SOLUTIONS Learning Goal 14

Multiple Choice

1. d 2. a 3. b
4. b Cost of goods sold will be understated, so net income will overstated. Also, inventory should be $1,000 less, so current assets are overstated. (Use the accounting equation to visualize.)
5. b 6. a
7. c Because when more merchandise is purchased than can be sold, the inventory increases.
8. b 9. a 10. c
11. c (Did you remember to visualize by using the accounting equation?)
   Error: $\downarrow$ A = $\downarrow$ L + SE
   Correct: $\uparrow$ A = $\uparrow$ L + SE

Discussion Questions and Brief Exercises

1. Net Sales = Sales – Sales Discounts – Sales Returns and Allowances.
2.

A	=	L	+	SE
Merchandise Inventory				Sales Discounts
Purchase Discounts				Sales Ret. and Allow.
Purchase Ret. and Allow.				Freight-Out

Comment: Merchandise inventory is an asset. The cost of this asset is affected by discounts and returns and allowances (as well as freight-in cost). Sales discounts, sales returns and allowances, and freight-out all appear on an income statement, reducing net income. Any income statement item affects net income, which in turn affects retained earnings, a part of stockholders' equity.

3. a Gross Profit = Sales – Cost of Goods Sold. Gross profit represents how much dollar revenue remains after covering the cost of merchandise sold. Gross profit must be enough to cover remaining expenses and provide a net income.
   b Operating Income = Gross Profit – Operating Expenses. This is the recurring income that results from the business operations.
   c Net Income = Operating Income +/- Other Revenue/Gains and Other Expenses/Losses. This is the final amount of income for the period that includes all items.
4. If the company is in the business of selling supplies, then this would be sales revenue. Otherwise, the transaction is incidental to being in business and would be reported as "other" on the income statement.
5. The balance of inventory is an asset that is part of the trial balance. In the adjustments column, the inventory balance is adjusted for shrinkage by crediting inventory and debiting an expense, usually cost of goods sold. The adjusted balance is then carried to the balance sheet column. Inventory shrinkage is an unidentified decrease in inventory causing actual inventory to be less than what is reported in the inventory records.
6. The gross profit percentage is calculated as gross profit dividend by net sales. In this example, the gross profit percentage is: $162,000/$450,000 = .36, or 36%. The first important use of this calculation is to show management what percentage of each sales dollar remains after covering the cost of the merchandise that was sold. In effect, this is a measure of profitability before considering operating expenses. Because the dollar amounts are usually large, a small percentage change in the gross profit percentage can have a large dollar impact on net income.

SOLUTIONS Learning Goal 14, continued

The second important use of this classification is to compare profitability of different companies. Because the amount being calculated is a percentage, the profitability before operating expenses of companies of all sizes and types can be compared.

7. A multiple step income statement reveals more detail about net sales and the various types of expense categories, such as cost of goods sold, operating expenses, and other expenses. Several addition and subtraction steps are necessary to arrive at net income. A single-step income statement groups all items into two categories. It shows all items that increase net income in one group and all items that decrease net income in a second group; therefore, net income is calculated in single step by subtracting one total from the other.

8. 8. Use the formula BI + net P – EI = C of GS. $175,000 + X – $186,000 = $950,000, X = $961,000

9.

Debit	Credit
Sales	Sales Discounts
	Freight-Out
	Cost of Goods Sold
	Sales Ret. and Allow.

Note that the above are ***closing*** entries, which are the opposite of the account balances.

10. This is a very important and difficult decision. Gross profit is affected by both sales price and the cost of the goods sold. Gross profit could be increased in the following ways: increase sales price, decrease cost of goods sold, increase sales price and increase cost of goods sold less, and decrease sales price but decrease cost of goods sold more.

Increasing gross profit percentage is generally a good idea if an increase in sales price or a decrease in product quality does not result in a loss of customers and a decrease in total gross profit despite the increase in gross profit percentage.

