the sources of cash inflows and cash outflows of a firm for a particular time period. Cash flow statement classifies cash flows during the period from operating, investing and financing activities.

6. *Explain the interrelationship among financial statements.*

Financial statements are prepared in the order of the income statement, retained earnings statement, balance sheet and statement of cash flows. This order is important because the financial statements are inter-related. As the results of some financial statements become the inputs to other statements, the statements are inter-related. The inter-relationships among financial statements are described below:

Financial Statements	Interrelationship
Income statement & Retained earnings statement	The retained earnings statement depends on the results of the income statement. Net income on the income statement is reported on the retained earnings statement as addition to beginning retained earnings. Net loss on the income statement is

	reported on the retained earnings statement as deduction from the beginning retained earnings.
Retained earnings statement and balance sheet	Retained earnings at the end of the period reported on the retained earnings statement is also reported on the balance sheet as retained earnings.
Balance sheet and statement of cash flows:	The statement of cash flows relates to information on the balance sheet. The cash reported on the balance sheet is also reported as ending cash balance on the statement of cash flows.

7. *What do you mean by changes in owner's equity?*

- There are so many transactions that effects the profit earned by the company i.e. transfer to general and other reserves, payment of dividend. Similarly, if there are changes in accounting policy that also make effect on retained earnings. Such type of policies should be adopted generally for depreciation policy and inventory valuation policy due to which certain changes has been made to shareholder's equity. These are to be shown through this table:

Details	Share Capital	Share Premium	Revaluation Reserves	Retained Earnings	Other Reserves	Total
Opening Balance	-	-	-	-	-	-
Changes in Accounting Policy	-	-	-	-	-	-
Restated Balance	-	-	-	-	-	-
Profit / (Loss) for the Year	-	-	-	-	-	-
Transferred to General Reserves	-	-	-	-	-	-
Dividend to shareholders	-	-	-	-	-	-
Shares Issued	-	-	-	-	-	-
Prior Period Taxes	-	-	-	-	-	-
Closing Balance	-	-	-	-	-	-

8. *Explain the role of Financial Statements.*

- Financial statements provide information for analyzing and understanding about the financial position. Performance and changes in financial position of an entity is useful to a wide range of making economic decisions. The major roles of financial statements are as follows:
- Financial statements report the firm's historical financial position and development.
 - Financial statements provide the result of the accountability of management.
 - Financial statement provides the clear picture of the firm's financial position for the interested group like shareholders, manager, creditors and other stakeholders.
 - Financial statement provides the information for comparative study of financial performance of two or more firms with different sizes.
 - Efficient analysis of financial statement will enable to identify the present financial situations and future possibilities of the firm.
 - It provides a framework for the future financial planning and control.
 - It provides information for decision making.

- viii. It provides financial information about economic resources and obligation of the firm.
- ix. It helps to find the strength, weakness, opportunity and threats in any firm

9. **Describe the objectives of Financial Statements.**

Following are the objectives of financial statements:

- i. **To determine the operating result:** One of the most important objectives of financial statement is to determine the actual operating result either in terms of net profit or net loss. For this purpose, the Income statement is prepared by a business organization at the end of each accounting period by considering the different revenues incomes and expenditures.
- ii. **To disclose the true and fair financial position:** Next important objective of financial statement is to disclose the true and fair picture of financial position at the end of accounting period. Financial position in general, refers to the actual value of different assets available in the business, its total capital and liabilities at the end of given period. To show all these things in a proper manner, the Balance Sheet is prepared according to the provisions contained in the company Act.
- iii. **To provide adequate information about the changes in cash position:** Cash position of a corporate business changes from time to time because of the various reasons. While performing various financial transactions, sometimes there may be inflow and outflow of cash. There may be an inflow of cash at the time of selling goods and other fixed assets, collection debtors/ receivables, issuing shares and debentures, borrowing loans and so on. Likewise, there would be an outflow of cash at the time of purchase of goods and other fixed assets, repayment of loans, payments of tax and dividend etc. By preparing cash flow statement, the inflow and outflow of cash and ultimately the changes in cash position of a business can be represented very clearly. This is very important to have an idea about the solvency as well as the liquidity of a business organization.
- iv. **To Provide necessary financial information:** Existing and potential investors, loan providers, suppliers, trade union, management itself, government authorities etc are the various interested parties who use to use the different financial statements in various ways. As for example: investors use the financial statements to know whether their investments is being utilized in a proper manner is or not. So, they want to look at the profitability as well as the dividend policy of the company. Similarly, the loan providers use the financial statements to judge the solvency and existing capital structure of the company. In this way, to provide the required information to the different interested parties as their requirements is another important objective of the financial statements.
- v. **To be helpful in inter- firm comparison:** Different financial statements use to become helpful themselves in the inter-firm comparison processes. It means that if the operational performances of any two firms are to be compared, then at that time, the financial statements prepared by those firms are compared each other by considering certain standards. Form this, different strong aspects and weaknesses of the firm can be identified very easily.

Practical Questions

Brief Questions

1. A company supplied you the following information:

Net Sales Revenue (80% on cash)	Rs 150,000
Cost of goods sold (60% on cash)	Rs 120,000
Operating expenses paid	Rs 15,000
Salaries paid	Rs 8,000
Salaries outstanding	Rs 2,000
Depreciation	Rs 10,000

Required: Net income preparing income statement under cash basis.

