

- (a) Compute earnings per share for 2014 and 2013 for Benser, and comment on the change. Benser's primary competitor, Matile Corporation, had earnings per share of \$1 per share in 2014. Comment on the difference in the ratios of the two companies.
- (b) Compute the current ratio and debt to assets ratio for each year, and comment on the changes.
- (c) Compute free cash flow for each year, and comment on the changes.

Do it! 2-4 The following characteristics, assumptions, principles, and constraint guide the FASB when it creates accounting standards.

Identify financial accounting concepts and principles.
(LO 7), K

- | | |
|----------------------------|---------------------------|
| Relevance | Periodicity assumption |
| Faithful representation | Going concern assumption |
| Comparability | Historical cost principle |
| Consistency | Full disclosure principle |
| Monetary unit assumption | Materiality |
| Economic entity assumption | Cost constraint |

Match each item above with a description below.

- 1. _____ Items not easily quantified in dollar terms are not reported in the financial statements.
- 2. _____ Accounting information must be complete, neutral, and free from error.
- 3. _____ Personal transactions are not mixed with the company's transactions.
- 4. _____ The cost to provide information should be weighed against the benefit that users will gain from having the information available.
- 5. _____ A company's use of the same accounting principles from year to year.
- 6. _____ Assets are recorded and reported at original purchase price.
- 7. _____ Accounting information should help users predict future events, and should confirm or correct prior expectations.
- 8. _____ The life of a business can be divided into artificial segments of time.
- 9. _____ The reporting of all information that would make a difference to financial statement users.
- 10. _____ The judgment concerning whether an item's size makes it likely to influence a decision-maker.
- 11. _____ Assumes a business will remain in operation for the foreseeable future.
- 12. _____ Different companies use the same accounting principles.

Exercises

E2-1 The following are the major balance sheet classifications.

Classify accounts on balance sheet.
(LO 1), AP

- | | |
|--------------------------------------|-----------------------------|
| Current assets (CA) | Current liabilities (CL) |
| Long-term investments (LTI) | Long-term liabilities (LTL) |
| Property, plant, and equipment (PPE) | Stockholders' equity (SE) |
| Intangible assets (IA) | |

Instructions

Classify each of the following financial statement items taken from Mordica Corporation's balance sheet.

- | | |
|--|--|
| ___ Accounts payable | ___ Income taxes payable |
| ___ Accounts receivable | ___ Inventory |
| ___ Accumulated depreciation—
equipment | ___ Stock investments (to be sold in 7 months) |
| ___ Buildings | ___ Land (in use) |
| ___ Cash | ___ Mortgage payable |
| ___ Interest payable | ___ Supplies |
| ___ Goodwill | ___ Equipment |
| | ___ Prepaid rent |

Classify financial statement items by balance sheet classification.

(LO 1), AP

E2-2 The major balance sheet classifications are listed in E2-1.

Instructions

Classify each of the following financial statement items based upon the major balance sheet classifications listed in E2-1.

___ Prepaid advertising	___ Patents
___ Equipment	___ Bonds payable
___ Trademarks	___ Common stock
___ Salaries and wages payable	___ Accumulated depreciation— equipment
___ Income taxes payable	___ Unearned sales revenue
___ Retained earnings	___ Inventory
___ Accounts receivable	
___ Land (held for future use)	

Classify items as current or noncurrent, and prepare assets section of balance sheet.

(LO 1), AP

E2-3 Suppose the following items were taken from the December 31, 2014, assets section of the Boeing Company balance sheet. (All dollars are in millions.)

Inventory	\$16,933	Patents	\$12,528
Notes receivable—due after December 31, 2015	5,466	Buildings	21,579
Notes receivable—due before December 31, 2015	368	Cash	9,215
Accumulated depreciation—buildings	12,795	Accounts receivable	5,785
		Debt investments (short-term)	2,008

Instructions

Prepare the assets section of a classified balance sheet, listing the current assets in order of their liquidity.

Prepare assets section of a classified balance sheet.

