

# Solutions Manual Accounting Principles 12th Edition

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## CHAPTER 1

### Accounting in Action

### ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>
1. Identify the activities and users associated with accounting.	1, 2, 3, 4, 5		1	1, 2	
2. Explain the building blocks of accounting: ethics, principles, and assumptions.	6, 7, 8, 9, 10		2	3, 4	
3. State the accounting equation, and define its components.	11, 12, 13, 22	1, 2, 3, 4, 5, 8	3, 5	5	1A, 2A 4A
4. Analyze the effects of business transactions on the accounting equation.	14, 15, 16, 18	6, 7, 9	4	6, 7, 8	1A, 2A, 4A, 5A
5. Describe the four financial statements and how they are prepared.	17, 19, 20, 21	10, 11	5	9, 10, 11, 12, 13, 14, 15, 16	2A, 3A, 4A, 5A

## ASSIGNMENT CHARACTERISTICS TABLE

<b>Problem Number</b>	<b>Description</b>	<b>Difficulty Level</b>	<b>Time Allotted (min.)</b>
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

**WEYGANDT ACCOUNTING PRINCIPLES 12E**  
**CHAPTER 1**  
**ACCOUNTING IN ACTION**

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
BE1	3	AP	Simple	2–4
BE2	3	AP	Simple	3–5
BE3	3	AP	Moderate	4–6
BE4	3	AP	Moderate	4–6
BE5	3	C	Simple	2–4
BE6	4	C	Simple	2–4
BE7	4	C	Simple	2–4
BE8	3	C	Simple	2–4
BE9	4	C	Simple	1–2
BE10	5	AP	Simple	3–5
BE11	5	C	Simple	2–4
DI1	1	K	Simple	2–4
DI2	2	K	Simple	2–4
DI3	3	AP	Simple	6–8
DI4	4	AP	Moderate	8–10
DI5	3, 5	AP	Moderate	10–12
EX1	1	C	Moderate	5–7
EX2	1	C	Simple	6–8
EX3	2	C	Moderate	6–8
EX4	2	C	Moderate	6–8
EX5	3	C	Simple	4–6
EX6	4	C	Simple	6–8
EX7	4	C	Simple	4–6
EX8	4	AP	Moderate	12–15
EX9	5	AP	Simple	12–15
EX10	5	AP	Moderate	8–10
EX11	5	AP	Moderate	6–8
EX12	5	AP	Simple	8–10
EX13	5	AN	Simple	8–10
EX14	5	AP	Simple	10–12
EX15	5	AP	Simple	6–8
EX16	5	AP	Moderate	6–8

## ACCOUNTING IN ACTION (Continued)

Number	LO	BT	Difficulty	Time (min.)
P1A	3, 4	AP	Moderate	40–50
P2A	3–5	AP	Moderate	50–60
P3A	5	AP	Moderate	50–60
P4A	3–5	AP	Moderate	40–50
P5A	4, 5	AP	Moderate	40–50
BYP1	5	AN	Simple	10–15
BYP2	5	AN, E	Simple	10–15
BYP3	5	AN, E	Simple	10–15
BYP4	6	C, AN	Simple	15–20
BYP5	4	E	Moderate	15–20
BYP6	5	E	Simple	12–15
BYP7	2	E	Simple	10–12
BYP8	2	E	Moderate	15–20
BYP9	–	AP	Moderate	15–20
BYP10	–	C	Simple	10–15