Solution:

..... company
Income statement under cash basis.
For the period of

Details	Amount	Amount
Net Sales revenue		120,000
Less: cost of goods sold		72,000
Gross profit		48,000
Less: Operating and other expenses		
Operating expenses	15,000	
Salaries	8,000	
		23,000
Net income		25,000

2. A company supplied you the following information:

Net Sales revenue (80% on cash)	Rs 200,000
Cost of goods sold (60% on cash)	Rs 150,000
Operating expenses excluding salaries and depreciation paid	Rs 15,000
Salaries paid	Rs 10,000
Salaries outstanding	Rs 5,000
Depreciation	Rs 5,000

Required: Net income preparing income statement under accrual basis.

Solution:

..... company
Income statement under accrual basis.
For the period....

Details	Amount	Amount
Net Sales revenue		200,000
Less :cost of goods sold		150,000
Gross profit		50,000
Less: Operating and other expenses		
Operating expenses	15,000	
Salaries(10,000 + 5,000)	15,000	
Depreciation	5,000	
		35,000
Net income		15,000

3. A company has beginning balance and ending balance of material was Rs 20,000 and Rs 10,000 respectively. it purchased the raw materials during the year was Rs 70,000 and paid Rs 6,000 for carriage inward and Rs 4,000 for custom duty . Find cost of goods sold .

Solution:

..... company
cost of goods sold
For the period of

Details	Amount	Amount
Beginning materials		20,000
Add: Purchase of materials	70,000	
Carriage inward	6,000	
Custom duty	4,000	
Net cost of materials for sale		100,000
Less: Ending materials		10,000
Cost of goods sold		90,000

4. A company has Rs 700,000 sales and 70% of the sales was cost of goods sold . its operating and other expenses were Rs 110,000 and it pays tax 30%. Find net income after tax preparing income statement.

Solution:

..... company
Income statement
For the period of

Details	Amount
Net Sales revenue	700,000
Less: cost of goods sold (70%)	490,000
Gross profit	210,000
Less: Operating and other expenses	110,000
Net income before tax	100,000
Less: Tax expenses @ 30%	30,000
Net income after tax	70,000

5. From the following information prepare a statement of retained earnings:

Beginning of retained earning	Rs 5,000	Dividend paid	Rs 4,000
Transfer to general reserve	Rs 2,000	Net income after tax	Rs 7,500

Solution:

... Company
Statement of retained earnings
For the period of

Details	Amount
Beginning balance of retained earning	5,000
Add: Net income after tax	7,500
Net income available for distribution	12,500
Less: Dividend paid	4,000
Transfer to general service	2,000
Ending balance of retained earning	6,500

6. A company earned Rs 100,000 profit for a year and distributed dividend of Rs 20,000 during the year. At the end of the year, ending balance of retained earning was Rs 150,000. Find the opening balance of retained earnings.

Solution:

..... company
statement of retained earning
For the period of

Details	Amount
Beginning balance of R/E (Balance figure)	70,000
Less : net income for the year	100,000
Net income available for distribution	170,000
add Dividend for the year	20,000
Ending balance of retained earning	150,000

7. London Corporation was organized on January 2 2009, with the investment of Rs 100,000 by each of its **two stock holders**. Net income for its first year of business was **Rs 85,200**. Company earned net income Rs 125,320 during 2010 and Rs 145,480 in 2011. London paid Rs **20,000 in** dividends to **each** of the two stock holders in each of the three year end Dec, 31 2011.

Required : Prepare statement of retained earing for the year.

Solution

London Corporation
Statement of retained earning
For the period of

Details	2009	2010	2011
Opening balance of retained earning	-	45,200	130,520
Add: net income	85,200	125,320	145,480
Net income available	85,200	170,520	276,000
Less: Dividend	40,000	40,000	40,000
Ending balance of retained earning	45,200	130,520	236,000

8. *If the company maintains 40% gross profit on its sales and it has Rs 48,000 gross profit this year then find the amounts of sales.*

Solution: Gross margin = $\frac{\text{Gross profit}}{\text{Net sales revenue}}$

$$0.40 = \frac{\text{Rs } 48,000}{\text{Net sales revenue}}$$

$$\text{Net sales revenue} = \frac{\text{Rs } 48,000}{0.40} = \text{Rs } 120,000$$

9. *The Walt Disney Company reported the following amounts in various statements included in its 2004 annual report (all amounts are stated in millions of dollars):*

Net income for 2004	Rs. 2,345
Dividends declared and paid in 2004	430
Retained earnings, December 31, 2003	13,817
Retained earnings, December 31, 2004	15,732

Required:

Prepare a statement of retained earnings for The Walt Disney Company for the year ended December 31, 2004.

Solution:

Walt Disney Company
Statement of Retained Earning
For the year of

Details	Amount (Rs.)
Beginning balance of retained earnings	13,817

Add: Net income after tax	2,345
Net income available	16,162
Less: Dividend	430
Ending balance of retained earnings	15,732

Short answer Questions

1. The following income statement items, arranged in alphabetical order, are taken from the recorded of Shaw Corporation for the year ended December 31, 2007:

Advertising expenses	Rs. 1,500
Commission expenses	2,415
Depreciation expense – office building	2,900
Income tax expense	1,540
Insurance expenses- salesperson's auto	2,250
Interest expense	1,400
Interest revenue	1,340
Operating revenues	19,100
Rent revenue	6,700
Salaries and wages expense-office	12,560
Supplies expense-office	890

Required:

- Prepare a single-step income statement for the year ended December 31, 2007.
- What weaknesses do you see in this form for the income statement

Solution:

- Shaw corporation
Income statement (Single step)
For the year ended of...

