

## Blue Diamond

John Smith is completing an internship at Blue Diamond, a high-end retailer of fine jewelry. John has been working directly with the company's controller to help prepare financial statements. John, in particular, has been focused on the company's equity accounts and providing advice and input on how different equity transactions would affect Blue Diamond's financial statements. The controller has been very impressed by John's knowledge of how equity accounts work and the potential impact of various equity transactions the company is evaluating. Specifically, the company is looking at how stock splits and stock dividends would affect the company's equity accounts.

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### Question 1.1 of 6

John has been asked to prepare a statement of changes in equity. Which accounts are typically presented on the statement of changes in equity? Provide a brief description of each type of equity account.

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### Question 1.2 of 6

If Blue Diamond decided to split its stock in a 2-for-1 stock split, explain how this would affect its equity accounts and if any journal entries would be needed.

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### Question 1.3 of 6

Consider that Blue Diamond has 100,000 common shares outstanding with a \$1 par value and a market value of \$15. Also, consider that Blue Diamond is planning on declaring a 23% stock dividend.

What is the impact on the various equity accounts if the transaction is considered a small stock dividend? What is the impact on the various equity accounts if the transaction is considered a large stock dividend?

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## **Douglas Blake**

Douglas Blake is working in a local CPA firm for his junior year internship. His second assignment was to prepare a classified income statement, statement of changes to equity, a balance sheet, and an indirect cash flow statement from an adjusted trial balance for the end of this period and the end of the previous period. It has been several years since Douglas took financial accounting and he was embarrassed to tell his supervisor that he did not remember how to perform this task.

When he arrived home that evening, Douglas sent an email to his internship advisor, who also happened to be his accounting professor from Principles of Accounting, asking him how the financial statements are related, how they are prepared, and what are the major classifications in the income statement, balance sheet, and statement of cash flows (indirect method).

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### **Question 2.1 of 6**

Explain to Douglas how an income statement, a balance sheet, a statement of changes to equity, and an indirect cash flow statement are prepared.

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### **Question 2.2 of 6**

Explain how the income statement, the statement of changes to equity, the balance sheet, and the cash flow statement are related.

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### **Question 2.3 of 6**

Explain the major components and classifications of the income statement, the balance sheet, and the statement of cash flows.

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