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

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Identify the activities and users associated with accounting.	DI1-1	Q1-1 Q1-2 Q1-3 Q1-4	Q1-5 E1-1 E1-2			
3. Explain the building blocks of accounting: ethics, principles, and assumptions.	Q1-7 Q1-8 Q1-9 Q1-10 DI1-1	Q1-6 E1-3 E1-4				
3. State the accounting equation, and define its components.	DI1-2 BE1-5	Q1-11 Q1-12 Q1-13 BE1-4 BE1-8	BE1-9 E1-5 BE1-1 BE1-2 BE1-3 DI1-5	P1-1A P1-2A P1-4A		
4. Analyze the effects of business transactions on the accounting equation.		Q1-14 Q1-15 Q1-16 Q1-18	BE1-6 BE1-7 E1-6 E1-7	DI1-4 E1-8 P1-1A P1-2A	P1-4A P1-5A	
5. Describe the four financial statements and how they are prepared.		Q1-17 Q1-19 BE1-11	Q1-20 Q1-21 BE1-10 DI1-5 E1-8 E1-9 E1-10 E1-11 E1-12	E1-14 E1-15 E1-16 E1-17 P1-2A P1-3A P1-4A P1-5A	E1-13	
Broadening Your Perspective		Real-World Focus Considering People, Planet, and Profit	FASB Codification	Financial Reporting Comparative Analysis		All About You Comparative Analysis Decision-Making Across the Organization Communication Activity Ethics Case

## ANSWERS TO QUESTIONS

1. Yes, this is correct. Virtually every organization and person in our society uses accounting information. Businesses, investors, creditors, government agencies, and not-for-profit organizations must use accounting information to operate effectively.
2. Accounting is the process of identifying, recording, and communicating the economic events of an organization to interested users of the information. The first step of the accounting process is therefore to identify economic events that are relevant to a particular business. Once identified and measured, the events are recorded to provide a history of the financial activities of the organization. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner. The information is communicated through the preparation and distribution of accounting reports, the most common of which are called financial statements. A vital element in the communication process is the accountant's ability and responsibility to analyze and interpret the reported information.
3.
  - (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.
  - (b) To assist management, managerial accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.
4.
  - (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell ownership shares of a company.
  - (b) Creditors use accounting information to evaluate the risks of granting credit or lending money.
5. No, this is incorrect. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.
6. Trenton Travel Agency should report the land at \$90,000 on its December 31, 2017 balance sheet. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use cost. Only in situations where assets are actively traded do companies apply the fair value principle. An important concept that accountants follow is the historical cost principle.
7. The monetary unit assumption requires that only transaction data that can be expressed in terms of money be included in the accounting records. This assumption enables accounting to quantify (measure) economic events.
8. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.
9. The three basic forms of business organizations are: (1) proprietorship, (2) partnership, and (3) corporation.

## Questions Chapter 1 (Continued)

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

## Questions Chapter 1 (Continued)

19. Yes. Net income does appear on the income statement—it is the result of subtracting expenses from revenues. In addition, net income appears in the owner's equity statement—it is shown as an addition to the beginning-of-period capital. Indirectly, the net income of a company is also included in the balance sheet. It is included in the capital account which appears in the owner's equity section of the balance sheet.
20. (a) Ending capital balance ..... \$198,000  
Beginning capital balance ..... 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. Apple's accounting equation at September 28, 2013 was  $\$207,000,000,000 = \$83,451,000,000 + \$123,549,000,000$ .



# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 1-1

- (a)  $\$90,000 - \$50,000 = \$40,000$  (Owner's Equity).
- (b)  $\$44,000 + \$70,000 = \$114,000$  (Assets).
- (c)  $\$94,000 - \$53,000 = \$41,000$  (Liabilities).

## BRIEF EXERCISE 1-2

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

## BRIEF EXERCISE 1-3

- (a)  $(\$800,000 + \$150,000) - (\$300,000 - \$60,000) = \$710,000$   
(Owner's equity).
- (b)  $(\$300,000 + \$100,000) + (\$800,000 - \$300,000 - \$70,000) = \$830,000$   
(Assets).
- (c)  $(\$800,000 - \$80,000) - (\$800,000 - \$300,000 + \$120,000) = \$100,000$   
(Liabilities).

