Accounting in Business

Chapter 1

Wild, Kwok, Venkatesh and Shaw

Fundamental Accounting Principles

3rd Edition

Importance of Accounting

Exhibit 1.1

Identifying	Recording	Communicating
		
Select transactions and events	Input, measure, and log	Prepare, analyze, and interpret
Examples are Apple's sale of iPhones and TicketMaster's receipt of ticket money.	Examples are dated logs of transactions measured in dollars.	Examples are reports that we analyze and interpret.
For example, the sale by Apple of an iPhone.	Keep a chronological log of transactions.	Prepare reports such as financial statements.

Accounting is an information and measurement system that identifies, records, and communicates an organization's business activities.

Learning Objective C1: Explain the purpose and importance of accounting.

Users of Financial Information

Accounting is called the language of business because it communicates data that help people make better decisions. People using accounting information are divided into two groups: external users and internal users.

Financial Accounting

- Lenders
- External auditors
- Shareholders
- Regulators
- Customers

Managerial Accounting

- Research and development managers
- Purchasing managers
- Human resource managers
- Marketing managers
- Production managers
- Distribution managers

Learning Objective C2: Identify users and uses of, and opportunities in, accounting.

Opportunities in Accounting

Exhibit 1.2

Opportunities in Accounting

Financial
- Preparation
- Analysis
- External Auditing
- Regulatory
- Consulting
- Planning
- Criminal investigation

Managerial
- General accounting
- Cost accounting
- Budgeting
- Internal auditing
- Consulting
- Controller
- Treasurer
- Strategy

Taxation
- Preparation
- Planning
- Regulatory
- Investigations
- Consulting
- Enforcement
- Legal services
- Estate plans

Accounting-related
- Lenders
- Consultants
- Analysts
- Traders
- Directors
- Underwriters
- Planners
- Appraisers
- FBI investigators
- Market researchers
- Systems designers
- Merger services
- Business valuation
- Forensic accounting
- Litigation support
- Entrepreneurs

Accounting information is in all aspects of our lives. When we earn money, pay taxes, invest savings, budget earnings, and plan for the future, we use accounting.

Learning Objective C2: Identify users and uses of, and opportunities in, accounting.

Discussion Question

Q: Identify four types of external users and describe how they use accounting information

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Q: Identify four types of external users and describe how they use accounting information

Ethics – A Key Concept

Exhibit 1.3

For information to be useful, it must be trusted. This demands ethics in accounting. Ethics are beliefs that distinguish right from wrong. They are accepted standards of good and bad behavior.

1. Identify ethical concerns

Use ethics to recognize an ethical concern.

2. Analyze options

Consider all consequences.

3. Make ethical decision

Choose best option after weighing all consequences.

Learning Objective C3: Explain why ethics are crucial to accounting.

Fraud Triangle

Exhibit 1.4

Three factors push a person to commit fraud: opportunity, pressure, and rationalization.

Learning Objective C3: Explain why ethics are crucial to accounting.

Generally Accepted Accounting Principles (GAAP)

Financial accounting is governed by concepts and rules known as **generally accepted accounting principles (GAAP).** GAAP wants information to have relevance and faithful representation.

International Standards

Our global economy demands comparability in accounting reports.

International Accounting Standards Board (IASB)
Issues International Financial Reporting Standards (IFRS)

→

International Financial Reporting Standards (IFRS)
Identifies preferred accounting practices

Learning Objective C4: Explain generally accepted accounting principles and define and apply several accounting principles.

