

Sydney Institute of Business and Technology

ACTG100 Accounting A

Student Workbook Answers

Lecture and Tutorial

Week 6: Ethics & Business Entities

Updated March 2016

Role of Ethics in Accounting and Business

Business Ethics are moral principles that guide the conduct (behaviour) of individuals. Unfortunately, business managers and accountants sometimes behave in an unethical manner. Many of the managers of the companies listed in Exhibit 1 engaged in accounting or business fraud. These ethical violations led to fines, job losses, and lawsuits. In some cases, managers were criminally prosecuted, convicted, and sent to prison.

EXHIBIT 1: CASES ON ACCOUNTING AND BUSINESS FRAUDS

Company	Nature of Accounting or Business Fraud	Result
Computer Associates International, Inc.	Fraudulently inflated its financial results.	CEO and senior executives indicted. Five executives pled guilty. \$225 million fine.
Enron	Fraudulently inflated its financial results.	Bankruptcy. Senior executives criminally convicted. Over \$60 billion in stock market losses.
HealthSouth	Overstated performance by \$4 billion in false entries.	Senior executives criminally convicted.
Qwest Communications International, Inc.	Improperly recognized \$3 billion in false receipts.	CEO and six other executives criminally convicted of "massive financial fraud." \$250 million SEC fine.
Xerox Corporation	Recognized \$3 billion in revenue prior to when it should have been recorded.	\$10 million fine to SEC. Six executives forced to pay \$22 million.

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(source: C.Warren, J.Reeve, J.Duchac, Accounting 25E, Cengage Learning)

What went wrong for the managers and companies listed in Exhibit 1? The answer for the above may involve one or both of the following:

- **Failure of Individual Character.** An ethical manager and accountant is honest and fair. However, managers and accountants often face pressures from supervisors to meet company and investor expectations.
- **Culture of Greed and Ethical Indifference.** By their behaviour and attitude, senior managers created a culture of greed and indifference to the truth. This negative culture can affect the reputation of the business and financial loss.

Ethics and Governance

The success of a business today is greatly influenced by how society views the ethical behaviour of the business. Consumers can decide not to buy (boycott) products from a business if they are unhappy with the reputation of that business. Example: “Workers at Vietnam Nike shoe manufacturing plants make \$.20 an hour or \$1.60 per day. The average cost of three meals is \$2 a day, meaning that most people skip meals throughout the day”; (source: ihscs.org, dailymail.co.uk, www.wsj.com).

The voice of society that recognises socially acceptable business behaviour is known generally as **Corporate Social Responsibility** (CSR)¹. And, CSR requires that Managers and employees must behave in an ethical manner in managing and operating a business. Good CSR publicity in all their business dealings is viewed to help increase long-term profits through positive public relations, high ethical standards to reduce business and legal risk, and shareholder trust by taking responsibility for corporate actions.

Responsible Financial Reporting

Accountants and persons responsible for preparing financial statements must also behave in an ethical manner so that the information they provide will be trustworthy and useful for making decisions that improve the business. Otherwise, no one will be willing to invest in or loan money to the business.

Fundamental Principles of Professional Conduct

It is assumed in general that the accountant is expected professionally to promote the interests of their client or employer, so long as this does not conflict with the obligation to safeguard the public interest. This fundamental principle of service known as **Professional Conduct** include:

The public interest:

- safeguard the interest of your clients and employers.
- accept your responsibility to the public at large.

Integrity

- Be straightforward, honest and sincere in your approach to professional work

Objectivity

- Be fair and do not allow prejudice, conflict of interest or bias to affect your objectivity

Independence

- Be, and be seen to be free of any interest that might be regarded as being incompatible with integrity and objectivity.

¹ CSR refers to the responsibility an entity has to all stakeholders, including society in general and the physical environments in which it operates.

Confidentiality

- You should not share the information available from your work with parties that are not directly involved or related to that particular job, unless you are given authority to share.

Technical and professional standards

- You must be professional and have the proper technical background for the job

Competence and due care

- Perform professional services with due care, competence and diligence.
- Maintain professional knowledge and skill.

Ethical behaviour

- Your behaviour must be consistent with the good reputation of the profession.

