Part II:
THE INCOME STATEMENT: Operating Activities
STATEMENT OF RETAINED EARNINGS
STATEMENT OF CASH FLOW

In Part I of this primer we considered transactions that involved either *financing activities* (raising funds – usually cash) or *investing activities* (changing the mix of assets by investing that cash in productive assets such as equipment and inventories.) Now we'll also consider the third type of managerial activity -- the *operating activities* of a company. **Operating activities involve manufacturing (or purchasing) and selling the good or providing the service that is the company's product. Operating activities also include the necessary administrative activities to support manufacturing and sales efforts**

As an owner one wants to know if the company is progressing towards its financial goals. Is the company **operating** successfully? Is it able to make a profit on its sales?

A financially successful business purchases inventory for a low cost (say $10m) and then sells it at a higher price (say $18m). This results in the assets of the business expanding – by $8m. If operating activities lead to an increase in the amount of assets owned by the business, who has the claim to that $8m increase? The residual claimants do – the owners. And how will this show up in the owners' equity section of the balance sheet? It shows up as a separate line or account – namely accumulated retained earnings – commonly known as just **retained earnings**. There will be an increase in the retained earnings account from the beginning to the end of the period. Conversely, if we compare two balance sheets and see that the retained earnings amount increased during the intervening period by $8m, then we can deduce (at least initially) that $8m was the profit or earnings for the period.

Continuing the case of Merwin.com, see below the Owners' Equity section of the Balance Sheet at four points in time:

Owners' Equity Merwin.com

Merwin.com as of	**31-Jan**	**28-Feb**	**31-Mar**	**30-Apr**
OWNERS' EQUITY				
Contributed Capital	15,000	15,000	15,000	15,000
Retained Earnings	-	1,800	5,800	7,000
Total Owners' Equity	15,000	16,800	20,800	22,000

In February Merwin.com opened its "doors" for operating activities (as opposed to just the financing and investing activities of January). It started selling product, and also purchased more inventory. At the end of February, the balance sheet shows that the Owners' Equity was $16,800, compared with $15,000 at the end of January. The Contributed Capital account shows that no new capital was contributed by the owners during February.

However, the change in the (accumulated) Retained Earnings account indicates that profits for February must have been $1800.

Therefore, one way to initially figure out the profit for the current period is to compute the change in retained earnings from the end of the prior period to the end of the current period. We can estimate the profits for March by noting that the retained earnings account increased by $\$5{,}800 - \$1{,}800$ *or* $\$4{,}000$. Thus, assuming no dividends, we can infer that March's profits were $4000. Thus the (accumulated) Retained Earnings at the end of March equal the accumulated profits of March, February and the zero profits in January.

More generally, **Retained Earnings refers to accumulated earnings that are still held as assets (retained) by the business and have not (yet) been distributed to the owners as dividends.**

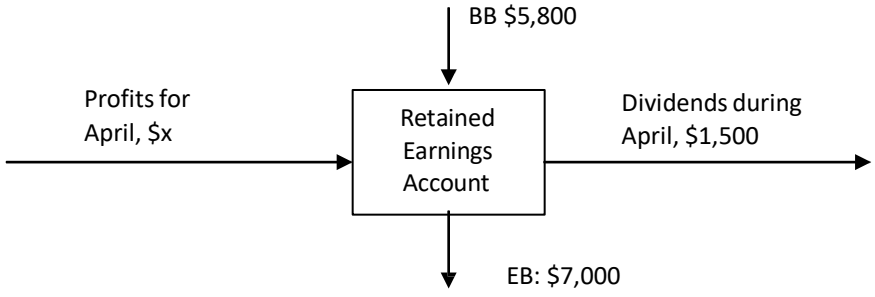
Suppose that in April, operations continued to be profitable and the owners decided to pay themselves a cash dividend – namely, they distributed some of the earnings of the business back to the individual owners rather than keeping all the assets in the name of Merwin.com. Joyce Huleatt was paid a dividend of $500 and Merwin Jones a dividend of $1000 reflecting their different ownership stakes in the business.
This would be recorded in the worksheet as:

↓ Cash= $1,500 (↓ A)
↓ Retained Earnings= $1,500 (↓ OE)

This entry balances and shows that paying a dividend shrinks the size of the company (as measured by total assets) by paying out some of the assets.

