TT TEXTBOOK TESTBANKS

Solutions Manual for Financial Accounting for Managers 1st Thomas

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Chapter 2
The Financial Statements

Instructors' Notes

Chapter 2 offers a deep dive into the five financial statements. For this chapter, we focus on a single company, **Lululemon**, that we introduce in the feature story. This introduction provides some information about the company's origin and subsequent growth story (the *narrative story*), but it primarily explains that the chapter is dedicated to helping students understand how to use financial statements to discover the *financial story* of company. We focus on a single company so that students can see how the various financial statements each help to tell its unique part of the story.

It is critical that students have a solid understanding of financial statements before diving into the details of the accounting cycle presented in Chapter 3 and 4. Having this solid foundation will make it less likely that students get "lost in the weeds" in these subsequent chapters because they will have a clear picture of the final destination – the financial statements.

PART A: The Balance Sheet

LO2-1 Describe the various asset classifications and measurement methods.
LO2-2 Describe the various liabilities and stockholders' equity classifications.
LO2-3 Understand the limitations of the balance sheet.

Part A is dedicated to the balance sheet. We first drive home the idea that the balance sheet (or statement of financial position) presents the assets, liabilities, and equity accounts of a company at a given *point in time*. The balance sheet of Lululemon is presented and then we simply walk-down the balance sheet, providing a description of the various accounts and how they are organized. One key distinction to emphasize in the balance sheet is classification of current versus long-term. Decision makers want to compare the company's current resources to current obligations, as well as long-term resources to long-term obligations.

The discussion of the various current assets includes cash and cash equivalents, accounts receivable, inventories and prepaid expenses, and introduces the idea that these accounts are listed in order of liquidity. The discussion of the long-term assets includes descriptions of long-term investments, PPE, operating leases, and intangible assets. We then make a very important point that the various assets reported in the balance sheet are measured using different methods including historical cost, amortized cost, net realizable value, and fair value. In class, we like to present these different valuation methods and then ask students to try to identify an example account that uses each particular method.

Next, we walk down the current liabilities, which includes a discussion of accounts payable, deferred revenues, accrued liabilities, and the current portion of long-term debt. This is followed by a discussion of long-term liabilities that features notes, bonds, leases, and pension obligations. We complete the walk down of the balance sheet by discussing contributed capital (i.e., common stock and APIC), retained earnings, and AOCI.

In class, we like to present the balance sheet of a different company from another industry (e.g., Dropbox) and repeat this walk down talking through and answering questions about each of the major accounts on the balance sheet.

Part B concludes with the limitations of the balance sheet. We feel it is very important that students understand that the accounting system is not perfect and has its limitations. We emphasize the difference between book value and market value, which is an important contrast to make. In class, we like to emphasize the market-to-book ratio and drive home the point that both the accounting system (book value) and the market system (market value) are trying to measure the same economics, but these each do so imperfectly with noise. The book value is subject to limitations such as historical costs, unreported assets, and the use of estimates. The market value is subject to limitations such as market bubbles. Some students are surprised to see that market values nearly always tend to be far greater than book values (Illustration 2-7).

PART B: The Income Statement

LO2-4 Describe revenues, expenses, gains, and losses.
LO2-5 Calculate the different measures of income.
LO2-6 Understand the limitations of the income statement.

Part B focuses entirely on the income statement. Here we follow a similar pattern to that used in Part A. That is, we present the income statement of Lululemon and then provide a description of each of the major components of net income including revenue, expense, gain, and loss accounts. We emphasize that the income statement measures activity *over a period of time*. This is followed by a discussion of the various measures of income including gross profit, operating income, nonoperating income, pretax income, and finally net income. We also discuss EPS in this section and introduce the idea that the income statement generally is presented in one of two formats – the single-step format or the multiple-step format.

Part B ends with a discussion of the limitations of the income statement, which includes challenges related to the how taxes relate to operating and nonoperating accounts and the extensive use of estimates and judgements to create the statement, which are susceptible to manipulation and bias.

In class, we find it very useful to also walk down the income statement of a different company (e.g., Dropbox) to reinforce the reading and answer questions.

PART C: The Statement of Cash Flow

LO2-7 Identify operating, investing, and financing activities.

Part C focuses on the statement of cash flow. Chapter 11 is entirely dedicated to the construction of the statement of cash flows, so in Chapter 2, our objective is simply to help students get familiar with the three types of cash flow activities. We present an abbreviated version of Lululemon's statement of cash flows that collapses all of the adjustments to net income in the operating section into two groups: (1) adjustments of noncash items and (2) changes in operating assets and liabilities. The related discussion provides a very simple discussion of why such adjustments are needed to go from net income to operating cash flows. In this discussion, we talk about the difference between cash-basis and accrual-basis accounting, which provides an excellent foundation for the material in Chapters 3 and 4. We then walk down the investment and financing sections of the statement.

