

CHAPTER 1

Accounting in Action

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain what accounting is.	1, 2, 5		1	1		
2. Identify the users and uses of accounting.	3, 4		1	2		
3. Understand why ethics is a fundamental business concept.			1	3		
4. Explain generally accepted accounting principles.	6		1	3, 4		
5. Explain the monetary unit assumption and the economic entity assumption.	7, 8, 9, 10			4		
6. State the accounting equation, and define its components.	11, 12, 13, 22	1, 2, 3, 4, 5	2, 4	5, 6, 7, 10, 11, 16	1A, 2A 4A, 5A	1B, 2B 4B, 5B
7. Analyze the effects of business transactions on the accounting equation.	14, 15, 16, 18	6, 7, 8, 9	3	6, 7, 8, 10	1A, 2A, 4A	1B, 2B, 4B
8. Understand the four financial statements and how they are prepared.	17, 19, 20, 21	10, 11	4	9, 10, 11, 12, 13, 14, 15, 16	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Analyze transactions and compute net income.	Moderate	40–50
2A	Analyze transactions and prepare income statement, owner's equity statement, and balance sheet.	Moderate	50–60
3A	Prepare income statement, owner's equity statement, and balance sheet.	Moderate	50–60
4A	Analyze transactions and prepare financial statements.	Moderate	40–50
5A	Determine financial statement amounts and prepare owner's equity statement.	Moderate	40–50
1B	Analyze transactions and compute net income.	Moderate	40–50
2B	Analyze transactions and prepare income statement, owner's equity statement, and balance sheet.	Moderate	50–60
3B	Prepare income statement, owner's equity statement, and balance sheet.	Moderate	50–60
4B	Analyze transactions and prepare financial statements.	Moderate	40–50
5B	Determine financial statement amounts and prepare owner's equity statement.	Moderate	40–50

WEYGANDT ACCOUNTING PRINCIPLES 11E
CHAPTER 1
ACCOUNTING IN ACTION

Number	LO	BT	Difficulty	Time (min.)
BE1	6	AP	Simple	2–4
BE2	6	AP	Simple	3–5
BE3	6	AP	Moderate	4–6
BE4	6	AP	Moderate	4–6
BE5	6	C	Simple	2–4
BE6	7	C	Simple	2–4
BE7	7	C	Simple	2–4
BE8	7	C	Simple	2–4
BE9	7	C	Simple	1–2
BE10	8	AP	Simple	3–5
BE11	8	C	Simple	2–4
DI1	1, 2, 3, 4	K	Simple	2–4
DI2	6	K	Simple	2–4
DI3	7	AP	Simple	6–8
DI4	6, 8	AP	Moderate	8–10
EX1	1	C	Moderate	5–7
EX2	2	C	Simple	6–8
EX3	3, 4	C	Moderate	6–8
EX4	4, 5	C	Moderate	6–8
EX5	6	C	Simple	4–6
EX6	6, 7	C	Simple	6–8
EX7	6, 7	C	Simple	4–6
EX8	7	AP	Moderate	12–15
EX9	8	AP	Simple	12–15
EX10	6, 8	AP	Moderate	8–10
EX11	6, 8	AP	Moderate	6–8
EX12	8	AP	Simple	8–10
EX13	8	AN	Simple	8–10
EX14	8	AP	Simple	10–12
EX15	8	AP	Simple	6–8
EX16	6, 8	AP	Moderate	6–8

ACCOUNTING IN ACTION (Continued)

Number	LO	BT	Difficulty	Time (min.)
P1A	6, 7	AP	Moderate	40–50
P2A	6–8	AP	Moderate	50–60
P3A	8	AP	Moderate	50–60
P4A	6–8	AP	Moderate	40–50
P5A	6–8	AP	Moderate	40–50
P1B	6, 7	AP	Moderate	40–50
P2B	6–8	AP	Moderate	50–60
P3B	8	AP	Moderate	50–60
P4B	6–8	AP	Moderate	40–50
P5B	6–8	AP	Moderate	40–50
BYP1	8	AN	Simple	10–15
BYP2	8	AN, E	Simple	10–15
BYP3	8	AN, E	Simple	10–15
BYP4	9	C, AN	Simple	15–20
BYP5	7	E	Moderate	15–20
BYP6	8	E	Simple	12–15
BYP7	3	E	Simple	10–12
BYP8	3	E	Moderate	15–20
BYP9	–	AP	Moderate	15–20
BYP10	–	C	Simple	10–15

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what accounting is.	DI1-1	Q1-1 Q1-2	Q1-5 E1-1			
2. Identify the users and uses of accounting.		Q1-3 Q1-4	E1-2			
3. Understand why ethics is a fundamental business concept.	DI1-1	E1-3				
4. Explain generally accepted accounting principles.	Q1-7	Q1-6 E1-3	E1-4			
5. Explain the monetary unit assumption and the economic entity assumption.	Q1-8 Q1-9 Q1-10	Q1-11 E1-4				
6. State the accounting equation, and define its components.	Q1-11 Q1-12 Q1-13 DI1-2 BE1-5	Q1-14 BE1-4 BE1-8 BE1-9 E1-5	E1-6 E1-7	BE1-1 BE1-2 BE1-3 DI1-4 E1-10 E1-11 E1-16 P1-1A	P1-2A P1-4A P1-5A P1-1B P1-2B P1-4B P1-5B	
7. Analyze the effects of business transactions on the accounting equation.		Q1-15 Q1-16 Q1-17 Q1-19	BE1-6 BE1-7 E1-6 E1-7	DI1-3 E1-8 P1-1A P1-2A	P1-4A P1-1B P1-2B P1-4B	
8. Understand the four financial statements and how they are prepared.		Q1-18 Q1-20 BE1-11		Q1-21 Q1-22 BE1-10 DI1-4 E1-8 E1-9 E1-10 E1-11 E1-12 E1-14 E1-15	E1-16 E1-17 P1-2A P1-3A P1-4A P1-5A P1-2B P1-3B P1-4B P1-5B	E1-13
Broadening Your Perspective		Real-World Focus Considering People, Planet, and Profit	FASB Codification	Financial Reporting Comparative Analysis		All About You Comparative Analysis Decision-Making Across the Organization Communication Activity Ethics Case

ANSWERS TO QUESTIONS

1. Yes, this is correct. Virtually every organization and person in our society uses accounting information. Businesses, investors, creditors, government agencies, and not-for-profit organizations must use accounting information to operate effectively.
2. Accounting is the process of identifying, recording, and communicating the economic events of an organization to interested users of the information. The first step of the accounting process is therefore to identify economic events that are relevant to a particular business. Once identified and measured, the events are recorded to provide a history of the financial activities of the organization. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner. The information is communicated through the preparation and distribution of accounting reports, the most common of which are called financial statements. A vital element in the communication process is the accountant's ability and responsibility to analyze and interpret the reported information.
3.
 - (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.
 - (b) To assist management, managerial accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.
4.
 - (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell ownership shares of a company.
 - (b) Creditors use accounting information to evaluate the risks of granting credit or lending money.
5. No, this is incorrect. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.
6. Trenton Travel Agency should report the land at \$90,000 on its December 31, 2014 balance sheet. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use cost. Only in situations where assets are actively traded do companies apply the fair value principle. An important concept that accountants follow is the historical cost principle.
7. The monetary unit assumption requires that only transaction data that can be expressed in terms of money be included in the accounting records. This assumption enables accounting to quantify (measure) economic events.
8. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.
9. The three basic forms of business organizations are: (1) proprietorship, (2) partnership, and (3) corporation.