Now, if the Retained earnings account at the end of April shows a balance of $7,000, what was the level of profits earned by the company during April?

We capture this information in the box diagram below. April's beginning balance (BB) of retained earnings was $5,800. The inflow into the retained earnings account is the unknown $x amount of April profit, while the outflow was the $1,500 dividend paid to the owners. April's ending balance (EB) in retained earnings is $7,000.



Since BB + Inflow – Outflow = EB, we have $\$5{,}800 + x = 1{,}500 + 7{,}000$. Therefore: $x = \$8{,}500 - \$5{,}800 = \$2{,}700$. The retained earnings balance rose by net $1,200 reflecting April profits of $2,700 of which $1,500 were *distributed* as dividends (i.e. NOT *retained*).

Thus by comparing the retained earnings balance on two successive balance sheets, and adjusting for dividends during the period, one can deduce the profits for the period. But what does this really tell us about the success of the operating activities of the firm Something, but not a lot. For example, it provides no detail on the level of revenues needed to generate those $1,200 of profits. Such detail is instead provided on the *Income Statement,* sometimes also referred to as the *Results of Operations* statement, or the *Profit and Loss Statement* (P&L for short).

To create an Income Statement we add new accounts into our worksheet to describe our operations in more detail: we call these **revenue and expense accounts**. They provide detail on the changes in the retained earnings account. Unlike the balance sheet accounts, these revenue and expense accounts begin and end every period with a zero balance. We highlight this by blacking out the BB and EB cells for these accounts. These accounts only accumulate operating activities during the current accounting period, and are closed to zero at the end of the current accounting period, whether it is a month, a quarter or a year. This gives us a picture of the operations of each period separately, just like a taxi driver who wants to know the total for a trip, and then sets the trip meter back to zero at the start/end of each trip.

PREPARING AN INCOME STATEMENT

Example:

Consider the following balance sheet for BU.com at the end of its first year of operations.

BU.com
Balance Sheet
as at end of Year 1

ASSETS	NUMBER
Cash	115
Accounts Receivable	20
Inventory	**25**
Total Current Assets	160
Land	**40**
Total Assets	**200**

LIABILITIES	NUMBER
Accounts Payable	**15**
Total Current Liabilities	15
Bank Loan Payable	**40**
Total Liabilities	55
OWNERS' EQUITY Contributed Capital	20
Retained Earnings	**125**
Total Liabilities and Owners' Equity	**200**

Consider the following transactions in Year 2 for BU.com:

1. Acquired inventory on account for $30.
2. Sold inventory costing $30 for $80 to credit customers.
3. Paid wages during the year of $25. As of 12/31/Year 2 no wages were owed.
4. Paid $27 to suppliers.
5. Collected $75 cash from customers.
6. Paid interest at 10% on bank loan as due annually on 12/31. The loan principal is due on 12/31/Year 5.
7. On December 31, BU.com purchased a building for $50, having separately arranged with a bank for a mortgage for $35.

Required:

a. Record the transactions into a worksheet (manually or using Excel).
b. Prepare the Year 2 Income Statement, Statement of Retained Earnings, Statement of Cash Flows and the Balance Sheet as at end of Year 2.

Learn how to solve problems like this one by following through the solution below.

Solution:

We follow through the same basic four steps as we did for the example in Part I.

