Required:

1. For each of the transactions, complete the tabulation, indicating the effect (+ for increase and – for decrease) of each transaction. (Remember that A = L + SE, R – E = NI, and NI affects SE through Retained Earnings.) Write NE if there is no effect. The first transaction is provided as an example.

	BALANCE SHEET			INCOME STATEMENT		
Transaction	**Assets**	**Liabilities**	**Stockholders' Equity**	**Revenues**	**Expenses**	**Net Income**
(*a*) (example)	+/−	+	NE	NE	NE	NE

2. Where, if at all, would each transaction be reported on the statement of cash flows? Use O for operating activities, I for investing activities, F for financing activities, and NE if the transaction would not be included on the statement.

P3-4

Analyzing the Effects of Transactions Using T-Accounts, Preparing an Income Statement, and Evaluating the Net Profit Margin Ratio as a Manager (AP3-4)

LO3-4, 3-5, 3-6

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Kaylee James, a connoisseur of fine chocolate, opened Kaylee's Sweets in Collegetown on February 1, 2014. The shop specializes in a selection of gourmet chocolate candies and a line of gourmet ice cream. You have been hired as manager. Your duties include maintaining the store's financial records. The following transactions occurred in February 2014, the first month of operations.

a. Received four shareholders' contributions totaling $30,200 cash to form the corporation; issued 400 shares of $.10 par value common stock.
b. Paid three months' rent for the store at $1,750 per month (recorded as prepaid expenses).
c. Purchased and received candy for $6,000 on account, due in 60 days.
d. Purchased supplies for $1,560 cash.
e. Negotiated and signed a two-year $11,000 loan at the bank, receiving cash at the time.
f. Used the money from (*e*) to purchase a computer for $2,750 (for recordkeeping and inventory tracking); used the balance for furniture and fixtures for the store.

g. Placed a grand opening advertisement in the local paper for $400 cash; the ad ran in the current month.
h. Made sales on Valentine's Day totaling $3,500; $2,675 was in cash and the rest on accounts receivable. The cost of the candy sold was $1,600.
i. Made a $550 payment on accounts payable.
j. Incurred and paid employee wages of $1,300.
k. Collected accounts receivable of $600 from customers.
l. Made a repair to one of the display cases for $400 cash.
m. Made cash sales of $1,200 during the rest of the month. The cost of the candy sold was $600.

Required:

1. Set up appropriate T-accounts for Cash, Accounts Receivable, Supplies, Inventory, Prepaid Expenses, Equipment, Furniture and Fixtures, Accounts Payable, Notes Payable, Common Stock, Additional Paid-in Capital, Sales Revenue, Cost of Goods Sold (expense), Advertising Expense, Wage Expense, and Repair Expense. All accounts begin with zero balances.
2. Record in the T-accounts the effects of each transaction for Kaylee's Sweets in February, referencing each transaction in the accounts with the transaction letter. Show the ending balances in the T-accounts. Note that transactions (*h*) and (*m*) require two types of entries, one for revenue recognition and one for the expense.
3. Prepare an income statement at the end of the month ended February 28, 2014.
4. Write a short memo to Kaylee offering your opinion on the results of operations during the first month of business.

5.

After three years in business, you are being evaluated for a promotion. One measure is how effectively you managed the sales and expenses of the business. The following data are available:

	2016*	2015	2014
Total assets	$88,000	$58,500	$52,500
Total liabilities	49,500	22,000	18,500
Total stockholders' equity	38,500	36,500	34,000
Net sales revenue	93,500	82,500	55,000
Net income	22,000	11,000	4,400

**At the end of 2016, Kaylee decided to open a second store, requiring loans and inventory purchases prior to the store's opening in early 2017.*

Compute the net profit margin ratio for each year and evaluate the results. Do you think you should be promoted? Why?

P3-5

Identifying Cash Flow Effects (AP3-5)

LO3-5

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Refer to P3-4.

Required:

For the transactions listed in P3-4, indicate the type of effect on cash flows (O for operating, I for investing, and F for financing) and the direction (+ for increase and − for decrease) and amount of the effect. If there is no effect, write NE.

P3-6

Analyzing the Effects of Transactions Using T-Accounts, Preparing an Income Statement, and Evaluating the Net Profit Margin Ratio (AP3-6)

LO3-4, 3-5, 3-6

FedEx

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Following are account balances (in millions of dollars) from a recent FedEx annual report, followed by several typical transactions. Assume that the following are account balances on May 31, 2014:

Account	Balance	Account	Balance
Property and equipment (net)	$15,543	Receivables	$4,581
Retained earnings	12,716	Other current assets	610
Accounts payable	1,702	Cash	2,328
Prepaid expenses	329	Spare parts, supplies, and fuel	437
Accrued expenses payable	1,894	Other noncurrent liabilities	5,616
Long-term notes payable	1,667	Other current liabilities	1,286
Other noncurrent assets	3,557	Additional paid-in capital	2,472
Common stock ($0.10 par value)	32		

These accounts are not necessarily in good order and have normal debit or credit balances. Assume the following transactions (in millions) occurred the next year ending May 31, 2015:

a. Provided delivery service to customers, receiving $21,704 in accounts receivable and $17,600 in cash.
b. Purchased new equipment costing $3,434; signed a long-term note.
c. Paid $13,864 cash to rent equipment and aircraft, with $10,136 for rental this year and the rest for rent next year.
d. Spent $3,864 cash to maintain and repair facilities and equipment during the year.
e. Collected $24,285 from customers on account.
f. Repaid $350 on a long-term note (ignore interest).
g. Issued 20 shares of additional stock for $16.
h. Paid employees $15,276 during the year.