Questions Chapter 1 (Continued)

10. One of the advantages Rachel Hipp would enjoy is that ownership of a corporation is represented by transferable shares of stock. This would allow Rachel to raise money easily by selling a part of her ownership in the company. Another advantage is that because holders of the shares (stockholders) enjoy limited liability; they are not personally liable for the debts of the corporate entity. Also, because ownership can be transferred without dissolving the corporation, the corporation enjoys an unlimited life.
11. The basic accounting equation is $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.
12. (a) Assets are resources owned by a business. Liabilities are claims against assets. Put more simply, liabilities are existing debts and obligations. Owner's equity is the ownership claim on total assets.
(b) Owner's equity is affected by owner's investments, drawings, revenues, and expenses.
13. The liabilities are: (b) Accounts payable and (g) Salaries and wages payable.
14. Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the Equipment account which is offset by a decrease in the Cash account is a specific example.
15. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic accounting equation.
(a) The death of the owner of the company is not a business transaction as it does not affect the basic accounting equation.
(b) Supplies purchased on account is a business transaction as it affects the basic accounting equation.
(c) An employee being fired is not a business transaction as it does not affect the basic accounting equation.
(d) A withdrawal of cash from the business is a business transaction as it affects the basic accounting equation.
16. (a) Decrease assets and decrease owner's equity.
(b) Increase assets and decrease assets.
(c) Increase assets and increase owner's equity.
(d) Decrease assets and decrease liabilities.
17. (a) Income statement. (d) Balance sheet.
(b) Balance sheet. (e) Balance sheet and owner's equity statement.
(c) Income statement. (f) Balance sheet.
18. No, this treatment is not proper. While the transaction does involve a receipt of cash, it does not represent revenues. Revenues are the gross increase in owner's equity resulting from business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by the owner in the business.

Questions Chapter 1 (Continued)

19. Yes. Net income does appear on the income statement—it is the result of subtracting expenses from revenues. In addition, net income appears in the owner’s equity statement—it is shown as an addition to the beginning-of-period capital. Indirectly, the net income of a company is also included in the balance sheet. It is included in the capital account which appears in the owner’s equity section of the balance sheet.

20. (a)	Ending capital balance	\$198,000
	Beginning capital balance	<u>168,000</u>
	Net income.....	<u>\$ 30,000</u>

(b)	Ending capital balance	\$198,000
	Beginning capital balance	<u>168,000</u>
		30,000
	Deduct: Investment.....	<u>13,000</u>
	Net income.....	<u>\$ 17,000</u>

21. (a)	Total revenues (\$20,000 + \$70,000)	\$90,000
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(b)	Total expenses (\$26,000 + \$40,000).....	\$66,000
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(c)	Total revenues	\$90,000
	Total expenses.....	<u>66,000</u>
	Net income.....	<u>\$24,000</u>

22. Apple’s accounting equation at September 24, 2011 was \$116,371,000,000 = \$39,756,000,000 + \$76,615,000,000.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1-1

- (a) $\$90,000 - \$50,000 = \$40,000$ (Owner's Equity).
 (b) $\$40,000 + \$70,000 = \$110,000$ (Assets).
 (c) $\$94,000 - \$53,000 = \$41,000$ (Liabilities).

BRIEF EXERCISE 1-2

- (a) $\$120,000 + \$232,000 = \$352,000$ (Total assets).
 (b) $\$190,000 - \$91,000 = \$99,000$ (Total liabilities).
 (c) $\$800,000 - 0.5(\$800,000) = \$400,000$ (Owner's equity).

BRIEF EXERCISE 1-3

- (a) $(\$800,000 + \$150,000) - (\$300,000 - \$80,000) = \$730,000$
 (Owner's equity).
 (b) $(\$300,000 + \$100,000) + (\$800,000 - \$300,000 - \$70,000) = \$830,000$
 (Assets).
 (c) $(\$800,000 - \$80,000) - (\$800,000 - \$300,000 + \$120,000) = \$100,000$
 (Liabilities).

BRIEF EXERCISE 1-4

		Owner's Equity								
Assets	=	Liabilities	+	Owner's Capital	-	Owner's Drawings	+	Revenues	-	Expenses
(a) X	=	\$90,000	+	\$150,000	-	\$40,000	+	\$450,000	-	\$320,000
X	=	\$90,000	+	\$240,000						
X	=	<u>\$330,000</u>								
(b) \$57,000	=	X	+	\$25,000	-	\$7,000	+	\$52,000	-	\$35,000
\$57,000	=	X	+	\$35,000						
X	=	<u>\$22,000</u>								(\$57,000 - \$35,000)
(c) \$600,000	=	(\$600,000 x 2/3) + X (Owner's equity)								
\$600,000	=	\$400,000	+	X						
X	=	<u>\$200,000</u>								

BRIEF EXERCISE 1-5

<u>A</u>	(a) Accounts receivable	<u>A</u>	(d) Supplies
<u>L</u>	(b) Salaries and wages payable	<u>OE</u>	(e) Owner's capital
<u>A</u>	(c) Equipment	<u>L</u>	(f) Notes payable

BRIEF EXERCISE 1-6

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	+	+	NE
(b)	+	NE	+
(c)	-	NE	-

BRIEF EXERCISE 1-7

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	+	NE	+
(b)	-	NE	-
(c)	NE	NE	NE

BRIEF EXERCISE 1-8

<u>E</u>	(a) Advertising expense	<u>D</u>	(e) Owner's drawings
<u>R</u>	(b) Service revenue	<u>R</u>	(f) Rent revenue
<u>E</u>	(c) Insurance expense	<u>E</u>	(g) Utilities expense
<u>E</u>	(d) Salaries and wages expense		

BRIEF EXERCISE 1-9

<u>R</u>	(a) Received cash for services performed
<u>NOE</u>	(b) Paid cash to purchase equipment
<u>E</u>	(c) Paid employee salaries

BRIEF EXERCISE 1-10

FRITZ COMPANY
Balance Sheet
December 31, 2014

Assets		
Cash		\$ 49,000
Accounts receivable		<u>72,500</u>
Total assets		<u>\$121,500</u>
Liabilities and Owner's Equity		
Liabilities		
Accounts payable		\$ 90,000
Owner's equity		
Owner's capital		<u>31,500</u>
Total liabilities and owner's equity		<u>\$121,500</u>

BRIEF EXERCISE 1-11

<u>BS</u>		(a) Notes payable
<u>IS</u>		(b) Advertising expense
<u>OE, BS</u>		(c) Owner's capital
<u>BS</u>		(d) Cash
<u>IS</u>		(e) Service revenue

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 1-1

1. **False.** The three steps in the accounting process are identification, recording, and communication.
2. **True**
3. **False.** Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.
4. **False.** The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
5. **True.**

DO IT! 1-2

1. Drawings is owner's drawings (D); it decreases owner's equity.
2. Rent Revenue is revenue (R); it increases owner's equity.
3. Advertising Expense is an expense (E); it decreases owner's equity.
4. When the owner puts personal assets into the business, it is investment by owner (I); it increases owner's equity.

DO IT! 1-3

Assets		=	Liabilities		+	Owner's Equity		
Cash	+ Accounts Receivable	=	Accounts Payable	+	Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
(1)	+\$20,000						+\$20,000	
(2)	+\$20,000		-\$20,000					
(3)			+\$2,300					-\$2,300
(4)	-\$ 3,600					-\$3,600		

DO IT! 1-4

- (a) The total assets are \$47,000, comprised of Cash \$4,500, Accounts Receivable \$13,500, and Equipment \$29,000.
- (b) Net income is \$18,500, computed as follows:

Revenues		
Service revenue.....		\$51,500
Expenses		
Salaries and wages expense	\$16,500	
Rent expense	10,500	
Advertising expense	6,000	
Total expenses		<u>33,000</u>
Net income		<u>\$18,500</u>

DO IT! 1-4 (Continued)

(c) The ending owner's equity balance of Howard Company is \$19,000. By rewriting the accounting equation, we can compute Owner's Equity as Assets minus Liabilities, as follows:

Total assets [as computed in (a)]		\$47,000
Less: Liabilities		
Notes payable.....	\$25,000	
Accounts payable	<u>3,000</u>	<u>28,000</u>
Owner's equity		<u>\$19,000</u>

Note that it is not possible to determine the company's owner's equity in any other way, because the beginning balance for owner's equity is not provided.