STEP 1: PREPARE A WORKSHEET

Create a **worksheet of accounts**, arranged in balance sheet **order**.
Insert opening balances off the prior period's ending balance sheet.
Revenue and expense accounts of the income statement are included as "detail" about changes in the retained earnings account. They have no beginning or ending balance, since they record the activity of the current period only. Black out their cells in the BB and EB columns.

Worksheet of Accounts

WORKSHEET	**Beg. Bal.**	**T1**	**T2**	**T3**	**T4**	**T5**	**T6**
BU.com							
ASSETS							
Cash	115						
A/c Receivable	20						
Inventory	25						
Land	40						
TOTAL ASSETS	**200**						
LIABILITIES							
A/c Payable	15						
Bank Loan Payable	40						
OWNERS' EQUITY							
Contributed Capital	20						
Retained Earnings	125						
Revenues							
Expense							
Expense							
Expense							
TOTAL LIABS & OE	**200**						
Check Row:	0						

Note

1. This worksheet will end up containing all the information needed to prepare all four financial statements.
2. The check row at the bottom of the worksheet helps identify if errors have been made in entering the transactions. For each cell in that row, look at the corresponding column, and enter the sum of effects on the asset accounts for that column minus the sum of effects on the Liability and Owners' Equity accounts.

STEP 2: ENTER TRANSACTIONS INTO THE WORKSHEET

Check page 28 for the completed worksheet as you work through each transaction.

(T1) Purchase of inventory on account means that the company took delivery of inventory, but that they have not yet paid the supplier. They have purchased on credit and have promised to pay in the future. This transaction will therefore show as:

↑ Inventory account by $30 (↑ A)
↑ Accounts Payable account by $30 (↑ L)

Since both assets and liabilities increase by $30, the balance of the balance sheet is retained.

(T2) Sold on credit to customers for $80 inventory which had cost $30

Selling product (or services) is at the heart of operating activities. It is how a business hopes to make a profit. In making a sale two things happened. First, the customer provided us a promise to pay in the future. Second, we delivered the product to the customer thus depleting our inventory. We therefore record this sale as two transactions:

(a) A balanced *REVENUE transaction* at $80, recognizing the accounts receivable that we earned from the customer, and
(b) A balanced *EXPENSE transaction* at $30, reflecting the inventory that we shipped from our business to earn the revenue.

(The difference of $\$80 - \$30 = \$50$ is of course the profit on this sale.)

(a) The *revenue transaction* sometimes provides us cash immediately, but frequently (as in this case) with a different asset – namely an Account Receivable – a promise by the customer to pay us within a few days. Thus it is recorded as an increase in assets (specifically accounts receivable) of $80.

↑ Accounts Receivable account by $80 (↑ A)

Next, what makes this transaction balance? Who has the claim to these new assets? The suppliers or a lender? No – then they must belong to the residual claimants – the **owners**. Thus owners' equity needs to be increased.

How? Should the contributed capital part of OE be increased? No, since no new capital is being contributed. Should the retained earnings part of OE be increased? Must be. This is true ultimately, but temporarily we record this as a revenue. Think of recording revenue as ultimately increasing profits and therefore retained earnings and therefore **owners**' equity. This is an important chain of effects to understand:

1. Record a Revenue
2. Increases Profits
3. Increases Retained Earnings
4. Increases Owners' Equity (OE)

Thus the balancing part of the revenue transaction is what we will loosely call an increase to revenue (more correctly called recognition of revenue). Thus we have the balanced REVENUE entry:

↑ Accounts Receivable account by $80 = (↑ A)
↑ Sales **Revenue** by $80 = (↑ OE)

Since both assets and owners' equity increase by $80, the balance of the worksheet is maintained.

(b) The *expense transaction* reflects the (net) assets used up in the process of earning the revenue. In this case inventory was used up (delivered to the customer) to earn the revenue. So we show a decrease to the inventory asset account of $30.