Required:

For the transactions listed in AP3-4, indicate the type of activity (O for operating, I for investing, and F for financing) and the direction (+ for increase, − for decrease) and amount of the effect. If the transaction had no effect on cash flows, write NE.

AP3-6

Analyzing the Effects of Transactions Using T-Accounts, Preparing an Income Statement, and Evaluating the Net Profit Margin Ratio (P3-6)

LO3-4, 3-5, 3-6

ExxonMobil


The following are the summary account balances from a recent balance sheet of Exxon Mobil Corporation. The accounts have normal debit or credit balances, but they are not necessarily listed in good order. The amounts are shown in millions of dollars. Assume the year-end is December 31, 2013.

Cash	$ 12,664	Marketable securities (short-term investments)	$ 404
Notes payable (long-term)	7,711	Accounts payable	57,067
Accounts receivable	38,642	Income tax payable	12,727
Inventories	11,665	Prepaid expenses	3,359
Other long-term debt	83,481	Investments	34,333
Property and equipment, net	214,664	Other assets and intangibles, net	9,092
Contributed capital	9,512	Notes payable (short-term)	9,322
Other current assets	6,229		
Retained earnings	151,232		

The following is a list of hypothetical transactions for January 2014 (in millions of dollars):

a. Purchased on account $1,610 of new equipment.
b. Received $3,100 on accounts receivable.
c. Received and paid $3 for utility bills.
d. Earned $39,780 in sales on account with customers; cost of sales was $5,984.
e. Paid employees $1,238 for wages earned during the month.
f. Paid three-fourths of the income taxes payable.
g. Purchased $23 in supplies on account (include in Inventories).
h. Prepaid $82 to rent a warehouse next month.
i. Paid $10 of other long-term debt principal and $1 in interest expense on the debt.
j. Purchased a patent (an intangible asset) for $6 cash.

Required:

1. Prepare T-accounts for December 31, 2013, from the preceding list; enter the beginning balances. You will need additional T-accounts for income statement accounts; enter zero for beginning balances.
2. For each transaction, record the effects in the T-accounts. Label each using the letter of the transaction. Compute ending balances. (**Note:** Record two transactions in (*d*), one for revenue recognition and one for the expense.)
3. Prepare an income statement for January 2014.
4. Compute the company's net profit margin ratio for the month ended January 31, 2014. What does it suggest to you about Exxon Mobil?

CASES **AND PROJECTS**

Annual Report Cases

CP3-1

Finding Financial Information

LO3-2, 3-4, 3-6

AMERICAN EAGLE
OUTFITTERS, INC.

Refer to the financial statements of American Eagle Outfitters in Appendix B at the end of the book.

Page 155

Required:

1. State the amount of the largest expense on the income statement for the year ended January 28, 2012, and describe the transaction represented by the expense.
2. Assuming that all net sales are on credit, how much cash did American Eagle Outfitters collect from customers?* (**Hint:** Use a T-account of accounts receivable to infer collection.)
3. A shareholder has complained that "more dividends should be paid because the company had net earnings of $151,705,000. Since this amount is all cash, more of it should go to the owners." Explain why the shareholder's assumption that earnings equal net cash inflow is valid. If you believe that the assumption is **not** valid, state so and support your position concisely.
4. Describe and contrast the purpose of an income statement versus a balance sheet.
5. Compute the company's net profit margin for each year presented. Explain its meaning.

CP3-2

Finding Financial Information

LO3-2, 3-4, 3-6

Refer to the financial statements of Urban Outfitters in Appendix C at the end of the book.

Required:

1. What is the company's revenue recognition policy? (**Hint:** Look in the notes to the financial statements.)
2. Assuming that $50 million of cost of sales was due to noninventory purchase expenses (distribution and occupancy costs), how much inventory did the company buy during the year? (**Hint:** Use a T-account of inventory to infer how much was purchased.)
3. Calculate selling, general, and administrative expenses as a percent of sales for each year presented. By what percent did these expenses increase or decrease from fiscal years ended 2011 and 2012 and between 2010 and 2011? (**Hint:** Percentage Change = [Current Year Amount − Prior Year Amount]/Prior Year Amount.)
4. Compute the company's net profit margin for each year presented and explain its meaning.

CP3-3

Comparing Companies within an Industry

LO3-2, 3-4, 3-6

AMERICAN EAGLE
OUTFITTERS, INC.

Refer to the financial statements of American Eagle Outfitters in Appendix B, Urban Outfitters in Appendix C, and the Industry Ratio Report in Appendix D at the end of this book.

Required:

URBN
URBAN OUTFITTERS INC.

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1. By what title does each company call its income statement? Explain what "Consolidated" means.
2. Which company had higher net income for the fiscal year?
3. Compute the net profit margin ratio for both companies for the year. Which company is managing revenues and expenses more effectively?
4. Compare the net profit margin ratio for both companies for the most recent year presented to the industry average. On average, are these two companies managing sales and expenses better or worse than their competitors?
5. How much cash was provided by operating activities for each year by each company? What was the percentage change in operating cash flows (1) from fiscal year ended 2010 to 2011 and (2) from fiscal year ended 2011 to 2012? (**Hint:** Percentage Change = [Current Year Amount − Prior Year Amount]/Prior Year Amount.)

Financial Reporting and Analysis Cases

CP3-4

Analyzing a Company over Time

LO3-6

AMERICAN EAGLE
OUTFITTERS, INC.

Refer to the annual report for American Eagle Outfitters in Appendix B.