

P1-1

Account name	Home Depot	Lucent	Exxon-Mobil	Amazon.com	North American Palladium	All
Short-term investments						x
Mining interests					x	
Accumulated deficit		x		x		
Repayment of long-term debt						x
Exploration expenses, including dry holes			x		x	
Contracts in process		x				
Inventories						x
Income taxes payable	x	See note	x		x	
Retained earnings	x	See note	x		x	
Depreciation expense						x
Changes in accounting policies						x
Revenue from metal sales					x	

Lucent had 1.2 billion of deferred income taxes at 9/30/2000 and \$152 million at 9/31/2001. There were no current income taxes payable in either year.

Lucent had retained earnings at 9/30/2000. This had become an accumulated deficit by 9/30/2001.

B.

Account name	Income Statement	Balance Sheet	Cash Flow	Notes
Short-term investments		x		
Mining interests		x		
Accumulated deficit		x		
Repayment of long-term debt			x	
Exploration expenses, including dry holes	x			
Contracts in process		x		
Inventories		x		
Income taxes payable		x		
Retained earnings		x		
Depreciation expense	x			
Changes in accounting policies				x
Revenue from metal sales	x			

P1-2

	B/S	I/S	C/F	F/N
a. Interest income		x		
b. Cash received from customers			x	
c. Net increase (decrease) in cash				
d. Cash equivalents at 12/31/2003	x		x	
e. Summary of significant accounting policies				x
f. Commitments and Contingencies				x
g. Leasehold improvements	x			
h. Cash paid for taxes			x	
i. Principal balance due on loans	x			
j. Restrictive covenants from loan agreements				x
k. Cost of goods sold		x		

l.	Total operating expenses	x	
m.	Purchases of plant assets during 2003		x
n.	Retained earnings	x	
o.	Estimated useful life of plant assets		x
p.	Depreciation and amortization expense	x	
q.	Gross revenues	x	
r.	Cash paid to suppliers and employees		x
s.	Buildings	x	
t.	Mortgage due to bank	x	

P1-3

Lavalle Corp Income Statement For the year ended December 31, 2003

Net sales	5,000,000
Cost of sales	2,000,000
Gross profit	3,000,000
Operating expenses	(2,100,000)
Operating income	900,000
Other revenue (expenses):	
Interest revenue	10,000
Interest expense	(20,000)
Income before taxes	890,000
Income tax expense	340,000
Net income	\$550,000

Lavalle Corp. Balance Sheet December 31, 2003 and 2002

ASSETS	2003	2002
Cash and cash equivalents	\$30,000	\$80,000
Accounts receivable, net	230,000	120,000
Inventories	310,000	300,000
Prepaid expenses	80,000	50,000
Plant assets, net	1,000,000	900,000
Other long-term assets, net	110,000	80,000
Total assets	\$1,760,000	\$1,530,000
LIABILITIES AND STOCKHOLDERS' EQUITY	2003	2002
Accounts and notes payable	170,000	250,000
Accrued expenses	110,000	60,000

Income taxes payable	160,000	120,000
Long-term liabilities	300,000	400,000
Contributed capital	750,000	500,000
Retained earnings	270,000	200,000
Total liabilities and stockholders' equity	\$1,760,000	\$1,530,000

Lavalle Corp. Statement of Cash Flows For the year ended December 31, 2003

Cash Flows from Operating Activities:	
Cash collected from customers	\$4,900,000
Cash paid to suppliers and employees	(4,130,000)
Cash paid for taxes	(300,000)
Net cash provided by operating activities	470,000
Cash Flow from Investing Activities	
Cash paid to purchase plant assets	(150,000)
Cash paid to purchase other long-term assets	(40,000)
Net cash used for investing activities	(190,000)
Cash Flow from Financing Activities	
Cash received from issuance of stock	250,000
Cash paid for dividends	(480,000)
Cash paid as repayment of long-term debt	(100,000)
Net cash used for financing activities	(330,000)
Net change in cash	(50,000)
Cash and cash equivalents at January 1	80,000
Cash and cash equivalents at December 31	\$30,000

- See completed solution
- The income statement lists the resources acquired and consumed through an organization's operations over a period of time. The balance sheet is a list of the resources available, the resources committed and the difference between the two at a specific point in time. The cash flow statement describes the flows of cash into and out of an organization over a period of time.
- The income statement reports changes to a company's financial position over a specific period of time. Those changes can be seen in the increases or decreases of the company's assets, liabilities and stockholders' equity from the beginning of the period to the end of the period. The net income on the income statement increases the stockholders' equity on the balance sheet and results in

an equal change in the net assets (assets minus liabilities) of the company. The change in Retained Earnings should be equal to the net income for the year less any dividends distributed to stockholders during the year.

d. The cash flow statement describes the flows of cash into and out of the organization during an accounting period. The cash flow statement relates to the change in the cash account on the balance sheet from the beginning of the year to the end of the year. At the bottom of the cash flow statement is a reconciliation of how the cash balance on the balance sheet changed from the beginning of the period to the end of the period.

e. The income statement is prepared using accrual accounting conventions. This means that the effects of transactions are recorded when they take place, regardless of whether cash has been received or paid out. The cash flow statement records only the cash effects of transactions. The cash effects of income statement items will be found only in the operating section of the statement of cash flows. Since the cash flow statement examines all cash transactions, it will also show the effects of non-income statement events, which will be shown in the investing and financing sections.