

CHAPTER 1

Accounting in Action

ASSIGNMENT CLASSIFICATION TABLE

<u>Study 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, 2, 4	1		
2. Identify the users and uses of accounting.	3, 4		6	2		
3. Understand why ethics is a fundamental business concept.			7	3		
4. Explain generally accepted accounting principles and the cost principle.	6		8	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		5, 6, 7, 11	1A, 2A 4A	1B, 2B 4B
7. Analyze the effects of business transactions on the accounting equation.	14, 15, 16, 18	6, 7, 8, 9		6, 7, 8, 10, 11	1A, 2A, 4A, 5A	1B, 2B, 4B, 5B
8. Understand the four financial statements and how they are prepared.	17, 19, 20, 21	10, 11		9, 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 9E
CHAPTER 1
ACCOUNTING IN ACTION

Number	SO	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, 4	K	Simple	2–4
DI2	6	K	Simple	2–4
DI3	7	AP	Simple	6–8
DI4	8	AP	Moderate	8–10
EX1	1	C	Moderate	5–7
EX2	2	C	Simple	6–8
EX3	3	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	7	AP	Moderate	8–10
EX11	6, 7	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	8	AP	Moderate	6–8

ACCOUNTING IN ACTION (Continued)

Number	SO	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	7, 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	7, 8	AP	Moderate	40–50
BYP1	8	AN	Simple	10–15
BYP2	8	AN, E	Simple	10–15
BYP3	9	C, AN	Simple	15–20
BYP4	8	E	Moderate	15–20
BYP5	8	E	Simple	12–15
BYP6	3	E	Simple	10–12
BYP7	3	E	Moderate	15–20

BLOOM'S TAXONOMY TABLE

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

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what accounting is.	DI1-1	Q1-1 Q1-2 E1-1				
2. Identify the users and uses of accounting.	DI1-1	Q1-3 Q1-4 E1-2				
3. Understand why ethics is a fundamental business concept.		E1-3				
4. Explain generally accepted accounting principles and the cost principle.	DI1-1	Q1-6 E1-4				
5. Explain the monetary unit assumption and the economic entity assumption.	Q1-8 Q1-9	Q1-7 Q1-10 E1-4				
6. State the accounting equation, and define its components.	Q1-11 Q1-12 Q1-22 DI1-2	Q1-13 BE1-5 E1-5 E1-6 E1-7	BE1-1 P1-2A BE1-2 P1-4A BE1-3 P1-1B BE1-4 P1-2B E1-11 P1-4B P1-1A			
7. Analyze the effects of business transactions on the accounting equation.		Q1-14 Q1-15 Q1-16 Q1-18 BE1-6	DI1-3 P1-4A BE1-8 P1-5A E1-10 P1-1B E1-11 P1-2B P1-1A P1-4B P1-2A P1-5B			
8. Understand the four financial statements and how they are prepared.		Q1-17 Q1-19 BE1-11	Q1-20 P1-2A Q1-21 P1-3A BE1-10 P1-4A DI1-4 P1-5A E1-9 P1-2B E1-12 P1-3B E1-14 P1-4B E1-15 P1-5B E1-16	E1-13		
Broadening Your Perspective		Exploring the Web		Financial Reporting Comparative Analysis Exploring the Web		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. 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. Karen Sommers Travel Agency should report the land at \$90,000 on its December 31, 2010 balance sheet. An important concept that accountants follow is the cost principle. The cost principle states that assets should be recorded at their cost. Cost has an important advantage over other valuations: it is reliable. Cost can be objectively measured and can be verified.
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 Maria Gonzalez would enjoy is that ownership of a corporation is represented by transferable shares of stock. This would allow Maria 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 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 equation.
(a) The death of the owner of the company is not a business transaction as it does not affect the basic equation.
(b) Supplies purchased on account is a business transaction as it affects the basic equation.
(c) An employee being fired is not a business transaction as it does not affect the basic equation.
(d) A withdrawal of cash from the business is a business transaction as it affects the basic 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.
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 statement of owner's equity—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.

Questions Chapter 1 (Continued)

20. (a) Ending capital balance \$198,000
Beginning capital balance 168,000
Net income \$ 30,000
- (b) Ending capital balance \$198,000
Beginning capital balance 168,000
30,000
Deduct: Investment 13,000
Net income \$ 17,000
21. (a) Total revenues (\$20,000 + \$70,000) \$90,000
- (b) Total expenses (\$26,000 + \$40,000) \$66,000
- (c) Total revenues \$90,000
Total expenses 66,000
Net income \$24,000
22. Coca-Cola's accounting equation at December 31, 2007 was \$43,269,000,000 = \$21,525,000,000 + \$21,744,000,000.

