Smith Equipment Corporation Parts II and III

Part II Requirements: Prepare an income statement and ending balance sheet for FY 2003. Use the transactions listed below for 2003, and transfer ending 2002 balance sheet values to use as beginning values for 2003.

Part III Requirements: Prepare a statement of cash flows for fiscal year 2003. Note: you should utilize the narrative of transactions as well as the income statement and balance sheet prepared for Smith Equipment Corporation Parts I and II.

1. During year 2003: Acquires merchandise from suppliers on account totaling $800,000.[1]
2. During year 2003: Pays suppliers for merchandise purchased on account a total of $630,000 cash.
3. During year 2003: Makes sales of merchandise totaling $720,000 of which $500,000 is for cash and $220,000 is on account.[2]
4. During year 2003: Collects $250,000 cash from customers who had purchased on account.
5. During year 2003: Pays $120,000 cash for salaries.
6. During year 2003: Pays $2,400 cash for utility bills.
7. January 1, 2003: Pays interest related to the $60,000 10% mortgage loan taken out on January 2nd, 2002 (Principal will not be need to be repaid or refinanced for another 4 years).
8. January 4, 2003: Pays $800 in salaries earned during the last 4 days of 2002.
9. January 10, 2003: Delivers merchandise from the company's inventory related to the $600 cash advance from previous year. The cost of the merchandise inventory was $400. (Note: This is in addition to the Sales and COGS transactions noted elsewhere.)
10. January 15, 2003: Pays cash to shareholders for the dividend declared on December 31, 2003.
11. March 1, 2003: Receives a cash payment for the all the interest and principal related to the $1,000 9% customer note dated November 1, 2002.[3]
12. March 1, 2003: Extends lease to rent out a portion of their building for an additional 16 months (i.e. new lease ends July 1, 2004. The rent for the 16-month period totals $4,800). Half of the rent is received in advance on March 1, 2003 and remaining half is received October 1, 2003.
13. March 31, 2003: Pay $93,046 in tax expense for 2002.
14. July 1, 2003: Receives cash from a $300,000 7% loan from the local bank. Interest on the loan is due on June 1 of each year. The $300,000 principal will be repaid or refinanced in 10 years.
15. At December 31, 2003: The firm records an additional $4,000 depreciation for the building and $5,000 depreciation of the equipment.
16. At December 31, 2003: The firm counts its ending inventory and values the ending inventory at $340,000. (Note: Any difference should be plugged and the off-setting entry should be made to the cost of merchandise sold account).
17. Salaries earned by the employees for the last two days of the year total $500. These amounts will be paid on January 2, 2004.
18. At December 31, 2003: Smith declares that it will pay shareholders dividends totaling $25,000 on January 15, 2004.[4]
19. Records closing entry related to 2-year fire insurance policy purchased on January 2, 2002 for $1,200 cash.
20. While Smith's tax rate is 40%, you should find that Smith has a loss in 2003. We will simplify things and assume no tax effect.

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1 A purchase on account is a purchase on credit. In other words, Smith receives the merchandise and pays for it at a later date.

2 A sale on account is a credit sale. In other words, Smith delivers the merchandise and the customer pays for it at a later date.

3 The 9% is an annual rate. Therefore, if the note is repaid in one year the payment is $1,090 of which $90 is interest. On the other hand, if the note is repaid in 6 months the payment is $1,045 of which $45 is interest.

4 Smith must record a dividend payable when a dividend is declared. Dividends are not an expense on the income statement – they are a payment of retained earnings to the shareholders.