↓ Inventory account by $30= (↓ A)

How can we balance this transaction? Who has lost a claim to assets? Not the suppliers, they are still owed $45. Therefore it must be the owners. Thus owners' equity is decreased to reflect this drop in assets.

Will contributed capital be decreased? No – that has not changed.

Will retained earnings be decreased? Yes – it must be. This is true ultimately, but again temporarily we record this as an expense –think of recording an expense as ultimately decreasing profits and therefore retained earnings and therefore also **owners**' equity. This again is an important chain of effects to understand:

1. Record an Expense
2. Decreases Profits
3. Decreases Retained Earnings
4. Decreases Owners' Equity (OE)

Thus the balancing part to the expense transaction is what we will loosely call an increase to expense (more correctly called recognition of expense). Rather than calling this inventory expense, which seems like a reasonable description, the conventional name for this expense account is "Cost of Goods Sold Expense". Thus we have the balanced EXPENSE entry:

↓ Inventory account by $30 = (↓ A)

↑ Cost of Goods Sold **Expense** by $30= (↓ OE)

Since both assets and owners' equity decrease by $30, this is a balancing accounting entry.

Notice that when we enter the recognition of **C**ost **o**f **G**oods **S**old (COGS) expense into the worksheet we enter it as a negative number, reflecting that when we recognize an expense we are in fact reducing owners' equity. The same holds true for ALL expenses.

(We could equally well have entered this in two columns: one for the $80 revenue transaction and a second one for the $30 expense transaction.)

(T3) Paid wages during the year of $25:

Paying wages reduces the company's assets (in particular, cash) by $25. Who has lost a claim to assets? The lenders or suppliers? No – they are still owed $40 and $45 respectively. Then it must be the owners. To show that the owners' equity has reduced, we record an expense. (This ultimately reduces net income, which in turn reduces retained earnings, which finally reduces owners' equity.)

↓ Cash by $25= (↓ A)

↑ Wages Expense by $25= (↓ OE)

Thus both sides of the balance sheet reduce by $25, and the balance is maintained. Again, as in T2(b) an expense was recognized to reflect that some asset (inventory,

cash) has been used up in the process of earning revenue, and that owners have a smaller residual claim as a result.

(T4) Paid $27 to suppliers:

The accounting entry into the worksheet is:

↓ Cash by $27= (↓ A)
↓ Accounts Payable by $27= (↓ L)

Both sides of the balance sheet equation decrease by $27.

(T5) Collected $75 cash from customers:

↑ Cash by $75= (↑ A)
↓ Accounts Receivable by $75= (↓ A)

Collecting cash from the credit customers simply means that one form of asset (an account receivable) was converted into a different asset (cash). It does not result in recognizing revenue. That was done when the sale was originally made and the product delivered. The net effect of this transaction is no net change to either side of the balance sheet.

(T6) Paid Interest at 10% on Bank Loan:

At 10% per year, BU.com must have paid 10% * $40 = $4 in interest charges. (Note: Interest rates are always expressed on an annual basis, even if the loan is for a period of time other than one year.) Interest is another cost of doing business this year that results in a decrease in assets and a reduction in the owners' residual claim. It is therefore also recognized as an expense for the year.

↓ Cash by $4= (↓ A)
↑ Interest Expense by $4= (↓ OE)

Both sides of the balance sheet decrease by $4.

(T7) Purchased building for $50 utilizing a mortgage for $35:

The company received cash of $35 in mortgage financing and paid out $50 to the seller of the building. This can be recorded as two separate transactions:

↑ Cash by $35= (↑ A)
↑ Mortgage Payable by $35= (↑ L)

And:

↓ Cash by $50= (↓ A)
↑ Building by $50= (↑ A)

Alternatively this could equivalently be entered as one transaction affecting three accounts:

↓ Cash by $15= (↓ A)
↑ Building by $50= (↑ A)
↑ Mortgage Payable by $35= (↑ L)

Either way, the net effect is that both sides of the balance sheet equation increase by $35.