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) $\$94,000 - \$60,000 = \$34,000$ (Liabilities).

BRIEF EXERCISE 1-2

- (a) $\$120,000 + \$232,000 = \$352,000$ (Total assets).
 (b) $\$190,000 - \$80,000 = \$110,000$ (Total liabilities).
 (c) $\$800,000 - 0.5(\$800,000) = \$400,000$ (Owner's equity).

BRIEF EXERCISE 1-3

- (a) $(\$800,000 + \$150,000) - (\$500,000 - \$80,000) = \$530,000$
 (Owner's equity).
 (b) $(\$500,000 + \$100,000) + (\$800,000 - \$500,000 - \$70,000) = \$830,000$
 (Assets).
 (c) $(\$800,000 - \$80,000) - (\$800,000 - \$500,000 + \$120,000) = \$300,000$
 (Liabilities).

BRIEF EXERCISE 1-4

			Owner's Equity			
	Assets	= Liabilities	+ Owner, Capital	- Owner 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	+ \$50,000	- \$35,000
	\$57,000	= X	+ \$33,000			
	X	= <u>\$24,000</u> (\$57,000 - \$33,000)				
(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) Office supplies
<u> L </u>	(b) Salaries payable	<u> OE </u>	(e) Owner's investment
<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) Bergman, Drawing
<u> R </u>	(b) Commission revenue	<u> R </u>	(f) Rent revenue
<u> E </u>	(c) Insurance expense	<u> E </u>	(g) Utilities expense
<u> E </u>	(d) Salaries 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

LOPEZ COMPANY Balance Sheet December 31, 2010

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	
Kim Lopez, 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) Trent Buchanan, 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 of 2002 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	O. Cabrera, Capital	O. Cabrera, Drawings	Revenues	Expenses
(1)	+\$20,000				+\$20,000	
(2) +\$20,000	-\$20,000					
(3)		+\$2,000				-\$2,000
(4) -\$ 5,000				-\$5,000		

DO IT! 1-4

- (a) The total assets are \$49,500, comprised of Cash \$7,000, Accounts Receivable \$13,500, and Equipment \$29,000.
- (b) Net income is \$21,000, computed as follows:

Revenues		
Service revenue		\$54,000
Expenses		
Rent expense	\$10,500	
Salaries expense	\$16,500	
Advertising expense	6,000	
Total expenses		<u>33,000</u>
Net income		<u>\$21,000</u>

DO IT! 1-4 (Continued)

- (c) The ending owner's equity balance of Broadway Company is \$21,500. By rewriting the accounting equation, we can compute Owner's Equity as Assets minus Liabilities, as follows:

Total assets [as computed in (a)].....		\$49,500
Less: Liabilities		
Notes payable	\$25,000	
Accounts payable.....	<u>3,000</u>	<u>28,000</u>
Owner's equity		<u>\$21,500</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

Larry Smith, president of Smith Company, instructed Ron Rivera, the head of the accounting department, to report the company's land in their accounting reports at its market 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 cost principle requires that assets be recorded and reported at their cost, because cost is reliable and can be objectively measured and verified.

The stakeholders include stockholders and creditors of Smith Company, potential stockholders and creditors, other users of Smith's accounting reports, Larry Smith, and Ron Rivera. All users of Smith's accounting reports could be harmed by relying on information which violates accounting principles. Larry Smith could benefit if the company is able to attract more investors, but would be harmed if the fraudulent reporting is discovered. Similarly, Ron Rivera could benefit by pleasing his boss, but would be harmed if the fraudulent reporting is discovered.

Ron'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 would mislead many people who rely on Smith's accounting reports to make financial decisions. Ron should report the land at its cost of \$100,000. He should try to convince Larry Smith that this is the appropriate course of action, but be prepared to resign his position if Smith insists.

EXERCISE 1-4

1. Incorrect. The *cost principle* requires that assets 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

<u>Asset</u>	<u>Liability</u>	<u>Owner's Equity</u>
Cash	Accounts payable	Karin Meredith, Capital
Cleaning equipment	Notes payable	
Cleaning supplies	Salaries 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 office equipment for \$5,000, paying \$2,000 in cash and the balance of \$3,000 on account.
 3. Paid \$750 cash for supplies.
 4. Earned \$8,300 in revenue, receiving \$4,600 cash and \$3,700 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 of \$4,900.
10. Incurred \$500 of utilities expense on account.