SOLUTIONS TO EXERCISES

EXERCISE 1-1

- C Analyzing and interpreting information.
- R Classifying economic events.
- C Explaining uses, meaning, and limitations of data.
- R Keeping a systematic chronological diary of events.
- R Measuring events in dollars and cents.
- C Preparing accounting reports.
- C Reporting information in a standard format.
- I Selecting economic activities relevant to the company.
- R Summarizing economic events.

EXERCISE 1-2

(a) *Internal users*

- Marketing manager
- Production supervisor
- Store manager
- Vice-president of finance

External users

- Customers
- Internal Revenue Service
- Labor unions
- Securities and Exchange Commission
- Suppliers

- ### (b)
- I Can we afford to give our employees a pay raise?
 - E Did the company earn a satisfactory income?
 - I Do we need to borrow in the near future?
 - E How does the company's profitability compare to other companies?
 - I What does it cost us to manufacture each unit produced?
 - I Which product should we emphasize?
 - E Will the company be able to pay its short-term debts?

EXERCISE 1-3

Jill Motta, president of Motta Company, instructed Linda Berger, the head of the accounting department, to report the company's land in their accounting reports at its fair value of \$170,000 instead of its cost of \$100,000, in an effort to make the company appear to be a better investment. The historical cost principle requires that assets be recorded and reported at their cost, because cost is faithfully representative and can be objectively measured and verified. In this case, the historical cost principle should be used and Land reported at \$100,000, not \$170,000.

The stakeholders include stockholders and creditors of Motta Company, potential stockholders and creditors, other users of Motta's accounting reports, Jill Motta, and Linda Berger. All users of Motta's accounting reports could be harmed by relying on information that may be unreliable. Jill Motta could benefit if the company is able to attract more investors, but would be harmed if the inappropriate reporting is discovered. Similarly, Linda Berger could benefit by pleasing her boss, but would be harmed if the inappropriate reporting is discovered.

Linda's alternatives are to report the land at \$100,000 or to report it at \$170,000. Reporting the land at \$170,000 is not appropriate since it may mislead many people who rely on Motta's accounting reports to make financial decisions. Linda should report the land at its cost of \$100,000. She should try to convince Jill Motta that this is the appropriate course of action, but be prepared to resign her position if Motta insists.

EXERCISE 1-4

1. Incorrect. The historical *cost principle* requires that assets (such as buildings) be recorded and reported at their cost.
2. Correct. The *monetary unit assumption* requires that companies include in the accounting records only transaction data that can be expressed in terms of money.
3. Incorrect. The *economic entity assumption* requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

EXERCISE 1-5

Asset	Liability	Owner's Equity
Cash	Accounts payable	Owner's capital
Equipment	Notes payable	
Supplies	Salaries and wages payable	
Accounts receivable		

EXERCISE 1-6

1. Increase in assets and increase in owner's equity.
2. Decrease in assets and decrease in owner's equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in owner's equity.
5. Decrease in assets and decrease in owner's equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in owner's equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in owner's equity.

EXERCISE 1-7

- | | |
|--------|--------|
| 1. (c) | 5. (d) |
| 2. (d) | 6. (b) |
| 3. (a) | 7. (e) |
| 4. (b) | 8. (f) |

EXERCISE 1-8

- (a)
1. Owner invested \$15,000 cash in the business.
 2. Purchased equipment for \$5,000, paying \$2,000 in cash and the balance of \$3,000 on account.
 3. Paid \$750 cash for supplies.
 4. Performed \$8,500 of services, receiving \$4,600 cash and \$3,900 on account.
 5. Paid \$1,500 cash on accounts payable.

EXERCISE 1-8 (Continued)

6. Owner withdrew \$2,000 cash for personal use.
7. Paid \$650 cash for rent.
8. Collected \$450 cash from customers on account.
9. Paid salaries and wages of \$4,800.
10. Incurred \$500 of utilities expense on account.

(b)	Investment.....	\$15,000
	Service revenue	8,500
	Drawings	(2,000)
	Rent expense	(650)
	Salaries and wages expense	(4,800)
	Utilities expense	(500)
	Increase in owner's equity	<u>\$15,550</u>
(c)	Service revenue	\$8,500
	Rent expense	(650)
	Salaries and wages expense	(4,800)
	Utilities expense	(500)
	Net income	<u>\$2,550</u>

EXERCISE 1-9

LIAM AGLER & CO.
Income Statement
For the Month Ended August 31, 2014

Revenues		
	Service revenue	\$8,500
Expenses		
	Salaries and wages expense	\$4,800
	Rent expense	650
	Utilities expense	<u>500</u>
	Total expenses	<u>5,950</u>
Net income		<u>\$2,550</u>

EXERCISE 1-9 (Continued)

**LIAM AGLER & CO.
Owner's Equity Statement
For the Month Ended August 31, 2014**

Owner's capital, August 1		\$ 0
Add: Investments	\$15,000	
Net income.....	<u>2,550</u>	<u>17,550</u>
		17,550
Less: Drawings.....		<u>2,000</u>
Owner's capital, August 31		<u><u>\$15,550</u></u>

**LIAM AGLER & CO.
Balance Sheet
August 31, 2014**

Assets		
Cash		\$ 8,350
Accounts receivable.....		3,450
Supplies		750
Equipment.....		<u>5,000</u>
Total assets		<u><u>\$17,550</u></u>
Liabilities and Owner's Equity		
Liabilities		
Accounts payable		\$ 2,000
Owner's equity		
Owner's capital		<u>15,550</u>
Total liabilities and owner's equity		<u><u>\$17,550</u></u>

EXERCISE 1-10

(a) Owner's equity—12/31/13 (\$400,000 – \$250,000)		\$150,000
Owner's equity—1/1/13.....		<u>100,000</u>
Increase in owner's equity		50,000
Add: Drawings		<u>15,000</u>
Net income for 2013.....		<u><u>\$ 65,000</u></u>

EXERCISE 1-10 (Continued)

(b) Owner's equity—12/31/14 (\$460,000 – \$300,000).....	\$160,000
Owner's equity—1/1/14—see (a).....	<u>150,000</u>
Increase in owner's equity	10,000
Less: Additional investment	<u>45,000</u>
Net loss for 2014.....	<u>\$ 35,000</u>
(c) Owner's equity—12/31/15 (\$590,000 – \$400,000).....	\$190,000
Owner's equity—1/1/15—see (b).....	<u>160,000</u>
Increase in owner's equity	30,000
Less: Additional investment	<u>15,000</u>
	15,000
Add: Drawings	<u>25,000</u>
Net income for 2015.....	<u>\$ 40,000</u>

EXERCISE 1-11

(a) Total assets (beginning of year)	\$110,000
Total liabilities (beginning of year).....	<u>85,000</u>
Total owner's equity (beginning of year)	<u>\$ 25,000</u>
(b) Total owner's equity (end of year)	\$ 40,000
Total owner's equity (beginning of year)	<u>25,000</u>
Increase in owner's equity	<u>\$ 15,000</u>
Total revenues	\$215,000
Total expenses.....	<u>175,000</u>
Net income	<u>\$ 40,000</u>
Increase in owner's equity	\$ 15,000
Less: Net income	<u>\$(40,000)</u>
Add: Drawings	<u>29,000</u>
Additional investment	<u>\$ 4,000</u>
(c) Total assets (beginning of year)	\$129,000
Total owner's equity (beginning of year)	<u>80,000</u>
Total liabilities (beginning of year).....	<u>\$ 49,000</u>

EXERCISE 1-11 (Continued)