What does ethical behaviour mean?

(source: HEM, 9E p23)

Ethical conduct can be considered important to a business' long-term survival because:

- a. It attracts a regular and stable client base;
- b. Unethical (illegal) conduct may prove to be costly;
- c. It may attract shareholders and/or consumers in that they trust you to manage the money successfully and/or provide a quality service; and
- d. Unethical conduct can lead to government intervention and even closure of the business.

Steps to assist in decision making when there is an ethical issue:

1. *Identify the stakeholders.* Stakeholders are individuals or groups who have an interest in the entity's activities and performance and may be affected by the entity's actions. Stakeholders include shareholders, employees, creditors, suppliers, governments, unions, environmental groups etc
2. *Identify the ethical issues* involved i.e. issues attracting professional conduct (see list of professional conduct above), eg fraud, bribery, dishonesty, covering up information etc
3. *Identify the consequences* of the decision, eg will employees lose their jobs if the business is forced to close?
4. *Make an ethical decision* i.e. provide alternative acceptable 'do the right thing' socially conscionable action.

Example 6.0 (Discussion)
Ethics & Governance**Ethical practices among friends**

(source: HEM, 9E pg 30)

Two friends, Becks and Vicky, had just started university studies. Both intended to major in accounting. During the first week of lectures, Vicky, who had to go home for family reasons, asked Becks to buy a copy of the prescribed accounting text for her from the university bookshop. She left Becks \$100 to cover the cost of the text currently selling in the bookshop for \$80.

On the day Becks visited the bookshop to buy the text, and managed to get second-hand copies. These returned copies had been marked down to \$65 and looked new. Becks realised that he could give Vicky change of \$20 and keep the savings on the text of \$15 for himself. He simply had to tell Vicky that he had lost the receipt.

Required: (For students to read in their own time)

- A. *Identify who the **stakeholders** are in this situation.*
- B. *Outline the ethical issues involved.*
- C. *Discuss what you would do if you were Becks.*

Answers:

- A. The stakeholders or the involved parties in this situation are Becks and Vicky.
- B. Becks gained \$15 by buying the text at a price lower than the bookshop text price of \$80. He has misled his friend Vicky by failing to disclose/inform the cost price of \$65 for which represents what he paid for the textbook.

He has not acted honestly by retaining (keeping) the \$15 cash saving. He has not acted ethically nor has he acted as a friend. And, in doing so may lose her friendship and trust.

He has breached his duty to his friend by not buying the new book at \$65 and offering \$15 balance in return.

- C. Becks' alternatives are:
 - (a) tell Vicky what happened and give her the correct change; or
 - (b) buy a brand-new textbook for \$80 as listed by the bookshop; or
 - (c) contact Vicky (if at all possible) and ask for her decision

Exercise 6.2
Ethics and governance**Ethical practices in the Workplace****Ethical Case**

Justin works as an accountant for Dodgy. His boss, Mr Greedy is part of the management team that receive a bonus depending on the profitability of the business. If Dodgy makes \$10 million in profit, the owner will pay each member of the management team a bonus of \$50,000.

At the end of June, it appears that Dodgy will only make a profit of \$9.9 million. Mr Greedy instructed Justin to find ways of maximising the profit for the year. He suggested that some of the expenses incurred this year should not be recorded until next year.

Required:

- Who are the stakeholders in this situation?
- What are the ethical issues?
- What would you do if you were Justin?

Answers:

- a. Who are the stakeholders in this situation?

Justin, Mr Greedy, members of the management team, the owner, other employees of Dodgy

- b. What are the ethical issues?

- Misstating information in the financial statements for personal gain ie to receive bonus**
- Fraud /Deception / Dishonesty - The owner is being deceived so that he will pay the bonus. The owner will think the business is performing better than it actually is, as the profit is overstated. This will affect the decision-making of the owner as he does not have reliable information.**
- Another issue is that the misstatement is intentional, not just a mistake. Mr Greedy placing pressure on Justin.**

- c. What would you do if you were Justin? **Some possibilities:**

- do nothing and keep job; refuse to manipulate profit and risk losing job , report the cover-up to the owner and risk losing job;**
- resign, explain to Mr Greedy that his actions are unethical and try to convince him to correct the financial statements etc**

Business Entity Concept

Basic business entities

The three most common types for profit-seeking business entities are sole traders (or single proprietorships), partnerships and companies (or limited liability company)

1. Sole trader (or single proprietorship)

A sole trader is an **individual** (natural person) who conducts and owns their business. They begin by investing *capital* or equity into the business. They will have full responsibility and control over the business operations and activities.