(b)	Investment	\$15,000
	Service revenue	8,300
	Drawings.....	(2,000)
	Rent expense	(650)
	Salaries expense.....	(4,900)
	Utilities expense.....	<u>(500)</u>
	Increase in capital	<u>\$15,250</u>
(c)	Service revenue	\$8,300
	Rent expense	(650)
	Salaries expense.....	(4,900)
	Utilities expense.....	<u>(500)</u>
	Net income.....	<u>\$2,250</u>

EXERCISE 1-9

S. MOSES & CO.
Income Statement
For the Month Ended August 31, 2010

Revenues		
	Service revenue	\$8,300
Expenses		
	Salaries expense.....	\$4,900
	Rent expense	650
	Utilities expense.....	<u>500</u>
	Total expenses	<u>6,050</u>
	Net income.....	<u>\$2,250</u>

EXERCISE 1-9 (Continued)

S. MOSES & CO.
Owner's Equity Statement
For the Month Ended August 31, 2010

S. Moses, Capital, August 1		\$ 0
Add: Investments	\$15,000	
Net income	<u>2,250</u>	<u>17,250</u>
		17,250
Less: Drawings		<u>2,000</u>
S. Moses, Capital, August 31		<u>\$15,250</u>

S. MOSES & CO.
Balance Sheet
August 31, 2010

Assets	
Cash	\$ 8,250
Accounts receivable	3,250
Supplies	750
Office equipment.....	<u>5,000</u>
Total assets.....	<u>\$17,250</u>
Liabilities and Owner's Equity	
Liabilities	
Accounts payable	\$ 2,000
Owner's equity	
S. Moses, Capital.....	<u>15,250</u>
Total liabilities and owner's equity	<u>\$17,250</u>

EXERCISE 1-10

(a) Owner's equity—12/31/09 (\$400,000 – \$250,000).....	\$150,000
Owner's equity—1/1/09	<u>100,000</u>
Increase in owner's equity	50,000
Add: Drawings	<u>15,000</u>
Net income for 2009	<u>\$ 65,000</u>

EXERCISE 1-10 (Continued)

(b)	Owner's equity—12/31/10 (\$460,000 – \$300,000)	\$160,000
	Owner's equity—1/1/10—see (a).....	<u>150,000</u>
	Increase in owner's equity	10,000
	Less: Additional investment.....	<u>50,000</u>
	Net loss for 2010	<u>\$ 40,000</u>
(c)	Owner's equity—12/31/11 (\$590,000 – \$400,000)	\$190,000
	Owner's equity—1/1/11—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>30,000</u>
	Net income for 2011	<u>\$ 45,000</u>

EXERCISE 1-11

(a)	Total assets (beginning of year).....	\$ 95,000
	Total liabilities (beginning of year).....	<u>85,000</u>
	Total owner's equity (beginning of year).....	<u>\$ 10,000</u>
(b)	Total owner's equity (end of year)	\$ 40,000
	Total owner's equity (beginning of year).....	<u>10,000</u>
	Increase in owner's equity	<u>\$ 30,000</u>
	Total revenues	\$215,000
	Total expenses	<u>175,000</u>
	Net income	<u>\$ 40,000</u>
	Increase in owner's equity	\$ 30,000
	Less: Net income.....	<u>\$(40,000)</u>
	Add: Drawings	<u>24,000</u>
	Additional investment.....	<u>(16,000)</u>
		<u>\$ 14,000</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>55,000</u>
Net income		<u>\$ 45,000</u>
 Increase in owner's equity		 \$ 50,000
Less: Net income	\$(45,000)	
Additional investment	<u>(25,000)</u>	<u>(70,000)</u>
Drawings		<u>\$ 20,000</u>

EXERCISE 1-12

LINDA STANLEY CO.
Income Statement
For the Year Ended December 31, 2010

Revenues		
Service revenue		\$62,500
Expenses		
Salaries expense	\$30,000	
Rent expense	10,400	
Utilities expense	3,100	
Advertising expense	<u>1,800</u>	
Total expenses		<u>45,300</u>
Net income		<u>\$17,200</u>

LINDA STANLEY CO.
Owner's Equity Statement
For the Year Ended December 31, 2010

Linda Stanley, Capital, January 1	\$48,000
Add: Net income	<u>17,200</u>
	65,200
Less: Drawings	<u>6,000</u>
Linda Stanley, Capital, December 31	<u>\$59,200</u>

