

# 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>	<u>B Problems</u>
1. Explain what accounting is.	1, 2, 5		1	1		
2. Identify the users and uses of accounting.	3, 4		1	2		
3. Understand why ethics is a fundamental business concept.			2	3		
4. Explain accounting standards and the measurement principles.	6		2	4		
5. Explain the monetary unit assumption and the economic entity assumption.	7, 8, 9, 10		2	4		
6. State the accounting equation, and define its components.	11, 12, 13, 14, 22	1, 2, 3, 4, 5, 8, 9	3	5	1A, 2A, 4A	1B, 2B, 4B
7. Analyze the effects of business transactions on the accounting equation.	15, 16, 18	6, 7	4	6, 7, 8	1A, 2A, 4A, 5A	1B, 2B, 4B, 5B
8. Understand the five financial statements and how they are prepared.	17, 19, 20, 21	10, 11	5	8, 9, 10, 11, 12, 13, 14, 15, 16, 17	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B

## 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, retained earnings statement, and statement of financial position.	Moderate	50–60
3A	Prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
4A	Analyze transactions and prepare financial statements.	Moderate	40–50
5A	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50
1B	Analyze transactions and compute net income.	Moderate	40–50
2B	Analyze transactions and prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
3B	Prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
4B	Analyze transactions and prepare financial statements.	Moderate	40–50
5B	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50

**WEYGANDT FINANCIAL ACCOUNTING, IFRS Version, 3e**  
**CHAPTER 1**  
**ACCOUNTING IN ACTION**

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
BE1	6	AP	Simple	2–4
BE2	6	AP	Simple	3–5
BE3	6	AP	Moderate	4–6
BE4	6	AP	Moderate	4–6
BE5	6	K	Simple	2–4
BE6	7	C	Simple	2–4
BE7	7	C	Simple	2–4
BE8	6	C	Simple	2–4
BE9	6	C	Simple	1–2
BE10	8	AP	Simple	3–5
BE11	8	C	Simple	2–4
DI1	1, 2	K	Simple	2–4
DI2	3, 4, 5	K	Simple	2–4
DI3	6	AP	Simple	6–8
DI4	7	AP	Moderate	8–10
DI5	8	AP	Moderate	10–12
EX1	1	C	Moderate	5–7
EX2	2	C	Simple	6–8
EX3	3	C	Moderate	6–8
EX4	4, 5	C	Moderate	6–8
EX5	6	C	Simple	4–6
EX6	7	C	Simple	6–8
EX7	7	C	Simple	4–6
EX8	7, 8	AP	Moderate	12–15
EX9	8	AP	Simple	12–15
EX10	8	AP	Moderate	8–10
EX11	8	AP	Moderate	6–8
EX12	8	AP	Simple	8–10
EX13	8	AN	Simple	8–10
EX14	8	AP	Simple	10–12
EX15	8	AP	Simple	6–8
EX16	8	AP	Moderate	6–8
EX17	8	AP	Moderate	8–10

## ACCOUNTING IN ACTION (Continued)

Number	LO	BT	Difficulty	Time (min.)
P1A	6, 7	AP	Moderate	40–50
P2A	6–8	AP	Moderate	50–60
P3A	8	AP	Moderate	50–60
P4A	6–8	AP	Moderate	40–50
P5A	7, 8	AP	Moderate	40–50
P1B	6, 7	AP	Moderate	40–50
P2B	6–8	AP	Moderate	50–60
P3B	8	AP	Moderate	50–60
P4B	6–8	AP	Moderate	40–50
P5B	7, 8	AP	Moderate	40–50
BYP1	8	AN	Simple	10–15
BYP2	8	AN, E	Simple	10–15
BYP3	1	C	Simple	15–20
BYP4	8	E	Moderate	15–20
BYP5	8	E	Simple	12–15
BYP6	3	E	Simple	10–12

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

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what accounting is.	DI1-1	Q1-1 Q1-2 Q1-5 E1-1				
2. Identify the users and uses of accounting.	DI1-1	Q1-3 Q1-4 E1-2				
3. Understand why ethics is a fundamental business concept.	DI1-2	E1-3				
4. Explain accounting standards and the measurement principles.	DI1-2	Q1-6 E1-4				
5. Explain the monetary unit assumption and the economic entity assumption.	Q1-7 Q1-8 Q1-9 Q1-10 DI1-2	E1-4				
6. State the accounting equation, and define its components.	Q1-11 Q1-12 Q1-13 BE1-5	Q1-11 Q1-14 BE1-8 BE1-9 E1-5	Q1-22 BE1-1 BE1-2 BE1-3 BE1-4 DI1-3 P1-1A P1-2A P1-4A P1-1B P1-2B P1-4B			
7. Analyze the effects of business transactions on the accounting equation.		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 P1-1B P1-2B P1-4B P1-5B			
8. Understand the five financial statements and how they are prepared.		Q1-17 Q1-19 Q1-20 BE1-11	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 P1-2B P1-3B P1-4B P1-5B	E1-13		
Broadening Your Perspective		Real-World Focus		Financial Reporting Comparative Analysis		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, 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 shares.
  - (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. Jackie Remmers Travel Agency should report the land at £85,000 on its December 31, 2017 statement of financial position. 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 extensively. An important concept that accountants follow is the historical cost principle.
7. The monetary unit assumption requires that only transaction data capable of being 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 Teresa Alvarez would enjoy is that ownership of a corporation is represented by transferable shares. This would allow Teresa to raise money easily by selling a part of her ownership in the company. Another advantage is that because holders of the shares (shareholders) 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  $\text{Assets} = \text{Liabilities} + \text{Equity}$ .
12. (a) Assets are resources owned by a business. Liabilities are claims against assets. Put more simply, liabilities are existing debts and obligations. Equity is the ownership claim on total assets.  
(b) Equity is affected by shareholders' investments, dividends, 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 equation.  
(a) No, the death of the president of the company is not a business transaction as it does not affect the basic equation.  
(b) Yes, supplies purchased on account is a business transaction as it affects the basic equation.  
(c) No, an employee being fired is not a business transaction as it does not affect the basic equation.
16. (a) Decrease assets and decrease equity.  
(b) Increase assets and decrease assets.  
(c) Increase assets and increase equity.  
(d) Decrease assets and decrease liabilities.
17. (a) Income statement. (d) Statement of financial position.  
(b) Statement of financial position. (e) Statement of financial position and retained earnings statement.  
(c) Income statement. (f) Statement of financial position.
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 equity resulting from business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by one of the owners of the business.
19. Yes. Net income does appear on the income statement—it is the result of subtracting expenses from revenues. In addition, net income appears in the retained earnings statement—it is shown as an addition to the beginning-of-period retained earnings. Indirectly, the net income of a company is also included in the statement of financial position. It is included in the Retained Earnings account which appears in the equity section of the statement of financial position.

## Questions Chapter 1 (Continued)

- 20.** (a) Ending equity balance..... £198,000  
Beginning equity balance ..... 158,000  
Net income..... £ 40,000
- (b) Ending equity balance..... £198,000  
Beginning equity balance ..... 158,000  
40,000  
Deduct: Investment..... 13,000  
Net income..... £ 27,000
- 21.** (a) Total revenues (£30,000 + £70,000) ..... £100,000
- (b) Total expenses (£26,000 + £40,000)..... £66,000
- (c) Total revenues ..... £100,000  
Total expenses..... 66,000  
Net income..... £34,000
- 22.** TSMC's accounting equation (in millions of New Taiwan dollars) at December 31, 2013 was  
NT\$1,263,055 = NT\$415,280 + NT\$847,775.



# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 1-1

- (a) ¥88,000 – ¥50,000 = ¥38,000 (Equity).  
 (b) ¥45,000 + ¥70,000 = ¥115,000 (Assets).  
 (c) ¥94,000 – ¥60,000 = ¥34,000 (Liabilities).

## BRIEF EXERCISE 1-2

- (a) £120,000 + £232,000 = £352,000 (Total assets).  
 (b) £190,000 – £80,000 = £110,000 (Total liabilities).  
 (c) £600,000 – 0.5(£600,000) = £300,000 (Equity).

## BRIEF EXERCISE 1-3

- (a) (€870,000 + €150,000) – (€500,000 – €80,000) = €600,000 (Equity).  
 (b) (€500,000 + €100,000) + (€870,000 – €500,000 – €55,000) = €915,000 (Assets).  
 (c) (€870,000 – €80,000) – (€870,000 – €500,000 + €120,000) = €300,000 (Liabilities).

## BRIEF EXERCISE 1-4

	Assets	=	Liabilities	+	Equity		
					Share Capital— Ordinary	Retained Earnings	
						Revenues	Expenses – Dividends
(a)	X	=	£90,000	+	£150,000	+	£450,000 – £320,000 – £40,000
	X	=	£90,000	+	£240,000		
	X	=	<u>£330,000</u>				
(b)	£57,000	=	X	+	£23,000	+	£50,000 – £35,000 – £7,000
	£57,000	=	X	+	£31,000		
	X	=	<u>£26,000</u>				(£57,000 – £31,000)
(c)	£600,000	=	(£600,000 × 2/3) + X				(Equity)
	£600,000	=	£400,000 + X				

X = £200,000  
**BRIEF EXERCISE 1-5**

<u>A</u>	(a)	Accounts receivable	<u>A</u>	(d)	Supplies
<u>L</u>	(b)	Salaries and wages payable	<u>E</u>	(e)	Share Capital—Ordinary
<u>A</u>	(c)	Equipment	<u>L</u>	(f)	Notes payable

**BRIEF EXERCISE 1-6**

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
(a)	+	+	NE
(b)	+	NE	+
(c)	–	NE	–

**BRIEF EXERCISE 1-7**

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
(a)	+	NE	+
(b)	–	NE	–
(c)	NE	NE	NE

**BRIEF EXERCISE 1-8**

<u>E</u>	(a)	Advertising expense	<u>D</u>	(e)	Dividends
<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>NE</u>	(b)	Paid cash to purchase equipment
<u>E</u>	(c)	Paid employee salaries

## BRIEF EXERCISE 1-10

**GRANDE COMPANY**  
**Statement of Financial Position**  
**December 31, 2017**

<b>Assets</b>	
Accounts receivable .....	£ 72,500
Cash .....	<u>44,000</u>
Total assets .....	<u><u>£116,500</u></u>
<b>Equity and Liabilities</b>	
<b>Equity</b>	
Share capital—ordinary .....	£ 31,500
<b>Liabilities</b>	
Accounts payable .....	<u>85,000</u>
Total equity and liabilities .....	<u><u>£116,500</u></u>

## BRIEF EXERCISE 1-11

<u>CI</u>	(a) Other comprehensive income
<u>IS</u>	(b) Advertising expense
<u>FP</u>	(c) Share capital—ordinary
<u>FP</u>	(d) Cash
<u>IS</u>	(e) Service revenue
<u>RE</u>	(f) Dividends

## 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. Managerial accounting provides internal reports to help users make decisions about their companies.
4. True
5. True

## DO IT! 1-2

1. True.
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. Dividends is dividends (D); it decreases equity.
2. Rent Revenue is revenue (R); it increases equity.
3. Advertising Expense is an expense (E); it decreases equity.
4. When shareholders pay cash into the business, they receive shares (I); it increases equity.

## DO IT! 1-4

Assets		=	Liabilities	+	Equity		
Accounts			Accounts		Share	Retained Earnings	
Cash	+ Receivable	=	Payable	+	Capital	+ Revenues	- Expenses - Dividends
(1)	+ R23,000					+ R23,000	
(2)	+R23,000						
	- R23,000						
(3)			+ R1,600				- R1,600
(4)	- R5,000						- R5,000

## DO IT! 1-5

- (a) The total assets are R\$51,500, comprised of Cash R\$9,000, Accounts Receivable R\$13,500, and Equipment R\$29,000.
- (b) Net income is R\$21,700, computed as follows:

<b>Revenues</b>	
Service revenue.....	R\$54,000
<b>Expenses</b>	
Salaries and wages expense.....	R\$16,500
Rent expense.....	9,800
Advertising expense .....	<u>6,000</u>
Total expenses .....	<u>32,300</u>
Net income .....	<u><u>R\$21,700</u></u>

- (c) The ending equity balance of Rivera Company SA is R\$23,500. By rewriting the accounting equation, we can compute Equity as Assets minus Liabilities, as follows:

Total assets [as computed in (a)] .....	R\$51,500
<b>Less: Liabilities</b>	
Notes payable.....	R\$25,000
Accounts payable .....	<u>3,000</u>
Equity .....	<u><u>R\$23,500</u></u>

Note that it is not possible to determine the company's equity in any other way, because the beginning balance for 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 monetary units.
- 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  
Labor unions  
Securities regulator  
Suppliers  
Taxing agency

- ### (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**

**Leon Manternach, president of Manternach SE, instructed Carla Ruden, the head of the accounting department, to report the company's land in their 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. Although we have an accounting system that permits various measurement approaches cost should be used whenever there are questions regarding the reliability of a fair value. In this case, valuation of land is too subjective and therefore the cost principle should be used.**

**The stakeholders include shareholders and creditors of Manternach, potential shareholders and creditors, other users of Manternach accounting reports, Leon Manternach, and Carla Ruden. All users of Manternach's accounting reports could be harmed by relying on information that is misleading. Leon Manternach could benefit if the company is able to attract more investors, but would be harmed if the misleading reporting is discovered. Similarly, Carla Ruden could benefit by pleasing her boss, but would be harmed if the misleading reporting is discovered.**

**In general, even though IFRS allows companies to revalue property, plant, and equipment and other long-held assets to fair value, most companies choose to use cost. Only in situations where assets are actually traded, such as investment securities, do companies apply the fair value principle extensively.**

**Carla'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 because Leon thinks it is "probably worth" that amount and it would mislead many people who rely on Manternach's accounting reports to make financial decisions. Carla should report the land at its cost of €100,000. She should try to convince Leon Manternach that this is the appropriate course of action, but be prepared to resign her position if Manternach insists.**

## EXERCISE 1-4

1. Correct. The *fair value principle* allows companies to revalue property, plant and equipment to fair value. However, most companies choose not to instead, due to reliability concerns about valuation, and negative effects on net income, most companies report property, plant and equipment at 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

Asset	Liability	Equity
Cash	Accounts payable	Share Capital—
Equipment	Notes payable	Ordinary
Supplies	Salaries and wages payable	
Accounts receivable		

## EXERCISE 1-6

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



## EXERCISE 1-7

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

## EXERCISE 1-8

- (a)
- Shareholders invested £15,000 cash in the business.
  - Purchased equipment for £5,000, paying £2,000 in cash and the balance of £3,000 on account.
  - Paid £750 cash for supplies.
  - Earned £9,100 in revenue, receiving £4,600 cash and £4,500 on account.
  - Paid £1,500 cash on accounts payable.
  - Paid £2,000 cash dividends to shareholders.
  - Paid £650 cash for rent.
  - Collected £450 cash from clients on account.
  - Paid salaries and wages of £3,900.
  - Incurred £500 of utilities expense on account.