An increase in the gross profit percentage would be unfavorable if the increase in the gross profit percentage drives customers away and reduces the sales volume to the point where a decrease in total gross profit dollars is the result.

SOLUTIONS

Learning Goal 14, continued

Reinforcement Problems

LG 14-1.

Multiple-step format:

Kutztown Company, Inc.
Income Statement
For the Year Ended December 31, 2017

Sales revenue			$294,000
Less: Sales returns and allowances		$2,550	
Sales discounts		3,900	6,450
Net sales revenue			287,550
Cost of goods sold			112,870
Gross profit			174,680
Operating expenses			
Selling expenses			
Salaries and wages expense	$55,500		
Advertising expense	3,500		
Freight-out	370		
Total selling expenses		59,370	
Administrative expenses			
Rent expense	26,000		
Depreciation expense	7,500		
Insurance expense	5,000		
Utilities expense	4,850		
Total administrative expenses		43,350	
Total operating expenses			102,720
Operating income			71,960
Other income			
Interest revenue		300	
Other expense			
Interest expense		1,700	1,400
Net income			$ 70,560

SOLUTIONS

Learning Goal 14, continued

LG 14-1, *continued*

Single-step format:

Kutztown Company, Inc.
Income Statement
For the Year Ended December 31, 2017

Revenues		
Net sales		$287,550
Interest revenue		300
Total revenues		287,850
Expenses		
Cost of goods sold	$112,870	
Selling expenses	59,370	
Administrative expenses	43,350	
Interest expense	1,700	
Total expenses		217,290
Net income		$ 70,560

SOLUTIONS

Learning Goal 14, continued

LG 14-1, *continued*

c. Closing entries

Date	Account	Post. Ref.	Dr.	Cr.
	Closing Entries			
Dec. 31	Sales Revenue		294,000	
	Interest Revenue		300	
	Income Summary			294,300
31	Income Summary		223,740	
	Cost of Goods Sold			112,870
	Sales Returns and Allowances			2,550
	Sales Discounts			3,900
	Salaries and Wages Expense			55,500
	Advertising Expense			3,500
	Freight-out			370
	Rent Expense			26,000
	Depreciation Expense			7,500
	Insurance Expense			5,000
	Utilities Expense			4,850
	Interest Expense			1,700
30	Income Summary		70,560	
	Retained Earnings			70,560

Comment: There are no dividends to record in this problem.

SOLUTIONS

Learning Goal 14, continued

LG 14-2.

Northern Colorado Company, Inc.
Worksheet
For the Year Ended December 31, 2017

					Adjusted		Income		Balance	
	Trial Balance		Adjustments		Trial Balance		Statement		Sheet	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	95,160				95,160				95,160	
Accounts Receivable	15,200				15,200				15,200	
Merchandise Inventory	13,200			(d) 1,700	11,500				11,500	
Store Supplies	1,100			(b) 700	400				400	
Prepaid Insurance	2,950			(c) 2,000	950				950	
Office Equipment	15,500				15,500				15,500	
Accum. Dep'n.—										
Office Equipment		10,250		(a) 500		10,750				10,750
Store Equipment	127,800				127,800				127,800	
Accum. Dep'n.—										
Store Equipment		127,800				127,800				127,800
Accounts Payable		51,300				51,300				51,300
Sales Tax Payable		750				750				750
Common Stock		10,000				10,000				10,000
Retained Earnings		57,900				57,900				57,900
Dividends	25,000				25,000				25,000	
Sales		510,500				510,500		510,500		
Sales Returns and										
Allowances	2,500				2,500		2,500			
Sales Discounts	3,250				3,250		3,250			
Cost of Goods Sold	353,300		(d) 1,700		355,000		355,000			
Insurance Expense	1,590		(c) 2,000		3,590		3,590			
Salaries and Wages Expense	85,500				85,500		85,500			
Rent Expense	24,000				24,000		24,000			
Utilities Expense	2,450				2,450		2,450			
Supplies Expense			(b) 700		700		700			
Depreciation Expense			(a) 500		500		500			
Totals	768,500	768,500	4,900	4,900	769,000	769,000	477,490	510,500	291,510	258,500
Net Income							33,010			33,010
Totals							510,500	510,500	291,510	291,510