(LO 1), AP

E2-4 Suppose the following information (in thousands of dollars) is available for H.J. Heinz Company—famous for ketchup and other fine food products—for the year ended April 30, 2014.

Prepaid insurance	\$ 125,765	Buildings	\$4,033,369
Land	76,193	Cash	373,145
Goodwill	3,982,954	Accounts receivable	1,171,797
Trademarks	757,907	Accumulated depreciation— buildings	2,131,260
Inventory	1,237,613		

Instructions

Prepare the assets section of a classified balance sheet, listing the items in proper sequence and including a statement heading.

Prepare a classified balance sheet.

(LO 1), AP

E2-5 These items are taken from the financial statements of Donovan Co. at December 31, 2014.

Buildings	\$105,800
Accounts receivable	12,600
Prepaid insurance	3,200
Cash	11,840
Equipment	82,400
Land	61,200
Insurance expense	780
Depreciation expense	5,300
Interest expense	2,600
Common stock	60,000
Retained earnings (January 1, 2014)	40,000
Accumulated depreciation—buildings	45,600
Accounts payable	9,500
Notes payable	93,600
Accumulated depreciation—equipment	18,720
Interest payable	3,600
Service revenue	14,700



Instructions

Prepare a classified balance sheet. Assume that \$13,600 of the note payable will be paid in 2015.

E2-6 Suppose the following items were taken from the 2014 financial statements of Texas Instruments, Inc. (All dollars are in millions.)

Common stock	\$2,826	Accumulated depreciation—equipment	\$3,547
Prepaid rent	164	Accounts payable	1,459
Equipment	6,705	Patents	2,210
Stock investments (long-term)	637	Notes payable (long-term)	810
Debt investments (short-term)	1,743	Retained earnings	6,896
Income taxes payable	128	Accounts receivable	1,823
Cash	1,182	Inventory	1,202

Prepare a classified balance sheet.
(LO 1), AP

Instructions

Prepare a classified balance sheet in good form as of December 31, 2014.

E2-7 Suppose the following information is available for Callaway Golf Company for the years 2014 and 2013. (Dollars are in thousands, except share information.)

	<u>2014</u>	<u>2013</u>
Net sales	\$1,117,204	\$1,124,591
Net income (loss)	66,176	54,587
Total assets	855,338	838,078

Compute and interpret profitability ratio.
(LO 2), AP

Share information

Shares outstanding at year-end	64,507,000	66,282,000
Preferred dividends	-0-	-0-

There were 73,139,000 shares outstanding at the end of 2012.

Instructions

- What was the company's earnings per share for each year?
- Based on your findings above, how did the company's profitability change from 2013 to 2014?
- Suppose the company had paid dividends on preferred stock and on common stock during the year. How would this affect your calculation in part (a)?

E2-8 These financial statement items are for Barfield Corporation at year-end, July 31, 2014.

Salaries and wages payable	\$ 2,080
Salaries and wages expense	57,500
Supplies expense	15,600
Equipment	18,500
Accounts payable	4,100
Service revenue	66,100
Rent revenue	8,500
Notes payable (due in 2017)	1,800
Common stock	16,000
Cash	29,200
Accounts receivable	9,780
Accumulated depreciation—equipment	6,000
Dividends	4,000
Depreciation expense	4,000
Retained earnings (beginning of the year)	34,000

Prepare financial statements.
(LO 1, 3, 4), AP

Instructions

- Prepare an income statement and a retained earnings statement for the year. Barfield Corporation did not issue any new stock during the year.
- Prepare a classified balance sheet at July 31.
- Compute the current ratio and debt to assets ratio.

Problems: Set A

Prepare a classified balance sheet.

(LO 1), AP

Tot. current assets \$4,746
Tot. assets \$13,690

Prepare financial statements.

(LO 1, 3), AP

Net income \$21,400
Tot. assets \$73,700

Prepare financial statements.

(LO 1, 3), AP

P2-1A Suppose the following items are taken from the 2014 balance sheet of Yahoo! Inc. (All dollars are in millions.)