In class, we like to have the students work through a "sorting laundry" exercise where we give them a list of transactions and then ask them to categorize each into operating, investing, or financing activities. The transactions provided in Illustrations 2-10, 2-12, and 2-13 can be used to create this list.

PART D: Statements of Stockholders' Equity and Comprehensive Income

LO2-8 Understand the purpose of the statement of stockholders' equity.
LO2-9 Understand the distinguishing features of comprehensive income.

We conclude the chapter with brief discussions of the statement of stockholders' equity and the statement of comprehensive income. In Illustration 2-14, we present the statement of stockholders' equity for Lululemon. In class, we like to emphasize the Retained Earnings column as that place where the income statement and the balance sheet link (or articulate) with each another. We then discuss comprehensive income as "an even more bottom line". Many students are surprised that another measure of income exists. In class, we like to present the list of items included in other comprehensive income and then ask the class to think about what these items all have in common. Here we make the point that they generally are outside the control of management and unrealized. In class, it is also fun to show an example where a company has a big difference between net income and comprehensive income. Even though this example is dated, Abercrombie and Fitch (period ending January 20, 2010) works well. Many of the companies with the largest positive amounts of accumulated other comprehensive income tend to be financial institutions. Many nonfinancial companies have large negative amounts of accumulated other comprehensive income from foreign currency translations and pension losses.

Chapter 2
The Financial Statements

REAL-WORLD PERSPECTIVES

RWP2-1 EDGAR Costco Wholesale Corp. (ticker: COST)

1. $45,400 million
2. $29,816 million
3. $15,584 million
4. Yes, $45,400 – $29,816 = $15,584
5. Total non-current assets = Total assets – Current assets = $45,400 – $23,485 = $21,915
6. Costco's long-term debt increased over the previous year by $246 million

	Current year	Previous year	Change
Current portion of LT debt	$1,699	$90	
Long-term debt (excluding current portion)	5,124	6,487	
Total debt	$6,823	$6,577	$246

7. Costco's retained earnings increased over the previous year by $2,371 ($10,258 – $7,887)

RWP2-2 EDGAR Amazon (ticker: AMZN)

1. $280,522 million. Revenue increased over the previous year.
2. $14,541 million. Operating income increased over the previous year.
3. $11,588 million. Net income increased over the previous year.
4. Operating activities produced a positive net cash inflow of $38,514 million in cash.
5. Investing activities produced a negative net cash outflow of $24,281 million in cash.
6. Financing activities produced a negative net cash outflow of $10,066 million in cash.

RWP2-3 EDGAR AMC Entertainment Holdings (ticker: AMC)

1. $1,397.6 million
2. $1,214.2 million
3. Net loss decreased the balance in total stockholder's equity by $149.1 million.
4. Stock based compensation increased the balance by $4.4 million.

RWP2-4 EDGAR Domino's Pizza Inc (ticker: DPZ)

1. Comprehensive income is greater than net income.
2. Foreign currency translation adjustment.

RWP2-5 Financial Analysis: American Eagle

($ in thousands)

1. Operating lease right-of-use assets are the largest asset.
2. Non-current operating lease liabilities are the largest liability.
3. Sales (or net revenue) Growth % = ($4,308,212 – $4,035,720) ÷ $4,035,720 = 6.8%
4. Cost of sales is the largest expense item.
5. American Eagle's operations produced cash flows of $415,416.
6. American Eagle has capital expenditures of $210,360.

RWP2-6 Financial Analysis: The Buckle, Inc.

($ in thousands)

1. Property and equipment is the largest asset.
2. Noncurrent operating lease liabilities are the largest liability.
3. Sales Growth % = ($900,254 – $885,496) ÷ $885,496 = 1.7%
4. Cost of sales is the largest expense item.
5. Buckle's operations produced cash flows of $130,665.
6. Buckle has capital expenditures of $7,322.

RWP2-7 Comparative Analysis: American Eagle vs. Buckle

($ in thousands)

1. American Eagle has more current assets.

2. American Eagle also has more current liabilities.

3. American Eagle's current ratio = $1,047,930 ÷ $751,756 = 1.4

Buckle's current ratio = $378,830 ÷ $172,641 = 2.2

Buckle is better able to satisfy its current liabilities using current assets because its ratio of current assets to current liabilities is greater.