(b)	Investment.....	£15,000
	Service revenue .....	9,100
	Dividends .....	(2,000)
	Rent expense .....	(650)
	Salaries and wages expense .....	(3,900)
	Utilities expense .....	<u>(500)</u>
	Increase in equity .....	<u>£17,050</u>

(c)	Service revenue .....	£9,100
	Rent expense .....	(650)
	Salaries and wages expense .....	(3,900)
	Utilities expense .....	<u>(500)</u>
	Net income .....	<u>£4,050</u>

**EXERCISE 1-9**

**J. L. KANG & CO. Ltd.**  
**Income Statement**  
**For the Month Ended August 31, 2017**

<b>Revenues</b>		
Service revenue .....		<b>£9,100</b>
<b>Expenses</b>		
Salaries and wages expense.....	<b>£3,900</b>	
Rent expense .....	<b>650</b>	
Utilities expense .....	<b>500</b>	
Total expenses .....		<b><u>5,050</u></b>
Net income .....		<b><u>£4,050</u></b>

**J. L. KANG & CO. Ltd.**  
**Retained Earnings Statement**  
**For the Month Ended August 31, 2017**

Retained earnings, August 1 .....	<b>£ 0</b>
Add: Net income.....	<b><u>4,050</u></b>
	<b>4,050</b>
Less: Dividends.....	<b><u>2,000</u></b>
Retained earnings, August 31.....	<b><u>£ 2,050</u></b>

**J.L. KANG & CO. Ltd.**  
**Statement of Financial Position**  
**August 31, 2017**

<b>Assets</b>		
Equipment.....		<b>£ 5,000</b>
Supplies .....		<b>750</b>
Accounts receivable.....		<b>4,050</b>
Cash .....		<b><u>9,250</u></b>
Total assets .....		<b><u>£19,050</u></b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary.....	<b>£15,000</b>	
Retained earnings.....	<b><u>2,050</u></b>	<b>£17,050</b>
<b>Liabilities</b>		
Accounts payable .....		<b><u>2,000</u></b>
Total equity and liabilities .....		<b><u>£19,050</u></b>

## EXERCISE 1-10

(a) Equity—12/31/16 (₺400,000 – ₺260,000) .....	₺140,000
Equity—1/1/16 .....	<u>100,000</u>
Increase in equity .....	40,000
Add: Dividends .....	<u>15,000</u>
Net income for 2016.....	<u>₺ 55,000</u>
 (b) Equity—12/31/17 (₺480,000 – ₺300,000) .....	₺180,000
Equity—1/1/17—see (a) .....	<u>140,000</u>
Increase in equity .....	40,000
Less: Additional investment .....	<u>50,000</u>
Net loss for 2017 .....	<u>₺(10,000)</u>
 (c) Equity—12/31/18 (₺590,000 – ₺400,000) .....	₺190,000
Equity—1/1/18—see (b) .....	<u>180,000</u>
Increase in equity .....	10,000
Less: Additional investment .....	<u>15,000</u>
	(5,000)
Add: Dividends .....	<u>30,000</u>
Net income for 2018.....	<u>₺ 25,000</u>

## EXERCISE 1-11

(a) Total assets (beginning of year) .....	£ 97,000
Total liabilities (beginning of year) .....	<u>63,000</u>
Total equity (beginning of year).....	<u>£ 34,000</u>
 (b) Total equity (end of year) .....	£ 60,000
Total equity (beginning of year).....	<u>34,000</u>
Increase in equity .....	<u>£ 26,000</u>
 Total revenues .....	£215,000
Total expenses.....	<u>155,000</u>
Net income .....	<u>£ 60,000</u>
 Increase in equity .....	£ 26,000
Less: Net income .....	<u>£(60,000)</u>
Add: Dividends .....	<u>44,000</u>
Additional investment .....	<u>£ 10,000</u>

## EXERCISE 1-11 (Continued)

(c)	Total assets (beginning of year) .....	£129,000
	Total shareholders' equity (beginning of year).....	<u>75,000</u>
	Total liabilities (beginning of year) .....	<u>£ 54,000</u>
(d)	Total equity (end of year) .....	£130,000
	Total equity (beginning of year).....	<u>75,000</u>
	Increase in equity.....	<u>£ 55,000</u>
	Total revenues .....	£100,000
	Total expenses.....	<u>55,000</u>
	Net income .....	<u>£ 45,000</u>
	Increase in equity.....	£ 55,000
	Less: Net income .....	£(45,000)
	Additional investment .....	<u>(25,000)</u>
		<u>(70,000)</u>
	Dividends .....	<u>£ 15,000</u>

## EXERCISE 1-12

(a) **KAREN WEIGEL CO. LTD.**  
**Income Statement**  
**For the Year Ended December 31, 2017**

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<b>Revenues</b>		
Service revenue .....		£62,500
<b>Expenses</b>		
Salaries and wages expense.....	£28,000	
Rent expense .....	10,400	
Utilities expense .....	3,100	
Advertising expense.....	<u>1,800</u>	
Total expenses .....		<u>43,300</u>
Net income .....		<u>£19,200</u>

## EXERCISE 1-12 (Continued)

(b)

**KAREN WEIGEL CO. LTD.**  
**Comprehensive Income Statement**  
**For the Year Ended December 31, 2017**

Net income.....	£19,200
Other comprehensive income .....	<u>400</u>
Comprehensive income.....	<u>£19,600</u>

(c)

**KAREN WEIGEL CO. LTD.**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2017**

Retained earnings, January 1.....	£48,000
Add: Net income .....	<u>19,200</u>
	67,200
Less: Dividends.....	<u>5,000</u>
Retained earnings, December 31 .....	<u>£62,200</u>

## EXERCISE 1-13

**SANCULI COMPANY SpA**  
**Statement of Financial Position**  
**December 31, 2017**

Assets		
Equipment.....		€48,000
Supplies .....		8,000
Accounts receivable .....		8,500
Cash .....		<u>14,000</u>
Total assets.....		<u>€78,500</u>
Equity and Liabilities		
Equity		
Share capital—ordinary.....	€50,000	
Retained earnings (€17,500 – €5,000).....	<u>12,500</u>	€62,500
Liabilities		
Accounts payable .....		<u>16,000</u>
Total equity and liabilities .....		<u>€78,500</u>

## EXERCISE 1-14

(a)	Camping fee revenues.....	£140,000
	General store revenues .....	<u>47,000</u>
	Total revenue.....	187,000
	Expenses.....	<u>150,000</u>
	Net income .....	<u>£ 37,000</u>

(b)

**BEAR PARK, LTD.**  
**Statement of Financial Position**  
**December 31, 2017**

<b>Assets</b>		
Equipment .....		£105,500
Supplies.....		2,500
Cash.....		<u>20,000</u>
Total assets .....		<u>£128,000</u>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary .....	£20,000	
Retained earnings .....	<u>37,000</u>	
Total equity .....		£ 57,000
<b>Liabilities</b>		
Notes payable.....	60,000	
Accounts payable.....	<u>11,000</u>	
Total liabilities.....		<u>71,000</u>
Total equity and liabilities.....		<u>£128,000</u>

