

Financial Reporting

Practice Exercise TWO

Janice's Hardware is a merchandise firm in Halifax, Nova Scotia has the following formation at the end of THIS YEAR

Operating Information

Sales	598,200
Cost of Goods Sold	-358,920
Operating Expenses	-119,640
Sales Returns and Discounts	-17,946
Tax rate	50%

Discontinued Information

Net Income (loss) from landscaping division	-33,000
Book value of landscaping division at time of sale	96,500
Sale price of discontinued division	98,900

Other items

Interest received on overdue accounts	12,600
Gain on disposal of assets	16,200
Share of subsidiary's Net Loss	39,000
Interest Expense	8,000
Loss on disposal of asset	10,600
Loss from Vandalism	14,400
Alien abduction of company vehicle	19,800
Loss from Ice Storm damage	6,000
Discovery of a material understatement in the write down to LCM from two years ago.	8,000
Change in an asset's amortization method from Straight-line to Units of Activity resulting in excess amortization of:	16,200
January 1st, Retained earnings balance	398,800
Dividends paid for this year	27,800

Marks:

Operating Section 3

Non Operating:

5 parts in order 5

Numbers correct and in correct place 10

Balance Sheet:

Right figures in right place 3

Everywhere:

Tax titles and calculations 3

TOTAL 24 Application Marks

Instructions

1. Prepare a formal income statement for this year.
2. Prepare the equity section of the Balance Sheet for Dec. 31 of this year.

Janice's Hardware

Income Statement

For the Year Ended December 31, 2008

Revenues

Sales	\$	598,200	
Sales Returns and Discounts		(17,946)	
Net Sales		\$ 580,254	

Cost of Goods Sold

Cost of Goods Sold		(358,920)	
Gross Profit (Net Sales - COGS)		\$ 221,334	

Operating Expenses

Total Operating Expenses		(119,640)	
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Operating Income (Gross Profit - Operating Expenses)		\$ 101,694	
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Non-Operating Items

<i>Other Revenues and Gains</i>			
Interest Revenue	\$	12,600	
Gain of sale of asset		16,200	
<i>Total non-operating revenues</i>		28,800	

<i>Other Expenses and Losses</i>			
Interest Expense	\$	(8,000)	
Share of subsidiary's Net Loss		(39,000)	
Loss on disposal of asset		(10,600)	
Loss from Vandalism		(14,400)	
Loss from Ice Storm damage		(6,000)	
<i>Total non-operating expenses</i>		(78,000)	

Taxable Income		\$ 52,494	
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Less: Income Taxes		(26,247)	
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Income from Continuing Operations		\$ 26,247	
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<i>Discontinued Operations</i>			
Income(loss) from the operation of landscaping division net of tax expense	\$	(16,500)	(16,500)
Gain(Loss) on the disposal of landscaping division, net of tax savings of \$:		1,200	1,200
<i>Income (loss) on discontinued operations</i>		(15,300)	

Income before Extraordinary Item		\$ 10,947	
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<i>Extraordinary Items</i>			
Alien abduction of company vehicle		(9,900)	9,900

Net Income		\$ 1,047	
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Janice's Hardware

Statement of Retained Earnings

December 31, 2008

Beginning Balance, January 1, as previously reported		\$ 398,800	
Discovery of a material understatement in the write down to LCM from two years ago.		(4,000)	4,000
Change in an asset's amortization method from Straight-line to Units of Activity resulting in excess amortization of:		(8,100)	8,100
Retained Earnings January 1, as adjusted		386,700	
Add: Net Income	\$	1,047	
Less: Cash Dividends		(27,800)	
Net change in Retained Earnings for the period		(26,753)	
Retained Earnings December 31		\$ 359,947	