Details	Amount (Rs.)	Amount (Rs.)
Operating Revenues	19,100	
Add: Rent revenue	6,700	
Interest revenue	1340	27,140
Less: Operating expenses		
Advertising expenses	1,500	
Commission expenses	2,415	
Depreciation expenses	2,900	
Income tax expenses	1,540	
Insurance expenses	2,250	
Interest expenses	1,400	
Salaries & wages expenses	12,560	
Supplies expenses	890	25,455
Operating Income		1,685
Add: Other income		0
Net income before tax		1685
Less: Tax expenses		0
Net income after tax		1685

ii. The weaknesses that I have seen in this single step income statement is that it doesn't provide detailed information about selling and distribution expenses, office and administration expenses and so on. In other words single step income statement shows all the revenues and expenses together without classifying into the different steps so the main weakness of this type of income statement is its inability explain different types expenses and revenue in detail.

The following items in figures of thousands relate to the current year's operations of Zonal Company:

Cost of goods sold	89000	Interest expense	2000
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Income taxes	8000	General expenses	5000
Sales revenue	250000	Sales returns	6000
Showroom expenses	12000	Administrative expenses	15000
Telephone expenses	3000	Salespersons salaries	9000
Office lighting expenses	8000	Profit on sales of furniture	12000
Advertisement expenses	5000	Interest revenue	8000
Depreciation expenses	4000		

Required:

Prepare multi-step income statement for the year.

Solution:

Zonal Company
Multi Step Income Statement
For the period ended.....

Particulars	Amount (Rs.)	Amount (Rs.)
Net Sales Revenue (250,000-6,000)		244,000
Less: Cost of goods sold		89,000
Operating profit		155,000
Less: Operating expenses		
General and admin expenses		
Telephone expenses	3,000	
Office lighting expenses	8,000	
Depreciation expenses	4,000	
General expenses	5,000	
Administrative expenses	15,000	
Selling and distribution expenses		
Showroom expenses	12,000	
Advertising expenses	5,000	
Sales person salaries	9,000	61,000
Operating profit		94,000
Add: Other income and gains		
Profit on sales of furniture	12,000	
Interest revenue	8,000	20,000
Less: Other expenses and loss		
Interest expenses		2,000
Net Profit before tax		112,000
Less: Income taxes expenses		8,000
Net income After tax		104,000

2. *The following income statement items, arranged in alphabetical order, are taken from the recorded of Shaw Corporation for the year ended December 31, 2007:*

Advertising expenses	Rs. 1,500
Commissions expenses	2,415
Depreciation expense – office building	2,900
Income tax expense	1,540
Insurance expenses- salesperson's auto	2,250
Interest expense	1,400
Interest revenue	1,340
Operating revenues	19,100
Rent revenue	6,700
Salaries and wages expense-office	12,560
Supplies expense-office	890

Required:

- i. Prepare a multiple-step income statement for the year ended December 31, 2007.

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ii. What advantage do you see in this form for the income statement?

Solution:

Shaw company
Income Statement
For the year ended of.....

Details	Amount (Rs.)	Amount (Rs.)
Operating revenues	19,100	
Add: Rent revenue	6,700	25,800
Less: Operating expenses:		
Selling & distribution expenses		
Advertising expenses	1500	
Commission expenses	2,415	
Insurance expenses	2,250	
Office & administration:		
Depreciation expenses office building	2,900	
Salaries & wages office	12,560	
Supplies expenses office	890	22,515
Income from operations		3,285
Add: Other income		
Interest revenue		1340
		4625
Less: Other expenses		
Interest expenses		1,400
Net income before tax		3,225
Less: Tax expenses		1,540
Net income after tax		1,685

ii. The advantage that I have seen in multi- step income statement is that it provides detail information about both operating expenses (selling and distribution expenses office and administrative expenses) and so on.

4. The following income statements were provided by Gleeson Company:

Income Statement	2006 (Rs.)	Income Statement	2007 (Rs.)
Operating revenues	11,80,000	Operating revenues	10,50,000
Selling expenses	7,02,000	Sales salaries	3,98,000
Administrative expenses	95,000	Advertising	1,75,000
Total selling and administrative expense	7,97,000	Office supplies	54,000
		Depreciation-building	40,000
		Delivery expense	20,000
		Total expenses	6,87,000
Net Income	3,83,000	Net income	3,63,000

Required:

- i. Identify each income statement as either single-step or multiple-step format.
- ii. Convert the 2006 income statement to the same format as the 2007 income statement.

Solution:

- i. Income statement of 2007 is multi step and income statement of 2006 is single statement.
- ii. converting 2006 income state i.e. single state into payment of 2007 income state i.e. multi statement.