## BRIEF EXERCISE 1-4

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

### BRIEF EXERCISE 1-5

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

### BRIEF EXERCISE 1-6

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

### BRIEF EXERCISE 1-7

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

### BRIEF EXERCISE 1-8

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

### BRIEF EXERCISE 1-9

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

## BRIEF EXERCISE 1-10

### MENDOZA COMPANY Balance Sheet December 31, 2017

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

## BRIEF EXERCISE 1-11

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

## SOLUTIONS FOR DO IT! REVIEW EXERCISES

### DO IT! 1-1

1. False. The three steps in the accounting process are identification, recording, and communication.
2. True.
3. False. Financial accounting provides reports to help investors and creditors evaluate a company.
4. True.
5. True.

## DO IT! 1-2

1. False. Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.
2. False. The standards of conduct by which actions are judged as right or wrong, honest or dishonest, fair or not fair, are ethics.
3. False. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
4. True.
5. True.

## DO IT! 1-3

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! 1-4

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

## DO IT! 1-5

(a) The total assets are \$49,000, comprised of Cash \$6,500, Accounts Receivable \$13,500, and Equipment \$29,000.

(b) Net income is \$20,500, computed as follows:

<b>Revenues</b>		
Service revenue.....		<b>\$53,500</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>\$16,500</b>	
Rent expense.....	<b>10,500</b>	
Advertising expense .....	<b>6,000</b>	
Total expenses .....		<b><u>33,000</u></b>
Net income .....		<b><u>\$20,500</u></b>

(c) The ending owner's equity balance of Kirby Company is \$21,000. By rewriting the accounting equation, we can compute Owner's Equity as Assets minus Liabilities, as follows:

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

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**

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

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

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

### **EXERCISE 1-4**

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

## EXERCISE 1-5

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

## EXERCISE 1-6

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

## EXERCISE 1-7

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

## EXERCISE 1-8

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



## EXERCISE 1-8 (Continued)

6. Owner withdrew \$2,000 cash for personal use.
7. Paid \$650 cash for rent.
8. Collected \$450 cash from customers on account.
9. Paid salaries and wages of \$4,800.
10. Incurred \$400 of utilities expense on account.

(b)	Investment.....	\$15,000
	Service revenue .....	8,500
	Drawings .....	(2,000)
	Rent expense .....	(650)
	Salaries and wages expense .....	(4,800)
	Utilities expense .....	(400)
	Increase in owner's equity .....	<u>\$15,650</u>
(c)	Service revenue .....	\$8,500
	Rent expense .....	(650)
	Salaries and wages expense .....	(4,800)
	Utilities expense .....	(400)
	Net income .....	<u>\$2,650</u>

## EXERCISE 1-9

**ARTHUR COOPER & CO.**  
**Income Statement**  
**For the Month Ended August 31, 2017**

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<b>Revenues</b>		
	Service revenue .....	\$8,500
<b>Expenses</b>		
	Salaries and wages expense .....	\$4,800
	Rent expense .....	650
	Utilities expense .....	<u>400</u>
	Total expenses .....	<u>5,850</u>
	Net income .....	<u>\$2,650</u>

**EXERCISE 1-9 (Continued)**

**ARTHUR COOPER & CO.  
Owner's Equity Statement  
For the Month Ended August 31, 2017**

Owner's capital, August 1 .....		\$ 0
Add: Investments .....	\$15,000	
Net income.....	<u>2,650</u>	<u>17,650</u>
		17,650
Less: Drawings.....		<u>2,000</u>
Owner's capital, August 31 .....		<u><u>\$15,650</u></u>

**ARTHUR COOPER & CO.  
Balance Sheet  
August 31, 2017**

<b>Assets</b>	
Cash .....	\$ 8,350
Accounts receivable.....	3,450
Supplies .....	750
Equipment.....	<u>5,000</u>
Total assets .....	<u><u>\$17,550</u></u>
<b>Liabilities and Owner's Equity</b>	
<b>Liabilities</b>	
Accounts payable .....	\$ 1,900
<b>Owner's equity</b>	
Owner's capital .....	<u>15,650</u>
Total liabilities and owner's equity .....	<u><u>\$17,550</u></u>