4. Buckle reports a greater earnings per share. It is not always appropriate to compare earnings per share values between companies because the calculation depends on the number of common shares outstanding which differs between companies.

5. Buckle had greater dividends in the most recent year.

RWP2-8 Ethics

1. Net income will be even lower in the current year, but will be higher in future years.
2. If the chief accountant does not follow the CFO's request, net income will be higher which means retained earnings at the end of the current year will be higher.
3. Yes. The CFO's suggestion will distort the trend in true economic performance of the company in the current year and in future years.
4. No. Even though the chief accountant is being asked to take this action by the CFO, purposefully distorting the trend in performance is unethical and could negatively affect others' decisions.

RWP2-9 Sustainability

1. American Airlines operated 1.9 million flights.
2. Zero enforcement actions were levied against the company by government agencies.
3. American Airlines mitigated 97% of all safety risks and hazardous situations identified.
4. The lost day rate on Mainline flights increased from 5.43 in 2018 to 6.14 in 2019.

RWP2-10 Great Adventures Continuing General Ledger Case

Account Name	Financial Statement	Account
Cash	**Balance sheet**	**Asset**
Common Stock	**Balance sheet**	**Equity**
Service Revenue	**Income statement**	**Revenue**
Salaries Expense	**Income statement**	**Expense**
Accounts Payable	**Balance sheet**	**Liability**
Equipment	**Balance sheet**	**Asset**
Advertising Expense	**Income statement**	**Expense**
Supplies	**Balance sheet**	**Asset**
Salaries Payable	**Balance sheet**	**Liability**
Insurance Expense	**Income statement**	**Expense**

BRIEF EXERCISES

Brief Exercise 2-1

Financial Statement	**Timing**
1. __**b**___ Balance sheet	a. Over a period of time
2. __**a**___ Income statement	b. At a point in time
3. __**a**___ Statement of cash flows	

Brief Exercise 2-2

Asset	**Measurement**
1. __**b**___ Equipment	a. Historical cost
2. __**c**___ Accounts receivable	b. Amortized cost
3. __**a**___ Land	c. Net realizable value
4. __**a**___ Inventory	d. Market value
5. __**d**___ Public company stock	e. Present value
6. __**e**___ Private company stock	
7. __**b**___ Buildings	

Brief Exercise 2-3

	(Yes/No)	Balance Sheet Account?
1.	__Yes__	Cash
2.	__No___	Service revenue
3.	__Yes__	Accounts payable
4.	__No___	Salaries expense
5.	__Yes__	Retained earnings
6.	__Yes__	Equipment
7.	__No___	Income tax expense
8.	__No___	Cost of goods sold
9.	__Yes__	Operating lease
10.	__No___	Sales revenue

Brief Exercise 2-4

KAT Productions
Balance Sheet
December 31, 2024

Assets		Liabilities	
Cash	$10,000	Accounts payable	$ 9,000
Inventory	15,000	Notes payable	20,000
Equipment	38,000	Total liabilities	29,000
		Stockholders' Equity	
		Common stock	19,000
		Retained earnings	15,000
		Total stockholders' equity	34,000
Total assets	$63,000	Total liabilities and stockholders' equity	$63,000

Brief Exercise 2-5

AMT Tax Consulting
Balance Sheet
December 31, 2024

Assets		Liabilities	
Cash	$ 44,000	Accounts payable	$ 61,000
Accounts receivable	80,000	Accrued liabilities	42,000
Equipment	90,000	Deferred revenues	18,000
Operating lease	10,000	Total liabilities	121,000
		Stockholders' Equity	
		Common stock	55,000
		Retained earnings	48,000
		Total stockholders' equity	103,000
Total assets	$224,000	Total liabilities and stockholders' equity	$224,000

Brief Exercise 2-6

Assets and Liabilities	Classification
1.__a__ Prepaid rent	a. Current
2.__b__ Intangible assets	b. Long-term
3.__a__ Accounts payable	
4.__a__ Inventory	
5.__b__ Bond payable	
6.__b__ Equipment	
7.__a__ Accounts receivable	
8.__a__ Accrued liabilities	
9.__a__ Deferred revenues	
10.__a__ Cash	

Brief Exercise 2-7

State whether the following limitation applies to the balance sheet (bs) or income statement (is), or both (b).

