

Income statement and laser recording systems essay sample



**ASSIGN
BUSTER**

Natalie hires an assistant at an hourly wage of \$8 to help with cookie making and some administrative duties. Natalie teaches the class that was booked on November 25. The balance outstanding is received. Cookie Creations receives a check for the amount due from the neighborhood school for the class given on November 30. Cookie Creations receives \$750 in advance from the local school board for five classes that the company will give during December and January. Pays the cell phone invoice outstanding at November 30. Issues a check to Natalie's brother for the amount owed for the design of the website. Receives a deposit of \$60 on a cookie class scheduled for early January. Additional revenue earned during the month for cookie-making classes amounts to \$4,000. (Natalie has not had time to account for each class individually.) \$3,000 in cash has been collected and \$1,000 is still outstanding. (This is in addition to the December 5 and December 9 transactions.)

Additional baking supplies purchased during the month for sugar, flour, and chocolate chips amount to \$1,250 cash. Issues a check to Natalie's assistant for \$800. Her assistant worked approximately 100 hours from the time in which she was hired until December 23. Pays a dividend of \$500 to the common shareholder (Natalie). As of December 31, Cookie Creations' year-end, the following adjusting entry data are provided. 1. A count reveals that \$45 of brochures and posters were used. 2. Depreciation is recorded on the baking equipment purchased in November. The baking equipment has a useful life of 5 years. Assume that 2 months' worth of depreciation is required. 3. Amortization (which is similar to depreciation) is recorded on the website. (Credit the Website account directly for the amount of the

amortization.) The website is amortized over a useful life of 2 years and was available for use on December 1. 4. Interest on the note payable is accrued. (Assume that 1.5 months of interest accrued during November and December.) Round to nearest dollar. 5. One month's worth of insurance has expired.

6.

Natalie is unexpectedly telephoned on December 28 to give a cookie class at the neighborhood community center on December 31. In early January Cookie Creations sends an invoice for \$450 to the community center. 7. A count reveals that \$1,025 of baking supplies were used. 8. A cell phone invoice is received for \$75. The invoice is for services provided during the month of December and is due on January 15. 9. Because the cookie-making class occurred unexpectedly on December 28 and is for such a large group of children, Natalie's assistant helps out. Her assistant worked 7 hours at a rate of \$8 per hour. 10. An analysis of the unearned revenue account reveals that two of the five classes paid for by the local school board on December 9 still have not been taught by the end of December. The \$60 deposit received on December 19 for another class also remains unearned. Instructions

Using the information that you have gathered and the general ledger accounts that you have prepared through Chapter 3, plus the new information above, do the following. (a) Journalize the above transactions. (b) Post the December transactions. (Use the general ledger accounts prepared in Chapter 3.) | 220 chapter 4 (c) Totals (e) Totals (f) Net income (h)

Totals
Accrual Accounting Concepts
Prepare a trial balance at December 31, 2011. (d) Prepare and post adjusting journal entries for the month of
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December. Prepare an adjusted trial balance as of December 31, 2011.

Prepare an income statement and a retained earnings statement for the 2-month period ending December 31, 2011, and a classified balance sheet as of December 31, 2011. \$8,160 (c) \$8,804 (e) \$3,211 (f) (g) Prepare and post closing entries as of December 31, 2011. \$6,065 (h) Prepare a post-closing trial balance. | | broadening your perspective |

Financial Reporting and Analysis FINANCIAL REPORTING PROBLEM: Tootsie Roll Industries, Inc. BYP4-1 The financial statements of Tootsie Roll are presented in Appendix A at the end of this book. Instructions * (a) Using the consolidated income statement and balance sheet, identify items that may result in adjusting entries for deferrals. * (b) Using the consolidated income statement, identify two items that may result in adjusting entries for accruals. * (c) What was the amount of depreciation expense for 2009 and 2008? (You will need to examine the notes to the financial statements or the statement of cash flows.) Where was accumulated depreciation reported? * (d) What was the cash paid for income taxes during 2009, reported at the bottom of the consolidated statement of cash flows? What was income tax expense (provision for income taxes) for 2009?

COMPARATIVE ANALYSIS PROBLEM: Tootsie Roll vs. Hershey BYP4-2 The financial statements of The Hershey Company are presented in Appendix B, following the financial statements for Tootsie Roll in Appendix A. Instructions * (a) Identify two accounts on Hershey's balance sheet that provide evidence that Hershey uses accrual accounting. In each case, identify the income statement account that would be affected by the adjustment process.

* (b) Identify two accounts on Tootsie Roll's balance sheet that provide evidence that Tootsie Roll uses accrual accounting (different from the two you listed for Hershey). In each case, identify the income statement account that would be affected by the adjustment process. RESEARCH CASEBYP4-3

The February 13, 2010, issue of the Wall Street Journal includes an article by Scott Thurm entitled "For Some Firms, a Case of 'Quadrophobia'."

Instructions Read the article and answer the following. * (a) What method did the study's authors use to determine that companies were "managing" their earnings per share calculation? * (b) For the average company in the study, how much would the company have to boost earnings in order to increase earnings per share by 1/10 of a cent? * (c) What examples did the authors cite of accounting adjustments that companies can make to boost net income enough that they can round up to the next highest cent? Why aren't these methods of adjustment considered illegal? | * (d) What is an earnings restatement?

What relationship did the authors identify about companies that restate earnings? * (e) What incentive do companies have to round up their earnings per share to the next highest cent? INTERPRETING FINANCIAL

STATEMENTS BYP4-4 Laser Recording Systems, founded in 1981, produces disks for use in the home market. The following is an excerpt from Laser Recording Systems' financial statements (all dollars in thousands). Accrued liabilities increased to \$1,642 at January 31, from \$138 at the end of the previous fiscal year. Compensation and related accruals increased \$195 due primarily to increases in accruals for severance, vacation, commissions, and relocation expenses. Accrued professional services increased by \$137

primarily as a result of legal expenses related to several outstanding contractual disputes. Other expenses increased \$35, of which \$18 was for interest payable. Instructions * (a) Can you tell from the discussion whether Laser Recording Systems has prepaid its legal expenses and is now making an adjustment to the asset account Prepaid Legal Expenses, or whether the company is handling the legal expense via an accrued expense adjustment?

* (b) Identify each of the adjustments Laser Recording Systems is discussing as one of the four types of possible adjustments discussed in the chapter.

How is net income ultimately affected by each of the adjustments? * (c)

What journal entry did Laser Recording make to record the accrued interest?

FINANCIAL ANALYSIS ON THE WEBBYP4-5 Purpose: To learn about the

functions of the Securities and Exchange Commission (SEC). Address: [www.](http://www.sec.gov/about/whatwedo.shtml)

[sec. gov/about/whatwedo. shtml](http://www.sec.gov/about/whatwedo.shtml), or go to [www. wiley.](http://www.wiley.com/college/kimmellInstructions)

[com/college/kimmellInstructions](http://www.wiley.com/college/kimmellInstructions)Use the information in this site to answer the

following questions. (a) What event spurred the creation of the SEC? Why

was the SEC created? (b) What are the four divisions of the SEC? Briefly

describe the purpose of each.