

Problem 1

Juniper Corporation provided the following summary balance sheet information:

	<u>Dec. 31, 20X8</u>	<u>Dec. 31, 20X9</u>
Total assets	\$2,500,000	\$3,800,000
Total liabilities	900,000	1,300,000

Compute net income for the year ending December 31, 20X9, under each of the following independent scenarios:

- a) Juniper paid no dividends, and no additional capital was raised via share issuances.
- b) Juniper paid \$300,000 in dividends, and no additional capital was raised via share issuances.
- c) Juniper paid no dividends, but raised \$1,500,000 via issuances of additional shares of stock.
- d) Juniper paid \$300,000 in dividends, and raised \$1,150,000 via issuances of additional shares of stock.

Worksheet 1

	<u>Dec. 31, 20X8</u>	<u>Dec. 31, 20X9</u>
Total assets	\$2,500,000	\$3,800,000
Total liabilities	<u>900,000</u>	<u>1,300,000</u>
Total Equity	<u> </u>	<u> </u>
Ending Equity		
Total liabilities		<u> </u>
Total Equity		<u> </u>

- a) Juniper paid no dividends, and no additional capital was raised via share issuances.
- b) Juniper paid \$300,000 in dividends, and no additional capital was raised via share issuances.
- c) Juniper paid no dividends, but raised \$1,500,000 via issuances of additional shares of stock.
- d) Juniper paid \$300,000 in dividends, and raised \$1,150,000 via issuances of additional shares of stock.

Solution 1

	Dec. 31, 20X8	Dec. 31, 20X9
Total assets	\$2,500,000	\$3,800,000
Total liabilities	900,000	1,300,000
Total Equity	\$ 1,600,000	\$ 2,500,000
Ending Equity		\$ 2,500,000
Beginning Equity		1,600,000
Change in Equity		<u>\$ 900,000</u>

- a) **Juniper paid no dividends, and no additional capital was raised via share issuances.**

Because there were no dividends and no issues of stock, the **\$900,000** increase in equity is all attributable to net income.

$$\$1,600,000 + \$0 \text{ for stock issuances} - \$0 \text{ for dividends} + \text{net income } (\$900,000) = \$2,500,000$$

- b) **Juniper paid \$300,000 in dividends, and no additional capital was raised via share issuances.**

Because there were \$300,000 in dividends and no issues of stock, the \$900,000 increase in equity would require a **\$1,200,000 net income**.

$$\$1,600,000 + \$0 \text{ for stock issuances} - \$300,000 \text{ for dividends} + \text{net income } (\$1,200,000) = \$2,500,000$$

- c) **Juniper paid no dividends, but raised \$1,500,000 via issuances of additional shares of stock.**
Because there were no dividends, but \$1,500,000 of stock issuances, Juniper had a **net loss of \$600,000**.

$$\$1,600,000 + \$1,500,000 \text{ for stock issuances} - \$0 \text{ for dividends} + \text{net income } (-\$600,000) = \$2,500,000$$

- d) **Juniper paid \$300,000 in dividends, and raised \$1,150,000 via issuances of additional shares of stock.**

Because there were \$300,000 in dividends, and \$1,150,000 of stock issuances, Juniper had a **net income of \$50,000**.

$$\$1,600,000 + \$1,150,000 \text{ for stock} - \$300,000 \text{ for dividends} + \text{net income } (\$50,000) = \$2,500,000$$