



1. Prepare journal entries for Problem 5-6A, p. 258 using a 3-column journal sheet.

PR 5-5A Multiple-step income statement and report form of balance sheet **OBJ. 3**

The following selected accounts and their current balances appear in the ledger of Gloucester Co. for the fiscal year ended August 31, 2014:

✓ 1. Net income: \$310,000

SPREADSHEET
GENERAL LEDGER

Cash	\$ 125,000	Sales	\$4,576,000
Accounts Receivable	335,000	Sales Returns and Allowances	31,000
Merchandise Inventory	380,000	Sales Discounts	28,000
Office Supplies	12,000	Cost of Merchandise Sold	2,650,000
Prepaid Insurance	9,000	Sales Salaries Expense	745,000
Office Equipment	275,000	Advertising Expense	205,000
Accumulated Depreciation— Office Equipment	187,000	Depreciation Expense— Store Equipment	40,000
Store Equipment	859,000	Miscellaneous Selling Expense	18,000
Accumulated Depreciation— Store Equipment	293,000	Office Salaries Expense	410,000
Accounts Payable	193,000	Rent Expense	60,000
Salaries Payable	12,000	Depreciation Expense— Office Equipment	30,000
Note Payable (final payment due 2037)	400,000	Insurance Expense	18,000
Capital Stock	125,000	Office Supplies Expense	11,000
Retained Earnings	550,000	Miscellaneous Administrative Exp.	8,000
Dividends	75,000	Interest Expense	12,000

Instructions

1. Prepare a multiple-step income statement.
2. Prepare a retained earnings statement.
3. Prepare a report form of balance sheet, assuming that the current portion of the note payable is \$16,000.
4. Briefly explain (a) how multiple-step and single-step income statements differ and (b) how report-form and account-form balance sheets differ.

PR 5-6A Single-step income statement and account form of balance sheet **OBJ. 3**

Selected accounts and related amounts for Gloucester Co. for the fiscal year ended August 31, 2014, are presented in Problem 5-5A.

✓ 3. Total assets: \$1,515,000

SPREADSHEET

Instructions

1. Prepare a single-step income statement in the format shown in Exhibit 9. ✓
2. Prepare a retained earnings statement. ✓
3. Prepare an account form of balance sheet, assuming that the current portion of the note payable is \$16,000. ✓
4. Prepare closing entries as of August 31, 2014. ✓

Appendix

PR 5-7A Purchase-related transactions using periodic inventory system

Selected transactions for Capers Company during October of the current year are listed in Problem 5-1A.

Instructions

Journalize the entries to record the transactions of Capers Company for October using the periodic inventory system.

Appendix

PR 5-8A Sales-related and purchase-related transactions using periodic inventory system

Selected transactions for Babcock Company during November of the current year are listed in Problem 5-3A.

Selling expenses are incurred directly in the selling of merchandise. Examples of selling expenses include sales salaries, store supplies used, depreciation of store equipment, delivery expense, and advertising.

Administrative expenses, sometimes called **general expenses**, are incurred in the administration or general operations of the business. Examples of administrative expenses include office salaries, depreciation of office equipment, and office supplies used.

Each selling and administrative expense may be reported separately as shown in Exhibit 8. However, many companies report selling, administrative, and operating expenses as single line items as shown below for NetSolutions.

IFRS **IFRS**
See Appendix C for more information

Gross profit		\$182,950
Operating expenses:		
Selling expenses	\$70,820	
Administrative expenses	<u>34,890</u>	
Total operating expenses		<u>105,710</u>
Income from operations		\$ 77,240

Other Income and Expense Other income and expense items are not related to the primary operations of the business. **Other income** is revenue from sources other than the primary operating activity of a business. Examples of other income include income from interest, rent, and gains resulting from the sale of fixed assets. **Other expense** is an expense that cannot be traced directly to the normal operations of the business. Examples of other expenses include interest expense and losses from disposing of fixed assets.

Other income and other expense are offset against each other on the income statement. If the total of other income exceeds the total of other expense, the difference is added to income from operations to determine net income. If the reverse is true, the difference is subtracted from income from operations. The other income and expense items of NetSolutions are reported as shown below and in Exhibit 8.

Income from operations		\$77,240
Other income and expense:		
Rent revenue	\$ 600	
Interest expense	<u>(2,440)</u>	<u>(1,840)</u>
Net income		<u>\$75,400</u>

Single-Step Income Statement

An alternate form of income statement is the **single-step income statement**. As shown in Exhibit 9, the income statement for NetSolutions deducts the total of all expenses *in one step* from the total of all revenues.

The single-step form emphasizes total revenues and total expenses in determining net income. A criticism of the single-step form is that gross profit and income from operations are not reported.

EXHIBIT 9

Single-Step Income Statement

Sample

Sample

NetSolutions Income Statement For the Year Ended December 31, 2015

Revenues:		\$708,255
Net sales	.....	<u>600</u>
Rent revenue	.....	\$708,855
Total revenues	.....
Expenses:		
Cost of merchandise sold	.....	\$525,305
Selling expenses	.....	70,820
Administrative expenses	.....	34,890
Interest expense	.....	<u>2,440</u>
Total expenses	.....	<u>633,455</u>
Net income	.....	<u>\$ 75,400</u>

Retained Earnings Statement

The retained earnings statement for NetSolutions is shown in Exhibit 10. This statement is prepared in the same manner as for a service business.

NetSolutions Retained Earnings Statement For the Year Ended December 31, 2015		
Retained earnings, January 1, 2015		\$128,800
Net income for the year	\$75,400	
Less dividends	<u>18,000</u>	
Increase in retained earnings		<u>57,400</u>
Retained earnings, December 31, 2015		<u>\$186,200</u>

EXHIBIT 10

Retained Earnings Statement for Merchandising Business

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Sample
Sample

Balance Sheet

The balance sheet may be presented with assets on the left-hand side and the liabilities and stockholders' equity on the right-hand side. This form of the balance sheet is called the **account form**. The balance sheet may also be presented in a downward sequence in three sections. This form of balance sheet is called the **report form**. The report form of balance sheet for NetSolutions is shown in Exhibit 11.

NetSolutions Balance Sheet December 31, 2015		
Assets		
Current assets:		
Cash	\$52,950	
Accounts receivable	91,080	
Merchandise inventory	62,150	
Office supplies	480	
Prepaid insurance	<u>2,650</u>	
Total current assets		\$209,310
Property, plant, and equipment:		
Land	\$20,000	
Store equipment	\$ 27,100	
Less accumulated depreciation	<u>5,700</u>	21,400
Office equipment	\$ 15,570	
Less accumulated depreciation	<u>4,720</u>	10,850
Total property, plant, and equipment		<u>52,250</u>
Total assets		<u>\$261,560</u>
Liabilities		
Current liabilities:		
Accounts payable	\$22,420	
Note payable (current portion)	5,000	
Salaries payable	1,140	
Unearned rent	<u>1,800</u>	
Total current liabilities		\$ 30,360
Long-term liabilities:		
Note payable (final payment due 2025)		<u>20,000</u>
Total liabilities		\$ 50,360
Stockholders' Equity		
Capital stock	\$ 25,000	
Retained earnings	<u>186,200</u>	
Total stockholders' equity		<u>211,200</u>
Total liabilities and stockholders' equity		<u>\$261,560</u>

EXHIBIT 11

Report Form of Balance Sheet

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Sample
Sample