Principles, Assumptions and Constraint

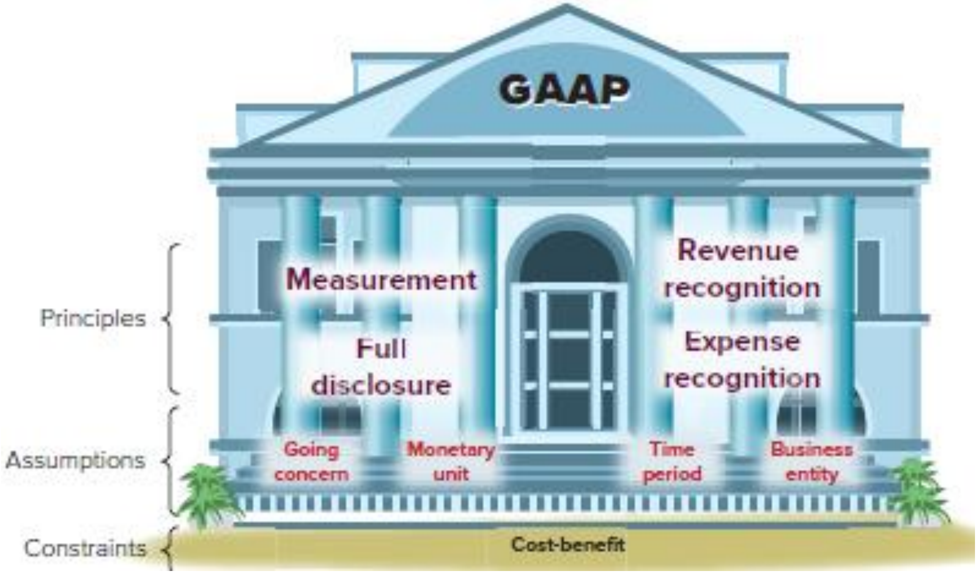

Exhibit 1.5

General principles are the assumptions, concepts, and guidelines for preparing financial statements.

Specific principles are detailed rules used in reporting business transactions and events.

Learning Objective C4: Explain generally accepted accounting principles and define and apply several accounting principles.

Accounting Principles

Measurement Principle (Cost Principle)

Accounting information is based on actual cost. Information based on cost is considered objective.

Revenue Recognition Principle

1. recognize revenue when goods or services are provided to customers and
2. at an amount expected to be received from the customer.

Expense Recognition Principle (Matching Principle)

A company records its expenses incurred to generate the revenue reported.

Full Disclosure Principle

A company reports the details behind financial statements that would impact users' decisions in the notes to the financial statements.

Accounting Assumptions

Going-Concern Assumption
The business is presumed to continue operating instead of being closed or sold.

Monetary Unit Assumption
Transactions and events are expressed in monetary, or money, units.

Business Entity Assumption
A business is accounted for separately from other business entities, including its owner.

Time Period Assumption
The life of a company can be divided into time periods, such as months and years.

Learning Objective C4: Explain generally accepted accounting principles and define and apply several accounting principles.

Accounting Constraint

Cost-benefit
Only information with benefits of disclosure greater than their cost need to be disclosed.

Materiality
Only information that would influence the decisions of a reasonable person need to be disclosed.

Qualitative Characteristics

Exhibit 1.6

Fundamental

- Relevance—Predictive value and confirmatory value
- Faithful representation—Complete, neutral, and free from error

Enhancing

- Comparability
- Verifiability
- Timeliness
- Understandability

Discussion Question

Q: A business reports its own office stationery on the balance sheet at its $400 cost, although it cannot be sold for more than $10 as scrap paper. Which accounting principle and/or assumption justifies this treatment?

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Q: A business reports its own office stationery on the balance sheet at its $400 cost, although it cannot be sold for more than $10 as scrap paper. Which accounting principle and/or assumption justifies this treatment?

Business Transaction and Accounting

The Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Expanded Accounting Equation:

$$\text{Assets} = \text{Liabilities} + \underbrace{\text{Owner, Capital} - \text{Owner, Withdrawals} + \text{Revenues} - \text{Expenses}}_{\text{Equity}}$$

Learning Objective A1: Define and interpret the accounting equation and each of its components.

	Cinema	Fitness Centre	Car service centre	Gardener	Taste supermarket
Revenue					
Expenses					

	Cinema	Fitness Centre	Car service centre	Gardener	Taste supermarket
Assets					
Liabilities					
Stockholders' equity					

Transaction 1:
Investment by Owner

Chas Taylor invests $30,000 cash to start a business named FastFoward.

The accounts involved are:

(1) Cash (asset)

(2) C. Taylor, Capital (equity)

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 1

Chas Taylor invests $30,000 cash to start the business, *Fast Forward*.

	Assets	=	Liabilities	+	Equity
	Cash	=			C. Taylor, Capital
(1)	+$30,000	=			+$30,000 Owner investment

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 2:
Purchase Supplies for Cash

Company purchases supplies by paying $2,500 cash.

The accounts involved are:

(1) Cash (asset) ↓

(2) Supplies (asset) ↑

Transaction 2

Company purchases supplies by paying $2,500 cash.

