# 3. Statement of Retained Earnings, Stockholders’ Equity, and Cash Flows

**Exercise 1**

A company reported a beginning retained earnings of $500,000. The net profit for the year was $200,000, and dividends paid were $50,000.

* Calculate the ending retained earnings.

**Exercise 2**

Company Alpha Ltd. had a retained earnings balance of $1,500,000 on January 1, 2024. During 2024, it earned a net income of $750,000 and paid dividends of $200,000.

**Questions:**
a) Calculate the retained earnings balance as of December 31, 2024.
b) How would this statement look in a structured format?

**Exercise 3**

Company Beta Inc. had the following stockholders’ equity components at the beginning of the year:

* Common stock: $5,000,000
* Additional paid-in capital: $500,000
* Retained earnings: $2,000,000

During the year, the company issued new shares worth $1,000,000 and paid dividends of $300,000.

**Questions:**
a) What is the final stockholders’ equity balance?
b) How did the stockholders’ equity change over the year?

**Exercise 4**

Company Gamma Ltd. reported the following cash flows for 2024:

* Net income: $1,200,000
* Depreciation: $300,000
* Increase in inventory: $150,000
* Loan repayment: $400,000
* Purchase of new equipment: $600,000
* Issuance of new shares: $900,000

**Questions:**
a) Classify the cash flow items into operating, investing, and financing activities.
b) What is the net cash increase/decrease?

**Exercise 5**

For the following items, decide (x) whether they are assets or equity or liabilities.

| **Item** | **Assets** | **Equity and Liabilities** |
| --- | --- | --- |
| **FA or NCA** | **CA** | **Equity** | **Liabilities** |
| Land |  |  |  |  |
| Reserve fund |  |  |  |  |
| Automobile |  |  |  |  |
| Ware |  |  |  |  |
| Money in the cash register |  |  |  |  |
| Registered capital |  |  |  |  |
| Short-term loan from a bank |  |  |  |  |
| Production line |  |  |  |  |
| Repair reserve |  |  |  |  |
| Furniture |  |  |  |  |
| Money in bank account |  |  |  |  |
| Material in stock |  |  |  |  |
| Liabilities to suppliers |  |  |  |  |
| Building |  |  |  |  |
| Profit |  |  |  |  |
| Software |  |  |  |  |
| Receivables from employees |  |  |  |  |
| Postage stamps |  |  |  |  |
| Lathe |  |  |  |  |
| Social Fund |  |  |  |  |
| Loss |  |  |  |  |
| Computer |  |  |  |  |
| Commitments to employees |  |  |  |  |
| Goods in stock |  |  |  |  |
| Accounts receivable |  |  |  |  |
| Securities intended for trading |  |  |  |  |
| Unfinished production |  |  |  |  |

**Exercise 6**

The following accounting transactions took place in the accounting entity. Indicate what change (+/-) in the balance sheet this is.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **C.** | **Accounting case** | **CZK** | **A** | **E+L** |
|  | Depositing money into a current account | 600,000 |  |  |
|  | Purchase of materials from suppliers on invoice | 150,000 |  |  |
|  | Payment of invoice for materials from bank loan | 150,000 |  |  |
|  | Purchase of a car from a supplier on invoice | 350,000 |  |  |
|  | The invoice for the car was paid from the BÚ | 350,000 |  |  |
|  | Payment of net wages to employees from the BÚ | 80,000 |  |  |
|  | Payment received from customers at the BÚ | 420,000 |  |  |
|  | Money was withdrawn from the BÚ to the treasury. | 60,000 |  |  |
|  | Buying a highway vignette in cash | 5,000 |  |  |
|  | Tax owed paid from BÚ | 23,000 |  |  |
|  | Part of the profit transferred to the reserve fund | 170,000 |  |  |
|  | Money was withdrawn from the BÚ to the treasury. | 100,000 |  |  |
|  | Purchasing goods in cash | 40,000 |  |  |
|  | Part of the profit intended for the payment of profit shares | 120,000 |  |  |
|  | The rest of the profit is kept as retained earnings. | 30,000 |  |  |
|  | Money from a long-term loan credited to a current account | 500,000 |  |  |
|  | Purchase of a machine on invoice from a supplier | 630,000 |  |  |
|  | The invoice from the supplier for the machine was paid from the BÚ | 630,000 |  |  |
|  | Part of the long-term loan repaid from the BÚ | 150,000 |  |  |
|  | Money transferred from the cash register to the bank account | 50,000 |  |  |

**Exercise 7**

For the following items, decide whether they are expenses or income. Indicate what type of expense/revenue they are.

| **Item** | **Expense** | **Revenue** |
| --- | --- | --- |
| Energy consumption |  |  |
| Travel expenses |  |  |
| Revenue from the sale of securities |  |  |
| Revenue from the sale of goods |  |  |
| Goods sold (decrease) |  |  |
| Securities sold (decrease) |  |  |
| Postage |  |  |
| Material consumption |  |  |
| Revenue from the sale of the machine |  |  |
| Loan interest |  |  |
| Repairs to fixed assets |  |  |
| Interest on a current account |  |  |
| Employee wages |  |  |
| Damage to goods due to fire |  |  |
| Compensation from the insurance company for damage to goods |  |  |

**Exercise 8**

The following accounting transactions took place in the accounting entity. Please indicate what change (+/-) this is.

| **C.** | **Accounting case** | **CZK** | **A** | **E+L** | **E** | **R** |
| --- | --- | --- | --- | --- | --- | --- |
| 1. | Rent received for leased warehouse at bank account | 25,000 |  |  |  |  |
| 2. | Material consumption from warehouse | 70,000 |  |  |  |  |
| 3. | Shortage detected in the warehouse of goods | 30,000 |  |  |  |  |
| 4. | Decrease in goods sold | 140,000 |  |  |  |  |
| 5. | Invoice from supplier for repairs | 45,000 |  |  |  |  |
| 6. | Fine paid in cash | 3,000 |  |  |  |  |
| 7. | Interest on financial investments | 6,000 |  |  |  |  |
| 8. | Revenue from the sale of services in cash | 17,000 |  |  |  |  |
| 9. | Bank account maintenance fees | 1,500 |  |  |  |  |
| 10. | Travel expenses paid from the cash register | 4,000 |  |  |  |  |
| 13. | Loan interest paid from bank account | 22,000 |  |  |  |  |
| 14. | Gross wages of employees | 280,000 |  |  |  |  |
| 15. | Revenue from the sale of materials in cash | 65,000 |  |  |  |  |
| 16. | Received invoice for consumed energy | 18,000 |  |  |  |  |
| 17. | Interest credited to bank account | 1,000 |  |  |  |  |
| 18. | Sales for goods received to bank account | 620,000 |  |  |  |  |
| 20. | Road tax paid from bank account | 7,000 |  |  |  |  |
| 21. | Office rent paid in cash | 26,000 |  |  |  |  |