**EXERCISE 1-15**

**DELGADO CRUISE COMPANY SA**  
**Income Statement**  
**For the Year Ended December 31, 2017**

<b>Revenues</b>	
Ticket revenue .....	R\$342,000
<b>Expenses</b>	
Salaries and wages expense .....	R\$144,000
Maintenance and repairs expense.....	97,000
Utilities expense .....	10,000
Advertising expense.....	<u>3,500</u>
Total expenses .....	<u>254,500</u>
Net income.....	<u>R\$ 87,500</u>

**DELGADO CRUISE COMPANY SA**  
**Comprehensive Income Statement**  
**For the Year Ended December 31, 2017**

Net income.....	R\$87,500
Other comprehensive income .....	<u>4,200</u>
Comprehensive income.....	<u>R\$91,700</u>

**EXERCISE 1-16**

**WILLIAMS AND DOUGLAS, ATTORNEYS AT LAW, LTD.**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2017**

Retained earnings, January 1.....	£ 23,000
Add: Net income .....	<u>129,000*</u>
	152,000
Less: Dividends.....	<u>64,000</u>
Retained earnings, December 31 .....	<u>£ 88,000</u>
*Legal service revenue .....	£340,000
Total expenses .....	<u>211,000</u>
Net income.....	<u>£129,000</u>

**EXERCISE 1-17**

**JAVA COMPANY, LTD**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**  
**(Amounts in thousands)**

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<b>Cash flows from operating activities</b>		
Cash receipts from revenues .....		<b>R<sub>p</sub>600,000</b>
Cash payments for expenses .....		<b><u>(430,000)</u></b>
Net cash provided by operating activities		<b>170,000</b>
<b>Cash flows from investing activities</b>		
Purchase of equipment .....		<b>(95,000)</b>
<b>Cash flows from financing activities.....</b>		
Sale of ordinary shares .....	<b>R<sub>p</sub>280,000</b>	
Payment of cash dividends.....	<b><u>(20,000)</u></b>	<b><u>260,000</u></b>
Net increase in cash.....		<b>335,000</b>
Cash at the beginning of the period.....		<b><u>28,000</u></b>
Cash at the end of the period .....		<b><u><u>R<sub>p</sub>363,000</u></u></b>



(a)

KINNEY'S REPAIR LTD.

							Equity			
	Cash	Accounts Receivable	Supplies	Equipment	=	Accounts Payable	Share Capital	Retained Earnings		
								Revenues	Expenses	Dividends
1.	<u>+£10,000</u>						<u>+£10,000</u>	+		
	10,000				=		10,000			
2.	<u>-5,000</u>			<u>+£5,000</u>						
	5,000			+ 5,000	=		+ 10,000	+		
3.	<u>-400</u>								<u>-£400</u>	
	4,600			+ 5,000	=		+ 10,000	+	-400	
4.	<u>-700</u>		<u>+£700</u>							
	3,900		+ 700	+ 5,000	=		+ 10,000	+	-400	
5.						<u>+£250</u>			<u>-250</u>	
	3,900		+ 700	+ 5,000	=	250	+ 10,000	+	-650	
6.	<u>+4,700</u>							<u>+£4,700</u>		
	8,600		+ 700	+ 5,000	=	250	+ 10,000	+ 4,700	-650	
7.	<u>-1,000</u>									<u>-£1,000</u>
	7,600		+ 700	+ 5,000	=	250	+ 10,000	+ 4,700	-650	-1,000
8.	<u>-1,000</u>								<u>-1,000</u>	
	6,600		+ 700	+ 5,000	=	250	+ 10,000	+ 4,700	-1,650	-1,000
9.	<u>-160</u>								<u>-160</u>	
	6,440		+ 700	+ 5,000	=	250	+ 10,000	+ 4,700	-1,810	-1,000
10.		<u>+£980</u>						<u>+980</u>		
	6,440	+ 980	+ 700	+ 5,000	=	250	+ 10,000	+ 5,680	-1,810	-1,000
11.	<u>+120</u>	<u>-120</u>								
	<u>£ 6,560</u>	<u>+ £860</u>	<u>+ £700</u>	<u>+ £5,000</u>	=	<u>£250</u>	<u>+ £10,000</u>	<u>+ £5,680</u>	<u>- £1,810</u>	<u>- £1,000</u>
	£13,120					£13,120				

(a)

(b)

(c)

(d)

(e)

(f)

(g)

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

**Key to Retained Earnings Column**

- (a) Rent expense
- (b) Advertising expense
- (c) Service revenue
- (d) Dividends
- (e) Salaries and wages expense
- (f) Utilities expense
- (g) Service revenue

(b) Service revenue (£4,700 + £980) .....			£5,680
Expenses			
Salaries and wages .....	£1,000		
Rent .....	400		
Advertising .....	250		
Utilities .....	<u>160</u>		<u>1,810</u>
Net income .....			<u><u>£3,870</u></u>

(a)

## DONAHUE VETERINARY CLINIC LTD.

	Cash	Accounts Receivable	Supplies	Equipment	=	Notes Payable	Accounts Payable	Share Capital	Retained Earnings	Revenues	- Expenses	- Dividends
Bal.	£ 9,000	+ £1,700	+ £600	+ £ 6,000	=		£3,600	+ £13,000	+ £700			
1.	<u>-2,900</u>						<u>-2,900</u>					
	6,100	+ 1,700	+ 600	+ 6,000	=		700	+ 13,000	+ 700			
2.	<u>+1,300</u>	<u>-1,300</u>										
	7,400	+ 400	+ 600	+ 6,000	=		700	+ 13,000	+ 700			
3.	<u>-800</u>			<u>+2,100</u>			<u>+1,300</u>					
	6,600	+ 400	+ 600	+ 8,100	=		2,000	+ 13,000	+ 700			
4.	<u>+2,500</u>	<u>+4,800</u>								<u>+£7,300</u>		
	9,100	+ 5,200	+ 600	+ 8,100	=		2,000	+ 13,000	+ 700	7,300		
5.	<u>-400</u>											<u>-£400</u>
	8,700	+ 5,200	+ 600	+ 8,100	=		2,000	+ 13,000	+ 700	7,300		-400
											-£1,700	
											-900	
6.	<u>-2,800</u>										<u>-200</u>	
	5,900	+ 5,200	+ 600	+ 8,100	=		2,000	+ 13,000	+ 700	7,300	-2,800	-400
7.							<u>+170</u>				<u>-170</u>	
	5,900	+ 5,200	+ 600	+ 8,100	=		2,170	+ 13,000	+ 700	7,300	-2,970	-400
8.	<u>+10,000</u>					<u>+£10,000</u>						
	<u>£15,900</u>	<u>+ £5,200</u>	<u>+ £600</u>	<u>+ £ 8,100</u>	=	<u>£10,000</u>	<u>+ £2,170</u>	<u>+ £13,000</u>	<u>+ £700</u>	<u>+ £7,300</u>	<u>= £ 2,970</u>	<u>£400</u>
	£29,800					£29,800						

PROBLEM 1-2A

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

**(b) DONAHUE VETERINARY CLINIC LTD.  
Income Statement  
For the Month Ended September 30, 2017**

---

<b>Revenues</b>		
Service revenue.....		<b>£7,300</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>£1,700</b>	
Rent expense .....	<b>900</b>	
Advertising expense .....	<b>200</b>	
Utilities expense .....	<b>170</b>	
Total expenses.....		<b><u>2,970</u></b>
Net income .....		<b><u>\$4,330</u></b>

**DONAHUE VETERINARY CLINIC LTD.  
Retained Earnings Statement  
For the Month Ended September 30, 2017**

---

Retained earnings, September 1.....	<b>£ 700</b>
Add: Net income .....	<b><u>4,330</u></b>
	<b>5,030</b>
Less: Dividends .....	<b><u>400</u></b>
Retained earnings, September 30.....	<b><u>£4,630</u></b>