Limitation	Financial Statement
1. __b__ Includes recurring and non-recurring items.	a. Balance sheet
2. __a__ Book value does not necessarily capture market value.	b. Income statement
3. __c__ Subject to the potential misuse of estimates and judgments.	c. Both

Brief Exercise 2-8

KAT Productions
Income Statement
For the year ended December 31, 2024

Sales revenues	$100,000
Expenses:	
Cost of goods sold	78,000
Marketing expenses	8,000
Depreciation expense	11,000
Loss on sale of equipment	1,000
Other expenses	5,000
Total expenses	103,000
Net loss	$ (3,000)

Brief Exercise 2-9

AMT Tax Consulting
Income Statement
For the year ended December 31, 2024

Service revenues		$500,000
Gain on sale of investments		10,000
Expenses:		
	Cost of services	200,000
	Selling and administrative expenses	66,000
	Maintenance expense	25,000
	Advertising expense	35,000
	Income tax expense	38,000
	Total expenses	364,000
Net income		$146,000

Brief Exercise 2-10

Seamons Capital
Income Statement
For the year ended December 31, 2024

Service revenues	**$316,000**
Cost of services	150,000
Gross profit	166,000
Selling and administrative expenses	12,000
Depreciation expense	25,000
Operating income	**129,000**
Interest expense	35,000
Loss on sale of investments	4,000
Pre-tax Income	**90,000**
Income tax expense	30,000
Net income	$60,000

Brief Exercise 2-11

Measure of Income	Description
1. __**d**__ Gross profit	a. All revenues minus all expenses.
2. __**a**__ Net income	b. Profits before accounting for income taxes.
3. __**c**__ Operating income	c. Profits related to the operating activities of the company.
4. __**b**__ Pre-tax income	d. Profits directly related to the key costs needed to generate those revenues.

Brief Exercise 2-12

KAT Productions
Income Statement
For the year ended December 31, 2024

Sales revenues	$100,000
Cost of goods sold	78,000
Gross profit	**22,000**
Marketing expenses	8,000
Depreciation expense	11,000
Operating income	**3,000**
Loss on sale of equipment	1,000
Other expenses	5,000
Net income	$ (3,000)

Brief Exercise 2-13

AMT Tax Consulting
Income Statement
For the year ended December 31, 2024

Service revenues	$500,000
Cost of services	200,000
Gross profit	**300,000**
Selling and administrative expenses	66,000
Maintenance expense	25,000
Advertising expense	35,000
Operating income	**174,000**
Gain on sale of investments	10,000
Pre-tax income	184,000
Income tax expense	38,000
Net income	$146,000

Brief Exercise 2-14

Net cash flows from operating activities	$ 6,500
Net cash flows from investing activities	(2,000)
Net cash flows from financing activities	**500**
Net change in cash for the period	$ 5,000

Brief Exercise 2-15

Business Activities	**Descriptions**
1. ___**b**__ Financing	a. Transactions related to revenues and expenses.
2. ___**c**__ Investing	b. Transactions with lenders and owners.
3. ___**a**__ Operating	c. Transactions involving the purchase and sale of productive assets.

Brief Exercise 2-16

Activity	Amount
Cash from selling merchandise	$ 688,000
Cash paid for income taxes	(135,000)
Cash paid to purchase merchandise.	(710,000)
Cash paid in salaries and wages.	(410,000)
Net cash flows from operating activities	**$(567,000)**

Brief Exercise 2-17

Activity	Amount
Cash paid to purchase property	(400,000)
Cash received from sale of investments	40,000
Cash paid to purchase investment securities	(50,000)
Net cash flows from investing activities	**$(410,000)**

Brief Exercise 2-18

Activity	Amount
Cash received from a long-term note	$ 850,000
Cash paid to repurchase stock	(100,000)
Cash received from issuing equity shares	500,000
Net cash flows from financing activities	**$1,250,000**

Brief Exercise 2-19

Item	Effect
1. __**b**__ Dividends	a. Increases stockholders' equity
2. __**b**__ Stock repurchases	b. Decreases stockholders' equity
3. __**a**__ Stock issuance	
4. __**a**__ Net income	

Brief Exercise 2-20

	Common stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Beginning balance	$5	$995	**$600**	$1,600
Net income			100	100
Dividends			**$(40)**	**(40)**
Stock repurchase		**(15)**		**(15)**
Ending balance	$5	$980	$660	$1,645