**EXERCISE 1-10**

(a) Owner's equity—12/31/16 (\$400,000 – \$250,000) .....	\$150,000
Owner's equity—1/1/16.....	<u>100,000</u>
Increase in owner's equity .....	50,000
Add: Drawings .....	<u>15,000</u>
Net income for 2016.....	<u><u>\$ 65,000</u></u>

### EXERCISE 1-10 (Continued)

(b) Owner's equity—12/31/17 (\$460,000 – \$300,000).....	\$160,000
Owner's equity—1/1/17—see (a).....	<u>150,000</u>
Increase in owner's equity .....	10,000
Less: Additional investment .....	<u>45,000</u>
Net loss for 2017 .....	<u>\$ (35,000)</u>
 (c) Owner's equity—12/31/18 (\$590,000 – \$400,000).....	\$190,000
Owner's equity—1/1/18—see (b).....	<u>160,000</u>
Increase in owner's equity .....	30,000
Less: Additional investment .....	<u>15,000</u>
	15,000
Add: Drawings .....	<u>25,000</u>
Net income for 2018.....	<u>\$ 40,000</u>

### EXERCISE 1-11

(a) Total assets (beginning of year) .....	\$110,000
Total liabilities (beginning of year) .....	<u>85,000</u>
Total owner's equity (beginning of year) .....	<u>\$ 25,000</u>
 (b) Total owner's equity (end of year) .....	\$ 40,000
Total owner's equity (beginning of year) .....	<u>25,000</u>
Increase in owner's equity .....	<u>\$ 15,000</u>
 Total revenues .....	\$220,000
Total expenses.....	<u>175,000</u>
Net income .....	<u>\$ 45,000</u>
 Increase in owner's equity .....	\$ 15,000
Less: Net income .....	<u>\$(45,000)</u>
Add: Drawings .....	<u>37,000</u>
Additional investment .....	<u>(8,000)</u>
	<u>\$ 7,000</u>
 (c) Total assets (beginning of year) .....	\$129,000
Total owner's equity (beginning of year) .....	<u>80,000</u>
Total liabilities (beginning of year) .....	<u>\$ 49,000</u>

## EXERCISE 1-11 (Continued)

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

## EXERCISE 1-12

**ARMANDA CO.**  
**Income Statement**  
**For the Year Ended December 31, 2017**

---

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

**ARMANDA CO.**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2017**

---

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

**EXERCISE 1-13**

**CHENG COMPANY**  
**Balance Sheet**  
**December 31, 2017**

<b>Assets</b>	
Cash .....	<b>\$15,000</b>
Accounts receivable .....	<b>6,500</b>
Supplies .....	<b>8,000</b>
Equipment.....	<b><u>46,000</u></b>
<b>Total assets</b> .....	<b><u>\$75,500</u></b>
<b>Liabilities and Owner's Equity</b>	
<b>Liabilities</b>	
Accounts payable .....	<b>\$21,000</b>
<b>Owner's equity</b>	
Owner's capital (\$67,500 – \$13,000) .....	<b><u>54,500</u></b>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$75,500</u></b>

**EXERCISE 1-14**

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

(b) **CLEAR VIEW PARK**  
**Balance Sheet**  
**December 31, 2017**

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

**EXERCISE 1-14 (Continued)**

**CLEAR VIEW PARK**  
**Balance Sheet (Continued)**  
**December 31, 2017**

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

**EXERCISE 1-15**

**SEA LEGS CRUISE COMPANY**  
**Income Statement**  
**For the Year Ended December 31, 2017**

<b>Revenues</b>	
Ticket revenue.....	\$410,000
<b>Expenses</b>	
Salaries and wages expense.....	\$142,000
Maintenance and repairs expense.....	95,000
Advertising expense.....	24,500
Utilities expense .....	<u>13,000</u>
Total expenses .....	<u>274,500</u>
Net income .....	<u><u>\$135,500</u></u>