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

**DONAHUE VETERINARY CLINIC LTD.  
Statement of Financial Position  
September 30, 2017**

<b>Assets</b>		
Equipment.....		£ 8,100
Supplies .....		600
Accounts receivable.....		5,200
Cash.....		<u>15,900</u>
<b>Total assets .....</b>		<b><u>£29,800</u></b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary .....	£13,000	
Retained earnings .....	<u>4,630</u>	
<b>Total equity .....</b>		<b>£17,630</b>
<b>Liabilities</b>		
Notes payable.....	10,000	
Accounts payable .....	<u>2,170</u>	
<b>Total liabilities.....</b>		<b><u>12,170</u></b>
<b>Total equity and liabilities .....</b>		<b><u>£29,800</u></b>

**PROBLEM 1-3A**

**(a) PARK FLYING SCHOOL LTD.**  
**Income Statement (in thousands)**  
**For the Month Ended May 31, 2017**

<b>Revenues</b>		
Service revenue.....		<del>₩</del> 6,800
<b>Expenses</b>		
Gasoline expense.....	<del>₩</del> 2,500	
Rent expense.....	1,000	
Advertising expense .....	500	
Utilities expense.....	400	
Maintenance and repairs expense .....	<u>400</u>	
Total expenses.....		<u>4,800</u>
Net income .....		<u><del>₩</del> 2,000</u>

**PARK FLYING SCHOOL LTD.**  
**Retained Earnings Statement (in thousands)**  
**For the Month Ended May 31, 2017**

Retained Earnings, May 1.....	<del>₩</del> 0
Add: Net income.....	<u>2,000</u>
	2,000
Less: Dividends .....	<u>480</u>
Retained earnings, May 31 .....	<u><del>₩</del> 1,520</u>

**PARK FLYING SCHOOL LTD.**  
**Statement of Financial Position (in thousands)**  
**May 31, 2017**

<b>Assets</b>	
Equipment .....	<del>₩</del> 64,000
Accounts receivable .....	7,420
Cash.....	<u>4,500</u>
Total assets .....	<u><del>₩</del> 75,920</u>

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

**PARK FLYING SCHOOL LTD.  
Statement of Financial Position (Continued)  
May 31, 2017**

<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary .....	<del>W</del> 45,000	
Retained earnings .....	<u>1,520</u>	
Total equity .....		<del>W</del> 46,520
<b>Liabilities</b> .....		
Notes payable .....	<del>W</del> 28,000	
Accounts payable .....	<u>1,400</u>	
Total liabilities .....		<u>29,400</u>
Total equity and liabilities .....		<u><u><del>W</del>75,920</u></u>

(b) **PARK FLYING SCHOOL LTD.  
Income Statement (in thousands)  
For the Month Ended May 31, 2017**

<b>Revenues</b>		
Service revenue ( <del>W</del> 6,800 + <del>W</del> 900) .....		<del>W</del> 7,700
<b>Expenses</b>		
Gasoline expense ( <del>W</del> 2,500 + <del>W</del> 1,500) .....	<del>W</del> 4,000	
Rent expense .....	1,000	
Advertising expense .....	500	
Utilities expense .....	400	
Maintenance and repairs expense .....	<u>400</u>	
Total expenses .....		<u>6,300</u>
Net income .....		<u><u><del>W</del>1,400</u></u>

**PARK FLYING SCHOOL LTD.  
Retained Earnings Statement (in thousands)  
For the Month Ended May 31, 2017**

Retained Earnings, May 1 .....	<del>W</del> 0
Add: Net income .....	<u>1,400</u>
	1,400
Less: Dividends .....	<u>480</u>
Retained Earnings, May 31 .....	<u><u><del>W</del> 920</u></u>

(a)

## STINER DELIVERIES LTD.

Assets					=	Liabilities		+	Equity										
	Accounts					Notes	Accounts		Share	Retained Earnings									
Date	Cash	+ Receivable	+ Supplies	+ Equipment	=	Payable	+ Payable	+	Capital	+ Revenues	- Expenses	- Dividends							
June 1	£10,000								+£10,000										
June 2	<u>-2,000</u>			+£14,000		+£12,000													
	8,000	+		14,000	=	12,000	+		10,000										
June 3	<u>-500</u>										-£ 500	(a)							
	7,500	+		14,000	=	12,000	+		10,000		-500								
June 5		+£4,800								+ £4,800		(b)							
	7,500	+	4,800	+	14,000	=	12,000	+	10,000	+	4,800	-500							
June 9	<u>-300</u>											-£300 (c)							
	7,200	+	4,800	+	14,000	=	12,000	+	10,000	+	4,800	-500 - -300							
June 12			+£150				+£150												
	7,200	+	4,800	+	150	+	14,000	=	12,000	+	150	+	10,000	+	4,800	-	-500	-	-300
June 15	<u>+1,250</u>	<u>-1,250</u>																	
	8,450	+	3,550	+	150	+	14,000	=	12,000	+	150	+	10,000	+	4,800	-	-500	-	-300
June 17							+100					-100	(d)						
	8,450	+	3,550	+	150	+	14,000	=	12,000	+	250	+	10,000	+	4,800	-	-600	-	-300
June 20	<u>+1,500</u>										+ 1,500	(e)							
	9,950	+	3,550	+	150	+	14,000	=	12,000	+	250	+	10,000	+	6,300	-	-600	-	-300
June 23	<u>-500</u>						-500												
	9,450	+	3,550	+	150	+	14,000	=	11,500	+	250	+	10,000	+	6,300	-	-600	-	-300
June 26	<u>-250</u>											-250	(f)						
	9,200	+	3,550	+	150	+	14,000	=	11,500	+	250	+	10,000	+	6,300	-	-850	-	-300
June 29	<u>-100</u>						-100												
	9,100	+	3,550	+	150	+	14,000	=	11,500	+	150	+	10,000	+	6,300	-	-850	-	-300
June 30	<u>-1,000</u>											-1,000	(g)						
	<u>£ 8,100</u>	+	<u>£3,550</u>	+	<u>£150</u>	+	<u>£14,000</u>	=	<u>£ 11,500</u>	+	<u>£150</u>	+	<u>£10,000</u>	+	<u>£6,300</u>	-	<u>£1,850</u>	-	<u>£300</u>
£25,800					£25,800														

PROBLEM 1-4A



## PROBLEM 1-4A (Continued)

### Key to Retained Earnings Column

- |                      |                                |
|----------------------|--------------------------------|
| (a) Rent expense     | (e) Service revenue            |
| (b) Service revenue  | (f) Utilities expense          |
| (c) Dividends        | (g) Salaries and wages expense |
| (d) Gasoline expense |                                |

(b) **STINER DELIVERIES LTD.**  
**Income Statement**  
**For the Month Ended June 30, 2017**

<b>Revenues</b>		
Service revenue (£4,800 + £1,500).....		<b>£6,300</b>
<b>Expenses</b>		
Salaries and wages expense.....	<b>£1,000</b>	
Rent expense.....	<b>500</b>	
Utilities expense.....	<b>250</b>	
Gasoline expense.....	<b>100</b>	
Total expenses.....		<b><u>1,850</u></b>
Net income .....		<b><u>£4,450</u></b>

(c) **STINER DELIVERIES LTD.**  
**Statement of Financial Position**  
**June 30, 2017**