SOLUTIONS

Learning Goal 14, continued

LG 14-2, *continued*

Northern Colorado Company, Inc.
Income Statement
For the Year Ended December 31, 2017

Sales revenue		$510,500
Less: Sales returns and allowances	$2,500	
Sales discounts	3,250	5,750
Net sales revenue		504,750
Cost of goods sold		355,000
Gross profit		149,750
Operating expenses		
Salaries and wages expense	85,500	
Rent expense	24,000	
Insurance expense	3,590	
Utilities expense	2,450	
Supplies expense	700	
Depreciation expense	500	
Total operating expenses		116,740
Net income		$ 33,010

Note: There are no selling expenses, so the expenses are simply *operating* expenses.

Northern Colorado Company, Inc.
Income Statement
For the Year Ended December 31, 2017

Revenue		
Net sales		$504,750
Expenses		
Cost of goods sold	$355,000	
Salaries and wages expense	85,500	
Rent expense	24,000	
Insurance expense	3,590	
Utilities expense	2,450	
Supplies expense	700	
Depreciation expense	500	
Total expenses		471,740
Net income		$ 33,010

SOLUTIONS Learning Goal 14, continued

LG 14-2, *continued*

c. Description of the purpose and effect of each adjusting entry:

(a) The purpose is to record depreciation expense for the period. The effect is to increase depreciation expense and also increase accumulated depreciation, which reduces the book value of the office equipment. The store equipment is already fully depreciated.
(b) The purpose is to record the amount of store supplies that have been used up. The effect is to decrease the asset Store Supplies and to increase Supplies Expense.
(c) The purpose is to record the amount of prepaid insurance that has been used up. The effect is to decrease the asset Prepaid Insurance and increase Insurance Expense.

d.

Dec.				
31	Sales		510,500	
	Income Summary			510,500
31	Income Summary		477,490	
	Cost of Goods Sold			355,000
	Sales Returns and Allowances			2,500
	Sales Discounts			3,250
	Insurance Expense			3,590
	Admin. Salaries and Wages			85,500
	Rent Expense			24,000
	Utilities Expense			2,450
	Supplies Expense			700
	Depreciation Expense			500
31	Income Summary		33,010	
	Retained Earnings			33,010
31	Retained Earnings		25,000	
	Dividends			25,000

SOLUTIONS Learning Goal 14, continued

LG 14-3.

a.

Note: For all these items you can use the formula: BI + P – (C of GS) = EI (Learning Goal 22)

(a) (Item *b* must be calculated first.) \$25,700 + *a* – \$31,280 = \$141,850, *a* = \$147,430
(b) \$215,300 – \$73,450 = \$141,850
(c) (Item d must be calculated first.) \$316,310 + \$51,540 = \$367,850
(d) \$50,410 + \$281,200 – \$15,300 = \$316,310
(e) *e* + \$98,320 – \$17,600 = \$100,330, *e* = \$19,610
(f) \$150,500 – \$100,330 = \$50,170
(g) \$135,150 + \$57,900 = \$193,050
(h) \$22,150 + \$125,800 – *h* = \$135,150, *h* = \$12,800

b.

Company #3
Income Statement
For the Year Ended June 30, 2017

Net sales revenue	\$150,500
Cost of goods sold	100,330
Gross profit	50,170
Operating expenses	38,500
Net income	\$ 11,670

SOLUTIONS

Learning Goal 14, continued

LG 14-4.

a.