**EXERCISE 1-16**

**ALICE HENNING, ATTORNEY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2017**

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

## EXERCISE 1-16 (Continued)

### Supporting Computations

(a)	Assets, January 1, 2017 .....	\$ 96,000
	Liabilities, January 1, 2017.....	<u>62,000</u>
	Capital, January 1, 2017 .....	<u>\$ 34,000</u>
(b)	Legal service revenue .....	\$335,000
	Total expenses.....	<u>211,000</u>
	Net income .....	<u>\$124,000</u>
(c)	Assets, December 31, 2017.....	\$168,000
	Liabilities, December 31, 2017 .....	<u>100,000</u>
	Capital, December 31, 2017.....	<u>\$ 68,000</u>

(a)

SPENGL'S TRAVEL AGENCY

Owner's Equity

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

PROBLEM 1-1A



**PROBLEM 1-1A (Continued)**

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

**PROBLEM 1-2A**

(a)

JUDI SALEM, ATTORNEY AT LAW

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

**PROBLEM 1-2A (Continued)**

**(b)**

**JUDI SALEM, ATTORNEY AT LAW**  
**Income Statement**  
**For the Month Ended August 31, 2017**

---

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

**JUDI SALEM, ATTORNEY AT LAW**  
**Owner's Equity Statement**  
**For the Month Ended August 31, 2017**

---

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

**PROBLEM 1-2A (Continued)**

**JUDI SALEM, ATTORNEY AT LAW**  
**Balance Sheet**  
**August 31, 2017**

---

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

<b>PROBLEM 1-3A</b>
---------------------

(a)

**DIVINE DESIGNS CO.**  
**Income Statement**  
**For the Month Ended June 30, 2017**

<b>Revenues</b>		
Service revenue.....		<b>\$6,500</b>
<b>Expenses</b>		
Rent expense.....	<b>\$1,600</b>	
Advertising expense .....	<b>500</b>	
Gasoline expense.....	<b>200</b>	
Utilities expense.....	<b>150</b>	
Total expenses.....		<u><b>2,450</b></u>
Net income .....		<u><b>\$4,050</b></u>

**DIVINE DESIGNS CO.**  
**Owner's Equity Statement**  
**For the Month Ended June 30, 2017**

Owner's capital, June 1 .....		<b>\$ 0</b>
Add: Investments .....	<b>\$12,000</b>	
Net income .....	<u><b>4,050</b></u>	<u><b>16,050</b></u>
		<b>16,050</b>
Less: Drawings .....		<u><b>1,300</b></u>
Owner's capital, June 30 .....		<u><b>\$14,750</b></u>

**DIVINE DESIGNS CO.**  
**Balance Sheet**  
**June 30, 2017**

<b>Assets</b>	
Cash.....	<b>\$10,150</b>
Accounts receivable .....	<b>2,800</b>
Supplies .....	<b>2,000</b>
Equipment.....	<u><b>10,000</b></u>
Total assets .....	<u><b>\$24,950</b></u>

**PROBLEM 1-3A (Continued)**

**DIVINE DESIGNS CO.**  
**Balance Sheet (Continued)**  
**June 30, 2017**

---

<b>Liabilities and Owner's Equity</b>	
<b>Liabilities</b>	
Notes payable .....	\$ 9,000
Accounts payable .....	<u>1,200</u>
Total liabilities .....	10,200
<b>Owner's equity</b>	
Owner's capital .....	<u>14,750</u>
Total liabilities and owner's equity .....	<u><u>\$24,950</u></u>