Goodwill	\$3,927
Common stock	6,283
Equipment	1,737
Accounts payable	152
Patents	234
Stock investments (long-term)	3,247
Accounts receivable	1,061
Prepaid rent	233
Debt investments (short-term)	1,160
Retained earnings	6,108
Cash	2,292
Notes payable (long-term)	734
Unearned sales revenue	413
Accumulated depreciation—equipment	201

Instructions

Prepare a classified balance sheet for Yahoo! Inc. as of December 31, 2014.

P2-2A These items are taken from the financial statements of Tresh Corporation for 2014.

Retained earnings (beginning of year)	\$31,000
Utilities expense	2,000
Equipment	66,000
Accounts payable	18,300
Cash	10,100
Salaries and wages payable	3,000
Common stock	12,000
Dividends	12,000
Service revenue	68,000
Prepaid insurance	3,500
Maintenance and repairs expense	1,800
Depreciation expense	3,600
Accounts receivable	11,700
Insurance expense	2,200
Salaries and wages expense	37,000
Accumulated depreciation—equipment	17,600

Instructions

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

P2-3A You are provided with the following information for Ramirez Enterprises, effective as of its April 30, 2014, year-end.

Accounts payable	\$ 834
Accounts receivable	810
Accumulated depreciation—equipment	670
Cash	1,270
Common stock	900
Cost of goods sold	1,060
Depreciation expense	335
Dividends	325
Equipment	2,420
Income tax expense	165
Income taxes payable	135
Insurance expense	210
Interest expense	400
Inventory	967
Land	3,100
Mortgage payable	3,500
Notes payable	61

Inst
(a)

(b)
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Ins
(a)

(b)

(c)

P2-


Additional information:

Net cash provided by operating activities	\$82,000	\$56,000
Cash used for capital expenditures	\$45,000	\$38,000
Dividends paid	\$20,000	\$15,000
Average number of shares outstanding	33,000	30,000

Instructions

Compute these values and ratios for 2013 and 2014.

- Earnings per share.
- Working capital.
- Current ratio.
- Debt to assets ratio.
- Free cash flow.

(f)  Based on the ratios calculated, discuss briefly the improvement or lack thereof in financial position and operating results from 2013 to 2014 of Sadecki Corporation.

P2-7A Selected financial data of two competitors, Target and Wal-Mart, 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, 4, 5), AP



	<u>Target</u> <u>(1/31/14)</u>	<u>Wal-Mart</u> <u>(1/31/14)</u>
Income Statement Data for Year		
Net sales	\$64,948	\$401,244
Cost of goods sold	44,157	306,158
Selling and administrative expenses	16,389	76,651
Interest expense	894	2,103
Other income	28	4,213
Income taxes	1,322	7,145
Net income	<u>\$ 2,214</u>	<u>\$ 13,400</u>

	<u>Target</u>	<u>Wal-Mart</u>
Balance Sheet Data (End of Year)		
Current assets	\$17,488	\$ 48,949
Noncurrent assets	26,618	114,480
Total assets	<u>\$44,106</u>	<u>\$163,429</u>
Current liabilities	\$10,512	\$ 55,390
Long-term liabilities	19,882	42,754
Total stockholders' equity	13,712	65,285
Total liabilities and stockholders' equity	<u>\$44,106</u>	<u>\$163,429</u>
Net cash provided by operating activities	\$4,430	\$23,147
Cash paid for capital expenditures	\$3,547	\$11,499
Dividends declared and paid on common stock	\$465	\$3,746
Average shares outstanding (millions)	774	3,951

Instructions

For each company, compute these values and ratios.

- Working capital.
- Current ratio.
- Debt to assets ratio.
- Free cash flow.
- Earnings per share.
- Compare the liquidity and solvency of the two companies.

P2-8A A friend of yours, Sue Yaeger, recently completed an undergraduate degree in science and has just started working with a biotechnology company. Sue tells you that the owners of the business are trying to secure new sources of financing which are needed in order for the company to proceed with development of a new health care product. Sue said that her boss told her that the company must put together a report to present to potential investors.

Comment on the objectives and qualitative characteristics of financial reporting.

(LO 6, 7), E