Sioux City Enterprises, Inc. Worksheet For the Month Ended June 30, 2017										
Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	11,300				11,300				11,300	
Short-Term Investments	28,250				28,250				28,250	
Accounts Receivable	26,700		(a) 2,750		29,450				29,450	
Merchandise Inventory	19,950			(e) **300**	19,650				19,650	
Office Supplies	920				920				920	
Office Equipment	25,800				25,800				25,800	
Accum. Dep'n—										
Office Equipment		6,700		(b) 150		6,850				6,850
Store Equipment	314,500				314,500				314,500	
Accum. Dep'n.—										
Store Equipment		91,500		(b) 1,400		92,900				92,900
Wages Payable				(d) 3,200		3,200				3,200
Accounts Payable		34,200				34,200				34,200
Notes Payable		135,000				135,000				135,000
Common Stock		10,000				10,000				10,000
Retained Earnings		110,260				110,260				110,260
Dividends	4,500				4,500				4,500	
Sales		378,500		(a) 2,750		381,250		381,250		
Sales Returns and Allow.	8,150				8,150		8,150			
Sales Discounts	4,200				4,200		4,200			
Cost of Goods Sold	265,700		(e) **300**		266,000		266,000			
Admin. Wages Expense	25,000		(d) 2,000		27,000		27,000			
Sales Wages Expense	17,000		(d) 1,200		18,200		18,200			
Insurance Expense	2,150				2,150		2,150			
Rent Expense	4,000				4,000		4,000			
Advertising Expense	3,880				3,880		3,880			
Freight-out	2,960				2,960		2,960			
Utilities Expense	3,200				3,200		3,200			
Depreciation Expense—										
Office Equipment			(b) 150		150		150			
Depreciation Expense—										
Store Equipment			(b) 1,400		1,400		1,400			
Interest Expense			(c) 1,450		1,450		1,450			
Interest Payable				(c) 1,450		1,450				1,450
Rental income		2,000				2,000		2,000		
Totals	768,160	768,160	9,250	9,250	777,110	777,110	342,740	383,250	434,370	393,860
Net Income							40,510			40,510
							383,250	383,250	434,370	434,370

SOLUTIONS

Learning Goal 14, continued

LG 14-4, *continued*

b.

Multiple-step income statement:

Sioux City Enterprises, Inc.
Income Statement
For the Month Ended June 30, 2017

Sales revenue			$381,250
Less: Sales returns and allowances		$8,150	
Sales discounts		4,200	12,350
Net sales revenue			368,900
Cost of goods sold			266,000
Gross profit			102,900
Operating expenses			
Selling expenses			
Salaries and wages expense	$18,200		
Advertising expense	3,880		
Freight-out	2,960		
Total selling expenses		25,040	
Administrative expenses			
Salaries and wages expense	27,000		
Rent expense	4,000		
Utilities expense	3,200		
Insurance expense	2,150		
Depreciation expense	1,550		
Total administrative expense		37,900	
Total operating expenses			62,940
Operating income			39,960
Other revenues			
Rental income		2,000	
Other expenses			
Interest expense		1,450	550
Net income			$ 40,510

SOLUTIONS

Learning Goal 14, continued

LG 14-4, *continued*

Single-step income statement:

Sioux City Enterprises, Inc.
Income Statement
For the Month Ended June 30, 2017

Revenue		
Net sales		$368,900
Rental income		2,000
Total revenue		370,900
Expenses		
Cost of goods sold	$266,000	
Salaries and wages expense	45,200	
Rent expense	4,000	
Advertising expense	3,880	
Utilities expense	3,200	
Freight-out expense	2,960	
Insurance expense	2,150	
Depreciation expense	1,550	
Interest expense	1,450	
Total expenses		330,390
Net income		$ 40,510

Statement of owner's equity:

Sioux City Enterprises, Inc.
Statement of Retained Earnings
For the Month Ended June 30, 2017

Retained Earnings June 1	$110,260
Add: Net income	40,510
	150,770
Less: Dividends	4,500
Retained Earnings June 30	$146,270