Brief Exercise 2-21

1. __**a**__ Cost of goods sold
2. __**a**__ Gains on sale of equipment
3. __**a**__ Marketing expense
4. __**b**__ Foreign currency adjustments
5. __**a**__ Depreciation expense
6. __**a**__ Interest expense
7. __**b**__ Pension plan gains and losses
8. __**a**__ Income from discontinued operations
9. __**a**__ Other income/expenses
10. __**b**__ Unrealized gains and losses on derivatives

a. Income statement
b. Statement of comprehensive income

EXERCISES

Exercise 2-1

Wolfpack Construction
Balance Sheet
December 31, 2024

Assets		**Liabilities**	
Cash	$ 6,000	Accounts payable	$ 3,000
Land	18,000	Notes payable	20,000
Equipment	26,000	Total liabilities	23,000
		Stockholders' Equity	
		Common stock	11,000
		Retained earnings	16,000 *
		Total stockholders' equity	27,000
Total assets	$50,000	Total liabilities and stockholders' equity	$50,000

* Assets	=	Liabilities	+	Stockholders' equity
$50,000	=	$23,000	+	($11,000 + Retained earnings)
$50,000	–	$23,000	–	$11,000 = Retained earnings
				$16,000 = Retained earnings

Exercise 2-2

Current assets – Cash and cash equivalents – Accounts receivable = Inventory

$235,000 – $40,000 – $120,000 = **$75,000**

Total assets – Current assets = Property, plant, and equipment (net)

$400,000 – $235,000 = **$165,000**

Total assets – Accounts payable – Notes payable – Common stock = Retained earnings

$400,000 – $32,000 – $50,000 – $100,000 = **$218,000**

Exercise 2-3

(a) Current
(b) Current
(c) Long-term
(d) Current
(e) Long-term
(f) Long-term

Exercise 2-4

1. ___a__ Prepaid insurance
2. ___d__ Goodwill
3. ___c__ Equipment
4. ___e__ Deferred revenues
5. ___g__ Common stock
6. ___g__ Additional paid-in capital
7. ___e__ Accounts payable
8. ___a__ Accounts receivable
9. ___a__ Inventory
10. ___e__ Accrued liabilities
11. ___d__ Patent
12. ___c__ Building
13. ___h__ Dividends
14. ___e__ Notes payable (current portion)

Exercise 2-5

Current assets:
$16,000 + $11,000 + $25,000 = **$52,000**

Current liabilities:
$14,000 + $9,000 + $1,000 = **$24,000**

Exercise 2-6

Assets:	$ 52,000	current assets
	75,000	equipment (net)
	5,000	equipment (net)(leased assets)
	$132,000	total assets
minus		
Liabilities	$ 24,000	current liabilities
	30,000	notes payable
	$ 54,000	total liabilities
equals		
Stockholders' equity	$78,000	(total assets $132,000 – total liab. $54,000)
	(50,000)	common stock
	$28,000	retained earnings

Exercise 2-7

McK NURSERY, INC.
Balance Sheet
At December 31, 2024

Assets

Current assets:		
Cash		$ 16,000
Accounts receivable		11,000
Inventory		25,000
Total current assets		52,000
Long-term assets:		
Equipment (net)		75,000
Operating leases		5,000
Total assets		$132,000

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable		$ 14,000
Salaries payable		9,000
Interest payable		1,000
Total current liabilities		24,000
Long-term liabilities:		
Notes payable		30,000
Total liabilities		54,000
Stockholders' equity:		
Common stock	$50,000	
Retained earnings*	28,000	
Total stockholders' equity		78,000
Total liabilities and stockholders' equity		$132,000

*** see solution to E2-6.**

Exercise 2-8

Cowboy Law Firm
Income Statement
For the period ended December 31, 2024

Service revenue	$9,300
Expenses:	
Salaries	2,200
Utilities	1,200
Total expenses	3,400
Net income	$5,900

Exercise 2-9

MMT CORPORATION
Income Statement
For the Year Ended December 31, 2024

($ in millions)

Revenues and gains:		
Sales revenue		$2,106
Gain on sale of investments		45
Total revenues and gains		2,151
Expenses and losses:		
Cost of goods sold	$1,240	
Selling expense	126	
General and administrative expense	105	
Interest expense	40	
Total expenses and losses		1,511
Income before income taxes		640
Income tax expense*		160
Net income		$ 480

* $640 × 25% = $160

Exercise 2-10

(a)	Sales revenue	$2,106
	Less: Cost of goods sold	(1,240)
	Gross profit	866
	Less: Selling expense	(126)
	General and administrative expense	(105)
	Operating income	**$ 635**
(b)	Gain on sale of investments	45
	Interest expense	(40)
	Nonoperating income	**$5**

Exercise 2-11

MMT CORPORATION
Income Statement
For the Year Ended December 31, 2024

($ in millions)

