

Problem 4

Scream Clean Company provided the following very limited set of data. Use this information to determine net income for the years ending December 31, 20X6, 20X7, 20X8, and 20X9. The company was formed at the beginning of January, 20X6 by issuing \$350,000 of capital stock. No additional shares were issued during the 4-year period. The company's 20X9 dividends were equal to 50% of the 20X9 net income.

Revenues, 20X7	\$315.000
Dividends, 20X8	52.500
Total equity, December 31, 20X8	735.000
Total liabilities, December 31, 20X8	770.000
Retained earnings, December 31, 20X6	143.500
Expenses, 20X7	154.000
Retained earnings, December 31, 20X7	280.000
Dividends, 20X6	35.000
Total assets, December 31, 20X9	1.750.000
Increase in liabilities, 20X9	175.000

Worksheet 4

- 20X6

- 20X7

- 20X8

- 20X9

Solution 4

• 20X6

Retained earnings, December 31, 20X6	\$	143,500
Plus: Dividends paid during 20X6		35,000
Net income for the year ending December 31, 20X6	\$	<u>178,500</u>

• 20X7

Revenues for the year ending December 31, 20X7	\$	315,000
Less: Expenses for the year ending December 31, 20X7		154,000
Net income for the year ending December 31, 20X7	\$	<u>161,000</u>

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- **20X8**

Total equity, December 31, 20X8	\$	735,000
Less: Capital stock		350,000
Retained earnings, December 31, 20X8	\$	385,000
Less: Retained earnings, December 31, 20X7		280,000
Increase in retained earnings during 20X8	\$	105,000
Plus: Dividends paid during 20X8		52,500
Net income for the year ending December 31, 20X8	\$	157,500

- **20X9**

Total liabilities, December 31, 20X8	\$	770,000
Plus: Increase in liabilities during 20X9		175,000
Total liabilities, December 31, 20X9	\$	945,000
	\$	-
Total assets, December 31, 20X9	\$	1,750,000
Less: Total liabilities, December 31, 20X9		945,000
Total equity, December 31, 20X9	\$	805,000
Less: Capital stock		350,000
Retained earnings, December 31, 20X9	\$	455,000
Less: Retained earnings, December 31, 20X8		385,000
Increase in retained earnings during 20X9	\$	70,000

The 20X9 net income was \$140,000

Proof:

$$\begin{aligned} \text{Dividends} &= \text{Net Income} \times 50\% \\ \text{Increase in Retained Earnings} &= \text{Net Income} - \text{Dividends} \end{aligned}$$

thus:

$$\begin{aligned} \$70,000 &= \text{Net income} - (\text{Net income} \times 50\%) \\ \$70,000 &= 0.5 \times \text{Net Income} \\ \text{Net Income} &= \$140,000 \end{aligned}$$