**(b)** **DIVINE DESIGNS CO.**  
**Income Statement**  
**For the Month Ended June 30, 2017**

---

<b>Revenues</b>	
Service revenue (\$6,500 + \$900) .....	\$7,400
<b>Expenses</b>	
Rent expense .....	\$1,600
Advertising expense .....	500
Gasoline expense (\$200 + \$150) .....	350
Utilities expense .....	<u>150</u>
Total expenses .....	<u>2,600</u>
Net income .....	<u><u>\$4,800</u></u>

**DIVINE DESIGNS CO.**  
**Owner's Equity Statement**  
**For the Month Ended June 30, 2017**

---

Owner's capital, June 1 .....		\$ 0
Add: Investments .....	\$12,000	
Net income .....	<u>4,800</u>	<u>16,800</u>
		16,800
Less: Drawings .....		<u>1,300</u>
Owner's capital, June 30 .....		<u><u>\$15,500</u></u>

(a)

**MATRIX CONSULTING**

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

**PROBLEM 1-4A (Continued)**

**(b) MATRIX CONSULTING  
Income Statement  
For the Month Ended May 31, 2017**

---

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

**(c) MATRIX CONSULTING  
Balance Sheet  
May 31, 2017**

---

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

**\*(\$7,000 + \$5,600 – \$1,000)**



<b>PROBLEM 1-5A</b>
---------------------

(a)	Alpha Company	Beta Company	Psi Company	Omega Company
	(a) \$ 39,000	(d) \$50,000	(g) \$129,000	(j) \$ 60,000
	(b) 110,000	(e) 40,000	(h) 88,000	(k) 251,000
	(c) 9,000	(f) 33,000	(i) 385,000	(l) 444,000

(b)

**ALPHA COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2017**

Owner's capital, January 1 .....		\$39,000
Add: Investment .....	\$ 9,000	
Net income .....	<u>17,000</u>	<u>26,000</u>
		65,000
Less: Drawings .....		<u>15,000</u>
Owner's capital, December 31 .....		<u><u>\$50,000</u></u>

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

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

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

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

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

## **CC1 (Continued)**

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

**Liabilities: Accounts Payable, Unearned Service Revenue, Notes Payable**

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

**Revenue: Service Revenue**

**Expenses: Advertising Expense, Rent Expense, Utilities Expense**

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

- (a) Apple's total assets at September 28, 2013 were \$207,000 million and at September 29, 2012 were \$176,064 million.
- (b) Apple had \$14,259 million of cash and cash equivalents at September 28, 2013.
- (c) Apple had accounts payable totaling \$22,367 million on September 28, 2013 and \$21,175 million on September 29, 2012.
- (d) Apple reports net sales for three consecutive years as follows:
- |      |                   |
|------|-------------------|
| 2011 | \$108,249 million |
| 2012 | \$156,508 million |
| 2013 | \$170,910 million |
- (e) From 2012 to 2013, Apple's net income decreased \$4,696 million from \$41,733 million to \$37,037 million.

(a)	(in millions)	PepsiCo	Coca-Cola
1.	Total assets	\$77,478	\$90,055
2.	Accounts receivable (net)	\$6,954	\$ 4,873
3.	Net sales	\$66,415	\$46,854
4.	Net income	\$6,787	\$ 8,626

- (b) Coca-Cola's total assets were approximately 16% greater than PepsiCo's total assets, but PepsiCo's net sales were 42% greater than Coca-Cola's net sales. PepsiCo's accounts receivable were 42% greater than Coca-Cola's and represent 10% of its net sales. Coca-Cola's accounts receivable amount to 10% of its net sales. Both PepsiCo's and Coca-Cola's accounts receivable are at satisfactory levels.

Coca-Cola's net income is 27% greater than PepsiCo's. It appears that these two companies' operations are comparable in some ways, with Coca-Cola's operations significantly more profitable.

