Lee Corporation, a U.S. company, began operations on January 1, 2004.

         During its first 3 years of operations, Lee reported net income and declared dividends as follows.

Net income              Dividends declared

2004                       $ 40,000                                    $ –0–

2005                       125,000                                     50,000

2006                       160,000                                     50,000

         The following information relates to 2007:

         Income before income tax: $240,000

         Prior period adjustment: understatement of 2005 depreciation expense (before taxes): $ 25,000

         Cumulative decrease in income from change in inventory methods (before taxes): $35,000

         Dividends declared (of this amount, $25,000 will be paid on January 15, 2008): $100,000

         Effective tax rate: 40%

|  |
| --- |
| Lee Corporation |
| Retained Earnings Statement |
| For the Year Ended December 31, 2007 |
| Balance, January 1, as reported..........................................................................................  |   | $225,000\* |
| Correction for depreciation error (net of $10,000 tax)...................................................  |   |     (15,000) |
| Cumulative decrease in income from change in                  inventory methods (net of $14,000 tax)...........................................................  |   |   (21,000) |
| Balance, January 1, as adjusted..........................................................................................  |   | 189,000 |
| Add: Net income......................................................................................................................  |   |   144,000\*\* |
|   |   | 333,000 |
| Less: Dividends declared.......................................................................................................  |   |   100,000 |
| Balance, December 31...........................................................................................................  |   | $233,000 |

\*($40,000 + $125,000 + $160,000) – ($50,000 + $50,000)

\*\*[$240,000 – (40% X $240,000)]

Common stock                                      $500

Treasury stock                                       (-$200)

Additional paid-in capital             $1,000

Shares outstanding                                375,940

Shares authorized                                  500,000

Shares in treasury                                  30,000

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

         **Prepare** a statement of changes in owner’s equity and accompanying notes appropriate to the section.

*Note***.** Record the necessary journal entries before attempting to calculate other comprehensive income.