(d) Total owner's equity (end of year)		\$130,000
Total owner's equity (beginning of year)		<u>80,000</u>
Increase in owner's equity		<u>\$ 50,000</u>
Total revenues		\$100,000
Total expenses		<u>60,000</u>
Net income		<u>\$ 40,000</u>
Increase in owner's equity		\$ 50,000
Less: Net income	\$(40,000)	
Additional investment	<u>(25,000)</u>	<u>(65,000)</u>
Drawings		<u>\$ 15,000</u>

EXERCISE 1-12

DAVID PANDE CO.
Income Statement
For the Year Ended December 31, 2014

Revenues		
Service revenue		\$63,600
Expenses		
Salaries and wages expense.....	\$29,500	
Rent expense	10,400	
Utilities expense	3,100	
Advertising expense	<u>1,800</u>	
Total expenses		<u>44,800</u>
Net income		<u>\$18,800</u>

DAVID PANDE CO.
Owner's Equity Statement
For the Year Ended December 31, 2014

Owner's capital, January 1	\$48,000
Add: Net income.....	<u>18,800</u>
	66,800
Less: Drawings.....	<u>6,000</u>
Owner's capital, December 31	<u>\$60,800</u>

EXERCISE 1-13

TAYLOR COMPANY
Balance Sheet
December 31, 2014

Assets	
Cash	\$15,000
Accounts receivable	9,500
Supplies	8,000
Equipment.....	<u>46,000</u>
Total assets	<u>\$78,500</u>

Liabilities and Owner's Equity	
Liabilities	
Accounts payable	\$21,000
Owner's equity	
Owner's capital (\$67,500 – \$10,000)	<u>57,500</u>
Total liabilities and owner's equity	<u>\$78,500</u>

EXERCISE 1-14

(a) Camping fee revenues	\$140,000
General store revenues	<u>65,000</u>
Total revenue	205,000
Expenses.....	<u>150,000</u>
Net income	<u>\$ 55,000</u>

(b) style="text-align: center;">**DEER PARK**
Balance Sheet
December 31, 2014

Assets	
Cash.....	\$ 23,000
Accounts Receivable.....	17,500
Equipment.....	<u>105,500</u>
Total assets	<u>\$146,000</u>

EXERCISE 1-14 (Continued)

**DEER PARK
Balance Sheet (Continued)
December 31, 2014**

Liabilities and Owner's Equity	
Liabilities	
Notes payable.....	\$ 60,000
Accounts payable.....	<u>11,000</u>
Total liabilities.....	71,000
Owner's equity	
Owner's capital (\$146,000 – \$71,000).....	<u>75,000</u>
Total liabilities and owner's equity.....	<u><u>\$146,000</u></u>

EXERCISE 1-15

**GILLIGAN CRUISE COMPANY
Income Statement
For the Year Ended December 31, 2014**

Revenues	
Ticket revenue.....	\$410,000
Expenses	
Salaries and wages expense.....	\$142,000
Maintenance and repairs expense.....	95,000
Advertising expense.....	24,500
Utilities expense	<u>10,000</u>
Total expenses	<u>271,500</u>
Net income	<u><u>\$138,500</u></u>

EXERCISE 1-16

**HUAN FENG, ATTORNEY
Owner's Equity Statement
For the Year Ended December 31, 2014**

Owner's capital, January 1	\$ 34,000 (a)
Add: Net income.....	<u>124,000</u> (b)
	158,000
Less: Drawings.....	<u>90,000</u>
Owner's capital, December 31	<u><u>\$ 68,000</u></u> (c)

EXERCISE 1-16 (Continued)

Supporting Computations

(a)	Assets, January 1, 2014	\$ 96,000
	Liabilities, January 1, 2014.....	<u>62,000</u>
	Capital, January 1, 2014	<u>\$ 34,000</u>
(b)	Legal service revenue	\$335,000
	Total expenses.....	<u>211,000</u>
	Net income	<u>\$124,000</u>
(c)	Assets, December 31, 2014.....	\$168,000
	Liabilities, December 31, 2014	<u>100,000</u>
	Capital, December 31, 2014.....	<u>\$ 68,000</u>

(a)

RENATO'S TRAVEL AGENCY

					Owner's Equity				
Cash	Accounts +Receivable	+Supplies	+Equipment	= Accounts Payable +	Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses	
1. <u>+\$15,000</u>					<u>+\$15,000</u>				
15,000				=	15,000				
2. <u>-600</u>								<u>-\$600</u>	
14,400				=	15,000			-600	
3. <u>-3,000</u>			<u>+\$3,000</u>						
11,400			+ 3,000	=	15,000			-600	
4.				<u>+\$700</u>				<u>-700</u>	
11,400			+ 3,000	= 700 +	15,000			-1,300	
5. <u>-800</u>		<u>+\$800</u>							
10,600		+ 800	+ 3,000	= 700 +	15,000			-1,300	
6. <u>+3,000</u>	<u>+\$7,000</u>						<u>+\$10,000</u>		
13,600	+ 7,000	+ 800	+ 3,000	= 700 +	15,000		10,000	-1,300	
7. <u>-500</u>						<u>-\$500</u>			
13,100	+ 7,000	+ 800	+ 3,000	= 700 +	15,000	-500	10,000	-1,300	
8. <u>-500</u>				<u>-500</u>					
12,600	+ 7,000	+ 800	+ 3,000	= 200	15,000	-500	10,000	-1,300	
9. <u>-2,500</u>								<u>-2,500</u>	
10,100	+ 7,000	+ 800	+ 3,000	= 200	15,000	-500	10,000	-3,800	
10. <u>+4,000</u>	<u>-4,000</u>								
<u>\$14,100</u>	<u>+ \$3,000</u>	<u>+ \$800</u>	<u>+ \$3,000</u>	=	<u>\$200</u>	<u>+ \$15,000</u>	<u>- \$500</u>	<u>+ \$10,000</u>	<u>- \$3,800</u>
<u>\$20,900</u>					<u>\$20,900</u>				

PROBLEM 1-1A

PROBLEM 1-1A (Continued)

(b) Service revenue		\$10,000
Expenses		
Salaries and wages	\$2,500	
Rent.....	600	
Advertising	700	3,800
	<u>700</u>	<u>3,800</u>
Net income		<u>\$ 6,200</u>

(a)

SUE KOJIMA, ATTORNEY AT LAW

	Cash	Accounts			=	Notes Payable	Accounts Payable	Owner's Equity			
		+ Receivable	+ Supplies	+ Equipment				+ Capital	- Drawings	+ Revenues	- Expenses
Bal.	\$5,000	+ \$1,500	+ \$500	+ \$6,000	=	\$4,200	+ \$8,800				
1.	<u>+1,200</u>	<u>-1,200</u>			=						
	6,200	+ 300	+ 500	+ 6,000	=	4,200	+ 8,800				
2.	<u>-2,800</u>				=	<u>-2,800</u>					
	3,400	+ 300	+ 500	+ 6,000	=	1,400	+ 8,800				
3.	<u>+3,000</u>	<u>+4,500</u>			=					<u>+7,500</u>	
	6,400	+ 4,800	+ 500	+ 6,000	=	1,400	+ 8,800			7,500	
4.	<u>-400</u>			<u>+2,000</u>	=	<u>+1,600</u>					
	6,000	+ 4,800	+ 500	+ 8,000	=	3,000	+ 8,800			+ 7,500	
5.	<u>-3,800</u>				=						<u>-2,500</u>
					=						<u>-900</u>
					=						<u>-400</u>
	2,200	+ 4,800	+ 500	+ 8,000	=	3,000	+ 8,800			+ 7,500	<u>-3,800</u>
6.	<u>-700</u>				=					<u>-\$700</u>	
	1,500	+ 4,800	+ 500	+ 8,000	=	3,000	+ 8,800			-700	+ 7,500
7.	<u>+2,000</u>				=	<u>+2,000</u>					
	3,500	+ 4,800	+ 500	+ 8,000	=	2,000	+ 3,000	+ 8,800		-700	+ 7,500
					=						<u>-3,800</u>
8.					=		<u>+270</u>				<u>-270</u>
	<u>\$3,500</u>	+ <u>\$4,800</u>	+ <u>\$500</u>	+ <u>\$8,000</u>	=	<u>\$2,000</u>	+ <u>\$3,270</u>	+ <u>\$8,800</u>	- <u>\$700</u>	+ <u>\$7,500</u>	- <u>\$4,070</u>
	\$16,800					\$16,800					