STEP 3: ACCUMULATE THE EFFECTS OF ALL THE TRANSACTIONS FOR THE PERIOD

Now that all the transactions (and, in future, also all adjusting entries) have been entered into the accounting system (the worksheet), we accumulate the data into summary figures.

(A) Accumulate the profit for the period into the Retained Earnings account
The retained earnings account row so far only contains only a beginning balance, and no inflows or outflows. The inflow to the retained earnings account is the net income or profit for the current period. To "close" the revenue and expense accounts into the retained earnings account, calculate the net profit from the revenue and expense accounts by summing all the numbers in the green shaded area and enter it into the **Close/Rev and Exp** column of the retained earnings row. (For those of you bothered by the fact that this column does not appear to be a balancing entry, rest assured that we will now "turn off" the Revenue and Expense accounts and black out their ending balance cells. In other words, all the action in those accounts is now summarized and replaced by the one $21 inflow into the Retained Earnings account. (If there had been a net loss during the year, then it would show up as an outflow – a negative item – in the retained earnings row.)

(B) Compute ending balances for each balance sheet account
In the final **Ending Balance** column of the worksheet, compute the sum across each account row. This sum will add the beginning balance plus all inflows and outflows for that account, to give the ending balance for the account. Complete this for each balance sheet account. (Remember that you won't do this for the temporary revenue and expense accounts because their net flow has already just been accumulated and transferred out and into the retained earnings account. Instead just black out the ending balance cells for the revenue and expense accounts.)

(C) Compute totals for each "side" of the balance sheet
Down-total each side of the balance sheet. Check that the combined ending balance for the asset accounts equals the combined ending balance for the liability and owners' equity accounts. (Identify any problem entries by looking for non-zero entries in the Check Row of the worksheet.)

STEP 4: PREPARE CORRECTLY FORMATTED FINANCIAL STATEMENTS

These are shown on pages 29-30 using data from the worksheet on page 28.

A. ***Income Statement***

Use the data in the revenue and expense account rows – it is color coded in green.
Correctly formatting the title for the Income Statement includes 3 things:

1. the *company name*,
2. name of the *accounting statement*, and
3. the *date*

The date format on an income statement is always for a **period of time** for which operating activities are being reported – in this case "Year 2", or

"For the year ending December 31, Year2." (It is NOT the income statement AS AT December 31, Year2. Contrast this with earlier comments on the date format for the balance sheet.)

B. Statement of Retained Earnings

Use the data in the retained earnings account row – it is color coded yellow.
The Statement of Retained Earnings also reflects activities for a **period of time** (over all the columns) and therefore has the same date format in the title as the income statement.

C. Balance Sheet

Use the data in the final column of the worksheet – it is color coded in purple. Since the balance sheet displays balances at a **point in time**, the date format is "As at December 31, Year 2." Correct formatting of the balance sheet requires insertion of subtotals for Current Assets, Current Liabilities, Total Liabilities and Total Owners' Equity, as well as combined totals for each side of the balance sheet.

D. Statement of Cash Flows

The data for the Statement of Cash Flows is in the cash account row – it is color coded in brown. Classify each cash flow as an operating (Op), investing (Inv) or financing (Fin) transaction.

Statement of Cashflows

Payment for Wages	-25	(Op)
Payment to Suppliers	-27	(Op)
Cash Collections from Credit Customers	75	(Op)
Payment of Interest	-4	(Op)
Received mortgage financing	+35	(Fin)
Payment for Building	-50	(Inv)

Format the above data to show the following subtotals:

Cash from/for Operating Activities
Cash from/for Investing Activities
Cash from/for Financing Activities
Net Change in Cash
+ Beginning Balance of Cash
Ending Balance of Cash

Check that this computed ending cash balance, agrees with the ending cash balance on your worksheet.

The Statement of Cash Flows reflects activities over a **period** of time (across several columns) and therefore has the same date format as in the income statement title.