Legally, the owner is *personally liable* for **all** the business debts. For accounting purposes, a sole trader is a distinct entity, separate from the owner. This means that the business records should **not** include the proprietor's personal finances.

Sole traders tend to be individual providers of services or small retail stores - accountants, doctors who set up their own practice, a freelance photographer.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy and inexpensive to set up • Fewer legal obligations to set up • Owner has <i>full control</i> over assets • Owner has <i>full claim</i> over business profits 	<ul style="list-style-type: none"> • Business is <i>limited</i> to the owner's skill • Business will <i>ceases to exist</i> if owner decides not to continue with the business • The owner is <i>personally liable</i> for all business debts.

2. Partnership

A partnership has two or more parties as co-owners, and each owner is a partner. Individuals, companies, partnerships or other types of entities can become a partner. Many professional service firms (law, accounting, engineering, medical practitioners, architecture) operate as partnerships.

Partnerships are formed through 'a relationship between persons, carrying on a business in common and with a view to profit'.

The partnership is treated as a separate entity for *accounting purposes* but is not recognised as a separate legal entity. The assets and liabilities of the partnership belong to the individual partners. Each partner takes their proportionate share of the business entity's taxable income and pays tax according to that partner's individual or corporate rate.

Generally, partnerships have unlimited liability. Each partner may conduct business in the name of the entity and can make agreements that legally bind all partners without limit for the partnership's debts. Partnerships are therefore quite risky. This form of business structure is used where there is a low element of risk to the business or when the Law requires.

Advantages	Disadvantages
<ul style="list-style-type: none"> • <i>Enables sharing</i> of ideas, skills and pooling of capital resources • Easy and <i>less costly</i> to set up than a company. • It has <i>less government regulation</i> and supervision than a company • They <i>do not answer to</i> the company board of directors nor external shareholders • Partners have a proportionate claim over partnership profits • The Partnership can be used for a single purpose business venture and quickly dissolved. 	<ul style="list-style-type: none"> • <i>Unlimited liability</i> – each partner is liable for debts of the Partnership. Creditors can look at the individual partner's assets for full recovery of any unpaid claims (debts). • <i>Mutual agency</i> – a partner can represent other partners and any partnership decision they make will bind all other partners. • <i>Limited life</i> – the Partnership is easily terminated (ended)

3. Company

A company is a business owned by shareholders who hold equity, representing shares of ownership in the company. Individuals, companies, partnerships or other types of entities can become a shareholder.

A company is formed under Law and is recognised as a *separate legal entity*. The assets and liabilities belong to the company and shareholders have no personal obligation for the company's debts. The investment in the company by its shareholders is limited only to the shareholder's capital contribution. In the event the company is unable to pay its debts, the creditors only have access to company assets for repayment of debt.

Shareholders elect the board of directors, who then make decisions for the daily operations of the business.

This form of business structure is more appropriate for entities requiring larger capital contribution, which have a large number of operating costs and greater number of employees. The disadvantages include higher set up and on-going costs.

Advantages	Disadvantages
<ul style="list-style-type: none"> • <i>Limited Liability</i> – shareholders are liable for debts to the extent of their issued capital. • <i>Separate legal entity</i> – the company has the same rights as natural person (trade, pay taxes, sue and be sued, etc) • <i>Broad source of capital</i> – the company can attract a cheaper source of funding by issuing shares • <i>Continuity of existence</i> – the company continues to exist even if the shareholders change, operations are not disrupted. • <i>Use of professional Management</i> – the use of professional managers and other subject matter experts are more readily available. • <i>Potential income tax savings</i> – companies are allowed more tax deductions and shareholders can take advantage of the dividend imputation scheme to reduce their tax liability. 	<ul style="list-style-type: none"> • <i>Greater government and regulation</i> – a company must prepare regular financial statements (GPFS) for presentation to their members, creditors and regulatory bodies. • <i>Agency principal</i> – the separation of ownership and management may result in managers may make decisions that are not for the benefit of the shareholders • <i>It is costly to set up and maintain</i> – it is generally more costly to operate as a company. (regular financial statements, hire of professional managers, product promotion and advertising, etc)