PROBLEM 1-2A

PROBLEM 1-2A (Continued)

(b)

**SUE KOJIMA, ATTORNEY AT LAW
Income Statement
For the Month Ended August 31, 2014**

Revenues		
Service revenue.....		\$7,500
Expenses		
Salaries and wages expense	\$2,500	
Rent expense.....	900	
Advertising expense	400	
Utilities expense.....	<u>270</u>	
Total expenses.....		<u>4,070</u>
Net income		<u><u>\$3,430</u></u>

**SUE KOJIMA, ATTORNEY AT LAW
Owner's Equity Statement
For the Month Ended August 31, 2014**

Owner's capital, August 1	\$ 8,800
Add: Net income	<u>3,430</u>
	12,230
Less: Drawings	<u>700</u>
Owner's capital, August 31	<u><u>\$11,530</u></u>

PROBLEM 1-2A (Continued)

SUE KOJIMA, ATTORNEY AT LAW
Balance Sheet
August 31, 2014

Assets	
Cash.....	\$ 3,500
Accounts receivable.....	4,800
Supplies.....	500
Equipment.....	<u>8,000</u>
Total assets	<u>\$16,800</u>
 Liabilities and Owner's Equity	
Liabilities	
Notes payable.....	\$ 2,000
Accounts payable.....	<u>3,270</u>
Total liabilities	5,270
Owner's equity	
Owner's capital.....	<u>11,530</u>
Total liabilities and owner's equity	<u>\$16,800</u>

PROBLEM 1-3A

(a)

**CRAZY CREATIONS CO.
Income Statement
For the Month Ended June 30, 2014**

<hr/>		
Revenues		
Service revenue.....		\$6,700
Expenses		
Rent expense.....	\$1,600	
Advertising expense	500	
Gasoline expense.....	200	
Utilities expense.....	150	
Total expenses.....		<u>2,450</u>
Net income		<u>\$4,250</u>

**CRAZY CREATIONS CO.
Owner's Equity Statement
For the Month Ended June 30, 2014**

<hr/>		
Owner's capital, June 1		\$ 0
Add: Investments	\$12,000	
Net income	<u>4,250</u>	<u>16,250</u>
		16,250
Less: Drawings		<u>1,300</u>
Owner's capital, June 30		<u>\$14,950</u>

**CRAZY CREATIONS CO.
Balance Sheet
June 30, 2014**

<hr/>		
Assets		
Cash.....		\$10,150
Accounts receivable		3,000
Supplies		2,000
Equipment.....		<u>10,000</u>
Total assets		<u>\$25,150</u>

PROBLEM 1-3A (Continued)

**CRAZY CREATIONS CO.
Balance Sheet (Continued)
June 30, 2014**

Liabilities and Owner's Equity	
Liabilities	
Notes payable.....	\$ 9,000
Accounts payable.....	<u>1,200</u>
Total liabilities.....	10,200
Owner's equity	
Owner's capital.....	<u>14,950</u>
Total liabilities and owner's equity.....	<u><u>\$25,150</u></u>

**(b) CRAZY CREATIONS CO.
Income Statement
For the Month Ended June 30, 2014**

Revenues	
Service revenue (\$6,700 + \$900).....	\$7,600
Expenses	
Rent expense	\$1,600
Advertising expense	500
Gasoline expense (\$200 + \$150).....	350
Utilities expense	<u>150</u>
Total expenses.....	<u>2,600</u>
Net income	<u><u>\$5,000</u></u>

**CRAZY CREATIONS CO.
Owner's Equity Statement
For the Month Ended June 30, 2014**

Owner's capital, June 1		\$ 0
Add: Investments.....	\$12,000	
Net income	<u>5,000</u>	<u>17,000</u>
		17,000
Less: Drawings		<u>1,300</u>
Owner's capital, June 30		<u><u>\$15,700</u></u>

PROBLEM 1-4A

(a)

MENGE CONSULTING

Date	Assets				=	Liabilities		+	Owner's Equity				
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Notes Payable	+ Accounts Payable	+	Owner's Capital	-	Owner's Drawings	+ Revenues	- Expenses
May 1	\$ 7,000								\$7,000				
2	(900)												(\$ 900)
3			\$600				\$ 600						
5	(125)												(125)
9	4,000											\$ 4,000	
12	(1,000)										(\$1,000)		
15		\$5,400										5,400	
17	(2,500)												(2,500)
20	(600)						(600)						
23	4,000	(4,000)											
26	5,000					\$5,000							
29				\$4,200			4,200						
30	(275)												(275)
	<u>\$14,600</u>	<u>+ \$1,400</u>	<u>+ \$600</u>	<u>+ \$4,200</u>	<u>=</u>	<u>\$5,000</u>	<u>+ \$4,200</u>	<u>+ \$7,000</u>	<u>-</u>	<u>\$1,000</u>	<u>+ \$9,400</u>	<u>-</u>	<u>\$3,800</u>

PROBLEM 1-4A (Continued)

**(b) MENGINE CONSULTING
Income Statement
For the Month Ended May 31, 2014**

Revenues		
Service revenue (\$4,000 + \$5,400).....		\$9,400
Expenses		
Salaries and wages expense	\$2,500	
Rent expense	900	
Utilities expense	275	
Advertising expense	<u>125</u>	
Total expenses.....		<u>3,800</u>
Net income		<u>\$5,600</u>

**(c) MENGINE CONSULTING
Balance Sheet
May 31, 2014**

Assets		
Cash.....		\$14,600
Accounts receivable.....		1,400
Supplies.....		600
Equipment		<u>4,200</u>
Total assets		<u>\$20,800</u>
Liabilities and Owner's Equity		
Liabilities		
Notes payable.....		\$ 5,000
Accounts payable.....		<u>4,200</u>
Total liabilities.....		9,200
Owner's equity		
Owner's capital.....		<u>11,600*</u>
Total liabilities and owner's equity.....		<u>\$20,800</u>

***(\$7,000 + \$5,600 – \$1,000)**

PROBLEM 1-5A

(a)	<u>Farrell Company</u>	<u>Prasad Company</u>	<u>Thao Company</u>	<u>Zinda Company</u>
	(a) \$ 32,000	(d) \$50,000	(g) \$129,000	(j) \$ 60,000
	(b) 110,000	(e) 40,000	(h) 98,000	(k) 251,000
	(c) 16,000	(f) 33,000	(i) 385,000	(l) 444,000

(b) **FARRELL COMPANY**
Owner's Equity Statement
For the Year Ended December 31, 2014

Owner's capital, January 1		\$32,000
Add: Investment	\$16,000	
Net income	<u>17,000</u>	<u>33,000</u>
		65,000
Less: Drawings		<u>15,000</u>
Owner's capital, December 31		<u><u>\$50,000</u></u>

(c) The sequence of preparing financial statements is income statement, owner's equity statement, and balance sheet. The interrelationship of the owner's equity statement to the other financial statements results from the fact that net income from the income statement is reported in the owner's equity statement and ending capital reported in the owner's equity statement is the amount reported for owner's equity on the balance sheet.

