**Lee Corporation Equity Scenario**

Lee Corporation is an American Company that began operations on January 1, 2004. It has just completed its fourth full year of operations on December 31, 2007. Ending Year Balances for the prior year ended on December 2006 were as follows:

 Retained Earnings: $225,000

 Common Stock at Par: $500,000

 Additional Paid-in Capital $1,000,000

 Treasury Stock: $200,000

Income before taxes for 2007 totaled $240,000

Effective Tax Rate was 40% for all years of operation including 2007

The following information relates to 2007:

1. An error was discovered during 2007. Specifically, depreciation expense was understated in 2005 resulting in the need for a Prior Period of Adjustment of $25,000 before taxes.
2. Lee Corporation changed its method of valuing inventory during 2007. The cumulative decrease in income from the change in inventory methods was $35,000 before taxes.
3. Lee Corporation declared cash dividends of $100,000 in late 2007 to be paid out in 2008.

Lee Corporation acquired a Canadian subsidiary whose sole asset is a piece of land. Lee Corporation acquired the subsidiary on 12/31/04 for the exact value of the land CA $100,000. Lee Corporation owns 100% of the subsidiary. Go to www.x-rates.com and use the historic lookup feature to determine the exact exchange rates on 12/31/04, 12/31/05, and 12/31/06.

Requirements:

1). Prepare journal entries for items 1 to 3 above.

2). Calculate and journalize the foreign exchange adjustments for 2005, 2006, and 2007 for the Canadian subsidiary.

3). Prepare a Retained Earnings Statement for the year ended December 31, 2007.

4). Prepare a Statement of Changes in Stockholders Equity for the year ended

 December 31, 2007.