EXERCISE 1-13

MENDEZ COMPANY
Balance Sheet
December 31, 2010

Assets	
Cash	\$15,000
Accounts receivable	8,500
Supplies	8,000
Equipment	46,000
Total assets	<u>\$77,500</u>
 Liabilities and Owner's Equity	
Liabilities	
Accounts payable	\$20,000
Owner's equity	
Mendez, Capital (\$67,500 – \$10,000)	<u>57,500</u>
Total liabilities and owner's equity	<u>\$77,500</u>

EXERCISE 1-14

(a)	Camping fee revenues	\$140,000
	General store revenues	<u>50,000</u>
	Total revenue	190,000
	Expenses	150,000
	Net income	<u>\$ 40,000</u>

(b) **DEER PARK**
Balance Sheet
December 31, 2010

Assets	
Cash	\$ 23,000
Supplies	2,500
Equipment	105,500
Total assets	<u>\$131,000</u>

EXERCISE 1-14 (Continued)

DEER PARK
Balance Sheet (Continued)
December 31, 2010

Liabilities and Owner's Equity	
Liabilities	
Notes payable.....	\$ 60,000
Accounts payable	<u>11,000</u>
Total liabilities	71,000
Owner's equity	
Jan Nab, Capital (\$131,000 – \$71,000).....	<u>60,000</u>
Total liabilities and owner's equity	<u>\$131,000</u>

EXERCISE 1-15

SUMMERS CRUISE COMPANY
Income Statement
For the Year Ended December 31, 2010

Revenues	
Ticket revenue.....	\$325,000
Expenses	
Salaries expense	\$142,000
Maintenance expense.....	95,000
Property tax expense.....	10,000
Advertising expense	<u>3,500</u>
Total expenses.....	<u>250,500</u>
Net income	<u>\$ 74,500</u>

EXERCISE 1-16

KEVIN JOHNSON, ATTORNEY
Owner's Equity Statement
For the Year Ended December 31, 2010

Kevin Johnson, Capital, January 1	\$ 23,000 (a)
Add: Net income	<u>139,000 (b)</u>
	162,000
Less: Drawings.....	<u>79,000</u>
Kevin Johnson, Capital, December 31	<u>\$ 83,000 (c)</u>

EXERCISE 1-16 (Continued)

Supporting Computations

(a)	Assets, January 1, 2010	\$ 85,000
	Liabilities, January 1, 2010	<u>62,000</u>
	Capital, January 1, 2010	<u>\$ 23,000</u>
(b)	Legal service revenue	\$350,000
	Total expenses	<u>211,000</u>
	Net income	<u>\$139,000</u>
(c)	Assets, December 31, 2010	\$168,000
	Liabilities, December 31, 2010	<u>85,000</u>
	Capital, December 31, 2010	<u>\$ 83,000</u>

SOLUTIONS TO PROBLEMS

PROBLEM 1-1A

BARONE REPAIR SHOP					Owner's Equity		
(a)	Accounts		Accounts		N. Barone, N. Barone,		
	Cash	+ Receivable + Supplies + Equipment =	Payable + Capital	- Drawings	+ Revenues	- Expenses	
1.	<u>+\$10,000</u>		<u>+\$10,000</u>				
2.	10,000	=	10,000				
	<u>-5,000</u>	<u>+\$5,000</u>					
3.	5,000	+	5,000	+	10,000		
	<u>-400</u>						<u>-\$400</u>
4.	4,600	+	5,000	+	10,000		<u>-400</u>
	<u>-500</u>	<u>+\$500</u>					
5.	4,100	+	500 + 5,000 =	+	10,000		<u>-400</u>
				<u>+\$250</u>			<u>-250</u>
6.	4,100	+	5,000 =	250 + 10,000			<u>-650</u>
	<u>+\$5,100</u>				<u>+\$5,100</u>		
7.	9,200	+	500 + 5,000 =	250 + 10,000			<u>-650</u>
	<u>-1,000</u>				<u>-\$1,000</u>		
8.	8,200	+	500 + 5,000 =	250 + 10,000			<u>-650</u>
	<u>-2,000</u>						<u>-2,000</u>
9.	6,200	+	500 + 5,000 =	250 + 10,000			<u>-2,650</u>
	<u>-140</u>						<u>-140</u>
10.	6,060	+	500 + 5,000 =	250 + 10,000			<u>-2,790</u>
	<u>+\$750</u>						
11.	6,060 +	750 + 5,000 =	250 + 10,000	-1,000			<u>-2,790</u>
	<u>+120</u>						
	<u>\$ 6,180 +</u>	<u>\$630 + \$500 + \$5,000 =</u>	<u>\$250 + \$10,000 - \$1,000 + \$5,850 -</u>				<u>\$2,790</u>
		<u>\$12,310</u>			<u>\$12,310</u>		