Worksheet of Accounts 2

WORKSHEET	Beginning	T1	T2	T3	T4	T5	T6	T7		Close	Ending
BU.com	Balance	Purchase	Sell	Pay	Pay	Collect	Pay	Building &		Rev/Exp	Balance
		Inventory	Product	Employees	Supplier	Receivable	Interest	Mortgage		Accounts	
ASSETS											
Cash	115			-25	-27	75	-4	35	-50		119
				Op	Op	Op	Op	Fin	Inv		
A/c Receivable	20		80			-75					25
Inventory	25	30	-30								25
Land	40										40
Building									50		50
TOTAL ASSETS	**200**										259
LIABILITIES											
A/c Payable	15	30			-27						18
Bank Loan Payable	40										40
Mortgage Payable								35			35
OWNERS' EQUITY											
Contributed Capital	20										20
Retained Earnings	125									21	146
Revenues			80								
COGS Exp			(30)								
Wages Exp				(25)							
Interest Exp							(4)				
TOTAL LIABS & OE	**200**										259
Check Row:	0	0	0	0	0	0	0	0	0	-21	0

Data for Income Statement
Data for Statement of Retained Earnings
Data for Balance Sheet
Data for Statement of Cash Flows

INCOME STATEMENT for BU.com for Year 2		
Revenues	80	
COGS Expense	30	
Wages Expense	25	
Interest Expense	4	
Net Income		**21**

STATEMENT OF RETAINED EARNINGS for BU.com for Year 2	
Beginning Balance of Retained Earnings	125
Net Income for Year 2	21
Dividends Declared During Year 2	0
Ending Balance of Retained Earnings	**146**

BALANCE SHEET for BU.com as at end of Year 2		
ASSETS		
Cash	119	
A/c Receivable	25	
Inventory	25	
Total Current Assets		169
Land	40	
Building	50	
Total PP&E		90
TOTAL ASSETS		**259**
LIABILITIES		
A/c Payable	18	
Total Current Liabilities		18
Bank Loan Payable		40
Mortgage Payable		35
Total Liabilities		93
OWNERS' EQUITY		
Contributed Capital	20	
Retained Earnings	146	
Total Owners' Equity		166
TOTAL LIABILITIES & OWNERS' EQUITY		**259**

STATEMENT OF CASH FLOWS for BU.com for Year 2		
Cash from Operating Activities		
Cash from Customers	75	
Cash to Suppliers	(27)	
Cash to Employees	(25)	
Cash paid as Interest	(4)	
Net Cash from Operations		19
Cash for Investing Activities		
Purchase of Building		(50)
Cash from Financing Activities		
Mortgage Financing		35
Net Change in Cash		4
+ Beginning Cash Balance		115
Ending Cash Balance		**119**

Note:

1. Brackets () around a number indicate a negative amount.
2. The ending cash balance on the Statement of Cash Flows checks with the ending cash balance on the Balance Sheet.
3. On the formatted Income Statement, note that there are no brackets for the expense items. Since expenses are known to be negative amounts, the negative is not indicated.
4. The Net Cash from Operations of $19 does not equal the Net Income (from Operations) of $21 on the Income Statement. This is typical. It is not an error.
5. This Statement of Cash Flows has been prepared using the so-called **direct** method for calculating the Cash Flows from Operations. In other words each item in the Cash from Operations subsection is a cash inflow or outflow. This is in contrast to the **indirect** method for calculating the Cash Flows from Operations, which we cover later in the semester. Both methods produce the identical final number for Net Cash from Operations.

Why do Owners Want to See Financial Statements?

First, as indicated on page 15, the **Balance Sheet** provides some comfort that the owners' stake in the business is still intact in the form of **sufficient assets**. This of course assumes that the numbers have been reliably prepared, and that real assets exist behind the numbers. Auditors help provide that assurance.

