15-4 APPLICATION PROBLEM

Preparing a balance sheet for a corporation

Henderson Corporation's partial work sheet for the year ended December 31 of the current year is given in the *Working Papers*. A form for completing this problem is also given in the *Working Papers*. The December 31 balance in retained earnings reported on the statement of stockholders' equity is $97,294.85.

Instructions:

1. Prepare a balance sheet in report form.

15-5 MASTERY PROBLEM

Preparing financial statements

The work sheet for Lighting Center, Inc., for the year ended December 31 of the current year and forms for completing this problem are given in the *Working Papers*.

Instructions:

1. Prepare an income statement. Calculate and record the following component percentages: (a) cost of merchandise sold, (b) gross profit on sales, (c) total expenses, and (d) net income or loss before federal income tax. Round percentage calculations to the nearest 0.1%.
2. Prepare a statement of stockholders' equity. The company had 90,000 shares of $1.00 par value stock outstanding on January 1. The company issued an additional 10,000 shares during the year.
3. Prepare a balance sheet in report form.
4. Calculate the earnings per share and price-earnings ratio. The current market price of the stock is $28.50.

15-6 CHALLENGE PROBLEM

Analyzing component percentages and financial ratios

Instructions:

1. Obtain the financial statements of two corporations in similar industries. Calculate the income statement component percentages, earnings per share, and price-earnings ratio of each corporation. The current market price of each stock can be obtained from a newspaper or online. *Note: Annual reports may be available in your classroom, school library, or public library. They can also be found online.*
2. Contrast the component percentages of the companies. Identify which company you believe is performing better.

15-5 MASTERY PROBLEM, p. 474

Preparing financial statements

Lighting Center, Inc.

Work Sheet

For Year Ended December 31, 20 – –

		1	2	3	4	5	6	7	8	
	ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET		
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	Cash	14,258.00						14,258.00		1
2	Petty Cash	500.00						500.00		2
3	Accounts Receivable	22,318.25						22,318.25		3
4	Allow. for Uncoll. Accts.		1,088.80		(e) 1,525.00				2,613.80	4
5	Merchandise Inventory	219,248.25			(d) 2,154.25			217,094.00		5
6	Supplies—Office	3,510.15			(a) 3,015.12			495.03		6
7	Supplies—Store	4,828.19			(b) 3,815.32			1,012.87		7
8	Prepaid Insurance	12,000.00			(c) 10,000.00			2,000.00		8
9	Office Equipment	23,185.00						23,185.00		9
10	Acc. Depr.—Office Equip.		8,450.00		(f) 4,050.00				12,500.00	10
11	Store Equipment	46,184.00						46,184.00		11
12	Acc. Depr.—Store Equip.		12,280.00		(g) 6,025.00				18,305.00	12
13	Accounts Payable		24,158.20						24,158.20	13
14	Federal Income Tax Payable				(h) 52.86				52.86	14
15	Emp. Income Tax Payable		1,055.00						1,055.00	15
16	Social Security Tax Payable		747.60						747.60	16
17	Medicare Tax Payable		174.84						174.84	17
18	Sales Tax Payable		2,248.25						2,248.25	18
19	Unemploy. Tax Payable—Fed.		25.60						25.60	19
20	Unemploy. Tax Payable—State		172.80						172.80	20
21	Health Insur. Premiums Payable		750.00						750.00	21
22	U.S. Savings Bonds Payable		100.00						100.00	22
23	United Way Donations Payable		70.00						70.00	23
24	Dividends Payable		10,000.00						10,000.00	24
25	Capital Stock		100,000.00						100,000.00	25
26	Retained Earnings		107,246.92						107,246.92	26

(Note: Work sheet is continued on next page.)

15-5 MASTERY PROBLEM (continued)

Lighting Center, Inc.

Work Sheet

For Year Ended December 31, 20 – –

		1	2	3	4	5	6	7	8
		TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
	ACCOUNT TITLE	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
27	Dividends	40,000.00						40,000.00	
28	Income Summary			(d) 2,154.25		2,154.25			
29	Sales		745,824.50				745,824.50		
30	Sales Discount	1,154.25				1,154.25			
31	Sales Returns and Allowances	3,481.25				3,481.25			
32	Purchases	368,482.22				368,482.22			
33	Purchases Discount		1,548.00				1,548.00		
34	Purch. Returns and Allowances		3,848.77				3,848.77		
35	Advertising Expense	12,510.00				12,510.00			
36	Cash Short and Over	14.02				14.02			
37	Credit Card Fee Expense	9,182.22				9,182.22			
38	Depr. Exp.—Office Equipment			(f) 4,050.00		4,050.00			
39	Depr. Exp.—Store Equipment			(g) 6,025.00		6,025.00			
40	Insurance Expense			(c) 10,000.00		10,000.00			
41	Miscellaneous Expense	12,140.00				12,140.00			
42	Payroll Taxes Expense	15,482.98				15,482.98			
43	Rent Expense	36,000.00				36,000.00			
44	Salary Expense	139,158.47				139,158.47			
45	Supplies Expense—Office			(a) 3,015.12		3,015.12			
46	Supplies Expense—Store			(b) 3,815.32		3,815.32			
47	Uncollectible Accounts Expense			(e) 1,525.00		1,525.00			
48	Utilities Expense	8,152.03				8,152.03			
49	Federal Income Tax Expense	28,000.00		(h) 52.86		28,052.86			
50		1019,789.28	1019,789.28	30,637.55	30,637.55	664,394.99	751,221.27	367,047.15	280,220.87
51	Net Income after Fed. Income Tax					86,826.28			86,826.28
52						751,221.27	751,221.27	367,047.15	367,047.15

15-5 MASTERY PROBLEM (continued)

1.

					*% OF NET SALES

15-5 MASTERY PROBLEM (continued)

2.

4.

Earnings per Share

Net Income after Federal Income Tax	÷	Number of Shares Outstanding	=	Earnings per Share
$	÷		=	$

Price-Earnings Ratio

Market Price per Share	÷	Earnings per Share	=	Price-Earnings Ratio
$	÷	$	=	

3.