

HOMEWORK PROBLEM 8-1

The following financial statements have come to you for review:

BROWN PRODUCTION COMPANY Profit and Loss Statement December 31, 19x6

Revenues			
Gross sales		\$256,800	
Less: Sales returns		<u>5,120</u>	
Net sales			\$251,680
Costs and expenses			
Cost of goods sold:			
Inventory, January 1		98,500	
Purchases	\$132,600		
Less: Purchase returns	<u>2,780</u>	<u>129,820</u>	
Goods available for sale		228,320	
Inventory, December 31		<u>102,300</u>	
Cost of goods sold			<u>126,000</u>
Gross profit			125,680
Operating expenses:			
Selling expenses		38,000	
General and administrative expenses:			
General expenses	20,000		
Depreciation expense	8,800		
Bad debt expense	<u>1,080</u>	<u>29,880</u>	
Total operating costs and expenses			<u>67,880</u>
Income from operations			57,800
Other income			
Interest income			<u>970</u>
Profit before federal income taxes			58,770
Less: Federal income taxes			<u>23,508</u>
Net Profit			<u>35,262</u>

BROWN PRODUCTION CORPORATION
Statement of Earned Surplus
December 31, 19x6

Balance, January 1		267,600
Corrections		
Additions:		
Depreciation overstated in prior year due to understatement of useful life of building		<u>3,400</u>
Additions during current year		
Profit	\$35,226	
Gain on sale of land	<u>8,200</u>	<u>43,426</u>
		314,426
 Deductions during current year		
Dividends	30,000	
Loss on sale of machinery	<u>9,650</u>	<u>39,650</u>
 Earned surplus balance, December 31, 19x6		 \$269,580

Required:

Critically evaluate the above statements. What reporting concept appears to have been applied? Cite items to support your response. List and explain all of the aspects of the above statements that you would change in order to conform to appropriate reporting and terminology current considered to be proper. You may assume that the corporate tax rate is a straight 40%.

HOMEWORK PROBLEM 8-2

The Simpson Company had 120,000 shares of common stock outstanding on December 31, 19x8. During the year 19x9, the company issued 12,000 shares on June 1 and retired 24,000 shares on September 30. For the year 19x9 the Simpson Company reported net income of \$363,000 after a casualty loss of \$60,500 (net of taxes).

Required:

What earnings per share data should be reported at the bottom of the income statement for the Simpson Company for 19x9, assuming that the casualty loss is extraordinary and

- a. the issuance of 12,000 shares on June 1 was as a result of the sale of the stock
- b. the issuance of 12,000 shares on June 1 was as a result of a 10% stock dividend