Gleeson Company
Income statement (multi-step)
In the period of 2007

Detail	Amount (Rs.)	Amount (Rs.)
Operating revenues		1,050,000
Less: Operating expenses:		
Selling & distribution expenses:		
Sales salaries	398,000	
Advertising	175,000	
Delivery expenses		
Office & administrative expenses		
Office supply expenses	54,000	
Depreciation on building	40,000	687,000
Income from operation		363,000
Add other income		0
Less Other expenses		363,000
Less other expenses		0
Net income before tax		363,000
Less tax expenses		0
Net income after tax		363,000

3. The following income statement items, arranged in alphabetical order, are taken from the records of Corbin Enterprises for the year ended December 31, 2007:

Advertising expenses	Rs. 9,000
Depreciation expenses – computer	4,500
Dividend revenue	2,700
Income tax expenses	30,700
Interest expenses	1,900
Operating revenues	2,00,000
Rent expenses – office	26,400
Rent expense-salesperson's car	18,000
Supplies expense – office	1,300
Utilities expense	6,750
Wages expense-office	45,600

Assume that Corbin Enterprises classifies all operating expenses into two categories: (1) selling and (2) general and administrative.

Required:

Prepare a multiple-step income statement for the year ended December 31, 2007.

Solution:

Corbin Enterprises
Income statement (Multi-step)
For the year ended of.....

Detail	Amount (Rs.)	Amount (Rs.)
Operating revenues		200,000
Less: Operating expenses:		
Selling & distribution expenses		
Advertising expense	9,000	
Rent expenses – sales person's car	18,000	
Office & administrative expenses		
Depreciation expenses computer	4,500	
Rent expenses	26,400	
Supplies expenses	1,300	
Utilities expenses	6,750	
Wages expenses	45,600	111,550
Income from operations		88,450
Add: other income		

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Dividend revenue		2700
Less: Other expenses		
Interest expenses		1,900
Net income before tax		89,250
Less: Tax expenses		30,700
Net income after tax		58,550

4. The following items are available from records of Freescia Corporation at the end of the 2007 calendar year:

Accounts payable	12,550	Notes payable	Rs. 50,000
Accounts receivable	23,920	Office equipment	12,000
Advertising expenses	2,100	Retained earnings, end of year	37,590
Buildings	85,000	Salary and wages expenses	8,230
Capital stock	25,000	Sales revenue	14,220
Cash	4,220		

Required: Prepare a balance sheet.

Solution:

Freescia Corporation
Balance Sheet
As on, 2007

Details	Amounts (Rs.)	Amount (Rs.)
Current Assets:		
Account receivable	23,920	
Cash	4220	28140
Long term investment:	Nil	Nil
Property, plant & equipment:		
Building	85,000	
Office equipment	12,000	97,000
Total assets		125,140
Current liabilities:		
Account payable		
Notes payable	12,550	
Long term liabilities	50,000	62,550
Owner's equity		Nil
Capital stock	25,000	
Retained Earnings	37,590	62,590
Total liabilities and owners equity		125,140

5. Dave is the president of Avon Consulting Inc. Avon beginning business on January 1, 2007. The Company's controller is out of the country on business. Dave needs a copy of the company's balance sheet for a meeting tomorrow and asked his assistant to obtain the required information from the company's records. She presented Dave with the following balance sheet. He asks you to review it for accuracy.

Avon Consulting Inc.
Balance Sheet
For the year ended December 31, 2007

Assets	Amount	Liabilities and Stockholders' Equity	
Accounts payable	Rs. 13,000	Accounts receivable	Rs. 16,000
Cash	21,000	Capital stock	20,000
Cash dividends paid	16,000	Net income for 2007	72,000
Furniture and equipment	43,000	Supplies	9,000

Required: Prepare a corrected balance sheet.

Solution:

Avon Consulting Inc.
Balance Sheet as on December 31,2007

Details	Amounts (Rs.)	Amount (Rs.)
Current Assets		
Account Receivable	16,000	
Supplies	9,000	
Cash	21,000	46,000
Long term investment		Nil
Property plant & equipment		
Furniture & equipment		43,000
Total assets		89,000
Current liabilities		
Account payable	13,000	13,000
Long-term debts		Nil
Owners Equities:		
Capital stock	20,000	
Retained earning(72,000-16,000)	56,000	76,000
Total liabilities and owners equity		89,000

6. The following balance sheet items, listed in alphabetical order are available from the records of Signer Company at December 31, 1998.

Account payable	Rs.34,280		Rs.
Account receivable	26,700	Patent	45,000
Acc. Dep.-building	40,000	Buildings	150,000
Acc. Dep.-equipment	12,500	Cash	60,790
Bonds Payable, due December 31,2004	250,000	Equipment	84,500
Capital stock, Rs 1 par value	200,000	Income Taxes Payable	7,500
Land	250,000	Interest Payable	2,200
Merchandise inventory	112,900	Marketable Securities	15,000
Office supplies	400	Notes Payable, due April 15, 1999	6,500
Prepaid rent	3,600	Paid in capital in excess of par value	75,000
Salaries payable	7,400	Retained earnings	113,510

You are required to prepare a classified balance sheet as of December 31, 1998

Solution:

Singer Company
Classified Balance Sheet
As at December 31, 1998

Assets	Amount (Rs.)	Amount (Rs.)
Current assets		
Account Receivable	26,700	
Merchandise Inventory	112,900	
Office Supplies	400	
Prepaid Rent	3,600	
Cash	60,790	
Marketable Securities	15,000	219,390
Property, Plant and Equipment		
Land	250,000	
Buildings	150,000	