Second, the **Income Statement** is of interest to owners (and potential owners or investors) as an indication of the **operating efficiency** of the business – whether it can generate a profit for the owners. In the case of BU.com, comparison of 12/31/Year 1 and 12/31/Year 2 balance sheets indicates that retained earnings increased from 125 to 146. Knowing that no dividend was paid, we can further deduce that profits for Year 2 were 21. However, the income statement tells us much more. It shows that this 21 in net income was generated off sales revenues of 80 – a profit margin of 26% (=21/80). Such ratios enable easy comparison of operating performance (as measured by profitability) between firms of differing sizes. Later in the semester we will examine several ratios used to understand firms' operating success.

A third concern is a company's **liquidity**. While a company may have plenty of total assets, they may not be in liquid (cash) form and therefore not be available to pay for the above purposes. Employees, suppliers and lenders want to be paid with cash, and not spare units of inventory, office furniture or other company assets! So the liquidity question is: Does the company have sufficient cash flow coming in to make cash payments to suppliers, to employees, and to lenders when they are due? The **Statement of Cash Flows** helps us understand the liquidity situation. It clarifies whether the company has sufficient cash coming in (a) for daily operations and (b) to invest in necessary new productive equipment. BU.com showed a positive total cash flow from operations of $19 during Year 2. Positive is good. It meant that the company did not need additional financing to pay for daily operations. However, during the year BU.com purchased a new building. Unfortunately there was not sufficient net cash from operations to finance this investment. (We say that the Free Cash Flow was negative: 19-50= -31.) To pursue this expansion the company had to instead find an external source of cash. In this case, it was mortgage financing of $35. This mortgage allowed the company to pay for the investment. (Another potential source of cash flow is the beginning balance of cash, which can be run down – students in MBA programs are all too familiar with this source of cash flow!)

Practice Problems for Part II

For each of the problems below:

(a) Prepare a worksheet to record the transactions.

(b) Prepare the following correctly formatted financial statements:

i. Income Statement
ii. Statement of Retained Earnings
iii. Balance Sheet
iv. Statement of Cash Flows

Solutions to problems (D) and (E) are provided at the back of this primer.

Problem (D)

George began a business, and engaged in the following transactions:

1. Collected $6,000 from an equity investor.
2. Borrowed $5,000 from a bank.
3. Purchased a piece of land for $8,000.
4. Leased the land to Sheila and received $3,000 in cash.
5. Paid $2,500 cash for expenses during the year.
6. Paid an $800 dividend to the equity investor.

Qn: What did George do that may have concerned the bank?

Problem (E)

Assume that Cathedral Enterprises, which is in its first year of operations, entered into the following transactions:

1. Shareholders contributed $10,000 cash.
2. Performed services for $8,000, receiving $6,000 in cash and a $2,000 receivable.
3. Incurred expenses of $6,000. Paid $3,000 in cash and $3,000 is still payable.
4. Purchased land for $12,000. Paid $2,000 in cash and signed a long-term note for the remainder.
5. Paid the shareholders $400 in the form of a dividend.
6. Sold one-half of the land purchased in (4) for $6,000.

Problem (F)

Ryan Hope, controller of Hope, Inc. provides you with the following information concerning all transactions during 2009. Hope, Inc. began operations on January 1, 2009.

1. Issued 1,000 shares of common stock at $95 per share.
2. Paid $2,600 every month to rent office and warehouse space. Rent was paid on the last day of each month.
3. Made total sales for services of $190,000: $65,000 for cash and $125,000 on account.
4. Purchased land for $32,000 in cash.
5. Borrowed $75,000 on December 31. The note payable matures in two years.
6. Salaries totaling $80,000 were paid during the year.
7. Other expenses totaling $40,000 were paid during the year.
8. $56,000 was received from customers as payment on account.
9. Declared and paid a dividend of $26,000.

(The solution to Problem (F) will be made available separately.)