SOLUTIONS

Learning Goal 14, continued

LG 14-4, *continued*

Balance Sheet

Sioux City Enterprises, Inc.
Balance Sheet
June 30, 2017

Assets		
Current assets		
Cash	$ 11,300	
Short-term investments	28,250	
Accounts receivable	29,450	
Merchandise inventory	19,650	
Office supplies	920	
Total current assets		$89,570
Property, plant, and equipment		
Office equipment	25,800	
Less: Accumulated depreciation	6,850	18,950
Store equipment	314,500	
Less: Accumulated depreciation	92,900	221,600
Total assets		$ 330,120
Liabilities and Stockholders' Equity		
Current liabilities:		
Wages payable	$ 3,200	
Accounts payable	34,200	
Interest payable	1,450	
Current portion of long-term debt	3,200	
Total current liabilities		$42,050
Long-term liabilities		
Notes payable	135,000	
Less: Current portion (above)	3,200	
Total long-term liabilities		131,800
Total liabilities		173,850
Stockholders' equity:		
Paid-in capital		
Common stock		
Retained earnings	10,000	
Total stockholders' equity	146,270	156,270
Total liabilities and owner's equity		$ 330,120

SOLUTIONS

Learning Goal 14, continued

LG 14-4, *continued*

c. Description of the purpose and the effect of the adjusting entries:

(a) The purpose is to record revenue that has been earned but not yet received (accrued revenue). The effect is to increase Accounts Receivable and increase Sales revenue.
(b) The purpose is to record depreciation expense for the period for the store equipment and the office equipment. The effect is to increase depreciation expense and to increase the accumulated depreciation for the store equipment and the office equipment. This reduces the book value of each asset.
(c) The purpose is to record interest expense that has been incurred but not yet paid (accrued expense). The effect is to increase Interest Expense and to increase Interest Payable.
(d) The purpose is to record wages expense that has been incurred but not yet paid (accrued expense). The effect is to increase Wages Expense and to increase Wages Payable.
(e) The $300 adjustment is to record inventory shrinkage; the effect is to reduce merchandise inventory on the books to the balance of the physical count and to increase cost of goods sold.

Closing entry

Date	Account	Post. Ref.	Dr.	Cr.
2008				
June 30	Sales		381,250	
	Rental Income		2,000	
	Income Summary			383,250
30	Income Summary		342,740	
	Cost of Goods Sold			266,000
	Sales Returns and Allowances			8,150
	Sales Discounts			4,200
	Administrative Wages Expense			27,000
	Sales Wages Expense			18,200
	Insurance Expense			2,150
	Rent Expense			4,000
	Advertising Expense			3,880
	Freight-out			2,960
	Utilities Expense			3,200
	Depreciation Expense—Office Equipment			150
	Depreciation Expense—Store Equipment			1,400
	Interest Expense			1,450

SOLUTIONS

Learning Goal 14, continued

LG 14-4, *continued*

Date	Account	Post. Ref.	Dr.	Cr.
June 30	Income Summary		40,510	
	Retained Earnings			40,510
30	Retained Earnings		4,500	
	Dividends			4,500

d. The current assets substantially exceed the current liabilities; however, the following payables will require a cash payment in July: Wages Payable $3,200, Accounts Payable $34,200, and Interest Payable $1,450. This is a definite July cash requirement of $38,850. (Some part of the current portion of long-term debt may also need to be paid in July, but that is not disclosed on the balance sheet.)

What liquid resources are available to meet the $38,850 cash requirement? Accounts Receivable will provide some amount close to $29,000, *if* most of the existing receivables are collected in July. (New receivables will be created from July sales.) The rest of the cash (about $10,000) will come from the Cash or Short-Term Investments account. Therefore, it is likely that there may be a decrease of about $10,000 in the liquid assets during July. What could change this? Borrowing money or substantial cash inflow from July operations would add liquid assets. Estimating the "liquidity" situation is always important.