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Less: Accumulated Depreciation	40,000	110,000	
Equipment	84,500		
Less: Accumulated Depreciation	12,500	72,000	432,000
Intangible Asset			
Patent		45,000	
Total Assets			696,390
Current Liabilities:			
Account Payable		34,280	
Salaries Payable		7,400	
Income Tax Payable		7,500	
Interest Payable		2,200	
Notes Payable, due April 15, 1999		6,500	57,880
Long Term Liabilities			
Bonds Payable, due December 31, 2004			250,000
Contributed Capital:			
Capital Stock, Rs. 1 par value		200,000	
Paid in Capital excess of par value		75,000	
Total Contributed Capital		275,000	
Retained earnings		113,510	
Total Stockholders' equity			388,510
Total liabilities and stockholders' equity			696,390

7. The following balance sheet items are available for the records of Dixon Sporting Goods Inc. at December 31, 2002.

Accounts Payable	Rs. 15,700	Accounts receivable	Rs. 23,000
Acc. Dep.: Store Furniture and Fixture	12,600	Cash	5,000
Acc. Dep.: Building	60,000	Marketable securities	11,000
Buildings	150,000	Bank loan payable(currently)	25,000
Capital Stock	50,000	Merchandise Inventory	73,500
Franchise agreement	55,000	Land held for future office site	150,000
Store supplies	700	Prepaid insurance	4,800
Income tax payable	7,200	Salaries & wages payable	9,500
Store furniture & fixtures	42,000	Land	100,000
Paid in capital in excess of par value	25,000	Interest payable	2,500
Notes payable, due December 31, 2010	Rs. 120,000	Retained earnings	287,500

Prepare in good form (vertical format) a classified balance sheet as of December 31, 2002.

Solution:

Dixon Sporting Goods Inc.
Balance sheet as on December 31, 2002

Assets	Amount(Rs.)	Amount(Rs.)
Current assets		
Account Receivable	23,000	
Merchandise Inventory	73,500	
Store Supplies	700	
Prepaid Insurance	4,800	
Cash	5,000	
Marketable Securities	11,000	118,000
Property, Plant and Equipment		
Land	100,000	
Land held for future office site	150,000	

Buildings	150,000		
Less: Accumulated Depreciation	60,000	90,000	
Store Furniture and Fixture	42,000		
Less: Accumulated Depreciation	12,600	29,400	369,400
Intangible Asset			
Franchise agreement		55,000	
Total Intangible Asset			55,000
Total Assets			542,400
Current Liabilities:			
Account Payable		15,700	
Salaries and Wages Payable		9,500	
Income Tax Payable		7,200	
Interest Payable		2,500	
Bank Loan Payable (Currently)		25,000	59,900
Long Term Liabilities			
Notes payable, due December 31 2010		120,000	120,000
Contributed Capital:			
Capital Stock, Rs. 10 par, 5000 shares		50,000	
Paid in Capital excess of par value		25,000	
Total Contributed Capital		75,000	
Retained earnings		287,500	
Total Stockholders' capital			362,500
Total liabilities and stockholders' equity			542,400

8. Shown below, in alphabetical order, is a list of the various items that regularly appear on the financial statements of Maple Park Theatres Corp. The amounts shown for balance sheet items are balances as of September 30, 2007 (with the exception of retained Earnings, which is the balance on September 1, 2007), and the amounts shown for income statement items are balance for the month ended September 30, 2007:

Accounts payable	Rs. 17,600	Furniture and fixtures	Rs. 34,000
Accounts receivable	6,410	Land	26,000
Advertising expense	14,500	Notes payable	20,000
Buildings	60,000	Projection equipment	25,000
Capital stock	50,000	Rent expense –movies	50,600
Cash	15,230	Retained earnings	73,780
Concessions revenue	60,300	Salaries and wages expense	46,490
Cost of concessions sold	23,450	Ticket sales	95,100
Dividends paid during the month	8,400	Water, gas, and electricity	6,700

Required:

- Prepare an income statement for the month ended September 30, 2007.
- Prepare a statement of retained earnings for the month ended September 30, 2007.
- Prepare a balance sheet at September 30, 2007.

Solution:

- Maple Park Theatres Corporation

Income Statement

For the month ended September 30, 2007

Details	Amounts (Rs.)	Amount (Rs.)
Concessions revenue	60,300	
Ticket sales	95,100	155,400
Less: Operating expense:		
Advertising expenses	14,500	

cost of concessions sold	23,450	
Rent expenses-movies	50,600	
Salaries and wages expenses	46,490	
Water, gas and electricity	6,700	141,740
Income from operation		13,660
Add: Other expenses		-
		13,660
Less: Other expenses		-
Net income before tax		13,660
Less: Tax expenses		-
Net income after tax		13,660

ii. Statement of Retained Earning

Details	Amounts (Rs.)	Amount (Rs.)
Beginning retained earning		73,780
Add : Net income after tax		13,660
Income available		87,440
Less: Dividends paid		8,400
Ending balance (Retained Earnings)		79,040

iii. Balance sheet

Maple Park Theatres Corporation
Balance sheet As on 30 September 2007

Details	Amounts (Rs.)	Amount (Rs.)
Current Assets:		
Accounts receivable	6410	
Cash	15,230	21,640
Property , plant and equipment		
Projection equipment	25,000	
Buildings	60,000	
Furniture and furniture	34,000	
Land	26,000	145,000
Total assets		1,66,640
current liabilities:		
Accounts payable	17,600	
Notes payable	20,000	37,600
Long term investments		
Owner's equity		
Capital stock	50,000	
Retained Earnings	79,040	1,29,040
Total liability and owners equity		1,66,640

