

Problem 6

Glasgow Corporation provided the following listing of financial statement elements and their respective balances. The periodic amounts relate to the year ending December 31, 20X9, and the point-in-time amounts reflect balances as of December 31, 20X9, unless otherwise implied. Unfortunately, the company has been unable to locate its listing of assets, but all other information is complete, albeit in disarray.

| | |
|-----------------------------|-----------|
| Capital stock | \$375,000 |
| Wage expense | 60,000 |
| Revenue | 120,000 |
| Rent expense | 33,000 |
| Beginning retained earnings | 133,500 |
| Utilities expense | 16,500 |
| Accounts payable | 18,750 |
| Dividends | 3,750 |
| Notes payable | 75,000 |

- Determine Glasgow's net income for the year ending December 31, 20X9.
- How much are Total assets of the company, as of December 31, 20X9?
- If you were told that assets included an accounts receivable of \$7,500 for services provided during 20X9, and that such transactions had been excluded in calculating the given "revenue" amount, how would this influence your answer to part (a) above?

Worksheet 6

a) Revenue \$ 120,000

b)

c)

Solution 6

a)

| | | | |
|-------------------|----|--------|------------------|
| Revenue | | \$ | 120,000 |
| Less expenses | | | |
| Wage expense | \$ | 60,000 | |
| Rent expense | | 33,000 | |
| Utilities expense | | 16,500 | 109,500 |
| Net income | | | <u>\$ 10,500</u> |

b)

| | | |
|-----------------------------|----|----------------|
| Beginning retained earnings | \$ | 133,500 |
| Plus: Net income | | 10,500 |
| | \$ | <u>144,000</u> |
| Less: Dividends | | 3,750 |
| Ending retained earnings | \$ | <u>140,250</u> |
| Capital stock | \$ | 375,000 |
| Ending retained earnings | | 140,250 |
| Total stockholders' equity | \$ | <u>515,250</u> |
| Accounts payable | \$ | 18,750 |
| Notes payable | | 75,000 |
| Total liabilities | \$ | <u>93,750</u> |
| Total liabilities | \$ | 93,750 |
| Total stockholders' equity | | 515,250 |
| Total assets | \$ | <u>609,000</u> |

c) If, indeed, \$7,500 of services was rendered on account, it should have been included in revenues. This would result in an increase in net income (and therefore retained earnings and total equity) to match the increase in Total assets. Revenues are to be recorded as earned.