LG 14-5.

a. Adjustments:

(a) The purpose is to record the using up of $2,500 of Prepaid Rent. The effect is to reduce the asset Prepaid Rent and increase Rent Expense.
(b) The purpose is to record $1,500 of sales that have been earned but not yet received (accrued revenue). The effect is to increase Accounts Receivable and increase Sales.
(c) The purpose is to record $6,400 of unearned revenue that has been earned during the period. The effect is to decrease Unearned Revenue and increase Sales.
(d) The purpose is to record that $350 of office supplies have been consumed during the period. The effect is to decrease Office Supplies and increase Supplies Expense.
(e) The purpose is to record $550 of Advertising expense that has been incurred but not yet paid (accrued expense). The effect is to increase Advertising Expense and increase Accounts Payable.
(f) The purpose is to record $1,200 of inventory shrinkage. The effect is to reduce the Merchandise Inventory account and to increase the Cost of Goods Sold account.

SOLUTIONS

Learning Goal 14, continued

LG 14-5, *continued*

b.

Date	Account	Post. Ref.	Dr.	Cr.
20*xx*	*Closing Entries*			
Dec. 31	Sales		268,400	
	Interest Revenue		750	
	Income Summary			269,150
31	Income Summary		209,850	
	Sales Returns and Allowances			1,500
	Sales Discounts			1,200
	Cost of Goods Sold			190,100
	Supplies Expense			800
	Insurance Expense			250
	Advertising Expense			550
	Rent Expense			2,500
	Wages Expense			12,950
31	Income Summary		59,300	
	Retained Earnings			59,300
31	Retained Earnings		4,700	
	Dividends			4,700

c. The business has a net income for the period of $59,300 because the credits to Income Summary of 269,150 exceed the debits to Income Summary 209,850. (A net loss would occur if the debits to Income Summary exceeded the credits to Income Summary.)

SOLUTIONS

Learning Goal 14, continued

LG 14-6.

Date	Account	Post. Ref.	Dr.	Cr.
	Adjusting Entries			
June 30	Supplies Expense		600	
	Office Supplies			600
30	Wages Expense		2,600	
	Wages Payable			2,600
30	Depreciation Expense		650	
	Accumulated Depreciation			650
	Closing Entries			
	Sales Revenue		204,200	
	Interest Revenue		300	
	Income Summary			204,500
			146,380	
	Income Summary			
	Cost of Goods Sold			116,530
	Sales Returns and Allowances			1,700
	Sales Discounts			3,500
	Rent Expense			4,500
	Wages Expense			14,700
	Freight-out Expense			700
	Utilities Expense			1,600
	Advertising Expense			1,900
	Supplies Expense			600
	Depreciation Expense			650
30	Income Summary		58,120	
	Retained Earnings			58,120
30	Retained Earnings		5,000	
	Dividends			5,000

Comment: Don't forget to include the effects of the adjusting entries for Supplies Expense, Wages Expense, and Depreciation Expense into the account balances before you do the closing.

SOLUTIONS **Learning Goal 14, continued**

LG 14-7.

a.

Date	Account	Post. Ref.	Dr.	Cr.
2017				
Dec. 31	Sales		892,450	
	Other Income—Rental		9,500	
	Interest Earned		3,360	
	Income Summary			905,310
30	Income Summary		779,650	
	Sales Returns and Allowances			5,200
	Sales Discounts			15,730
	Cost of Goods Sold			570,100
	Salaries Expense—Administrative			94,700
	Salaries Expense—Sales and Marketing			25,600
	Insurance Expense			7,500
	Rent Expense			24,850
	Utilities Expense			2,480
	Advertising Expense			11,300
	Customer Delivery Expense			2,400
	Depreciation Expense—Office Equipment			2,200
	Depreciation Expense—Store Equipment			12,590
	Interest Expense			5,000
30	Income Summary		125,660	
	Retained Earnings			125,660
30	Retained Earnings		69,500	
	Dividends			69,500

SOLUTIONS

Learning Goal 14, continued

LG 14-7, *continued*

b.

