

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

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

  

<b>PAT MORGAN'S Statement of Retained Earnings For the Year Ending December 31, 20X1</b>		
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>

  

<b>PAT MORGAN'S Equation Sheet December 31, 20X1</b>		
<b>Assets</b>		
Cash		\$ 92,700
Accounts receivable		37,400
Equipment		<u>239,000</u>
Total assets		<u>\$369,100</u>
<b>Liabilities</b>		
Accounts payable	\$ 7,500	
Wages expense	<u>64,000</u>	
Total expenses		\$ 71,500
<b>Stockholders' equity</b>		
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>

- (a) Find specific errors in Pat's work. Prepare written review notes sufficient to allow Pat to understand the errors and make necessary corrections. To get 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 him or her 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 in requirement (b).