<b>(a)</b>	<b>(in millions)</b>	<b>Amazon</b>	<b>Wal-Mart</b>
1.	Total assets	\$40,159	\$204,751
2.	Accounts receivable (net)	\$4,767	\$6,677
3.	Net sales	\$60,903	\$473,076
4.	Net income (loss)	\$274	\$16,695

- (b) Wal-Mart's total assets were approximately 510% greater than Amazon's total assets, and Wal-Mart's net sales were over 7 times greater than Amazon's net sales. Wal-Mart's accounts receivable were 140% greater than Amazon's and represent 1% of its net sales. Amazon's accounts receivable amount to approximately 8% of its net sales. Both Amazon's and Wal-Mart's accounts receivable are at satisfactory levels.

It appears that these two companies' operations are comparable in some ways, but Wal-Mart's operations are substantially more profitable.

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

(b) The skills required in these areas:

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

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

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

(d) Some key job options in accounting:

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

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

## **BYP 1-4 (Continued)**

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

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

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

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



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

### CHIP-SHOT DRIVING RANGE

#### Balance Sheet

March 31, 2017

Assets	
Cash.....	\$18,900
Buildings .....	8,000
Equipment.....	<u>800</u>
Total assets .....	<u>\$27,700</u>
Liabilities and Owner's Equity	
Liabilities	
Accounts payable (\$100 + \$120) .....	\$ 220
Owner's equity	
Owner's capital (\$27,700 – \$220).....	<u>27,480</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 \$27,480. The estimate of \$2,480 of net income is the difference between the initial investment of \$25,000 and \$27,480. This was not a valid basis for determining net income because changes in owner's equity between two points in time may have been caused by factors unrelated to net income. For example, there may be drawings and/or additional capital investments by the owner(s).

## BYP 1-5 (Continued)

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

Owner's capital, March 31, per balance sheet .....	\$27,480
Owner's capital, March 1 .....	<u>25,000</u>
Increase in owner's capital .....	2,480
Add: Drawings .....	<u>1,000</u>
Net income .....	<u>\$ 3,480</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, \$120 for a total of \$2,270. Revenues earned, therefore, were \$5,750 (\$2,270 + \$3,480). 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.....	650	
Wages.....	400	
Drawings .....	<u>1,000</u>	<u>11,850</u>
Cash balance before revenues .....		13,150
Cash balance, March 31 .....		<u>18,900</u>
Revenues earned .....		<u>\$ 5,750</u>

**To: Sandi Alcon**  
**From: Student**

**I have received the balance sheet of New York Company as of December 31, 2017. 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, 2017.”**
- 2. Equipment should be shown as an asset and reported below Supplies on the balance sheet.**
- 3. Accounts receivable should be shown as an asset, not a liability, and reported between Cash and Supplies on the balance sheet.**
- 4. Accounts payable should be shown as a liability, not an asset. The note payable is also a liability and should be reported in the liability section.**
- 5. Liabilities and owner’s equity should be shown on the balance sheet. Owner’s capital and Owner’s drawings are not liabilities.**
- 6. Owner’s capital and Owner’s drawings are part of owner’s equity. The drawings account is not reported on the balance sheet but is subtracted from Owner’s capital to arrive at owner’s equity at the end of the period.**

**BYP 1-6 (Continued)**

**A correct balance sheet is as follows:**

**NEW YORK COMPANY**  
**Balance Sheet**  
**December 31, 2017**

---

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

- (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:
- ▶ Travis Chase, 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 Travis 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 Travis deceive both firms or neither firm?
- (c) Each student must answer the question for himself/herself. Would you want to start your first job having deceived your employer before your first day of work? Would you be embarrassed if either firm found out that you double-charged? Would your school be embarrassed if your act was uncovered? Would you be proud to tell your professor that you collected your expenses twice?

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

**No solution necessary**

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



## IFRS EXERCISES

### IFRS1-1

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

### IFRS1-2

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

- (a) Ernst & Young et Autres; Deloitte & Associates**
- (b) 22, avenue Montaigne Paris, France 75008**
- (c) The company reports in Euros.**

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