<b>Assets</b>		
Equipment.....		<b>£14,000</b>
Supplies .....		<b>150</b>
Accounts receivable.....		<b>3,550</b>
Cash.....		<b><u>8,100</u></b>
Total assets .....		<b><u>£25,800</u></b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary.....	<b>£10,000</b>	
Retained earnings (£4,450 – £300).....	<b><u>4,150</u></b>	
Total equity .....		<b>£14,150</b>
<b>Liabilities</b>		
Notes payable.....	<b>11,500</b>	
Accounts payable .....	<b><u>150</u></b>	
Total liabilities.....		<b><u>11,650</u></b>
Total equity and liabilities .....		<b><u>£25,800</u></b>

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

(a)	Crosby Company	Stills Company	Nash Company	Young Company
	(a) \$250,000	(d) \$600,000	(g) \$1,200,000	(j) \$ 500,000
	(b) 950,000	(e) 620,000	(h) 700,000	(k) 2,200,000
	(c) 50,000	(f) 380,000	(i) 4,310,000	(l) 4,650,000

(b)

**STILLS COMPANY**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2017**

Retained earnings, January 1.....	HK\$200,000
Add: Net income .....	<u>350,000</u>
	550,000
Less: Dividends .....	<u>380,000</u>
Retained earnings, December 31.....	<u><u>HK\$170,000</u></u>

- (c) The sequence of preparing financial statements is income statement, retained earnings statement, and statement of financial position. The interrelationship of the retained earnings statement to the other financial statements results from the fact that net income from the income statement is reported in the retained earnings statement and ending retained earnings reported in the retained earnings statement is the amount reported for retained earnings on the statement of financial position.

(a)

## HOLIDAY TRAVEL AGENCY LTD.

							Equity				
	Cash	Accounts			=	Accounts Payable	Share Capital	Retained Earnings			
		+ Receivable	+ Supplies	+ Equipment				+ Revenues	- Expenses		- Dividends
1.	<u>+€12,000</u>						<u>+€12,000</u>				
	12,000				=		12,000				
2.	<u>-400</u>								- € 400		(a)
	11,600				=		12,000		- 400		
3.	<u>-5,500</u>			<u>+€5,500</u>							
	6,100			+ 5,500	=		12,000		- 400		
4.						<u>+€300</u>			- 300		(b)
	6,100			+ 5,500	=	300	+		- 700		
5.	<u>-600</u>		<u>+€600</u>								
	5,500		+ 600	+ 5,500	=	300	+ 12,000		- 700		
6.	<u>+2,000</u>	<u>+€6,500</u>						+ €8,500			(c)
	7,500	+ 6,500	+ 600	+ 5,500	=	300	+ 12,000	+ 8,500	- 700		
7.	<u>-200</u>									- €200	(d)
	7,300	+ 6,500	+ 600	+ 5,500	=	300	+ 12,000	+ 8,500	- 700	- 200	
8.	<u>-300</u>					<u>-300</u>					
	7,000	+ 6,500	+ 600	+ 5,500	=	0	+ 12,000	+ 8,500	- 700	- 200	
9.	<u>-2,200</u>								- 2,200		(e)
	4,800	+ 6,500	+ 600	+ 5,500	=		12,000	+ 8,500	- 2,900	- 200	
10.	<u>+5,700</u>	<u>-5,700</u>									
	<u>€10,500</u>	+ <u>€800</u>	+ <u>€600</u>	+ <u>€5,500</u>	=	<u>€ 0</u>	+ <u>€12,000</u>	+ <u>€8,500</u>	- <u>€2,900</u>	- <u>€200</u>	

**PROBLEM 1-1B (Continued)**

**Key to Retained Earnings Column**

- (a) Rent Expense

(b) Advertising Expense

(c) Service Revenue
- (d) Dividends

(e) Salaries and Wages Expense

(b) Service revenue .....		€8,500
Expenses		
Salaries and wages .....	€2,200	
Rent .....	400	
Advertising .....	<u>300</u>	<u>2,900</u>
Net income .....		<u>€5,600</u>

**PROBLEM 1-2B**

**(a)**

**MANDY ARNOLD, ATTORNEY AT LAW LTD.**

	Accounts						Notes	Accounts		Share	Retained										
	Cash	+	Receivable	+	Supplies	+	Equipment	=	Payable	+	Payable	+	Capital	+	Earnings	+	Revenues	-	Expenses	-	Dividends
Bal.	£4,000	+	£1,500	+	£500	+	£5,000	=			£4,200	+	£6,000	+	£ 800						
1.	<u>+1,400</u>		<u>-1,400</u>																		
	5,400	+	100	+	500	+	5,000	=			4,200	+	6,000	+	800						
2.	<u>-2,700</u>										<u>-2,700</u>										
	2,700	+	100	+	500	+	5,000	=			1,500	+	6,000	+	800						
3.	<u>+3,000</u>		<u>+4,900</u>														<u>+£7,900</u>				
	5,700	+	5,000	+	500	+	5,000	=			1,500	+	6,000	+	800	+	7,900				
4.	<u>-400</u>						<u>+1,000</u>				<u>+600</u>										
	5,300	+	5,000	+	500	+	6,000	=			2,100	+	6,000	+	800	+	7,900				
5.	<u>-4,250</u>																		-£3,000		
																			-900		
																			<u>-350</u>		
	1,050	+	5,000	+	500	+	6,000	=			2,100	+	6,000	+	800	+	7,900	-	4,250		
6.	<u>-450</u>																				<u>-£450</u>
	600	+	5,000	+	500	+	6,000	=			2,100	+	6,000	+	800	+	7,900	-	4,250	-	450
7.	<u>+2,000</u>								<u>+£2,000</u>												
	2,600	+	5,000	+	500	+	6,000	=	2,000	+	2,100	+	6,000	+	800	+	7,900	-	4,250	-	450
8.	<u>          </u>		<u>          </u>		<u>          </u>		<u>          </u>		<u>          </u>		<u>+210</u>	+	<u>          </u>		<u>          </u>		<u>          </u>		<u>-210</u>		<u>          </u>
	<u>£2,600</u>	+	<u>£5,000</u>	+	<u>£500</u>	+	<u>£6,000</u>	=	<u>£2,000</u>	+	<u>£2,310</u>		<u>£6,000</u>	+	<u>£ 800</u>	+	<u>£7,900</u>	-	<u>£4,460</u>	-	<u>£450</u>
					<u>£14,100</u>																
												<u>£14,100</u>									

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

**(b) MANDY ARNOLD, ATTORNEY AT LAW LTD.  
Income Statement  
For the Month Ended August 31, 2017**

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<b>Revenues</b>		
Service revenue.....		<b>£7,900</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>£3,000</b>	
Rent expense .....	<b>900</b>	
Advertising expense .....	<b>350</b>	
Utilities expense .....	<b>210</b>	
Total expenses.....		<b><u>4,460</u></b>
Net income .....		<b><u>£3,440</u></b>

**MANDY ARNOLD, ATTORNEY AT LAW LTD.  
Retained Earnings Statement  
For the Month Ended August 31, 2017**

---

Retained earnings, August 1.....	<b>£ 800</b>
Add: Net income .....	<b><u>3,440</u></b>
	<b>4,240</b>
Less: Dividends .....	<b><u>450</u></b>
Retained earnings, August 31.....	<b><u>£3,790</u></b>