Sales revenue		$2,106
Cost of goods sold		1,240
Gross profit		866
Operating expenses:		
Selling expense	$126	
General and administrative expense	105	
Total operating expenses		231
Operating income		635
Other income (expense):		
Gain on sale of investments	45	
Interest expense	(40)	
Total other income, net		5
Income before income taxes		640
Income tax expense*		160
Net income		$ 480

*$640 x 25% = $160

Exercise 2-12

Jedgy Corporation
Income Statement

Service revenue	$400,000
Cost of services	180,000
Gross Profit (a)	220,000
Selling and administrative expenses	45,000
Operating income (b)	175,000
Gain on sale of equipment	3,000
Interest expense	(24,000)
Pre-tax income (c)	154,000
Income tax expense	28,000
Net income (d)	$126,000

Exercise 2-13

Uber Inc.
Income Statement

Revenues	14,147
Cost of revenues	7,208
Gross Profit	**6,939**
Operating expenses	2,302
Marketing expenses	4,626
Research and development expense	4,836
General and administrative expense	3,299
Depreciation expense	472
Operating loss	**(8,596)**
Interest expense	(559)
Other income	694
Pre-tax income	**(8,461)**
Income tax expense	45
Net loss	**(8,506)**

Exercise 2-14

1. a.
2. c.
3. a.
4. b.
5. c.
6. a.
7. b.

Exercise 2-15

1. __b__ Purchase of equipment for cash.
2. __a__ Payment of employee salaries.
3. __a__ Collection of cash from customers.
4. __c__ Cash proceeds from notes payable.
5. __b__ Purchase of common stock of another corporation for cash.
6. __c__ Issuance of common stock for cash.
7. __b__ Sale of equipment for cash.
8. __a__ Payment of interest on notes payable.
9. __c__ Payment of cash dividends to stockholders.
10. __c__ Payment of principal on notes payable.

Exercise 2-16

Activity	Amount	Inflow or Outflow?
Cash received from providing consulting services	275,000	**Inflow**
Interest paid on debt	15,000	**Outflow**
Cash paid for income taxes	45,000	**Outflow**
Salaries paid	150,000	**Outflow**
Cash flows from operating activities	**65,000**	
Cash received from the sale of investments	7,000	**Inflow**
Cash paid for computing equipment	40,000	**Outflow**
Cash flows from investing activities	**(33,000)**	
Cash received from a loan	300,000	**Inflow**
Cash paid to repurchase stock	60,000	**Outflow**
Cash flows from financing activities	**240,000**	
Net change in cash flows	**272,000**	

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Exercise 2-17

Requirement 1

Beginning balance	$ 5,000
Cash received from sale of products to customers	40,000
Cash received from the bank for long-term loan	45,000
Cash paid to purchase factory equipment	(50,000)
Cash paid to merchandise suppliers	(12,000)
Cash received from the sale of an unused warehouse	13,000
Cash paid to workers	(24,000)
Cash paid for advertisement	(4,000)
Cash received for sale of services to customers	30,000
Cash paid for dividends to stockholders	(6,000)
Ending balance	**$37,000**

E2-17 Cont.

Requirement 2

Tiger Trade
Statement of Cash Flows
For the year ended December 31, 2024

Cash Flows from Operating Activities		
From sale of products to customers	$40,000	
From sale of services to customers	30,000	
For merchandise suppliers	(12,000)	
For workers	(24,000)	
For advertisement	(4,000)	
Net cash flows from operating activities		$30,000
Cash Flows from Investing Activities		
Purchase factory equipment	(50,000)	
Sale of warehouse	13,000	
Net cash flows from investing activities		(37,000)
Cash Flows from Financing Activities		
Borrow from bank	45,000	
Pay dividends	(6,000)	
Net cash flows from financing activities		39,000
Net increase in cash		32,000
Cash at the beginning of the year		5,000
Cash at the end of the year		$37,000

Exercise 2-18

Buffalo Drilling
Statement of Stockholders' Equity
For the year ended December 31, 2024

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance, Jan. 1	$11,000	$ 8,200	$19,200
Issuance of common stock	8,000		8,000
Add: Net income		8,500	8,500
Less: Dividends		(3,200)	(3,200)
Ending balance, Dec. 31	$19,000	$13,500	$32,500

Exercise 2-19

Net income	$ 6,140
Foreign currency adjustments	(490)
Unrealized loss on derivatives	(60)
Gain related to pension plan	160
Comprehensive Income	$ 5,750

Exercise 2-20

Requirement 1

Net unrealized gains/losses on investments	$ 680
Net unrealized gains/losses on derivatives	(16)
Net gains/losses related to pension costs	26
Other comprehensive income	**$ 690**