Exhibit 6.2**Business Entities – Tick the most appropriate boxes [✓]**

	Sole Trader	Partnership	Company
Owner			
Single owner	✓		
Multiple owners		✓	✓
Control/ Ownership			
Owner(s) makes decisions	✓	✓	
Management makes decisions			✓
Change in Ownership			
Ongoing Concern			✓
Business stops when owner changes	✓	✓	
Liability for Business Debts			
Unlimited	✓	✓	
Limited			✓
Legal Status			
Recognised Legal Entity			✓
Not a Legal Entity	✓	✓	
Accounting Purposes			
Separate Entity	✓	✓	✓
Not a Separate Entity			
Taxation Purposes			
Part of Personal Taxes	✓	✓	
Separate Tax from Person			✓
Managing of Operations			
Owner(s) – smaller pool of talent(s)	✓	✓	
Board of Directors – professional talent(s)			✓
Easier to get Funding			✓
Costly to Set up			✓
Higher On-going Costs			✓
Business Structure suitable for			
Sole Trader	Small business which require minimal capital to set up and have low running cost and risk		
Partnership	Business which require capital to set up and have low element of risk or is required by Law		
Company	Business requires larger capital contribution. They have higher operating costs and number of employees. The business risk is usually much higher.		

Exercise 6.3**Choose A Suitable Business Structure**

Three types of business – services, merchandising, and manufacturing may be organised as proprietorships (sole traders), partnerships, corporations, or limited liability companies. The choice of a business type usually link to common requirements of the business owner:

CASE STUDY 1:

Frank bought a motorcycle and uses it to start a small delivery business. He prefers the freedom of working on his own and does not want to share any business profit.

Required

Which business entity will Frank most likely choose? Why?



TIP: Revisit the Business Structure of each type i.e. Sole Trader, Partnership or Company to help with your decision

Sole Trader as he has chosen the following business criteria:

- **Small business**
- **Does not want to share any of the business profit**
- **Small business where he wants freedom to make decisions**

CASE STUDY 2:

Frank is doing well and after 6 months the number of clients has increased. To grow the business Frank decides to approach a good friend called Eric whom he knows owns a van. Eric is interested in being involved in Frank's business so they agree to the following arrangement:

1. Frank takes care of the daily operations that involve taking orders from clients and keeping proper business records.
2. Eric will be responsible for all delivery to clients.
3. They decide to share the profits equally.

Required

Which business entity would suit Frank and Eric's business? Why?

Partnership as he has chosen the following business criteria:

- Business is growing with more clients.
- Frank and Eric have contributed their assets to make a profit (common intention)
- They are sharing business decisions and responsibilities
- They will share the business profits

CASE STUDY 3:

After 2 years, Frank and Eric require two more vans and will now need to hire more people to help with the business. Neither Frank nor Eric can financially afford to invest more into the expanding business. The operating costs to run the business and hire more employees are starting to increase. They are concerned about the risk involved if they continue to expand under their current business partnership.

Required

Do you recommend any changes to the current business structure? Why/why not?



TIP: In this situation there is no one answer. Frank or Eric can choose to remain as a partnership or register their small but growing business as a company. Discuss the advantage or disadvantage of their decision.

How many owners there are likely to be

How large the business is

Tax considerations

How complex the business

costs of setting up the structure and complying with regulatory reporting and other requirements

It may well be advisable for a business to change its structure over time. For example, a small business started by one person may initially be set up as a sole trader, but as the business expands, it may be advisable to change to a company structure to manage the risk of the business more effectively. A sole trader may also decide that they wish to take on additional business partners, in which case it may be appropriate to change to a partnership (or company) structure.