PROBLEM 1-1A (Continued)

(b) Service revenue (\$5,100 + \$750)			\$5,850
Expenses			
Salaries	\$2,000		
Rent	400		
Advertising	250		
Utilities	140		
Net income		<u>2,790</u>	<u>\$3,060</u>

PROBLEM 1-2A

(a)

MARIA GONZALEZ, VETERINARIAN

M. Gonzalez, M. Gonzalez,									
Accounts					Accounts				
Cash + Receivable + Supplies + Equipment					Notes Payable + Payable + Capital - Drawings + Revenues - Expenses				
Bal.					Bal.				
1.	\$ 9,000	+	\$1,700	+	\$600	+	\$ 6,000	=	\$3,600 + \$13,700
2.	-2,900								-2,900
3.	6,100	+	1,700	+	600	+	6,000	=	700 + 13,700
4.	+1,300								
5.	7,400	+	400	+	600	+	6,000	=	700 + 13,700
6.	-800								+1,300
7.	6,600	+	400	+	600	+	8,100	=	2,000 + 13,700
8.	+2,500								
9.	9,100	+	5,900	+	600	+	8,100	=	2,000 + 13,700
10.	-1,000								-1,000
11.	8,100	+	5,900	+	600	+	8,100	=	2,000 + 13,700
12.	-2,900								
13.	5,200	+	5,900	+	600	+	8,100	=	2,000 + 13,700
14.	5,200	+	5,900	+	600	+	8,100	=	+170
15.	+10,000								2,170 + 13,700
16.	\$15,200	+	\$5,900	+	\$600	+	\$ 8,100	=	\$2,170 + \$13,700

PROBLEM 1-2A (Continued)

(b)

MARIA GONZALEZ, VETERINARIAN
Income Statement
For the Month Ended September 30, 2010

Revenues		
Service revenue.....		\$8,000
Expenses		
Salaries expense.....	\$1,700	
Rent expense	900	
Advertising expense.....	300	
Utilities expense.....	170	
Total expenses		<u>3,070</u>
Net income.....		<u>\$4,930</u>

MARIA GONZALEZ, VETERINARIAN
Owner's Equity Statement
For the Month Ended September 30, 2010

M. Gonzalez, Capital, September 1	\$13,700
Add: Net income.....	<u>4,930</u>
	18,630
Less: Drawings	<u>1,000</u>
M. Gonzalez, Capital, September 30.....	<u>\$17,630</u>

PROBLEM 1-2A (Continued)

MARIA GONZALEZ, VETERINARIAN
Balance Sheet
September 30, 2010

Assets	
Cash	\$15,200
Accounts receivable	5,900
Supplies	600
Office equipment.....	8,100
Total assets.....	<u>\$29,800</u>
 Liabilities and Owner's Equity	
Liabilities	
Notes payable.....	\$10,000
Accounts payable	2,170
Total liabilities	12,170
Owner's equity	
M. Gonzalez, Capital.....	17,630
Total liabilities and owner's equity	<u>\$29,800</u>

PROBLEM 1-3A

(a)

SKYLINE FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2010

Revenues		
Lesson revenue		\$7,500
Expenses		
Fuel expense	\$2,500	
Rent expense	1,200	
Advertising expense	500	
Insurance expense	400	
Repair expense	400	
Total expenses		<u>5,000</u>
Net income		<u>\$2,500</u>

SKYLINE FLYING SCHOOL
Owner's Equity Statement
For the Month Ended May 31, 2010

Jeff Wilkins, Capital, May 1		\$ 0
Add: Investments	\$45,000	
Net income	<u>2,500</u>	<u>47,500</u>
		47,500
Less: Drawings		<u>1,500</u>
Jeff Wilkins, Capital, May 31		<u>\$46,000</u>

SKYLINE FLYING SCHOOL
Balance Sheet
May 31, 2010

Assets	
Cash	\$ 5,600
Accounts receivable	7,200
Equipment	<u>64,000</u>
Total assets	<u>\$76,800</u>

PROBLEM 1-3A (Continued)