(a)

SOLKI'S REPAIR SHOP

	Accounts				=	Accounts		Owner's Equity		
	Cash	+ Receivable	+ Supplies	+ Equipment		Payable	+ Capital	- Drawings	+ Revenues	- Expenses
1.	<u>+\$10,000</u>							<u>+\$10,000</u>		
	10,000				=			10,000		
2.	<u>-5,000</u>			<u>+\$5,000</u>						
	5,000			5,000	=			10,000		
3.	<u>-400</u>									<u>-\$400</u>
	4,600			5,000	=			10,000		-400
4.	<u>-500</u>		<u>+\$500</u>							
	4,100		500	5,000	=			10,000		-400
5.						<u>+\$250</u>				<u>-250</u>
	4,100		500	5,000	=	250		10,000		-650
6.	<u>+6,100</u>								<u>+\$6,100</u>	
	10,200		500	5,000	=	250		10,000	6,100	-650
7.	<u>-1,000</u>								<u>-\$1,000</u>	
	9,200		500	5,000	=	250		10,000	-1,000	6,100
8.	<u>-2,000</u>									<u>-2,000</u>
	7,200		500	5,000	=	250		10,000	-1,000	6,100
9.	<u>-170</u>									<u>-170</u>
	7,030		500	5,000	=	250		10,000	-1,000	6,100
10.		<u>+\$750</u>								<u>+750</u>
	7,030	750	500	5,000	=	250		10,000	-1,000	6,850
11.	<u>+120</u>	<u>-120</u>								
	<u>\$ 7,150</u>	<u>\$ 630</u>	<u>\$ 500</u>	<u>\$ 5,000</u>	=	<u>\$ 250</u>	<u>\$ 10,000</u>	<u>- \$ 1,000</u>	<u>\$ 6,850</u>	<u>- \$ 2,820</u>
	\$13,280					\$13,280				

PROBLEM 1-1B

PROBLEM 1-1B (Continued)

(b) Service revenue (\$6,100 + \$750)		\$6,850
Expenses		
Salaries and wages	\$2,000	
Rent.....	400	
Advertising	250	
Utilities.....	170	<u>2,820</u>
Net income		<u>\$4,030</u>

PROBLEM 1-2B (Continued)

(b)

**PETER NIMMER, VETERINARIAN
Income Statement
For the Month Ended September 30, 2014**

Revenues		
Service revenue.....		\$7,800
Expenses		
Salaries and wages expense	\$1,700	
Rent expense.....	900	
Advertising expense	450	
Utilities expense.....	<u>170</u>	
Total expenses.....		<u>3,220</u>
Net income		<u><u>\$4,580</u></u>

**PETER NIMMER, VETERINARIAN
Owner's Equity Statement
For the Month Ended September 30, 2014**

Owner's capital, September 1	\$13,700
Add: Net income	<u>4,580</u>
	18,280
Less: Drawings	<u>1,100</u>
Owner's capital, September 30	<u><u>\$17,180</u></u>

PROBLEM 1-2B (Continued)

**PETER NIMMER, VETERINARIAN
Balance Sheet
September 30, 2014**

Assets	
Cash.....	\$14,950
Accounts receivable.....	5,700
Supplies.....	600
Equipment.....	<u>8,100</u>
Total assets	<u>\$29,350</u>
 Liabilities and Owner's Equity	
Liabilities	
Notes payable.....	\$10,000
Accounts payable.....	<u>2,170</u>
Total liabilities	12,170
Owner's equity	
Owner's capital.....	<u>17,180</u>
Total liabilities and owner's equity	<u>\$29,350</u>

PROBLEM 1-3B

(a)

**RC FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2014**

Revenues		
Service revenue.....		\$8,100
Expenses		
Gasoline expense.....	\$2,500	
Rent expense.....	1,200	
Advertising expense	600	
Utilities expense.....	400	
Maintenance and repairs expense	<u>400</u>	
Total expenses.....		<u>5,100</u>
Net income		<u>\$3,000</u>

**RC FLYING SCHOOL
Owner's Equity Statement
For the Month Ended May 31, 2014**

Owner's capital, May 1		\$ 0
Add: Investments	\$40,000	
Net income	<u>3,000</u>	<u>43,000</u>
		43,000
Less: Drawings		<u>1,500</u>
Owner's capital, May 31		<u>\$41,500</u>

**RC FLYING SCHOOL
Balance Sheet
May 31, 2014**

Assets		
Cash.....		\$ 3,400
Accounts receivable.....		4,900
Equipment.....		<u>64,000</u>
Total assets		<u>\$72,300</u>

PROBLEM 1-3B (Continued)

**RC FLYING SCHOOL
Balance Sheet (Continued)
May 31, 2014**

Liabilities and Owner's Equity	
Liabilities	
Notes payable.....	\$30,000
Accounts payable.....	<u>800</u>
Total liabilities.....	30,800
Owner's equity	
Owner's capital.....	<u>41,500</u>
Total liabilities and owner's equity.....	<u><u>\$72,300</u></u>

**(b) RC FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2014**

Revenues	
Service revenue (\$8,100 + \$900).....	\$9,000
Expenses	
Gasoline expense (\$2,500 + \$1,500).....	\$4,000
Rent expense.....	1,200
Advertising expense.....	600
Utilities expense.....	400
Maintenance and repair expense.....	<u>400</u>
Total expenses.....	<u>6,600</u>
Net income.....	<u><u>\$2,400</u></u>

**RC FLYING SCHOOL
Owner's Equity Statement
For the Month Ended May 31, 2014**

Owner's capital, May 1.....		\$ 0
Add: Investments.....	\$40,000	
Net income.....	<u>2,400</u>	<u>42,400</u>
		42,400
Less: Drawings.....		<u>1,500</u>
Owner's capital, May 31.....		<u><u>\$40,900</u></u>

(a)

LULJAK DELIVERIES

Date	Assets				=	Liabilities		+	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equip-ment	=	Notes Payable	+ Accounts Payable	+	Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
June 1	\$10,000								\$10,000			
2	(2,000)			\$12,000		\$10,000						
3	(500)											(\$500)
5		\$4,400									\$4,400	
9	(200)									(\$200)		
12			\$150				\$150					
15	1,250	(1,250)										
17							200					(200)
20	1,300										1,300	
23	(600)					(600)						
26	(250)											(250)
29	(200)						(200)					
30	(1,000)											(1,000)
	<u>\$ 7,800</u>	<u>+ \$3,150</u>	<u>+ \$150</u>	<u>+ \$12,000</u>	=	<u>\$9,400</u>	<u>+ \$150</u>	<u>+ \$10,000</u>	-	<u>\$200</u>	<u>+ \$5,700</u>	- <u>\$1,950</u>

PROBLEM 1-4B

PROBLEM 1-4B (Continued)

**(b) LULJAK DELIVERIES
Income Statement
For the Month Ended June 30, 2014**

Revenues		
Service revenue (\$4,400 + \$1,300).....		\$5,700
Expenses		
Salaries and wages expense	\$1,000	
Rent expense	500	
Utilities expense	250	
Gasoline expense	200	
Total expenses		<u>1,950</u>
Net income		<u>\$3,750</u>

**(c) LULJAK DELIVERIES
Balance Sheet
June 30, 2014**

Assets		
Cash.....		\$ 7,800
Accounts receivable		3,150
Supplies.....		150
Equipment		<u>12,000</u>
Total assets		<u>\$23,100</u>
Liabilities and Owner's Equity		
Liabilities		
Notes payable.....		\$ 9,400
Accounts payable.....		<u>150</u>
Total liabilities.....		9,550
Owner's equity		
Owner's capital.....		<u>13,550*</u>
Total liabilities and owner's equity.....		<u>\$23,100</u>

***(\$10,000 + \$3,750 – \$200)**

PROBLEM 1-5B

(a)	Luo Company	Foster Company	Usher Company	Merritt Company
	(a) \$ 45,000	(d) \$50,000	(g) \$120,000	(j) \$ 80,000
	(b) 118,000	(e) 66,000	(h) 70,000	(k) 242,000
	(c) 13,000	(f) 44,000	(i) 431,000	(l) 443,000

(b) **FOSTER COMPANY**
Owner's Equity Statement
For the Year Ended December 31, 2014

Owner's capital, January 1		\$ 60,000
Add: Investment.....	\$15,000	
Net income	<u>35,000</u>	<u>50,000</u>
		110,000
Less: Drawings		<u>44,000</u>
Owner's capital, December 31		<u><u>\$ 66,000</u></u>

(c) The sequence of preparing financial statements is income statement, owner's equity statement, and balance sheet. The interrelationship of the owner's equity statement to the other financial statements results from the fact that net income from the income statement is reported in the owner's equity statement and ending capital reported in the owner's equity statement is the amount reported for owner's equity on the balance sheet.