(source: HEM, 9E, p25)

Some factors that will play a part in deciding on a business structure include:

- **How many owners there are likely to be** – if only one, a sole trader is appropriate, if more owners are involved, a partnership or company structure is more suitable.
- **How big the business is** – for a large business, a company structure is probably more appropriate.
- **Tax considerations** – income gets taxed differently for different business structures (for example, income derived in a partnership is taxed in the hands of the individual partners), and this may influence the choice of structure.
- **How the business is likely to be funded** – if the owners will not be able to fund it themselves, and will have to obtain loan financing, it may be easier to obtain loan finance if the business is structured as a company.
- **How complex the business is and how involved the owners will be in the day to day running of the business**. If the owners are involved in the running and will take all the profits from the business, a sole trader or partnership may be appropriate. If the owners wish to re-invest some of the funds in the business, and will appoint managers to run the business on their behalf and pay themselves dividends out of the business, a company structure may be better (it can be a small limited liability company).
- **The costs of setting up the structure and complying** with regulatory reporting and other requirements – it is more expensive to set up a company, and companies are governed by the Corporations Act which imposes requirements on directors to manage and report the results of the company in ways that protect the shareholders.

Tutorial

Week 6

DISCUSSION QUESTION SOLUTIONS

9. *'Why would we bother classifying assets in order of their liquidity on a statement of financial position? After all, the value placed on assets is not a true reflection of how much we could sell them for.' Discuss.*

Answers:

Even though the accounts do not record assets at their selling price or realisable value, following the going concern assumption, listing the assets in order of liquidity should provide some information to users of the accounts as to the size and potential for selling assets at short notice.

Nevertheless, the statement in the quote is correct. The asset values do not reflect their disposal values in current financial statements. If all assets were shown at disposal prices, there would be no need to list assets in order of their liquidity, as each asset is recorded at its 'liquid' price. The sum of these 'liquid' prices then reflects the entity's liquidity.

An entity is not barred from disclosing the disposal value of its assets if it so desires; however, there are extra costs to be incurred in generating the information in order to make such disclosures.

EXERCISE SOLUTIONS**Exercise 4.1** Identifying adjusting journal entries

Match the end-of-financial-year adjustments (for each independent situation) to the appropriate journal entry.

Adjustments

1. *Portion of prepaid insurance which has now expired (been used up) : Answer (C)*
2. *Revenue earned but not yet received : Answer (F)*
3. *Insurance expense which has not been used up (there is still future cover): Answer (A)*
4. *Portion of recognised revenue which is considered unearned : Answer (D)*
5. *Expenses incurred but not yet paid: Answer (E)*
6. *Revenue received in advance which is now earned: Answer (B)*

Journal entry

- (a) *Prepaid Insurance Dr, Insurance Expense Cr*
- (b) *Unearned Revenue Dr, Revenue Cr*
- (c) *Insurance Expense Dr, Prepaid Insurance Cr*
- (d) *Revenue Dr, Unearned Revenue Cr*
- (e) *Expenses Dr, Expenses Payable Cr*
- (f) *Revenue Receivable Dr, Revenue Cr*

PROBLEM QUESTIONS**Problem 4.8** **Worksheet and financial statements**

The adjusted trial balance columns of the worksheet for Chris' Cleaning Services are as shown on the next page.

CHRIS' CLEANING SERVICES						
Worksheet (Partial)						
for the month ended 28 February 2016						
Account	Adjusted trial balance		Income statement		Balance sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	\$ 41 300					
Accounts Receivable	21 950					
Prepaid Rent	6 380					
Equipment	64 540					
Accumulated Depreciation		\$ 13 280				
Loan Payable (due June 2016)		17 400				
Accounts Payable		15 660				
C. Kleen, Capital		94 230				
C. Kleen, Drawings	10 200					
Service Revenue		35 350				
Salaries Expense	27 550					
Rent Expense	2 120					
Depreciation Expense	1 880					
Interest Expense	160					
Interest Payable		160				
	\$ 176 080	\$ 176 080				
Profit for the period						

Required

Complete the worksheet and prepare and income statement, a statement of changes in equity and a classified balance sheet