SKYLINE FLYING SCHOOL
Balance Sheet (Continued)
May 31, 2010

Liabilities and Owner's Equity		
Liabilities		
Notes payable.....		\$30,000
Accounts payable		800
Total liabilities		30,800
Owner's equity		
Jeff Wilkins, Capital.....		46,000
Total liabilities and owner's equity		<u>\$76,800</u>

(b)

SKYLINE FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2010

Revenues		
Lesson revenue (\$7,500 + \$900).....		\$8,400
Expenses		
Fuel expense (\$2,500 + \$1,500)	\$4,000	
Rent expense	1,200	
Advertising expense	500	
Insurance expense	400	
Repair expense	400	
Total expenses		<u>6,500</u>
Net income		<u>\$1,900</u>

SKYLINE FLYING SCHOOL
Owner's Equity Statement
For the Month Ended May 31, 2010

Jeff Wilkins, Capital, May 1		\$ 0
Add: Investments	\$45,000	
Net income	<u>1,900</u>	46,900
		46,900
Less: Drawings		<u>1,500</u>
Jeff Wilkins, Capital, May 31		<u>\$45,400</u>

PROBLEM 1-4A

MILLER DELIVERIES

(a)

Date	Assets			=	Liabilities		+	Owner's Equity		
	Cash	Accounts + Receivable	Supplies + Delivery Van		Notes Payable	Accounts Payable		M. Miller, Capital	M. Miller, Drawings	Revenues - Expenses
June 1	\$10,000							\$10,000		
2	(2,000)		\$12,000		\$10,000					
3	(500)									
5		\$4,400							\$4,400	(\$500)
9	(200)								(\$200)	
12			\$150			\$150				
15	1,250	(1,250)					100			(100)
17									1,500	
20	1,500									
23	(500)				(500)					
26	(250)									(250)
29	(100)					(100)				
30	(1,000)									(1,000)
	<u>\$ 8,200</u>	<u>+ \$3,150</u>	<u>+ \$150</u>	<u>+ \$12,000</u>	<u>= \$9,500</u>	<u>+ \$150</u>	<u>+ \$10,000</u>	<u>+ \$200</u>	<u>+ \$5,900</u>	<u>- \$1,850</u>

PROBLEM 1-4A (Continued)

(b) **MILLER DELIVERIES**
Income Statement
For the Month Ended June 30, 2010

Revenues		
Service revenue (\$4,400 + \$1,500)		\$5,900
Expenses		
Salaries expense	\$1,000	
Rent expense	500	
Utilities expense	250	
Gasoline expense	100	
Total expenses		<u>1,850</u>
Net income		<u>\$4,050</u>

(c) **MILLER DELIVERIES**
Balance Sheet
June 30, 2010

Assets		
Cash		\$ 8,200
Accounts receivable		3,150
Supplies		150
Delivery van		<u>12,000</u>
Total assets		<u>\$23,500</u>
Liabilities and Owner's Equity		
Liabilities		
Notes payable		\$ 9,500
Accounts payable		<u>150</u>
Total liabilities		9,650
Owner's equity		
M. Miller, Capital		<u>13,850*</u>
Total liabilities and owner's equity		<u>\$23,500</u>

*($\$10,000 + \$4,050 - \$200$)

PROBLEM 1-5A

(a)	Karma Company	Yates Company	McCain Company	Dench Company
(a)	\$ 45,000	(d) \$50,000	(g) \$120,000	(j) \$ 80,000
(b)	115,000	(e) 62,000	(h) 70,000	(k) 250,000
(c)	10,000	(f) 48,000	(i) 431,000	(l) 435,000

(b)

YATES COMPANY
Owner's Equity Statement
For the Year Ended December 31, 2010

Capital, January 1		\$ 60,000
Add: Investment	\$15,000	
Net income	<u>35,000</u>	<u>50,000</u>
		110,000
Less: Drawings		<u>48,000</u>
Capital, December 31		<u>\$ 62,000</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.

