**Question 1**

**15-44 Earnings Statement, Retained Earnings**

Colgate-Palmolive Company has many well-known products, including Colgate toothpaste, Speed Stick deodorants, Softsoap, and Irish Spring soaps. The following is a reproduction of the terms and amounts in the financial statements contained in the company’s annual report for the fiscal year ended December 31, 2005 (in millions):

Net sales $11,396.9 Retained earnings at

Cash 340.7 beginning of year $8,223.9

Interest and other expense 136.0 Cost of sales 5,191.9

Income taxes 727.6 Dividends declared 607.2

Accounts payable 876.1 Selling, general, and

Other expenses 69.2 administrative expenses 3,920.8

EXCEL Application Exercise

1. Choose the relevant data and prepare the income statement for the fiscal year. The final three lines of the income statement should be labeled earnings before income taxes, income taxes, and net earnings.
2. Also show the change in retained earnings for the fiscal year, and compute the beginning-of-the-year retained earnings balance.

**Question 2**

**16-50 Reconciliation of Net Income and Net Cash Provided by Operating Activities**

Wisconsin Bottlers is a microbrewery in Milwaukee. By the end of 20X1, the company’s cash balance had dropped to $6,000, despite net income of $239,000 in 20X1. Its transactions affecting income or cash in 20X1 were (in thousands):

1. Sales were $3,003, all on credit. Cash collections from customers were $2,899.

2. The cost of items sold was $2,096.

3. Inventory increased by $56.

4. Cash payments on trade accounts payable were $2,140.

5. Payments to employees were $305; accrued wages payable decreased by $24.

6. Other operating expenses, all paid in cash, were $105.

7. Interest expense, all paid in cash, was $26.

8. Income tax expense was $105; cash payments for income taxes were $108.

9. Depreciation was $151.

10. A warehouse was acquired for $540 cash.

11. Equipment was sold for $37 cash; original cost was $196, accumulated depreciation was $159.

12. Received $28 for issue of common stock.

13. Retired long-term debt for $25 cash.

14. Paid cash dividends of $89.

1. Prepare a supporting schedule to the statement of cash flows that reconciles net income to net cash provided by operating activities.

**Question 3**

**16-42 Balance Sheet and Income Statement**

The fiscal year for Honshu Company ends on May 31. Results for the year ended May 31, 20X1, included (in millions of Japanese yen except for number of shares outstanding):

Cash and cash equivalents 35,000(YEN)

Cost of goods sold 195,000

Inventories 29,000

Other current assets 6,000

Fixed assets, net 217,000

Net sales 415,000

Receivables 22,000

Debentures 77,000

Research and development expenses 42,000

Administrative and general expenses 65,000

Other income (expenses), net (12,000)

Capital construction fund\* 28,000

Selling and distribution expenses 41,000

Other current liabilities 9,000

Treasury stock (13,000)

Long-term investments ?

Accounts payable 19,000

Mortgage bonds 84,000

Deferred income tax liability 12,000

Redeemable preferred stock 15,000

Common stock, at par (50,000 shares outstanding) 5,000

Paid-in capital in excess of par 102,000

Income tax expense 49,000

Accrued expenses payable 20,000

Retained income 43,000

Intangible assets 21,000

\*A noncurrent asset

1. Prepare in proper form the balance sheet as of May 31, 20X1, and the income statement for the year ended May 31, 20X1. Include the proper amount for long-term investments.

**Question 4**

**15-45 Interpreting the Income Statement and Balance Sheet (Nike 10-K Problem)**

Review Nike’s income statement and balance sheet below on the two following pages. Answer the following questions using the two statements.

1. Compute Nike’s percentage increase in revenues and in total assets in fiscal 2006. Which increased more?

2. Illustrate the balance sheet equation, using total assets, total liabilities, and shareholders’ equity from Nike’s May 31, 2006 balance sheet. (Add the $.3 million of redeemable preferred stock to shareholders’ equity.)

3. Nike’s retained earnings increased from $4,396.5 million to $4,713.4 million during fiscal 2006. A small decrease in retained earnings, $0.3 million, is due to unexplained instnces. Explain the remainder of the change in retained earnings.

4. Did Nike’s net income grow by a larger percentage in fiscal 2006 or fiscal 2005?



