Chapter 1 (week 1 lecture)

Tutorial questions (E1-4, E1-6, E1-8)

E1–4 Eagle Corp. operates magnetic resonance imaging (MRI) clinics throughout the Northeast. At the end of the current period, the company reports the following amounts: Assets = $50,000; Liabilities = $27,000; Dividends = $3,000; Revenues = $14,000; Expenses = $9,000.

Required:

1. Calculate net income.
2. Calculate stockholders' equity at the end of the period.

E1–6 Below are the account balances for Cowboy Law Firm at the end of December.

Accounts	**Balances**
Cash	$5,400
Salaries expense	2,200
Accounts payable	3,400
Retained earnings	3,900
Utilities expense	1,200
Supplies	13,800
Service revenue	9,300
Common stock	6,000

Required:

Use only the appropriate accounts to prepare an income statement.

E1–8 Wolfpack Construction has the following account balances at the end of the year.

Accounts	**Balances**
Equipment	$26,000
Accounts payable	3,000
Salaries expense	33,000
Common stock	11,000
Land	18,000
Notes payable	20,000
Service revenue	39,000
Cash	6,000
Retained earnings	?

Required:

Use only the appropriate accounts to prepare a balance sheet.

Take-home questions (E1-2, E1-5, E1-20, P1-2A, RWP1-6)

E1–2 Falcon Incorporated has the following transactions with Wildcat Corporation.

Transactions	**Falcon's Related Account**
1. Falcon purchases common stock of Wildcat.	Investment
2. Falcon borrows from Wildcat by signing a note.	Notes payable
3. Falcon provides services to Wildcat.	Service revenue
4. Falcon pays interest to Wildcat on borrowing.	Interest expense

Required:

1. For each transaction, indicate whether Falcon would report the related account in the balance sheet or income statement.
2. For accounts in balance sheet, indicate whether it would be classified as an asset, liability, or stockholders' equity. For accounts in the income statement, indicate whether it would be classified as a revenue or an expense.
3. Indicate whether each transaction is classified as operating, investing, or financing activity.

E1–5 Cougar's Accounting Services provides low-cost tax advice and preparation to those with financial need. At the end of the current period, the company reports the following amounts: Assets = $19,000; Liabilities = $15,000; Revenues = $28,000; Expenses = $33,000.

Required:

1. Calculate net loss.

2. Calculate stockholders' equity at the end of the period.

E1–20 Below are the four underlying assumptions of generally accepted accounting principles.

Assumptions	**Descriptions**
1. Economic entity	a. A common denominator is needed to measure all business activities.
2. Going concern	b. Economic events can be identified with a particular economic body.
3. Periodicity	c. In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely.
4. Monetary unit	d. The economic life of a company can be divided into artificial time intervals for financial reporting.

Required:

Match each business assumption with its description.

P1–2A Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses.

Account Classifications	**Accounts**	**Related Transactions**
1. ________	Common stock	Sale of common stock to investors.
2. ________	Equipment	Equipment used for operations.
3. ________	Salaries payable	Amounts owed to employees.
4. ________	Service revenue	Sales of services to customers.
5. ________	Utilities expense	Cost of utilities.
6. ________	Supplies	Purchase of office supplies.
7. ________	Research and development expense	Cost of research and development.
8. ________	Land	Property used for operations.
9. ________	Income tax payable	Amounts owed to the IRS for taxes.
10. ________	Interest payable	Amount of interest owed on borrowing.

Required:

For each transaction, indicate whether the related account would be classified in the balance sheet as (a) an asset, (b) a liability, or (c) stockholders' equity; in the income statement as (d) a revenue or (e) an expense; or in the statement of stockholders' equity as (f) a dividend.

Ethics

RWP1–6 Suppose an auditor has been paid $1,000,000 each year for the past several years by a company to perform the audit of its annual financial statements. This company is the auditor's largest client. In the current year, the auditor notices that the preliminary income statement excludes certain expenses that typically are shown. When asked, management tells the auditor that these expenses do not reflect the company's true performance, so they will not be shown in this year's income statement. Plus, management informs the auditor that it will be paying $1,200,000 for this year's audit, and managment commits to using the auditor for at least five more years.

Required:

1. Understand the reporting effect: Does the audit arrangement described above have the potential to jeopardize the auditor's opinion of management's decision not to report certain expenses?
2. Specify the options: Are auditors employees of the company who must accept requests of management?
3. Identify the impact: Do investors, creditors, and others rely on the fair presentation of financial statements?
4. Make a decision: Should the auditor accept management's decision not to report the expenses this year?