CHRIS' CLEANING SERVICES
Work Sheet (Partial)
for the month ended 28 February 2016

Account titles	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr.
Cash at Bank	41 300				41 300	
Accounts Receivable	21 950				21 950	
Prepaid Rent	6 380				6 380	
Equipment	64 540				64 540	
Accumulated Depreciation		13 280				13 280
Loan Payable		17 400				17 400
Accounts Payable		15 660				15 660
C. Kleen, Capital		94 230				94 230
C. Kleen, Drawings	10 200				10 200	
Service Revenue		35 350		35 350		
Salaries Expense	27 550		27 550			
Rent Expense	2 120		2 120			
Depreciation Expense	1 880		1 880			
Interest Expense	160		160			
Interest Payable		160				160
	176 080	176 080	31 710	35 350	144 370	140 730
Profit for the period			3 640			3 640
			\$35 350	\$35 350	\$144 370	\$144 370

Chris' Cleaning Services**Income Statement**

For the Month Ended 28 February 2016

Revenues		
Services Revenue		\$35 350
Expenses		
Salaries Expense	\$27 550	
Rent Expense	2 120	
Depreciation Expense	1 880	
Interest Expense	160	
Total expenses		31 710
Profit for the month		\$3 640

Chris' Cleaning Services

Statement of Changes in Equity

For the Month Ended 28 February 2016

C. Kleen, Capital, 1 February	\$94 230
Profit for month	3 640
	97 870
Drawings	10 200
C. Kleen, Capital, 28 February	\$87 670

Chris' Cleaning Services

Balance Sheet

As at 28 February 2016

ASSETS		
Current assets		
Cash at Bank	\$41 300	
Accounts Receivable	21 950	
Prepaid Rent	6 380	
Total current assets		\$69 630
Non-current assets		
Equipment	\$64 540	
Accumulated Depreciation	(13 280)	
Total non-current assets		51 260
TOTAL ASSETS		\$120 890
LIABILITIES AND EQUITY		
Current liabilities		
Loan Payable	\$17 400	
Accounts Payable	15 660	
Interest Payable	160	
Total current liabilities		\$33 220
Equity		
C. Kleen, Capital		87 670
TOTAL LIABILITIES AND EQUITY		\$120 890

EXERCISE & SOLUTIONS**CHAPTER 5 (HEM, 9E)****Exercise 5.3****Completion of worksheet, preparation of financial statements and closing entries**

The following **unadjusted** trial balance was taken from the ledger of Miranda's Management Services on 30 June 2016.

Account	Debit	Credit
Cash at bank	\$80 000	
Accounts receivable	74 000	
Prepaid insurance	24 000	
Equipment	230 000	
Accumulated depreciation – equipment		\$60 000
Accounts payable		64 000
Miranda Pike, Capital		204 000
Miranda Pike, Drawings	50 000	
Service revenue		340 000
Wages expense	130 000	
Electricity expense	54 000	
Sundry expense	<u>26 000</u>	<u> </u>
	<u>\$668 000</u>	<u>\$668 000</u>

Required

A. Prepare a 10-column worksheet using the following additional information on 30 June 2016:

1. Accrued wages, \$18 000.
2. Expired insurance, \$16 000.
3. Depreciation on equipment, \$60 000.

B. Prepare an income statement, a statement of changes in equity and a balance sheet.

C. Record the adjusting and closing entries in the general journal. [WEEK 7]

MIRANDA'S MANAGEMENT SERVICES

Worksheet

for the year ended 30 June 2016

(\$'000)

Account title	Unadjusted trial balance		Adjustments		Adjusted trial balance		Income statement		Balance sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash at Bank	80				80				80	
Accounts Receivable	74				74				74	
Prepaid Insurance	24			(2) 16	8				8	
Equipment	230				230				230	
Accum. Depr. Equipment		60		(3) 60		120				120
Accounts Payable		64				64				64
Miranda Pike, Capital		204				204				204
Miranda Pike, Drawings	50				50				50	
Service Revenue		340				340		340		
Wages Expense	130		(1) 18		148		148			
Electricity Expense	54				54		54			
Sundry Expense	26				26		26			
	668	668								
Wages Payable				(1) 18		18				18
Insurance Expense			(2) 16		16		16			
Depr. Expense – Equipment			(3) 60		60		60			
			94	94	746	746	304	340	442	406
Profit for the period							36			36
							340	340	442	442

B.