- (a) **Natalie has a choice between a sole proprietorship and a corporation. A partnership is not an option since she is the sole owner of the business.**

A proprietorship is the easiest to create and operate because there are no formal procedures involved in creating the proprietorship. However, if she operates the business as a proprietorship she will personally have unlimited liability for the debts of the business. Operating the business as a corporation would limit her liability to her investment in the business. Natalie will in all likelihood require the services of a lawyer to incorporate. Costs to incorporate as well as additional ongoing costs to administrate and operate the business as a corporation may be costly.

My recommendation is that Natalie choose the proprietorship form of business organization. This is a very small business where the cost of incorporating outweighs the benefits of incorporating at this point in time. Furthermore, it will be easier to stop operating the business if Natalie decides not to continue with it once she has finished college.

- (b) **Yes, Natalie will need accounting information to help her operate her business. She will need information on her cash balance on a daily or weekly basis to help her determine if she can pay her bills. She will need to know the cost of her services so she can establish her prices. She will need to know revenue and expenses so she can report her net income for personal income tax purposes, on an annual basis. If she borrows money, she will need financial statements so lenders can assess the liquidity, solvency, and profitability of the business. Natalie would also find financial statements useful to better understand her business and identify any financial issues as early as possible. Monthly financial statements would be best because they are more timely, but they are also more work to prepare.**

CCC1 (Continued)

(c) Assets: Cash, Accounts Receivable, Supplies, Equipment, Prepaid Insurance

Liabilities: Accounts Payable, Unearned Service Revenue, Notes Payable

Owner's Equity: Owner's Capital, Owner's Drawings

Revenue: Service Revenue

Expenses: Advertising Expense, Rent Expense, Utilities Expense

(d) Natalie should have a separate bank account. This will make it easier to prepare financial statements for her business. The business is a separate entity from Natalie and must be accounted for separately.

- (a) Apple's total assets at September 24, 2011 were \$116,371 million and at September 25, 2010 were \$75,183 million.
- (b) Apple had \$9,815 million of cash and cash equivalents at September 24, 2011.
- (c) Apple had accounts payable totaling \$14,632 million on September 24, 2011 and \$12,015 million on September 25, 2010.
- (d) Apple reports net sales for three consecutive years as follows:
- | | |
|------|-------------------|
| 2009 | \$108,249 million |
| 2010 | \$65,225 million |
| 2011 | \$42,905 million |
- (e) From 2010 to 2011, Apple's net income increased \$11,909 million from \$14,013 million to \$25,922 million.

(a)	(in millions)	PepsiCo	Coca-Cola
1.	Total assets	\$72,882	\$79,974
2.	Accounts receivable (net)	\$6,912	\$ 4,920
3.	Net sales	\$66,504	\$46,542
4.	Net income	\$6,462	\$ 8,634

- (b) Coca-Cola's total assets were approximately 10% greater than PepsiCo's total assets, but PepsiCo's net sales were 43% greater than Coca-Cola's net sales. PepsiCo's accounts receivable were 40% greater than Coca-Cola's and represent 10% of its net sales. Coca-Cola's accounts receivable amount to 11% of its net sales. Both PepsiCo's and Coca-Cola's accounts receivable are at satisfactory levels.

Coca-Cola's net income 34% greater than PepsiCo's. It appears that these two companies' operations are comparable in some ways, with Coca-Cola's operations significantly more profitable.

(a)	(in millions)	Amazon	Wal-Mart
1.	Total assets	\$25,278	\$193,406
2.	Accounts receivable (net)	\$2,571	\$5,937
3.	Net sales	\$42,000	\$443,854
4.	Net income	\$631	\$15,699

- (b) Wal-Mart's total assets were approximately 765% greater than Amazon's total assets, and Wal-Mart's net sales were over 10 times greater than Amazon's net sales. Wal-Mart's accounts receivable were 231% greater than Amazon's and represent 1% of its net sales. Amazon's accounts receivable amount to 6% of its net sales. Both Amazon's and Wal-Mart's accounts receivable are at satisfactory levels.

Wal-Mart's net income was 25 times greater than Amazon's. It appears that these two companies' operations are comparable in some ways, but Wal-Mart's operations are substantially more profitable.

(a) The field is normally divided into three broad areas: auditing, financial/tax, and management accounting.

(b) The skills required in these areas:

People skills, sales skills, communication skills, analytical skills, ability to synthesize, creative ability, initiative, computer skills.

(c) The skills required in these areas differ as follows:

	<u>Auditing</u>	<u>Financial and Tax</u>	<u>Management Accounting</u>
People skills	Medium	Medium	Medium
Sales skills	Medium	Medium	Low
Communication skills	Medium	Medium	High
Analytical skills	High	Very High	High
Ability to synthesize	Medium	Low	High
Creative ability	Low	Medium	Medium
Initiative	Medium	Medium	Medium
Computer skills	High	High	Very High

(d) Some key job options in accounting:

Audit: Work in audit involves checking accounting ledgers and financial statements within corporations and government. This work is becoming increasingly computerized and can rely on sophisticated random sampling methods. Audit is the bread-and-butter work of accounting. This work can involve significant travel and allows you to really understand how money is being made in the company that you are analyzing. It's great background!

Budget Analysis: Budget analysts are responsible for developing and managing an organization's financial plans. There are plentiful jobs in this area in government and private industry. Besides quantitative skills many budget analyst jobs require good people skills because of negotiations involved in the work.

BYP 1-4 (Continued)

Financial: Financial accountants prepare financial statements based on general ledgers and participate in important financial decisions involving mergers and acquisitions, benefits/ERISA planning, and long-term financial projections. This work can be varied over time. One day you may be running spreadsheets. The next day you may be visiting a customer or supplier to set up a new account and discuss business. This work requires a good understanding of both accounting and finance.

Management Accounting: Management accountants work in companies and participate in decisions about capital budgeting and line of business analysis. Major functions include cost analysis, analysis of new contracts, and participation in efforts to control expenses efficiently. This work often involves the analysis of the structure of organizations. Is responsibility to spend money in a company at the right level of our organization? Are goals and objectives to control costs being communicated effectively? Historically, many management accountants have been derided as “bean counters.” This mentality has undergone major change as management accountants now often work side by side with marketing and finance to develop new business.

Tax: Tax accountants prepare corporate and personal income tax statements and formulate tax strategies involving issues such as financial choice, how to best treat a merger or acquisition, deferral of taxes, when to expense items and the like. This work requires a thorough understanding of economics and the tax code. Increasingly, large corporations are looking for persons with both an accounting and a legal background in tax. A person, for example, with a JD and a CPA would be especially desirable to many firms.