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

**MANDY ARNOLD, ATTORNEY AT LAW LTD.  
Statement of Financial Position  
August 31, 2017**

<b>Assets</b>		
Equipment.....		£ 6,000
Supplies .....		500
Accounts receivable.....		5,000
Cash.....		<u>2,600</u>
<b>Total assets .....</b>		<b><u>£14,100</u></b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary .....	£6,000	
Retained earnings .....	<u>3,790</u>	
<b>Total equity .....</b>		<b>£9,790</b>
<b>Liabilities</b>		
Notes payable.....	2,000	
Accounts payable .....	<u>2,310</u>	
<b>Total liabilities.....</b>		<b><u>4,310</u></b>
<b>Total equity and liabilities .....</b>		<b><u>£14,100</u></b>

<b>PROBLEM 1-3B</b>
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(a) **ANGELIC COSMETICS CO. LTD.**  
**Income Statement (in thousands)**  
**For the Month Ended June 30, 2017**

<b>Revenues</b>		
Service revenue.....		<b>¥5,500</b>
<b>Expenses</b>		
Rent expense.....	<b>¥1,800</b>	
Gasoline expense.....	<b>600</b>	
Advertising expense .....	<b>500</b>	
Utilities expense.....	<b>400</b>	
Total expenses.....		<b><u>3,300</u></b>
Net income .....		<b><u>¥2,200</u></b>

**ANGELIC COSMETICS CO. LTD.**  
**Retained Earnings Statement (in thousands)**  
**For the Month Ended June 30, 2017**

Retained Earnings, June 1 .....	<b>¥ 0</b>
Add: Net income .....	<b><u>2,200</u></b>
	<b>2,200</b>
Less: Dividends .....	<b><u>900</u></b>
Retained Earnings, June 30 .....	<b><u>¥1,300</u></b>

**ANGELIC COSMETICS CO. LTD.**  
**Statement of Financial Position**  
**June 30, 2017**

<b>Assets</b>	
Equipment .....	<b>¥25,000</b>
Supplies.....	<b>2,000</b>
Accounts receivable .....	<b>4,000</b>
Cash.....	<b><u>10,000</u></b>
Total assets .....	<b><u>¥41,000</u></b>



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

**ANGELIC COSMETICS CO. LTD**  
**Statement of Financial Position (Continued)**  
**June 30, 2017**

<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary .....	¥25,000	
Retained earnings .....	<u>1,300</u>	
Total equity .....		¥26,300
<b>Liabilities</b>		
Notes payable.....	13,000	
Accounts payable .....	<u>1,700</u>	
Total liabilities.....		<u>14,700</u>
Total equity and liabilities .....		<u>¥41,000</u>

(b) **ANGELIC COSMETICS CO. LTD.**  
**Income Statement (in thousands)**  
**For the Month Ended June 30, 2017**

<b>Revenues</b>		
Service revenue (¥5,500 + ¥800) .....		¥6,300
<b>Expenses</b>		
Rent expense.....	¥1,800	
Gasoline expense (¥600 + ¥100) .....	700	
Advertising expense .....	500	
Utilities expense.....	<u>400</u>	
Total expenses.....		<u>3,400</u>
Net income .....		<u>¥2,900</u>

**ANGELIC COSMETICS CO. LTD.**  
**Retained Earnings Statement (in thousands)**  
**For the Month Ended June 30, 2017**

Retained earnings, June 1 .....	¥ 0
Add: Net income.....	<u>2,900</u>
	2,900
Less: Dividends .....	<u>900</u>
Retained earnings, June 30 .....	<u>¥2,000</u>

(a)

## PAULIS CONSULTING LTD.

Assets					=	Liabilities		+	Equity								
Accounts						Notes	Accounts		Share	Retained Earnings							
Date	Cash	+ Receivable	+ Supplies	+ Equipment	=	Payable	+ Payable	+	Capital	+ Revenues	- Expenses	- Dividends					
May 1	<u>+£ 8,000</u>								<u>+£8,000</u>								
	8,000				=				8,000								
May 2	<u>-800</u>										<u>-£ 800</u>						
	7,200				=				8,000	+	- 800						
May 3			<u>+£500</u>				<u>+£ 500</u>										
	7,200	+	500		=		500	+	8,000	+	800						
May 5	<u>-50</u>										<u>-50</u>						
	7,150	+	500		=		500	+	8,000		- 850						
May 9	<u>+3,000</u>									<u>+£3,000</u>							
	10,150	+	500		=		500	+	8,000	+	3,000	- 850					
May 12	<u>-700</u>											<u>-£700</u>					
	9,450	+	500		=		500	+	8,000	+	3,000	- 850 - 700					
May 15		<u>+£3,300</u>								<u>+3,300</u>							
	9,450	+	3,300	+	500	=	500	+	8,000	+	6,300	- 850 - 700					
May 17	<u>-2,100</u>										<u>-2,100</u>						
	7,350	+	3,300	+	500	=	500	+	8,000	+	6,300	- 2,950 - 700					
May 20	<u>-500</u>						<u>-500</u>										
	6,850	+	3,300	+	500	=	-0-	+	8,000	+	6,300	- 2,950 - 700					
May 23	<u>+2,000</u>	<u>-2,000</u>															
	8,850	+	1,300	+	500	=	-0-	+	8,000	+	6,300	- 2,950 - 700					
May 26	<u>+5,000</u>					<u>+£5,000</u>											
	13,850	+	1,300	+	500	=	5,000	+	8,000	+	6,300	- 2,950 - 700					
May 29				<u>+£2,300</u>			<u>+2,300</u>										
	13,850	+	1,300	+	500	+	2,300	+	8,000	+	6,300	- 2,950 - 700					
May 30	<u>-150</u>										<u>-150</u>						
	<u>£13,700</u>	+	<u>£ 1,300</u>	+	<u>£500</u>	=	<u>£5,000</u>	+	<u>£2,300</u>	+	<u>£8,000</u>	+	<u>£6,300</u>	-	<u>£3,100</u>	-	<u>£700</u>
	£17,800					£17,800											

PROBLEM 1-4B

## PROBLEM 1-4B (Continued)

### Key to Retained Earnings Column

- |                         |                                |
|-------------------------|--------------------------------|
| (a) Rent Expense        | (e) Service Revenue            |
| (b) Advertising Expense | (f) Salaries and Wages Expense |
| (c) Service Revenue     | (g) Utilities Expense          |
| (d) Dividends           |                                |

(b) **PAULIS CONSULTING LTD.**  
**Income Statement**  
**For the Month Ended May 31, 2017**

<b>Revenues</b>		
Service revenue (£3,000 + £3,300).....		<b>£6,300</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>£2,100</b>	
Rent expense.....	<b>800</b>	
Utilities expense.....	<b>150</b>	
Advertising expense .....	<b>50</b>	
Total expenses.....		<b><u>3,100</u></b>
Net income .....		<b><u>£3,200</u></b>

(c) **PAULIS CONSULTING LTD.**  
**Statement of Financial Position**  
**May 31, 2017**

<b>Assets</b>		
Equipment.....		<b>£ 2,300</b>
Supplies .....		<b>500</b>
Accounts receivable.....		<b>1,300</b>
Cash.....		<b><u>13,700</u></b>
Total assets .....		<b><u>£17,800</u></b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary .....	<b>£8,000</b>	
Retained earnings (\$3,200 – \$700) .....	<b><u>2,500</u></b>	
Total equity .....		<b>£10,500</b>
<b>Liabilities</b>		
Notes payable.....	<b>5,000</b>	
Accounts payable .....	<b><u>2,300</u></b>	
Total liabilities.....		<b><u>7,300</u></b>
Total equity and liabilities.....		<b><u>£17,800</u></b>

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

(a)	John Company	Paul Company	George Company	Ringo Company
(a)	£28,000	(d) £40,000	(g) £129,000	(j) £ 40,000
(b)	95,000	(e) 38,000	(h) 80,000	(k) 225,000
(c)	4,000	(f) 10,000	(i) 408,000	(l) 460,000

(b)

**JOHN COMPANY**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2017**

Retained earnings, January 1 .....	£ 0
Add: Net income .....	<u>15,000</u>
	15,000
Less: Dividends .....	<u>7,000</u>
Retained earnings December 31.....	<u><u>£ 8,000</u></u>

- (c) The sequence of preparing financial statements is income statement, retained earnings statement, and statement of financial position. The interrelationship of the retained earnings statement to the other financial statements results from the fact that net income from the income statement is reported in the retained earnings statement and ending retained earnings reported in the retained earnings statement is the amount reported for retained earnings on the statement of financial position.