Income statement

McGuire Company, Inc.
Income Statement
For the Year Ended December 31, 2017

Sales revenue			$892,450
Less: Sales returns and allowances		$5,200	
Sales discounts		15,730	20,930
Net sales revenue			871,520
Cost of goods sold			570,100
Gross profit			301,420
Operating expenses			
Selling expenses			
Salaries expense	$25,600		
Advertising expense	11,300		
Customer delivery expense	2,400		
Total selling expenses		39,300	
Administrative expenses			
Salaries expense	94,700		
Rent expense	24,850		
Depreciation expense	14,790		
Insurance expense	7,500		
Utilities expense	2,480		
Total administrative expense		144,320	
Total operating expenses			183,620
Operating income			117,800
Other revenues			
Interest revenue	3,360		
Rental income	9,500		
Other expenses			
Interest expense	5,000		7,860
Net income			$125,660

SOLUTIONS **Learning Goal 14, continued**

LG 14-7, *continued*

b.

Single-step income statement

McGuire Company, Inc.
Income Statement
For the Year Ended December 31, 2017

Revenue		
Net sales		$871,520
Rental income		9,500
Interest income		3,360
Total revenue		884,380
Expenses		
Cost of goods sold	$570,100	
Salaries and wages expense	120,300	
Rent expense	24,850	
Depreciation expense	14,790	
Advertising expense	11,300	
Insurance expense	7,500	
Interest expense	5,000	
Utilities expense	2,480	
Customer delivery expense	2,400	
Total expenses		758,720
Net income		$125,660

Statement of retained earnings

McGuire Company, Inc.
Statement of Retained Earnings
For the Year Ended December 31, 2017

Retained Earnings, January 1	$195,170
Net income	125,660
	320,380
Less: Dividends	69,500
Retained Earnings, December 31	$251,330

Note that in a corporation an owner (stockholder) investment would increase the common stock account, and not affect retained earnings.

SOLUTIONS

Learning Goal 14, continued

LG 14-7, *continued*

Balance Sheet

McGuire Company, Inc.
Balance Sheet
December 31, 2017

Assets		
Current assets		
Cash	$ 16,850	
Short-term investments	8,100	
Accounts receivable	42,700	
Merchandise inventory	164,200	
Prepaid travel	2,500	
Total current assets		$234,350
Property, plant, and equipment		
Office equipment	29,200	
Less: Accumulated depreciation	15,300	13,900
Store equipment	125,300	
Less: Accumulated depreciation	75,900	49,400
Land		75,000
Total assets		$372,650
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$38,600	
Sales tax payable	17,220	
Unearned revenue	3,500	
Total current liabilities		$59,320
Long-term liabilities		
Notes payable		50,000
Total liabilities		109,320
Stockholders' equity		
Paid-in capital		
Common stock	12,000	
Retained earnings	251,330	263,330
Total stockholders' equity		$ 372,650
Total liabilities and owner's equity		

c. The total current assets are significantly greater than total current liabilities, and this generally is a good situation. However, in this situation, most of the current asset value consists of inventory. The current sources of cash are Cash, Short-Term Investments, and Accounts Receivable, which total $67,650. The combination of Accounts Payable and Sales Tax Payable will require cash of $55,820 to be paid in January. It appears that in January almost all the current sources of cash will be used up and the liquidity situation will become difficult. What could change this? If the business borrows cash or has especially good cash inflows from January operations, the situation could improve.

SOLUTIONS

Learning Goal 14, continued

LG 14-8.

a.

a. $2,000 + $111,400 = $113,400
b. $111,400 – $50,160 = $61,240
c. $212,500 – $201,600 = $10,900
d. $201,600 – $128,700 = $72,900
e. First, *f* must be calculated: $414,400 + $7,500 = $421,900
f. $99,200 + $315,200 = $414,400
g. $117,350 – $2,500 = $114,850
h. $114,850 – $71,000 = $43,850
i. $314,850 – $312,000 = $2,850
j. $312,000 – $95,900 = $216,100

b. Gross profit percentages:

#1 $50,160/$111,400 = .45
#2 $72,900/$201,600 = .362
#3 $99,200/$414,400 = .239
#4 $43,850/$114,850 = .382
#5 $95,900/$312,000 = .307

c. Company #5 shows the greatest profit in total dollars; however, Company #1 has the highest gross profit percentage with $.45 of each sales dollar retained as gross profit.