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.