

Efendi Company hired an accounting intern, Pat Morgan, to prepare its income statement, statement of retained earnings, and balance sheet. Pat indicated a reluctance to undertake this task due to a lack of adequate training. But, Pat agreed provided someone would examine the work in detail and provide useful suggestions for improvement. Pat's work follows:

PAT MORGAN'S Income Statement December 31, 20X5		
Net Income		
Services to customers		\$ 125,000
Expenses		
Dividends	\$ 13,500	
Rent	<u>11,000</u>	<u>24,500</u>
Revenues		<u>\$ 100,500</u>

PAT MORGAN'S Statement of Retained Earnings For the Year Ending December 31, 20X1	
Beginning retained earnings	\$ 45,000
Plus: Net income	<u>100,500</u>
	\$ 145,500
Less: Capital stock	<u>200,000</u>
Ending retained earnings	<u>\$ (54,500)</u>

PAT MORGAN'S Equation Sheet December 31, 20X1	
Assets	
Cash	\$ 92,700
Accounts receivable	37,400
Equipment	<u>239,000</u>
Total assets	<u>\$ 369,100</u>
Liabilities	
Accounts payable	\$ 7,500
Wages expense	<u>64,000</u>
Total expenses	\$ 71,500
Stockholders' equity	
Notes payable	\$ 80,100
Retained earnings	<u>(54,500)</u>
Total stockholders' equity	<u>25,600</u>
Total Liabilities and equity	<u>\$ 97,100</u>

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- (a) Find specific errors in Pat's work. Prepare written review notes for Pat sufficient to allow Pat to understand the errors and make necessary corrections. To get you started, you may assume Pat did manage to get the listing of total assets correct.

- (b) Provide your notes to a fellow classmate (just call your classmate Pat for purposes of this exercise), and have them prepare corrected reports, based solely on your notes -- right or wrong! Remember that achieving professional success not only depends on technical proficiency but also your ability to communicate and mentor others.

- (c) Prepare corrected financial statements and compare them to the set provided by your classmate pursuant to requirement (b).