

Chapter 2

Problems: Set B

P2-1B Suppose the following items are taken from the 2014 balance sheet of Starbucks Corporation. (All dollars are in millions.)

Prepare a classified balance sheet.

Goodwill	\$ 477
Common stock	40
Equipment	3,036
Accounts payable	391
Stock investments (long-term)	280
Accounts receivable	288
Prepaid rent	278
Debt investments (current)	157
Retained earnings	2,244
Cash	281
Notes payable (noncurrent)	550
Notes payable (current)	1,468
Unearned sales revenue (current)	297
Bonds payable	354
Inventory	692
Accumulated depreciation—equipment	145

(LO 1), AP

Instructions

Prepare a classified balance sheet for Starbucks Corporation as of September 30, 2014.

Tot. current assets

\$1,696

Tot. assets

\$5,344

P2-2B These items are taken from the financial statements of Mueller, Inc.

Prepare financial statements.

Prepaid insurance	\$ 2,400
Equipment	30,000
Salaries and wages expense	34,000
Utilities expense	2,100
Accumulated depreciation—equipment	7,600
Accounts payable	7,200
Cash	6,100
Accounts receivable	2,900
Salaries and wages payable	3,000
Common stock	6,000
Depreciation expense	4,300
Retained earnings (beginning)	14,000
Dividends	2,600
Service revenue	51,000
Maintenance and repairs expense	2,600
Insurance expense	1,800

(LO 1), AP

Instructions

Prepare an income statement, a retained earnings statement, and a classified balance sheet as of December 31, 2014.

Prepare financial statements.

(LO 1), AP

P2-3B You are provided with the following information for Vern Corporation, effective as of its April 30, 2014, year-end.

Accounts payable	\$ 3,100
Accounts receivable	10,150
Accumulated depreciation—equipment	6,600
Depreciation expense	3,200
Cash	20,955
Common stock	20,000
Dividends	2,800
Equipment	24,250
Sales revenue	20,450
Income tax expense	700
Income taxes payable	300
Interest expense	350
Interest payable	175
Notes payable (due in 2018)	4,700
Prepaid rent	380
Rent expense	660
Retained earnings, beginning	13,960
Salaries and wages expense	5,840

Instructions

(a) Net income \$9,700
 (b) Tot. current assets \$31,485
 Tot. assets \$49,135

- (a) Prepare an income statement and a retained earnings statement for Vern Corporation for the year ended April 30, 2014.
 (b) Prepare a classified balance sheet for Vern as of April 30, 2014.

Compute ratios; comment on relative profitability, liquidity, and solvency.

(LO 2), AN

P2-4B Comparative statement data for Omaz Company and Wise Company, two competitors, are presented below. All balance sheet data are as of December 31, 2014.

	Omaz Company	Wise Company
	2014	2014
Net sales	\$450,000	\$900,000
Cost of goods sold	225,000	450,000
Operating expenses	130,000	150,000
Interest expense	6,000	10,000
Income tax expense	15,000	75,000
Current assets	180,000	700,000
Plant assets (net)	600,000	800,000
Current liabilities	75,000	230,000
Long-term liabilities	190,000	200,000
Net cash provided by operating activities	46,000	180,000
Capital expenditures	20,000	50,000
Dividends paid	-0-	5,000
Average number of shares outstanding	200,000	500,000

Instructions

- (a) Compute the net income and earnings per share for each company for 2014.
 (b) Comment on the relative liquidity of the companies by computing working capital and the current ratio for each company for 2014.
 (c) Comment on the relative solvency of the companies by computing the debt to assets ratio and the free cash flow for each company for 2014.

P2-5B The financial statements of Divine Company are presented here.

Compute and interpret liquidity, solvency, and profitability ratios.

(LO 2), AP

DEVOE COMPANY
Income Statement
For the Year Ended December 31, 2014

Net sales	\$700,000
Cost of goods sold	400,000
Selling and administrative expenses	150,000
Interest expense	7,800
Income tax expense	43,000
Net income	<u>\$ 99,200</u>

DEVOE COMPANY
Balance Sheet
December 31, 2014

Assets

Current assets	
Cash	\$ 22,100
Debt investments	34,800
Accounts receivable (net)	90,700
Inventory	<u>155,000</u>
Total current assets	302,600
Plant assets (net)	<u>461,300</u>
Total assets	<u>\$763,900</u>

Liabilities and Stockholders' Equity

Current liabilities	
Accounts payable	\$119,700
Income taxes payable	<u>29,000</u>
Total current liabilities	148,700
Bonds payable	<u>110,000</u>
Total liabilities	<u>258,700</u>
Stockholders' equity	
Common stock	170,000
Retained earnings	<u>335,200</u>
Total stockholders' equity	<u>505,200</u>
Total liabilities and stockholders' equity	<u>\$763,900</u>
Net cash provided by operating activities	\$ 61,300
Capital expenditures	\$ 42,000
Dividends paid	\$ 10,000
Average number of shares outstanding	65,000

Instructions

- (a) Compute the following values and ratios for 2014. (We provide the results from 2013 for comparative purposes.)
- (i) Current ratio. (2013: 2.4:1)
 - (ii) Working capital. (2013: \$178,000)
 - (iii) Debt to assets ratio. (2013: 31%)
 - (iv) Free cash flow. (2013: \$13,000)
 - (v) Earnings per share. (2013: \$1.35)
- (b) Using your calculations from part (a), discuss changes from 2013 in liquidity, solvency, and profitability.

