

an asset (A), liability (L), or stockholders' equity (SE) item that would appear on the balance sheet, or a revenue (R) or expense (E) that would appear on the income statement.

- | | |
|--|--|
| <input type="checkbox"/> (1) Accounts receivable | <input type="checkbox"/> (9) Income taxes |
| <input type="checkbox"/> (2) Cash and cash equivalents | <input type="checkbox"/> (10) Accounts payable |
| <input type="checkbox"/> (3) Net sales | <input type="checkbox"/> (11) Land |
| <input type="checkbox"/> (4) Notes payable | <input type="checkbox"/> (12) Property, plant, and equipment |
| <input type="checkbox"/> (5) Taxes payable | <input type="checkbox"/> (13) Long-term debt |
| <input type="checkbox"/> (6) Retained earnings | <input type="checkbox"/> (14) Inventories |
| <input type="checkbox"/> (7) Cost of products sold | <input type="checkbox"/> (15) Interest expense |
| <input type="checkbox"/> (8) Marketing, administrative, and other operating expenses | |



Matching Financial Statement Items to Financial Statement Categories

Tootsie Roll Industries is engaged in the manufacture and sale of candy. Major products include Tootsie Roll, Tootsie Roll Pops, Tootsie Pop Drops, Tootsie Flavor Rolls, Charms, and Blow-Pop lollipops. The following items were listed on Tootsie Roll's recent income statement and balance sheet. Mark each item from the balance sheet as an asset (A), liability (L), or shareholders' equity (SE) and each item from the income statement as a revenue (R) or expense (E).

- | | |
|--|---|
| <input type="checkbox"/> (1) Notes payable to banks | <input type="checkbox"/> (10) Machinery and equipment |
| <input type="checkbox"/> (2) General and administrative | <input type="checkbox"/> (11) Net sales |
| <input type="checkbox"/> (3) Accounts payable | <input type="checkbox"/> (12) Inventories |
| <input type="checkbox"/> (4) Dividends payable | <input type="checkbox"/> (13) Marketing, selling, and advertising |
| <input type="checkbox"/> (5) Retained earnings | <input type="checkbox"/> (14) Buildings |
| <input type="checkbox"/> (6) Cash and cash equivalents | <input type="checkbox"/> (15) Land |
| <input type="checkbox"/> (7) Accounts receivable | <input type="checkbox"/> (16) Income taxes payable |
| <input type="checkbox"/> (8) Provision for income taxes* | <input type="checkbox"/> (17) Distribution and warehousing costs |
| <input type="checkbox"/> (9) Cost of goods sold | <input type="checkbox"/> (18) Investments (in other companies) |

E1-3
L01



Tootsie Roll Industries

Preparing a Balance Sheet

Honda Motor Corporation of Japan is a leading international manufacturer of automobiles, motorcycles, all-terrain vehicles, and personal watercraft. As a Japanese company, it follows Japanese GAAP and reports its financial statements in billions of yen (the sign for yen is ¥). Its recent balance sheet contained the following items (in billions). Prepare a balance sheet as of March 31, 2009, solving for the missing amount. (**Hint:** Exhibit 1.2 in the chapter provides a good model for completing this exercise.)

| | |
|--|--------|
| Cash and cash equivalents | ¥ 690 |
| Contributed capital | 259 |
| Accounts payable and other current liabilities | 4,237 |
| Inventories | 1,244 |
| Investments | 639 |
| Long-term debt | 1,933 |
| Net property, plant, and equipment | 2,148 |
| Other assets | 6,244 |
| Other liabilities | 1,519 |
| Retained earnings | 3,871 |
| Total assets | 11,819 |
| Total liabilities and stockholders' equity | ? |
| Trade accounts, notes, and other receivables | 854 |

E1-4
L01

Honda Motor Co.



Completing a Balance Sheet and Inferring Net Income

Carlos Ramirez and Camila Garza organized New World Book Store as a corporation; each contributed \$70,000 cash to start the business and received 4,000 shares of common stock. The store completed its first year of operations on December 31, 2011. On that date, the following financial items for the year were determined: December 31, 2011, cash on hand and in the bank, \$68,350; December 31, 2011, amounts

E1-5
L01

*In the United States, "provision for income taxes" is most often used as a synonym for "income tax expense."

due from customers from sales of books, \$39,000; unused portion of store and office equipment, \$72,000; December 31, 2011, amounts owed to publishers for books purchased, \$12,000; one-year note payable to a local bank for \$3,000. No dividends were declared or paid to the stockholders during the year.