(e) Junior Staff Accountant \$40,000-\$80,000

- (a) The estimate of the \$6,100 loss was based on the difference between the \$25,000 invested in the driving range and the bank balance of \$18,900 at March 31. This is not a valid basis for determining income because it only shows the change in cash between two points in time.
- (b) The balance sheet at March 31 is as follows:

CHIP-SHOT DRIVING RANGE
Balance Sheet
March 31, 2014

Assets	
Cash.....	\$18,900
Buildings	8,000
Equipment.....	<u>800</u>
Total assets	<u>\$27,700</u>
Liabilities and Owner's Equity	
Liabilities	
Accounts payable (\$150 + \$100)	\$ 250
Owner's equity	
Owner's capital (\$27,700 – \$250).....	<u>27,450</u>
Total liabilities and owner's equity	<u>\$27,700</u>

As shown in the balance sheet, the owner's capital at March 31 is \$27,450. The estimate of \$2,450 of net income is the difference between the initial investment of \$25,000 and \$27,450. This was not a valid basis for determining net income because changes in owner's equity between two points in time may have been caused by factors unrelated to net income. For example, there may be drawings and/or additional capital investments by the owner(s).

BYP 1-5 (Continued)

- (c) Actual net income for March can be determined by adding owner's drawings to the change in owner's capital during the month as shown below:

Owner's capital, March 31, per balance sheet	\$27,450
Owner's capital, March 1	<u>25,000</u>
Increase in owner's capital	2,450
Add: Drawings	<u>1,000</u>
Net income	<u>\$ 3,450</u>

Alternatively, net income can be found by determining the revenues earned [described in (d) below] and subtracting expenses.

- (d) Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, \$1,000; Wages, \$400; Advertising, \$750; and Utilities, \$100 for a total of \$2,250. Revenues earned, therefore, were \$5,700 (\$2,250 + \$3,450). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:

Beginning cash balance	\$25,000
Less: Cash payments	
Caddy shack	\$8,000
Golf balls and clubs.....	800
Rent	1,000
Advertising.....	600
Wages.....	400
Drawings	<u>1,000</u>
Cash balance before revenues	<u>11,800</u>
Cash balance, March 31	13,200
Revenues earned	<u>18,900</u>
	<u>\$ 5,700</u>

To: Ashley Hirano
From: Student

I have received the balance sheet of New York Company as of December 31, 2014. A number of items in this balance sheet are not properly reported. They are:

- 1. The balance sheet should be dated as of a specific date, not for a period of time. Therefore, it should be dated “December 31, 2014.”**
- 2. Equipment should be shown as an asset and reported below Supplies on the balance sheet.**
- 3. Accounts receivable should be shown as an asset, not a liability, and reported between Cash and Supplies on the balance sheet.**
- 4. Accounts payable should be shown as a liability, not an asset. The note payable is also a liability and should be reported in the liability section.**
- 5. Liabilities and owner’s equity should be shown on the balance sheet. Owner’s capital and Owner’s drawings are not liabilities.**
- 6. Owner’s capital and Owner’s drawings are part of owner’s equity. The drawings account is not reported on the balance sheet but is subtracted from Owner’s capital to arrive at owner’s equity at the end of the period.**

BYP 1-6 (Continued)

A correct balance sheet is as follows:

NEW YORK COMPANY
Balance Sheet
December 31, 2014

Assets	
Cash	\$ 9,000
Accounts receivable.....	6,000
Supplies	2,000
Equipment.....	<u>25,500</u>
	<u>\$42,500</u>
Liabilities and Owner's Equity	
Liabilities	
Notes payable	\$10,500
Accounts payable	<u>8,000</u>
Total liabilities	18,500
Owner's equity	
Owner's capital (\$26,000 – \$2,000)	<u>24,000</u>
Total liabilities and owner's equity	<u>\$42,500</u>

- (a) The students should identify all of the stakeholders in the case; that is, all the parties that are affected, either beneficially or negatively, by the action or decision described in the case. The list of stakeholders in this case are:
- ▶ Greg Thorpe, interviewee.
 - ▶ Both Baltimore firms.
 - ▶ Great Northern College.
- (b) The students should identify the ethical issues, dilemmas, or other considerations pertinent to the situation described in the case. In this case the ethical issues are:
- ▶ Is it proper that Greg charged both firms for the total travel costs rather than split the actual amount of \$296 between the two firms?
 - ▶ Is collecting \$592 as reimbursement for total costs of \$296 ethical behavior?
 - ▶ Did Greg deceive both firms or neither firm?
- (c) Each student must answer the question for himself/herself. Would you want to start your first job having deceived your employer before your first day of work? Would you be embarrassed if either firm found out that you double-charged? Would your school be embarrassed if your act was uncovered? Would you be proud to tell your professor that you collected your expenses twice?

- (a) Answers to the following will vary depending on students' opinions.
- (1) This does not represent the hiding of assets, but rather a choice as to the order of use of assets. This would seem to be ethical.
 - (2) This does not represent the hiding of assets, but rather is a change in the nature of assets. Since the expenditure was necessary, although perhaps accelerated, it would seem to be ethical.
 - (3) This represents an intentional attempt to deceive the financial aid office. It would therefore appear to be both unethical and potentially illegal.
 - (4) This is a difficult issue. By taking the leave, actual net income would be reduced. The form asks the applicant to report actual net income. However, it is potentially deceptive since you do not intend on taking unpaid absences in the future, thus future income would be higher than reported income.
- (b) Companies might want to overstate net income in order to potentially increase the stock price by improving investors' perceptions of the company. Also, a higher net income would make it easier to receive debt financing. Finally, managers would want a higher net income to increase the size of their bonuses.
- (c) Sometimes companies want to report a lower income if they are negotiating with employees. For example, professional sports teams frequently argue that they can not increase salaries because they aren't making enough money. This also occurs in negotiations with unions. For tax accounting (as opposed to the financial accounting in this course) companies frequently try to minimize the amount of reported taxable income.
- (d) Unfortunately many times people who are otherwise very ethical will make unethical decisions regarding financial reporting. They might be driven to do this because of greed. Frequently it is because their superiors have put pressure on them to take an unethical action, and they are afraid to not follow directions because they might lose their job. Also, in some instances top managers will tell subordinates that they should be a team player, and do the action because it would help the company, and therefore would help fellow employees.

No solution necessary

- (a) The 5 aspirations relate to the company's goals related to sustaining its business, its brands, its people, its community and the planet.**
- (b)**
 - i. Support sustainable food and agriculture: Purchased 170 million pounds of organic ingredients since the company's inception.**
 - ii. Embrace zero waste business practices: Caddies are 100% shrink-wrap free and made from 100% recycled paperboard.**
 - iii. Promote climate action and renewable energy: Installed largest "smart" solar array in North America that provides nearly all of its electrical needs.**
 - iv. Conserve natural resources, protect wild places: Planted 40,000 trees in partnership with American Forests.**

IFRS1-1

The International Accounting Standards Board, IASB, and the Financial Accounting Standards Board, FASB, are two key players in developing international accounting standards. The IASB releases international standards known as International Financial Reporting Standards (IFRS). The FASB releases U.S. standards, referred to as Generally Accepted Accounting Principles or GAAP.

IFRS1-2

Accounting standards have developed in different ways because the standard setters have responded to different user needs. In some countries, the primary users of financial statements are private investors; in others the primary users are taxing authorities or central government planners.

IFRS1-3

A single set of high-quality accounting standards is needed because of increases in multinational corporations, mergers and acquisitions, use of information technology, and international financial markets.

IFRS1-4

Currently the internal control standards applicable to Sarbanes-Oxley (SOX) apply only to large public companies listed on U.S. exchanges. If such standards were adopted by non-U.S. companies, users of statements would benefit from more uniform regulation and U.S. companies would be competing on a more “even” playing field. The disadvantage of adopting SOX would be the additional cost associated with its required internal control measures.

- (a) Grant Thornton UK LLP**
- (b) 1000 Highgate Studios, 53-79 Highgate Road, London, NW5 1TL**
- (c) The company reports in sterling (pounds).**
- (d) The company operates in Confectionary which had sales of £85.9 million and Natural and Premium Snacks which had sales of £49.1 million.**