9. *Green Bay Corporation began business in July,31, 2007 as a commercial fishing operation and passenger service between islands. Shares of stock were issued to the owners in exchange for cash. Boats were purchased by making a down payment in cash and signing a note payable for the balance. Fish are sold to local restaurants on open account, and customers are given 15 days to pay their account. Cash fares are collected for all passenger traffic. Rent for the dock a facility is paid at the beginning of each month. Salaries and wages are paid at the end of the month. The following amounts are from the records of Green Bay Corporation at the end of its first month of operations:*

Accounts receivable	18,500	Notes payable	Rs. 60,000
Boats	80,000	Passenger service revenue	12,560
Capital stock	40,000	Rent expense	4,000
Cash	7,730	Retained earnings	???
Dividends	5,400	Salary and wage expense	18,230

Fishing revenue	21,300	
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Required:

- Prepare an income statement for the month ended July 31, 2007.
- Prepare a balance sheet at July 31, 2007.

Solution:

- Green Bay Corporation
Income Statement [Multi-step]
For the month ending July 31, 2007

Details	Amounts (Rs.)	Amount (Rs.)
Fishing Revenue	21,300	
Add: Passage service revenue	12,560	33,860
Less: Operating expenses:		
Office and administrative expenses		
Rent expenses	4,000	
Salary and wage expenses	18,230	22,230
Net income before tax		11,630
Less: Tax expense		-
Net income after tax		11,630

- Green Bay Corporation
Statement of Retained Earnings
For the year ending July 31, 2007

Details	Amount (Rs.)	Amount (Rs.)
Opening balance	-	-
Add: Net income after tax		11,630
Income available		11,630
Less: Dividends		5,400
Closing balance (Retained earnings)		6,230

- Green Bay Corporation
Classified Balance sheet
As on December 31, 2007

Details	Amounts (Rs.)	Amount (Rs.)
Current Assets:		
Accounts Receivable	18,500	
Cash	7,730	26,230
Long-term investment		
Property, plant and equipments:		
Boats	80,000	80,000
Total Assets		106,230
Current liabilities:		
Notes payable	60,000	60,000
Long term liabilities		
Owner's equities		
Capital stock	40,000	
Retained Earnings	6,230	46,230
Total liabilities and owners equity		106,230

Long Question Answer

- The Trial Balance of World Trade House Ltd is as follows:
World Trade House Ltd.

Trial Balance
31, December 2003

Name of the accounts	Debit	Credit
Cash and cash equivalents	Rs. 5,000	
Receivables	2,000	
Inventories	3,000	
Prepaid Expenses	1,500	
Property, Plant and equipment at cost	30,000	
Acc. Dep. Property, Plant and Equipment		Rs. 3,000
Brands, Trademarks and good will, net	20,000	
Other assets	5,000	
Notes payable		4,000
Account payable		5,000
Accrued payroll		3,000
Advances on sales (deferred revenues)		6,000
Other current liabilities		5,000
Long term debt		10,500
Other non-current liabilities		9,500
Preferred stock		5,000
Commons stock 100 par value		10,000
Retained earnings (Dec. 31, 2002)		6,000
Additional Paid-in-capital		1,000
Net sales		20,000
Cost of goods sold	15,000	
Selling and administrative expenses	1,500	
Interest expenses	1,000	
Gain on Sales of Machine		1,000
Income taxes	1,000	
Cash dividends	4,000	
Total	Rs. 89,000	Rs. 89,000

Required:

- i. Prepare World Trade House LTD's Income Statement for the year ended 31, December 2003, using a multiples step format.
- ii. Prepare World Trade House LTD's classified Balance Sheet as of 31, December 2003.

Solution:

World Trade House Ltd
Multi Step Income Statement
For the year ended 31 December 31, 2003

Particulars	Amt (Rs)	Amt (Rs)
Sales Revenue		20,000
Less: Cost of Goods Sold		15,000
Gross Profit		5,000
Less: Operating Expenses:		
Selling and distribution Expenses		
selling and distribution Expenses	1,500	1,500
General and administration expenses:		
Total general and administration expenses	-	
Operating profit		3,500
Add: Other Income and gains		
Gain on sale of Machine		1,000
Less: Other expenses and losses		
Interest Expenses		1,000
Income before Income Tax		3,500

Less: Tax expenses		1,000
Net profit after tax		2,500

Statement of retained Earnings

Beginning Balance of Retained Earnings	6,000
Add: Net income for the year	2,500
Net income available	8,500
Less: Dividend Paid	4,000
Ending balance of retained earnings	4,500

World Trade House
Classified Balance Sheet
As on December 31, 2003

Assets	Amount (Rs.)	Amount (Rs.)
Current assets		
Receivables	2,000	
Inventories	3,000	
Prepaid Expenses	1,500	
Cash and cash equivalents	5,000	11,500
Property, Plant and Equipment		
Property, Plant and Equipment	30,000	
Less: Accumulated Depreciation	3,000	27,000
Other Assets		5,000
Intangible Asset		
Brands, Trademarks and goodwill, net	20,000	20,000
Total Assets		63,500
Liabilities		
Current Liabilities:		
Account Payable	5,000	
Unearned revenue		
Accrued Payroll	3,000	
Advance on sales(Deferred revenue)	6,000	
Other Current Liabilities	5,000	19,000
Long Term Liabilities		
Notes Payables	4,000	
Non Current Liabilities	9,500	
Long Term debts	10,500	24,000
Contributed Capital:		
Preferred Stock	5,000	
Capital Stock,100 par value	10,000	
Additional Paid in capital	1,000	
Total Contributed Capital	16,000	
Retained earnings	4,500	20,500
Total Stockholders' equity and liabilities		63,500

2. On December 31, 2009, the following unadjusted trial balance was prepared in the books of Easy network an internet service operator.