Required:

1. Complete the following balance sheet as of the end of 2011.
2. What was the amount of net income for the year? (**Hint:** Use the retained earnings equation [Beginning Retained Earnings + Net Income – Dividends = Ending Retained Earnings] to solve for net income.)

| Assets | Liabilities |
|----------------------------|--|
| Cash | Accounts payable |
| Accounts receivable | Note payable |
| Store and office equipment | Interest payable |
| | Total liabilities |
| | Stockholders' Equity |
| | Contributed capital |
| | Retained earnings |
| | Total stockholders' equity |
| Total assets | Total liabilities and stockholders' equity |

E1-6 Analyzing Revenues and Expenses and Preparing an Income Statement

L01

Assume that you are the owner of College Connection, which specializes in items that interest students. At the end of January 2011, you find (for January only) this information:

- a. Sales, per the cash register tapes, of \$110,000, plus one sale on credit (a special situation) of \$3,000.
- b. With the help of a friend (who majored in accounting), you determine that all of the goods sold during January cost \$50,000 to purchase.
- c. During the month, according to the checkbook, you paid \$37,000 for salaries, rent, supplies, advertising, and other expenses; however, you have not yet paid the \$900 monthly utilities for January on the store and fixtures.

Required:

On the basis of the data given (disregard income taxes), what was the amount of net income for January? Show computations. (**Hint:** A convenient form to use has the following major side captions: Revenue from Sales, Expenses, and the difference—Net Income.)

E1-7 Preparing an Income Statement and Inferring Missing Values

L01



Walgreen Co. is one of the nation's leading drugstore chains. Its recent quarterly income statement contained the following items (in millions). Solve for the missing amounts and prepare an income statement for the quarter ended May 31, 2009. (**Hint:** First order the items as they would appear on the income statement and then solve for the missing values. Exhibit 1.3 in the chapter provides a good model for completing this exercise.)

| | |
|--|----------|
| Cost of sales | \$11,751 |
| Provision for income taxes* | 299 |
| Interest expense | 25 |
| Net earnings | ? |
| Net sales | 16,210 |
| Pretax income | ? |
| Selling, occupancy, and administration expense | 3,613 |
| Total expenses | ? |
| Total revenues | ? |

E1-8 Analyzing Revenues and Expenses and Completing an Income Statement

L01

Neighborhood Realty, Incorporated, has been operating for three years and is owned by three investors. S. Bhojraj owns 60 percent of the total outstanding stock of 9,000 shares and is the managing executive in

*In the United States, "provision for income taxes" is a common synonym for "income tax expense."

E1-11
L01

Preparing an Income Statement and Balance Sheet

Painter Corporation was organized by five individuals on January 1, 2011. At the end of January 2011, the following monthly financial data are available:

| | |
|--|-----------|
| Total revenues | \$299,000 |
| Total expenses (excluding income taxes) | 189,000 |
| Income tax expense (all unpaid as of January 31) | 34,500 |
| Cash balance, January 31, 2011 | 65,150 |
| Receivables from customers (all considered collectible) | 34,500 |
| Merchandise inventory (by inventory count at cost) | 96,600 |
| Payables to suppliers for merchandise purchased from them (will be paid during February 2011) | 26,450 |
| Contributed capital (2,600 shares) | 59,800 |

No dividends were declared or paid during 2011.

Required:

Complete the following two statements:

| PAINTER CORPORATION Income Statement For the Month of January 2011 | |
|--|----------|
| Total revenues | \$ _____ |
| Less: Total expenses (excluding income tax) | _____ |
| Pretax income | _____ |
| Less: Income tax expense | _____ |
| Net income | \$ _____ |

| PAINTER CORPORATION Balance Sheet At January 31, 2011 | |
|---|----------|
| Assets | |
| Cash | \$ _____ |
| Receivables from customers | _____ |
| Merchandise inventory | _____ |
| Total assets | \$ _____ |
| Liabilities | |
| Payables to suppliers | \$ _____ |
| Income taxes payable | _____ |
| Total liabilities | _____ |
| Stockholders' Equity | |
| Contributed capital | _____ |
| Retained earnings | _____ |
| Total stockholders' equity | _____ |
| Total liabilities and stockholders' equity | \$ _____ |

E1-12 **Preparing a Statement of Retained Earnings**

L01

Clint's Stonework Corporation was organized on January 1, 2011. For its first two years of operations, it reported the following:

| | |
|---------------------------------|-----------|
| Net income for 2011 | \$ 31,000 |
| Net income for 2012 | 42,000 |
| Dividends for 2011 | 14,200 |
| Dividends for 2012 | 18,700 |
| Total assets at the end of 2011 | 130,000 |
| Total assets at the end of 2012 | 250,000 |