MIRANDA'S MANAGEMENT SERVICES Income Statement for the year ended 30 June 2016		
INCOME	(\$'000)	(\$'000)
Service revenue		\$340
EXPENSES		
Wages expense	\$148	
Depreciation expense	60	
Insurance expense	16	
Electricity expense	54	
Sundry expense	26	304
PROFIT		<u>\$36</u>

B.

MIRANDA'S MANAGEMENT SERVICES Statement of Changes in Equity for the year ended 30 June 2016	
	(\$'000)
Miranda Pike, Capital – 1 July 2015	\$204
Profit for the year	36
	<u>\$240</u>
Drawings during the year	(50)
Miranda Pike, Capital – 30 June 2016	<u>\$190</u>

B.

MIRANDA'S MANAGEMENT SERVICES		
Balance Sheet		
As at 30 June 2016		
CURRENT ASSETS	(\$'000)	(\$'000)
Cash at bank	\$80	
Accounts receivable	74	
Prepaid insurance	8	162
NON-CURRENT ASSETS		
Equipment	230	
Less: Accum. depreciation	(120)	110
TOTAL ASSETS		\$272
CURRENT LIABILITIES		
Accounts payable	64	
Wages payable	18	82
TOTAL LIABILITIES		82
NET ASSETS		\$190
EQUITY		
Miranda Pike, Capital		190
TOTAL EQUITY		\$190

Exercise 5.4 **Worksheet and closing entries**

The adjusted trial balance columns in the worksheet of Elliot Painting Services are as follows.

ELLIOT PAINTING SERVICES						
Worksheet (Partial)						
for the year ended 30 June 2016						
	Adjusted trial balance		Income statement		Balance sheet	
Account	Debit	Credit	Debit	Credit	Debit	Credit
Cash at Bank	1 230					
Accounts Receivable	75 600					
Prepaid Rent	1 800					
Office Supplies	8 320					
Equipment	160 000					
Accumulated Depreciation		25 000				
Accounts Payable		54 000				
Salaries Payable		8 760				
Unearned Revenue		3 430				
F. Elliot, Capital		101 500				
F. Elliot, Drawings	22 000					
Painting Revenue		219 650				
Salaries Expense	106 000					
Rent Expense	6 050					
Depreciation Expense	8 040					
Telephone Expense	4 020					
Office Supplies Expense	10 080					
Sundry Expenses	9 200					
	412 340	412 340				
Profit for the period						
Totals						

Required

A. Complete the worksheet.

B. Prepare the closing entries necessary at 30 June 2016, assuming that this date is the end of the entity's accounting period. [WEEK 7]

A. Complete the Worksheet (**focus on how to obtain the Profit/Loss value & inserting to the Balance Sheet**).

ELLIOT PAINTING SERVICES

Worksheet (Partial)

for the year ended 30 June 2016

Account	Adjusted trial balance		Income statement		Balance sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash at Bank	1 230				1 230	
Accounts Receivable	75 600				75 600	
Prepaid Rent	1 800				1 800	
Office Supplies	8 320				8 320	
Equipment	160 000				160 000	
Accum. Depr. Equip't		25 000				25 000
Accounts Payable		54 000				54 000
Salaries Payable		8 760				8 760
Unearned Revenue		3 430				3 430
F. Elliot, Capital		101 500				101 500
F. Elliot, Drawings	22 000				22 000	
Painting Revenue		219 650		219 650		
Salaries Expense	106 000		106 000			
Rent Expense	6 050		6 050			
Depreciation Expense	8 040		8 040			
Telephone Expense	4 020		4 020			
Office Supplies Used	10 080		10 080			
Sundry Expenses	9 200		9 200			
	\$412 340	\$412 340	143 390	219 650	268 950	192 690
Profit for the period			76 260			76 260
			\$219 650	\$219 650	\$268 950	\$268 950