

In Class Exercise

Lemonade Stand: Building Financial Statements

1. Adjust your Homework 2 statements for the following transactions:
 - (a) You earn \$2k in interest income from your business account.
 - (b) You are sued by a customer who slipped on spilled lemonade, you settle for \$5k.
 - (c) On June 30, 2019, you find an investor who invests \$80k and you issue her 4,000 new shares.
2. Build the 2020 I/S and B/S as of 12/31/2020 and the 2020 CFS if the following occurs:
 - (a) During 2020, you sold \$210k in lemonade at \$1 per cup. You have still not collected \$20k of this by year end. You also create a gift card, which generated \$60k. By year end, half the gift cards were redeemed (this is in addition to \$210k previously stated and cups were sold at the same price). The gift cards expire on December 31, 2025.
 - (b) On January 1, 2020, the original lemon squeezer broke down unexpectedly and you threw it away. You decided to classify the write down as a “Non-operating income (expense) on the I/S.¹ The same day, you buy a replacement for \$15k with a useful life of 3 years.
 - (c) On January 1, 2020 you buy a customer list for \$10k and spend \$1k to print and mail leaflets to them promoting your lemonade stand. You estimate the list has a useful life of 5 years.
 - (d) On January 1, 2020, you buy \$60k worth of lemons and paper cups (just enough to make 300k cups of lemonade)with cash. On December 15, 2020, you buy an additional \$10k (enough to make 50k cups) but you didn’t pay cash yet -the invoice is due January 5, 2021. Assume FIFO accounting.
 - (e) You kept your lemonade mixer and cashier, and paid them each \$15k for the year.
 - (f) You started the year with 9,000 shares outstanding. On June 30, 2020 you repurchased 1,000 shares from the investor for \$50k.
 - (g) Interest expense was \$5k; interest income was \$3k. On 7/15/2020, you issued(and paid) a \$5/share dividend. Tax rate is still 21%.

¹Note this could be recorded under Other operating income(expenses)