Name of the accounts	Debit	Credit
Cash	Rs. 10,000	
Account Receivables	445,000	

Office supplies	25,000	
Land	185,000	
Building	1,045,000	
Accumulated depreciation – building		200,000
Equipment	3,970,000	
Accumulated depreciation- Equipment		1,310,000
Other assets	98,500	
Account payable		135,000
Notes payable – due in 2010		1,250,000
Capital stock		1,500,000
Retained earnings (Dec. 31, 2008)		73,000
Dividends	140,000	
Service revenue		4,925,000
Subscription expenses	1,990,000	
Telephone expenses	15,000	
Utilities expenses	170,000	
Wage expenses	980,000	
Miscellaneous expenses	220,000	
Interest expenses	100,000	
Total	Rs. 9,393,500	Rs. 9,393,500

Additional information

- At the end Rs 7,500 of office supplies remained unused
- The building is to be depreciated over 10 years with a residual value of Rs 45,000
- The useful life of equipment is 5 years with a residual value of Rs 220,000
- The interest on note is 15%. A quarters interest is due and unpaid as on Dec . 31, 2009
- At the end , service of Rs 470,000 has been earned but not billed and recorded yet
- Utility bills amounting to Rs 14,000 are unpaid yet
- The income tax rate is 25%

Required:

- i. Prepare a multiple- step income statement
- ii. Prepare a classified balance sheet as on December 31, 2009.

Solution:

Details	Amount	Amount
NET Sales revenue (4,925,000+470,000)		5,395,000
Less : cost of goods sold		
Subscription expenses		1,990,000
Gross profit		3,405,000
Less: operating expenses:		
Selling and distribution expenses	Nil	Nil
General , office and administrative expenses		
Telephone expenses	15,000	
Utilities expenses (170,000+14,000)	184,000	
Wage expenses	980,000	
Miscellaneous expenses	220,000	
Supply expenses (25,000 -7,500)	17,500	
Depreciation expenses	850,000	2,266,500
Operating profit		1,138,500
Less : other expenses/Losses		
Interest expenses (100,000+ 46,875)		146,875
Add: other incomes /Gains		Nil
Net income before tax@25%		991,625
Less income tax expenses		247,906
Net income after tax		743,719

Calculation of ending retained earnings

Beginning balance	73,500
Add: net income for the year	743,719
Earnings available	817,219
Less: Dividend	140,000
Ending balance	677,219

Working note

- i. Office supplies

Bal 25,000	17,500
Bal 7,500	

Supply expenses = Rs 17,500

- ii. Accumulated depreciation-building

Beginning balance	200,000
Add: Depreciations expenses for the year [(1,045,000-45,000)/10] = <u>100,000</u>	
Ending balance	300,000

- iii. Accumulated depreciation-equipment

Beginning balance	1,310,000
Add: depreciation expenses for the year [(3, 970,000-220,000)/5]= <u>750,000</u>	
Ending balance	= 2,060,000

- iv. Depreciation expenses

Building	100,000
Equipment	<u>750,000</u>
Total	850,000

- v. Interest expenses on notes [1,250,000×15/100×3/12]

Interest expenses

Bal 100,000	
46,875	
Bal 146,875	

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Interest payable = 46,875

vi. Service revenue

	4,925,000
	470,000
	5,395,000 bal

vii. Account receivable

445,000	
470,00	
Bal 915,000	

viii. Utility expenses

170,000	
14,000	
Bal 184,000	

Accrued utility expenses = 14,000

ix. Income tax expenses = $m25\% \times 991,625 =$ Rs 247,906

Income tax payable = Rs 247,906

Easy network

Balance sheet

As on December 31,2009

Assets	Amount	Amount
Current assets		
Cash	10,000	
Account receivable (445,000+470,000)	915,000	
Office supplies	7,500	932,500
Plant , properties, equipment		
Land	185,000	
Building	1,045,000	
Less: accumulated depreciation	300,000	745,000
Equipment	3,970,000	
Less: accumulated depreciation	<u>2,060,000</u>	1,910,000
Investment	98,500	2,840,000
Other assets (assumed investment)	Nil	98,500
Intangible assets	Nil	Nil
Total assets		3,871,000
Liabilities and shares equity		
Current liabilities		
Account payable	135,000	
Utility expenses payable	14,000	
Incomes tax payable	247,906	
Interest payable	46,875	
Notes payable	1,250,000	1,693,781
Long term liabilities		Nil
Shareholders' equity		
Capital stock	1,500,000	
Retained earning	677,219	2,177,219
Total liabilities and shareholders' equity		3,871,000

3. Presented below the trial balance of Harley Motorbike Co. as of December 31, 2003

Harley Motorbike Co.
Trial Balance: Dec 31, 2003

Account	Debit	Credit
Machinery	29,160	
Acc. Dep.-Machinery		5,832
Supplies	3,078	
Sundry Debtor	6,820	
Cash	3,516	
Prepaid Advertisement	8,262	
Prepaid Rent	4,892	
Creditors		3,499
Unearned Revenue		1,572
Utility Payable		2,122
Share Capital		40,500
Retained Earnings		3,499
Dividend	6,156	
Service Revenue		32,481
Salaries Expenses	15,746	
Supplies Expenses	3,499	
Telephone Expenses	1,572	
Rent Expenses	3,888	
Depreciation Expenses	2,916	
Total	89,505	89,505

Required:

- i. Prepare a multiple-step income statement of Harley Motorbike Co. for the period ended December 31, 2003. 7
- ii. Prepare a statement of Retained Earnings of Harley Motorbike Co. for the period ended December 31, 2003.
- iii. Prepare a classified balance sheet of Harley Motorbike as of December 31, 2003.