- (a) Mei-ling 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. Mei-ling 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 Mei-ling choose the corporate form of business organization. If she expands the business after graduation, she can raise additional capital by issuing more shares. In addition, she limits her liability to her investment in the business. If she decides to transfer ownership to another student, she can do so without dissolving the corporation.

- (b) Yes, Mei-ling 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. Mei-ling 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.

## **MC1 (Continued)**

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

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

**Equity: Share Capital—Ordinary, Retained Earnings, Dividends**

**Revenue: Service Revenue**

**Expenses: Advertising Expense, Supplies Expense, Utilities Expense, Insurance Expense**

**(d) Mei-ling 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 Mei-ling and must be accounted for separately.**

- (a) TSMC's total assets at December 31, 2013 were NT\$ 1,263,054.9 million and at December 31, 2012 were NT\$ 961,354.5 million.**
- (b) TSMC had NT\$ 242,695.4 million of cash and cash equivalents at December 31, 2013.**
- (c) TSMC had accounts payable totaling NT\$ 14,670.3 million on December 31, 2013 and NT\$ 14,490.4 million on December 31, 2012.**
- (d) TSMC reports revenues for 2012 of NT\$ 506,745.2 million and for 2013 of NT\$ 597,024.2 million.**
- (e) From 2012 to 2013, TSMC's net income increased NT\$ 21,895.1 million from NT\$ 166,123.8 million to NT\$ 188,018.9 million.**

(a)		Nestlé (in millions)	Petra Foods (in thousands)
1. Total assets		CHF 120,442	US\$465,896
2. Accounts (trade) receivable (net)		CHF 12,206	US\$ 76,742
3. Net sales		CHF 92,158	US\$508,800
4. Net income (profit)		CHF 10,015	US\$ 20,555
(b)		Nestlé	Petra Foods
Receivables as a percentage of total assets.		10.13%	16.47%
Net income as a percentage of sales (revenue).		10.87%	4.04%



(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:

**Auditing:** Work in auditing 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. Auditing 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 a great background!

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

## **BYP 1-3 (Continued)**

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

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

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

**(e) Junior Staff Accountant                      \$46,000 – \$63,000**

- (a) The estimate of the £4,900 loss was based on the difference between the £20,000 invested in the driving range and the bank balance of £15,100 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 statement of financial position at March 31 is as follows:

**CHIP-SHOT DRIVING RANGE COMPANY LTD.  
Statement of Financial Position  
March 31, 2017**

<b>Assets</b>		
Building .....		£ 6,000
Equipment .....		800
Cash .....		<u>15,100</u>
Total assets .....		<u><u>£21,900</u></u>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary .....	£20,000	
Retained earnings .....	<u>1,650</u>	£21,650
<b>Liabilities</b>		
Accounts payable (£150 + £100) .....		<u>250</u>
Total equity and liabilities .....		<u><u>£21,900</u></u>

As shown in the statement of financial position, the equity at March 31 is £21,650. The estimate of £1,650 of net income is the difference between the initial investment of £20,000 and £21,650. This was not a valid basis for determining net income because changes in equity between two points in time may have been caused by factors unrelated to net income. For example, there may be dividends and/or additional capital investments by the shareholders.

## BYP 1-4 (Continued)

- (c) Actual net income for March can be determined by adding dividends to the change in equity during the month as shown below:

Equity, March 31, per statement of financial position.....	£21,650
Equity, March 1 .....	<u>(20,000)</u>
Increase in equity.....	1,650
Add: Dividends.....	<u>800</u>
Net income .....	<u>£ 2,450</u>

Alternatively, net income can be found by determining the revenues earned [described in (d) below] and subtracting expenses.

- (d) Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, £1,000; Salaries and Wages, £400; Advertising, £750; and Utilities, £100 for a total of £2,250. Revenues earned, therefore, were £4,700 (£2,250 + £2,450). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:

Beginning cash balance .....	£20,000
Less: Cash payments	
Caddy shack .....	£6,000
Golf balls and clubs.....	800
Rent .....	1,000
Advertising.....	600
Salaries and wages.....	400
Dividends .....	<u>800</u>
	9,600
Cash balance before revenues .....	10,400
Cash balance, March 31 .....	<u>15,100</u>
Revenues earned .....	<u>£ 4,700</u>

**To: Erin Danielle**  
**From: Student**

**I have received the statement of financial position of Liverpool Company Ltd. as of December 31, 2017. A number of items in this statement of financial position are not properly reported. They are:**

- 1. The statement of financial position should be dated as of a specific date, not for a period of time. Therefore, it should be dated “December 31, 2017.”**
- 2. Cash should be reported after Supplies on the statement of financial position.**
- 3. Accounts receivable should be shown as an asset, not a liability, and reported between Cash and Supplies on the statement of financial position.**
- 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 equity should be shown on the statement of financial position. Share capital—ordinary is not a liability.**
- 6. Share capital—ordinary and retained earnings are part of equity.**

## BYP 1-5 (Continued)

A correct statement of financial position is as follows:

**LIVERPOOL COMPANY LTD.**  
**Statement of Financial Position**  
**December 31, 2017**

---

<b>Assets</b>		
Equipment.....		<b>£22,500</b>
Supplies .....		<b>2,000</b>
Accounts receivable.....		<b>6,000</b>
Cash .....		<b><u>9,000</u></b>
<b>Total assets.....</b>		<b><u>£39,500</u></b>
 <b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital—ordinary.....	<b>£23,000</b>	
Retained earnings.....	<b><u>(2,000)</u></b>	
<b>Total liabilities .....</b>		<b>£21,000</b>
<b>Liabilities</b>		
Notes payable .....	<b>10,500</b>	
Accounts payable .....	<b><u>8,000</u></b>	
<b>Total liabilities .....</b>		<b><u>18,500</u></b>
<b>Total equity and liabilities.....</b>		<b><u>£39,500</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:
- ▶ Jeff Hunter, 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 Jeff 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 Jeff 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?

## **GAAP EXERCISES**

### **GAAP 1-1**

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.

### **GAAP 1-2**

Accounting standards have developed in different ways because the standard setters have responded to different user needs. In some countries, the primary users of financial statements are private investors; in others the primary users are taxing authorities or central government planners.

### **GAAP 1-3**

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.

### **GAAP 1-4**

Currently the internal control standards applicable to Sarbanes-Oxley (SOX) apply only to large public companies listed on U.S. exchanges. If such standards were adopted by non-U.S. companies, users of statements would benefit from more uniform regulation and U.S. companies would be competing on a more “even” playing field. The disadvantage of adopting SOX would be the additional cost associated with its required internal control measures.



- (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.