	Assets			=	Liabilities	+	Equity
	Cash	+	**Supplies**	=			**C. Taylor, Capital**
Old Bal.	$30,000			=			$30,000
(2)	−2,500	+	$2,500				
New Bal.	$27,500	+	$ 2,500	=			$30,000
	$30,000						$30,000

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 3:
Purchase Equipment for Cash

Purchases equipment for $26,000 cash.

The accounts involved are:

(1) Cash (asset) ↓

(2) Equipment (asset) ↑

Transaction 3

Purchases equipment for $26,000 cash.

	Assets					=	Liabilities	+	Equity
	Cash	+	Supplies	+	Equipment	=			C. Taylor, Capital
Old Bal.	$27,500	+	$2,500			=			$30,000
(3)	**−26,000**			+	**$26,000**				
New Bal.	$ 1,500	+	$2,500	+	$ 26,000	=			$30,000
	$30,000						$30,000		

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 4: Purchase Supplies on Credit

Purchases supplies of $7,100 on credit.

The accounts involved are:

(1) Supplies (asset) ⬆

(2) Accounts Payable (liability) ⬆

Transaction 4

Purchases Supplies of $7,100 on credit.

	Assets					=	Liabilities	+	Equity
	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	C. Taylor, Capital
Old Bal.	$1,500	+	$2,500	+	$26,000	=			$30,000
(4)		+	7,100				+$7,100		
New Bal.	$1,500	+	$9,600	+	$26,000	=	$ 7,100	+	$30,000
			$37,100					$37,100	

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction Analysis: Revenues, Expenses and Withdrawals

Now, let's look at transactions involving revenues, expenses and withdrawals.

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 5:
Provide Services for Cash

Provides consulting services to a customer and receives $4,200 cash right away.

The accounts involved are:

(1) Cash (asset) ↑

(2) Revenues (equity) ↑

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 5

Provides consulting services to a customer and receives $4,200 cash right away.

	Assets					=	Liabilities	+	Equity		
	Cash	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**
Old Bal.	$1,500	+	$9,600	+	$26,000	=	$7,100	+	$30,000		
(5)	+4,200									+	$4,200 Consulting
New Bal.	$5,700	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$ 4,200
			$41,300						$41,300		

Learning Objective P1: Analyze business transactions using the accounting equation.

Transactions 6 and 7: Payment of Expenses in Cash

Pays rent of $1,000 and salaries of $700 to employees.

The accounts involved are:

(1) Cash (asset) ↓

(2) Rent expense ↑ (equity) ↓

(3) Salaries expense ↑ (equity) ↓

Remember that the balances in the *Expense* accounts actually increase. But total Equity decreases, because expenses reduce equity.

Learning Objective P1: Analyze business transactions using the accounting equation.

Transactions 6 and 7

Pays rent of $1,000 and salaries of $700 to employees.

Increases in expenses yield decreases in equity.

	Assets					=	Liabilities	+	Equity				
	Cash	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**	−	**Expenses**
Old Bal.	$5,700	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$4,200		
(6)	−1,000											−	$1,000 Rent
Bal.	4,700	+	9,600	+	26,000	=	7,100	+	30,000	+	4,200	−	1,000
(7)	− 700											−	700 Salaries
New Bal.	$4,000	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$4,200	−	$ 1,700
	$39,600						$39,600						

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 8:
Provide Services and Facilities for Credit

Provides consulting services of $1,600 and rents facilities for $300 to a customer for credit.

The accounts involved are:

(1) Accounts receivable (asset) ↑

(2) Consulting Revenues (equity) ↑

(3) Rental Revenue (equity) ↑

Transaction 8

Provides consulting services of $1,600 and rents facilities for $300 to a customer for credit.

	Assets							=	Liabilities	+	Equity				
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**	−	**Expenses**
Old Bal.	$4,000			+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$4,200	−	$1,700
(8)		+	$1,900									+	1,600 Consulting		
												+	300 Rental		
New Bal.	$4,000	+	$ 1,900	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$6,100	−	$1,700
	$41,500								$41,500						

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 9:
Receipt of Cash from Accounts Receivable

Client in transaction 8 pays $1,900 for consulting services.