Solution

- i. Harley Motorbike Company

Multi- step income statement
For the period ended December 31, 2003

Particulars	Amount (Rs)	Amount (Rs)
Sales Revenue		32,481
Less: Operating Expenses:		
Selling and distribution Expenses		
General and administration expenses:		
Salaries expenses	15,746	
Supplies Expenses	3,499	
Telephone Expenses	1,572	
Rent Expenses	3,888	
Depreciation Expenses	2,916	27,621
Operating profit		4,860
Add: Other Income and gains		
Interest revenue		-
Less: Other expenses and losses		
Interest expenses		-
Income before Income Tax		4,860

Less: Tax expenses		-
Net Profit after tax		4,860

ii. Statement of retained Earnings

Particulars	Amount (Rs.)
Beginning Balance of Retained Earnings	3,499
Add: Profit for the year	4,860
	8,359
Less: Dividend Paid	6,156
Ending balance of retained earnings	2,203

iii. Harley Motorbike Company

Classified Balance Sheet
As on December 31, 2003

Assets	Amount (Rs.)	Amount (Rs.)
Current assets		
Supplies	3,078	
Sundry Debtor	6,820	
Cash	3,516	
Prepaid Rent	4,892	
Prepaid Advertisement	8,262	
Total Current Assets		26,568
Property, Plant and Equipment		
Machinery	29,160	
Less: Accumulated Depreciation	<u>5,832</u>	23,328
Intangible Asset		-
Total Assets		49,896
Current Liabilities:		
Creditors	3,499	
Unearned revenue	1,572	
Utilities payable	2,122	
Total Current Liabilities		7,193
Long Term Liabilities		
Contributed Capital:		
Capital Stock	40,500	
Total Contributed Capital	40,500	
Retained earnings	2,203	
Total Stockholders' equity		42,703
Total liabilities and stockholders' equity		49,896

- 4.
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- 10.

11. Given below is the Trial Balance of Back bay Couriers Ltd. as on 31st March 2006.

Backbay Courier Ltd.
Trial Balance
As on 31st March 2006

Accounts	Debit (Rs.)	Credit (Rs.)
Office Equipment	7,000	
Acc. Dep.- Office Equipment		1,250

Office supplies	3,200	
Debtors	1,900	
Cash	770	
Interest Expenses	1,500	
Prepaid Rent	1,600	
Investments	1,600	
Interest Income		2,500
Gain on sale of old assets		500
Creditors		1,100
Courier Service Revenue		9,010
Unearned Revenue		190
Debentures		540
Share Capital		10,000
Retained Earnings		2,100
Dividends	1,400	
Salaries	4,340	
Office Supplies Expense	600	
Telephone Expense	730	
Rent	800	
Depreciation	250	
Income Tax	1,500	
Total	27,190	27,190

Required:

- i. Prepare Multi-Step Income Statement.
- ii. Prepare Statement of Retained Earning
- iii. Prepare Classified Balance Sheet.

Solution

- i. Backbay Courier Ltd

Multi step Income Statement

As on 31st March 2006

Details	Amount (Rs.)	Amount (Rs.)
Courier Service Revenue		9,010
Less: Cost of goods sold		-
Gross Profit		9,010
Less: Operating Expenses		
Selling and distribution Expenses	-	
General and administration Expenses		
Salaries	4,340	
Office Supplies Expenses	600	
Telephone Expenses	730	
Rent Expenses	800	
Depreciation Expenses	250	6,720
Operating Profit		2,290
Add: Other income and Gains		
Interest Income	2,500	
Gain on Sale of assets	500	3,000
Less: Other Expenses and Loss		
Interest Expenses		(1,500)
Net Income Before income tax		3,790
Less: Income Tax Expenses		(1,500)
Net Profit after tax		2,290

- ii. Statement of Retained Earnings

Details	Amount (Rs.)
---------	--------------

Opening balance of retained Earnings	2,100
Add: Net Profit for the year	2,290
Income available	4,390
Less: Dividend Paid	1,400
Ending Balance of retained earnings	2,990

iii. Back bay Courier Ltd

Classified Balance Sheet
As on 31st March 2006

Assets	Amount (Rs.)	Amount (Rs.)
Current Assets		
Office Supplies	3,200	
Debtors	1,900	
Cash	770	
Prepaid Rent	1,600	7,470
Plant, Property and equipment		
Office equipment	7,000	
Less: Acc. Dep.	1,250	5,750
Investment		1,600
Intangible Assets		-
Total Assets		14,820
Current Liabilities		
Creditors	1,100	
Unearned Revenue	190	1,290
Long Term Liabilities		
Debenture		540
Contributed Capital		
Share Capital	10,000	
Total Contributed Capital	10,000	
Retained Earnings	2,990	
Total Share holder's Equity		12,990
Total liabilities and shareholders' equity		14,820