PROBLEM 1-1B

[illegible]

PROBLEM 1-1B (Continued)

(b) Service revenue		\$11,000
Expenses		
Salaries	\$2,200	
Rent	600	
Advertising	700	3,500
Net income		<u>\$ 7,500</u>

PROBLEM 1-2B

(a)

[illegible]

PROBLEM 1-2B (Continued)

(b) JENNY BROWN, ATTORNEY AT LAW
Income Statement
For the Month Ended August 31, 2010

Revenues		
Service revenue.....		\$8,000
Expenses		
Salaries expense.....	\$2,500	
Rent expense.....	900	
Advertising expense.....	400	
Utilities expense.....	220	
Total expenses.....		<u>4,020</u>
Net income		<u>\$3,980</u>

JENNY BROWN, ATTORNEY AT LAW
Owner's Equity Statement
For the Month Ended August 31, 2010

Jenny Brown, Capital, August 1	\$ 8,800
Add: Net income.....	<u>3,980</u>
	12,780
Less: Drawings.....	<u>700</u>
Jenny Brown, Capital, August 31	<u>\$12,080</u>

PROBLEM 1-2B (Continued)

JENNY BROWN, ATTORNEY AT LAW
Balance Sheet
August 31, 2010

Assets	
Cash.....	\$ 3,000
Accounts receivable.....	5,300
Supplies.....	500
Office equipment	<u>8,000</u>
Total assets	<u>\$16,800</u>
 Liabilities and Owner's Equity	
Liabilities	
Notes payable.....	\$ 1,500
Accounts payable	<u>3,220</u>
Total liabilities	4,720
Owner's equity	
Jenny Brown, Capital.....	<u>12,080</u>
Total liabilities and owner's equity.....	<u>\$16,800</u>

PROBLEM 1-3B

(a)

**DIVINE CREATIONS CO.
Income Statement
For the Month Ended June 30, 2010**

Revenues		
Service revenue		\$7,000
Expenses		
Supplies expense	\$1,600	
Gas and oil expense	200	
Advertising expense	400	
Utilities expense	150	
Total expenses		<u>2,350</u>
Net income		<u>\$4,650</u>

**DIVINE CREATIONS CO.
Owner's Equity Statement
For the Month Ended June 30, 2010**

Michelle Sasse, Capital, June 1		\$ 0
Add: Investments	\$15,200	
Net income	<u>4,650</u>	<u>19,850</u>
		19,850
Less: Drawings		<u>1,300</u>
Michelle Sasse, Capital, June 30		<u>\$18,550</u>

**DIVINE CREATIONS CO.
Balance Sheet
June 30, 2010**

Assets	
Cash	\$13,750
Accounts receivable	3,000
Craft supplies	2,000
Equipment	<u>10,000</u>
Total assets	<u>\$28,750</u>

PROBLEM 1-3B (Continued)

DIVINE CREATIONS CO.
Balance Sheet (Continued)
June 30, 2010

Liabilities and Owner's Equity		
Liabilities		
Notes payable		\$ 9,000
Accounts payable		<u>1,200</u>
Total liabilities		10,200
Owner's equity		
Michelle Sasse, Capital		<u>18,550</u>
Total liabilities and owner's equity		<u><u>\$28,750</u></u>

(b) **DIVINE CREATIONS CO.**
Income Statement
For the Month Ended June 30, 2010

Revenues		
Service revenue (\$7,000 + \$900)		\$7,900
Expenses		
Supplies expense	\$1,600	
Gas and oil expense (\$200 + \$150)	350	
Advertising expense	400	
Utilities expense	<u>150</u>	
Total expenses		<u>2,500</u>
Net income		<u><u>\$5,400</u></u>

DIVINE CREATIONS CO.
Owner's Equity Statement
For the Month Ended June 30, 2010

Michelle Sasse, Capital, June 1		\$ 0
Add: Investments	\$15,200	
Net income	<u>5,400</u>	<u>20,600</u>
		20,600
Less: Drawings		<u>1,300</u>
Michelle Sasse, Capital, June 30		<u><u>\$19,300</u></u>

RODRIGUEZ CONSULTING

(a)

Date	Assets			=	Liabilities		+	Owner's Equity		
	Cash	+ Receivable	+ Supplies	Office Equipment	= Payable	+ Notes Payable	Accounts Payable	M. Rodriguez, Capital	- 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		\$6,400								6,400
17	(2,500)									(2,500)
20	(600)						(600)			
23	4,000	(4,000)								
26	5,000					\$5,000				
29				\$3,100			3,100			
30	(175)									(175)
	<u>\$14,700</u>	<u>+</u>	<u>\$2,400</u>	<u>+</u>	<u>\$3,100</u>	<u>=</u>	<u>\$5,000</u>	<u>+</u>	<u>\$7,000</u>	<u>-</u>
									<u>\$1,000</u>	<u>+</u>
										<u>\$10,400</u>
										<u>-</u>
										<u>\$3,700</u>

PROBLEM 1-4B

PROBLEM 1-4B (Continued)