The accounts involved are:

(1) Cash (asset) ↑

(2) Accounts receivable (asset) ↓

Transaction 9

Client in transaction 8 pays $1,900 for consulting services.

	Assets							=	Liabilities	+	Equity				
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	C. Taylor, Capital	+	Revenues	−	Expenses
Old Bal.	$4,000	+	$1,900	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$6,100	−	$1,700
(9)	**+1,900**	**−**	**1,900**												
New Bal.	$5,900	+	$ 0	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$6,100	−	$1,700
	$41,500								$41,500						

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 10:
Payment of Accounts Payable

FastForward pays $900 as partial payment for supplies purchased in transaction 4.

The accounts involved are:

(1) Cash (asset) ↓

(2) Accounts payable (liability) ↓

Transaction 10

FastForward pays $900 as partial payment for supplies purchased in transaction 4.

	Assets							=	Liabilities	+	Equity				
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	+	**Revenues**	−	**Expenses**
Old Bal.	$5,900	+	$ 0	+	$9,600	+	$26,000	=	$7,100	+	$30,000	+	$6,100	−	$1,700
(10)	− 900								−900						
New Bal.	$5,000	+	$ 0	+	$9,600	+	$26,000	=	$6,200	+	$30,000	+	$6,100	−	$1,700
	$40,600								$40,600						

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 11:
Withdrawal of Cash by Owner

Owner withdraws $200 cash for personal use.

The accounts involved are:

(1) Cash (asset) ↓

(2) C. Taylor, Withdrawals ↑ (equity) ↓

Remember that the Withdrawals account actually increases (just like our Expense accounts)

But total Equity decreases because withdrawals cause equity to go down!!

Learning Objective P1: Analyze business transactions using the accounting equation.

Transaction 11

Owner withdraws $200 cash for personal use.

Increases in withdrawals yield decreases in equity.

	Assets							=	Liabilities	+	Equity						
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Equipment**	=	**Accounts Payable**	+	**C. Taylor, Capital**	−	**C. Taylor, Withdrawals**	+	**Revenues**	−	**Expenses**
Old Bal.	$5,000	+	$ 0	+	$9,600	+	$26,000	=	$6,200	+	$30,000			+	$6,100	−	$1,700
(11)	− 200											−	$200 Owner Withdrawals				
New Bal.	$4,800	+	$ 0	+	$9,600	+	$26,000	=	$6,200	+	$30,000	−	$200	+	$6,100	−	$1,700
	$40,400								$40,400								

Summary of Transactions

Exhibit 1.7

	Assets				=	Liabilities	+	Equity		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ C. Taylor, Capital	− C. Taylor, Withdrawals	+ Revenues	− Expenses
(1)	$30,000				=		$30,000			
(2)	− 2,500		+ $2,500							
Bal.	27,500		+ 2,500		=		30,000			
(3)	−26,000			+ $26,000						
Bal.	1,500		+ 2,500	+ 26,000	=		30,000			
(4)			+ 7,100		=	+$7,100				
Bal.	1,500		+ 9,600	+ 26,000	=	7,100	+ 30,000			
(5)	+ 4,200								+ $4,200	
Bal.	5,700		+ 9,600	+ 26,000	=	7,100	+ 30,000		+ 4,200	
(6)	− 1,000								+	− $1,000
Bal.	4,700		+ 9,600	+ 26,000	=	7,100	+ 30,000		+ 4,200	− 1,000
(7)	− 700									− 700
Bal.	4,000		+ 9,600	+ 26,000	=	7,100	+ 30,000		+ 4,200	− 1,700
(8)		+ $1,900							+ 1,600	
									+ 300	
Bal.	4,000	+ 1,900	+ 9,600	+ 26,000	=	7,100	+ 30,000		6,100	− 1,700
(9)	+ 1,900	− 1,900								
Bal.	5,900	+ 0	+ 9,600	+ 26,000	=	7,100	+ 30,000		+ 6,100	− 1,700
(10)	− 900					− 900				
Bal.	5,000	+ 0	+ 9,600	+ 26,000	=	6,200	+ 30,000		+ 6,100	− 1,700
(11)	− 200							− $200		
Bal.	$ 4,800	+ $ 0	+ $ 9,600	+ $ 26,000	=	$ 6,200	+ $ 30,000	− $ 200	+ $6,100	− $ 1,700

Learning Objective P1: Analyze business transactions using the accounting equation.