Requirement 2

Net income	$ 4,807
Net unrealized gains/losses on investments	680
Net unrealized gains/losses on derivatives	(16)
Net gains/losses related to pension costs	26
Total comprehensive income	**$ 5,497**

PROBLEMS

Problem 2-1

TIMPVIEW, INC.
Balance Sheet
At December 31, 2024

Assets

Current assets:		
Cash		$ 40,000
Investment in equity securities		10,000
Accounts receivable		34,000
Inventory		75,000
Prepaid rent		16,000
Total current assets		175,000
Property, plant, and equipment:		
Machinery (net)		134,000
Intangible assets:		
Patent (net)		83,000
Total assets		$392,000

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable		$ 8,000
Salaries payable		4,000
Income taxes payable		32,000
Total current liabilities		44,000
Long-term liabilities:		
Bonds payable		200,000
Total liabilities		244,000
Stockholders' equity:		
Common stock	$100,000	
Retained earnings	48,000	
Total stockholders' equity		148,000
Total liabilities and stockholders' equity		$392,000

Problem 2-2

	Account classifications	Account Names
1.	**Asset**	Cash
2.	**Revenue**	Service Revenue
3.	**Asset**	Supplies
4.	**Asset**	Buildings
5.	**Expense**	Advertising Expense
6.	**Asset**	Equipment
7.	**Expense**	Interest Expense
8.	**Liability**	Accounts Payable
9.	**Dividend**	Dividends
10.	**Liability**	Notes Payable

Problem 2-3

1. ___f___ Interest payable (due in 3 months)
2. ___d___ Franchise
3. ___c___ Accumulated depreciation
4. ___a___ Prepaid insurance (for 2025)
5. ___g___ Bonds payable (due in 10 years)
6. ___f___ Current maturities of long-term debt
7. ___f___ Notes payable (due in 3 months)
8. ___b___ Long-term receivables
9. ___e___ Restricted cash (will be used to retire bonds in 10 years)
10. ___a___ Supplies
11. ___c___ Machinery
12. ___c___ Land (used in operations)
13. ___f___ Deferred revenue (for 2025)
14. ___d___ Copyrights
15. ___h___ Common stock
16. ___b___ Land (held for speculation)
17. ___a___ Cash equivalents
18. ___f___ Salaries payable

Problem 2-4

Requirement 1

SUNDANCE INVESTMENTS
Income Statement
For the Year Ended December 31, 2024

Revenues and gains:		
Sales revenue		$1,300,000
Interest revenue		30,000
Gain on sale of investments		50,000
Total revenues and gains		1,380,000
Expenses and losses:		
Cost of goods sold	$720,000	
Selling expense	160,000	
General and administrative expense	75,000	
Interest expense	40,000	
Total expenses and losses		995,000
Income before income taxes		385,000
Income tax expense		130,000
Net income		$ 255,000

P2-4 Continued

Requirement 2

SUNDANCE INVESTMENTS
Income Statement
For the Year Ended December 31, 2024

Sales revenue		$1,300,000
Cost of goods sold		720,000
Gross profit		580,000
Operating expenses:		
Selling expense	$160,000	
General and administrative expense	75,000	
Total operating expenses		235,000
Operating income		345,000
Other income (expense):		
Interest revenue	30,000	
Gain on sale of investments	50,000	
Interest expense	(40,000)	
Total other income, net		40,000
Income before income taxes		385,000
Income tax expense		130,000
Net income		$ 255,000

Requirement 3

Earnings per share = $255,000 ÷ 100,000 shares = $2.55

Problem 2-5

Requirement 1

ACC PARTNERS
Income Statement
For the Year Ended December 31, 2024

Revenues and gains:		
Sales revenue		$2,350,000
Interest revenue		80,000
Total revenues and gains		2,430,000
Expenses and losses:		
Cost of sales	$1,200,300	
Marketing expense	300,000	
General and administrative expense	150,000	
Interest expense	90,000	
Loss on sale of investments	22,500	
Loss on sale of property	200,000	
Total expenses and losses		1,962,800
Income before income taxes		467,200
Income tax expense *		116,800
Net income		$ 350,400

* $467,200 × 25%

P2-5 Continued

Requirement 2

ACC PARTNERS
Income Statement
For the Year Ended December 31, 2024

Sales revenue		$2,350,000
Cost of sales		1,200,300
Gross profit		1,149,700
Operating expenses:		
Marketing expense	$300,000	
General and administrative expense	150,000	
Total operating expenses		450,000
Operating income		699,700
Other income (expense):		
Interest revenue	80,000	
Loss on sale of investments	(22,500)	
Loss on sale of property	(200,000)	
Interest expense	(90,000)	
Total other income, net		(232,500)
Income before income taxes		467,200
Income tax expense *		116,800
Net income		$350,400