(b) **RODRIGUEZ CONSULTING**
Income Statement
For the Month Ended May 31, 2010

Revenues		
Service revenue (\$4,000 + \$6,400)		\$10,400
Expenses		
Salaries expense	\$2,500	
Rent expense	900	
Utilities expense	175	
Advertising expense	125	
Total expenses		<u>3,700</u>
Net income		<u>\$ 6,700</u>

(c) **RODRIGUEZ CONSULTING**
Balance Sheet
May 31, 2010

Assets		
Cash		\$14,700
Accounts receivable		2,400
Supplies		600
Office equipment		3,100
Total assets		<u>\$20,800</u>
Liabilities and Owner's Equity		
Liabilities		
Notes payable		\$ 5,000
Accounts payable		3,100
Total liabilities		8,100
Owner's equity		
M. Rodriguez, Capital		12,700*
Total liabilities and owner's equity		<u>\$20,800</u>

*($\$7,000 + \$6,700 - \$1,000$)

PROBLEM 1-5B

(a)	<u>Donatello Company</u>	<u>Raphael Company</u>	<u>Michelangelo Company</u>	<u>Leonardo Company</u>
	(a) \$ 32,000	(d) \$50,000	(g) \$129,000	(j) \$ 60,000
	(b) 100,000	(e) 40,000	(h) 110,000	(k) 245,000
	(c) 6,000	(f) 33,000	(i) 373,000	(l) 450,000

(b)

DONATELLO COMPANY
Owner's Equity Statement
For the Year Ended December 31, 2010

Capital, January 1		\$32,000
Add: Investment	\$ 6,000	
Net income.....	<u>17,000</u>	<u>23,000</u>
		55,000
Less: Drawings		<u>15,000</u>
Capital, December 31		<u>\$40,000</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) **PepsiCo's total assets at December 29, 2007 were \$34,628 million and at December 30, 2006 were \$29,930 million.**
- (b) **PepsiCo had \$910 million of cash and cash equivalents at December 29, 2007.**
- (c) **PepsiCo had accounts payable (and other current liabilities) totaling \$7,602 million on December 29, 2007 and \$6,496 million on December 30, 2006.**
- (d) **PepsiCo reports net sales for three consecutive years as follows:**
- | | |
|-------------|-------------------------|
| 2005 | \$32,562 million |
| 2006 | \$35,137 million |
| 2007 | \$39,474 million |
- (e) **From 2006 to 2007, PepsiCo's net income increased \$16 million from \$5,642 million to \$5,658 million.**

(a)	(in millions)	PepsiCo	Coca-Cola
1.	Total assets	\$34,628	\$43,269
2.	Accounts receivable (net)	\$ 4,389	\$ 3,317
3.	Net sales	\$39,474	\$28,857
4.	Net income	\$ 5,658	\$ 5,981

- (b)** Coca-Cola's total assets were approximately 25% greater than PepsiCo's total assets, but PepsiCo's net sales were 37% greater than Coca-Cola's net sales. PepsiCo's accounts receivable were 32% greater than Coca-Cola's and represent 11.1% of its net sales. Coca-Cola's accounts receivable amount to 11.5% of its net sales. Both PepsiCo's and Coca-Cola's accounts receivable are at satisfactory levels.

Coca-Cola's net income was 105.7% of PepsiCo's. It appears that these two companies' operations are comparable in some ways, with Coca-Cola's operations slightly 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 functions in accounting:

Auditing: 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 1-3 (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 \$36-63,000

- (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, 2010

Assets	
Cash	\$18,900
Caddy shack	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	
Mary and Jack Gray, Capital	<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 1-4 (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>	<u>11,800</u>
Cash balance before revenues		13,200
Cash balance, March 31		<u>18,900</u>
Revenues earned		<u>\$ 5,700</u>

To: Lynn Benedict
From: Student

I have received the balance sheet of New York Company as of December 31, 2010. 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, 2010.”**
- 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. Don Wenger, Capital and Don Wenger, Drawing are not liabilities.**
- 6. Don Wenger, Capital and Don Wenger, Drawing are part of owner’s equity. The Drawing account is not reported on the balance sheet but is subtracted from Don Wenger, Capital to arrive at owner’s equity at the end of the period.**

BYP 1-5 (Continued)

A correct balance sheet is as follows:

NEW YORK COMPANY
Balance Sheet
December 31, 2010

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	
Don Wenger, 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:
- ▶ Steve Baden, 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 Steve 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 Steve 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.