Financial Statements

Financial Statement	Layout	Purpose
Income statement (or statement of profit or loss)	Revenue – Expenses Net profit	Describes a company's revenues and expenses and computes net profit or loss over a period of time.
Statement of changes in equity	Beg. capital + Owner investments + Net profit – Withdrawals End. capital	Explains changes in owner's equity from owner investments, net profit (or loss), and any withdrawals over a period of time.
Balance sheet (or statement of financial position)	Assets = Liabilities + Equity	Describes a company's financial position (types and amounts of assets, liabilities, and equity) *at a point in time.*
Statement of cash flows	+/– Operating C.F. +/– Investing C.F. +/– Financing C.F. Change in cash	Identifies cash inflows (receipts) and cash outflows (payments) over a period of time.

Learning Objective P2: Identify and prepare basic financial statements and explain how they interrelate.

Exhibit 1.8: Financial Statements and Their Links

FASTFORWARD
Income Statement
For Month Ended December 31, 2021

Revenues		
Consulting revenue ($4,200 + $1,600)	$ 5,800	
Rental revenue	300	
Total revenues		$ 6,100
Expenses		
Rent expense	1,000	
Salaries expense	700	
Total expenses		1,700
Net profit		$ 4,400

FASTFORWARD
Statement of Changes in Equity
For Month Ended December 31, 2021

C. Taylor, Capital, December 1, 2021		$ 0
Plus: Investments by owner	$30,000	
Net profit	4,400	34,400
		34,400
Less: Withdrawals by owner		200
C. Taylor, Capital, December 31, 2021		$34,200

FASTFORWARD
Balance Sheet
December 31, 2021

Assets		Liabilities	
Cash	$ 4,800	Accounts payable	$ 6,200
Supplies	9,600	Total liabilities	6,200
Equipment	26,000		
		Equity	
		C. Taylor, Capital	34,200
Total assets	$40,400	Total liabilities and equity	$ 40,400

FASTFORWARD
Statement of Cash Flows
For Month Ended December 31, 2021

Cash flows from operating activities		
Cash received from clients ($4,200 + $1,900)	$ 6,100	
Cash paid for expenses ($2,500 + $900 + $1,000 + $700)	(5,100)	
Net cash provided by operating activities		$ 1,000
Cash flows from investing activities		
Cash paid for equipment	(26,000)	
Net cash used by investing activities		(26,000)
Cash flows from financing activities		
Cash investments by owner	30,000	
Cash withdrawals by owner	(200)	
Net cash provided by financing activities		29,800
Net increase in cash		$ 4,800
Cash balance, December 1, 2021		0
Cash balance, December 31, 2021		$ 4,800

Learning Objective P2: Identify and prepare basic financial statements and explain how they interrelate.

P 1-2A

The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

1a. For Company A, what is the amount of equity on Dec 31, Year 1?

P 1-2A

The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

1b. For Company A, what is the amount of equity on Dec 31, Year 2?

P 1-2A

The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

1c. For Company A, what is the amount of liabilities on Dec 31, Year 2?

P 1-2A

The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

2a. For Company B, what is the amount of equity on Dec 31, Year 1?

P 1-2A

The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

2b. For Company B, what is the amount of equity on Dec 31, Year 2?

P 1-2A

The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

2c. For Company B, what is the net profit for Year 2?

P 1-2A

The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

3. Compute the amount of assets for Company C on Dec 31, Year 2

P 1-2A

The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

4. Compute the amount of owner investment for Company D during Year 2

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The following financial statement information is from five separate companies.

	Company A	Company B	Company C	Company D	Company E
December 31, Year 1					
Assets	$55,000	$34,000	$24,000	$60,000	$119,000
Liabilities	24,500	21,500	9,000	40,000	?
December 31, Year 2					
Assets	58,000	40,000	?	85,000	113,000
Liabilities	?	26,500	29,000	24,000	70,000
During year Year 2					
Owner investments	6,000	1,400	9,750	?	6,500
Net profit (loss)	8,500	?	8,000	14,000	20,000
Owner cash withdrawals	3,500	2,000	5,875	0	11,000

5. Compute the amount of liabilities for Company E on Dec 31, Year 1

End of Chapter 1