Compute and interpret liquidity, solvency, and profitability ratios.

(LO 2), AP

P2-6B Condensed balance sheet and income statement data for Fellini Corporation are presented below.

FELLINI CORPORATION
Balance Sheets
December 31

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Cash	\$ 50,000	\$ 30,000
Receivables (net)	80,000	55,000
Other current assets	74,000	73,000
Long-term investments	78,000	54,000
Plant and equipment (net)	520,000	407,000
Total assets	<u>\$802,000</u>	<u>\$619,000</u>
<u>Liabilities and Stockholders' Equity</u>	<u>2014</u>	<u>2013</u>
Current liabilities	\$ 88,000	\$ 65,000
Long-term debt	90,000	70,000
Common stock	370,000	320,000
Retained earnings	254,000	164,000
Total liabilities and stockholders' equity	<u>\$802,000</u>	<u>\$619,000</u>

FELLINI CORPORATION
Income Statements
For the Years Ended December 31

	<u>2014</u>	<u>2013</u>
Sales revenue	\$770,000	\$800,000
Cost of goods sold	420,000	400,000
Operating expenses (including income taxes)	250,000	287,000
Net income	<u>\$100,000</u>	<u>\$113,000</u>
Net cash provided by operating activities	\$165,000	\$178,000
Cash used for capital expenditures	\$85,000	\$45,000
Dividends paid	\$20,000	\$13,000
Average number of shares outstanding	370,000	320,000

Instructions

Compute the following values and ratios for 2013 and 2014.

- (a) Earnings per share.
- (b) Working capital.
- (c) Current ratio.
- (d) Debt to assets ratio.
- (e) Free cash flow.
- (f) Based on the ratios calculated, discuss briefly the improvement or lack thereof in the financial position and operating results of Fellini from 2013 to 2014.

P2-7B Selected financial data of two competitors, Home Depot and Lowe's, are presented here. (All dollars are in millions.) Suppose the data were taken from the 2014 financial statements of each company.

Compute ratios and compare liquidity, solvency, and profitability for two companies.

(LO 2), AP

	<u>Home Depot</u>	<u>Lowe's</u>
	<u>Income Statement Data for Year</u>	
Net sales	\$77,349	\$48,283
Cost of goods sold	51,352	31,556
Selling and administrative expenses	18,570	12,022
Interest expense	696	239
Other income	74	45
Income taxes	2,410	1,702
Net income	<u>\$ 4,395</u>	<u>\$ 2,809</u>

	<u>Home Depot</u>	<u>Lowe's</u>
	<u>Balance Sheet Data (End of Year)</u>	
Current assets	\$14,674	\$ 8,686
Noncurrent assets	29,650	22,183
Total assets	<u>\$44,324</u>	<u>\$30,869</u>
Current liabilities	\$12,706	\$ 7,751
Long-term liabilities	13,904	7,020
Total stockholders' equity	17,714	16,098
Total liabilities and stockholders' equity	<u>\$44,324</u>	<u>\$30,869</u>
Net cash provided by operating activities	\$5,727	\$4,347
Cash paid for capital expenditures	\$3,558	\$4,010
Dividends paid	\$1,709	\$428
Average shares outstanding	1,849	1,481

Instructions

For each company, compute these values and ratios.

- Working capital.
- Current ratio. (Round to two decimal places.)
- Debt to assets ratio.
- Free cash flow.
- Earnings per share.
- Compare the liquidity, profitability, and solvency of the two companies.

P2-8B Yocum Software International Inc., headquartered in Toronto, specializes in Internet safety and computer security products for both the home and commercial markets. In a recent balance sheet, it reported a deficit (negative retained earnings) of US\$5,678,288. It has reported only net losses since its inception. In spite of these losses, Yocum's common shares have traded anywhere from a high of \$3.70 to a low of \$0.32 on the Canadian Venture Exchange.

Comment on the objectives and qualitative characteristics of accounting information.

(LO 3), E

Yocum's financial statements have historically been prepared in Canadian dollars. Recently, the company adopted the U.S. dollar as its reporting currency.

Instructions

- What is the objective of financial reporting? How does this objective meet or not meet Yocum's investors' needs?

- (b) Why would investors want to buy Yocum's shares if the company has consistently reported losses over the last few years? Include in your answer an assessment of the relevance of the information reported on Yocum's financial statements.
- (c) Comment on how the change in reporting information from Canadian dollars to U.S. dollars likely affected the readers of Yocum's financial statements. Include in your answer an assessment of the comparability of the information.