*$467,200 x 25% = $116,800

Requirement 3

Earnings per share = $350,400 ÷ 160,000 shares = $2.19

Problem 2-6

Gator Investments
Income Statement
For the year ended Dec. 31, 2024

Service revenue	$127,600
Expenses:	
Advertising	33,500
Salaries	65,100
Utilities	15,500
Interest	3,500
Total expenses	117,600
Net income	$ 10,000

Gator Investments
Statement of Stockholders' Equity
For the year ended Dec. 31, 2024

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance	$100,000	$30,300	$130,300
Issuance of common stock	11,000		11,000
Add: Net income		10,000	10,000
Less: Dividends		(5,200)	(5,200)
Ending balance	$111,000	$35,100	$146,100

P2-6 continued

Gator Investments
Balance Sheet
Dec. 31, 2024

Assets		Liabilities	
Cash	$ 5,500	Accounts payable	$ 6,400
Equipment	27,000	Notes payable	30,000
Buildings	150,000	Total liabilities	36,400
		Stockholders' Equity	
		Common stock	111,000
		Retained earnings	35,100
		Total stockholders' equity	146,100
Total assets	$182,500	Total liabilities and stockholders' equity	$182,500

Problem 2-7

(Suggested order of calculation)

On the statement of stockholders' equity,
\$14,000 + (c) = \$17,000
(c) = **\$3,000**

\$7,000 + \$5,000 − (d) = \$8,000
(d) = **\$4,000**

(b) = **\$5,000**

From (b),
(a) − \$13,000 − \$7,000 − \$5,000 = \$5,000 (b)
(a) = **\$30,000**

From the statement of stockholders' equity,
(g) = **\$17,000**
(h) = **\$8,000**

From (g) and (h),
\$4,000 + \$17,000 (g) + \$8,000 (h) = (i)
(i) = **\$29,000**

From total liabilities and stockholders' equity,
(f) = **\$29,000**

From (f),
\$1,100 + (e) + \$6,000 + \$16,000 = \$29,000 (f)
(e) = **\$5,900**

Problem 2-8

	Type of Business Activity	Transactions
1.	**Operating**	Pay for advertising
2.	**Financing**	Pay dividends to stockholders
3.	**Operating**	Collect cash from customer for previous sale
4.	**Investing**	Purchase a building to be used for operations
5.	**Investing**	Purchase equipment
6.	**Investing**	Sell land
7.	**Financing**	Receive a loan from the bank by signing a note
8.	**Operating**	Pay suppliers for purchase of supplies
9.	**Operating**	Provide services to customers
10.	**Investing**	Invest in securities of another company

Problem 2-9

Shepa, Inc.
Statement of Cash Flows
For the year ended December 31, 2024

Sales to customers	$ 475,000	
Interest on investment	6,000	
Purchase of inventory	(33,000)	
Interest on notes payable	(5,000)	
Salaries to employees	(140,000)	
Operating expenses	(25,000)	
Purchase of supplies	(3,000)	
Income and property taxes	(11,000)	
Net cash flows from operating activities		**$ 264,000**
Collection of note receivable	50,000	
Sale of investments	30,000	
Sale of long-term asset	40,000	
Purchase of equipment	(18,000)	
Purchase of property	(400,000)	
Net cash flows from investing activities		**(298,000)**
Issuance of notes payable	202,000	
Issuance of equity	228,000	
Dividends to stockholders	(20,000)	
Repurchase of stock	(8,000)	
Net cash flows from financing activities		**402,000**
Net change in cash		368,000
Beginning cash		220,000
Ending cash		$ 588,000

Problem 2-10

Sundance Investments

Statement of Stockholders' Equity
For the year ended December 31, 2024

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Beginning balance	$10,000	$990,000	$400,000	$1,400,000
Net income			255,000	255,000
Dividends			(50,000)	(50,000)
Stock-based compensation		10,000		10,000
Ending balance	$10,000	$1,000,000	$605,000	$1,615,000

Problem 2-11

THE MASSOUD CONSULTING GROUP
Statement of Comprehensive Income
For the Year Ended December 31, 2024

Net income		$1,354,000
Other comprehensive income, net of tax:		
Foreign currency translation adjustment*	$180,000	
Unrealized loss on debt securities**	(60,000)	
Total other comprehensive income		120,000
Comprehensive income		$1,474,000

* $240,000 – ($240,000 × 25%)
** $80,000 – ($80,000 × 25%)