PRACTICE MULTIPLE-CHOICE QUESTIONS

**1-1.** (LO 1)

Which of the following is **not**a step in the accounting process?

(a) Identification.

(b) Economic entity.

(c) Recording.

(d) Communication.

**Answer**

(b) Economic entity.

**1-2.** (LO 2)

Which of the following statements about users of accounting information is **incorrect**?

(a) Management is an internal user.

(b) Taxing authorities are external users.

(c) Present creditors are external users.

(d) Regulatory authorities are internal users.

**Answer**

(d) Regulatory authorities are internal users.

**1-3.** (LO 4)

The historical cost principle states that:

(a) assets should be initially recorded at cost and adjusted when the fair value changes.

(b) activities of an entity are to be kept separate and distinct from its owner.

(c) assets should be recorded at their cost.

(d) only transaction data capable of being expressed in terms of money be included in the accounting records.

**Answer**

(c) assets should be recorded at their cost.

**1-4.** (LO 5)

Which of the following statements about basic assumptions is **correct**?

(a) Basic assumptions are the same as accounting principles.

(b) The economic entity assumption states that there should be a particular unit of accountability.

(c) The monetary unit assumption enables accounting to measure employee morale.

(d) Partnerships are not economic entities.

**Answer**

(b) The economic entity assumption states that there should be a particular unit of accountability.

**1-5.** (LO 5)

The three types of business entities are:

(a) proprietorships, small businesses, and partnerships.

(b) proprietorships, partnerships, and corporations.

(c) proprietorships, partnerships, and large businesses.

(d) financial, manufacturing, and service companies.

**Answer**

(b) proprietorships, partnerships, and corporations.

**1-6.** (LO 6)

Net income will result during a time period when:

(a) assets exceed liabilities.

(b) assets exceed revenues.

(c) expenses exceed revenues.

(d) revenues exceed expenses.

**Answer**

(d) revenues exceed expenses.

**1-7.** (LO 7)

As of December 31, 2017, Stoneland AG has assets of €3,500 and equity of €2,000. What are the liabilities for Stoneland AG as of December 31, 2017?

(a) €1,500.

(b) €1,000.

(c) €2,500.

(d) €2,000.

**Answer**

(a) €1,500.

**1-8.** (LO 7)

Performing services on account will have the following effects on the components of the basic accounting equation:

(a) increase assets and decrease equity.

(b) increase assets and increase equity.

(c) increase assets and increase liabilities.

(d) increase liabilities and increase equity.

**Answer**

(b) increase assets and increase equity.

**1-9.** (LO 7)

Which of the following events is **not**recorded in the accounting records?

(a) Equipment is purchased on account.

(b) An employee is terminated.

(c) A cash investment is made into the business.

(d) The company pays a cash dividend.

**Answer**

(b) An employee is terminated.

**1-10.** (LO 7)

During 2017, Gibson Company's assets decreased $50,000 and its liabilities decreased $90,000. Its equity therefore:

(a) increased $40,000.

(b) decreased $140,000.

(c) decreased $40,000.

(d) increased $140,000.

**Answer**

(a) increased $40,000. ($90,000 − $50,000)

**1-11.** (LO 7)

Payment of an account payable affects the components of the accounting equation in the following way:

(a) decreases equity and decreases liabilities.

(b) increases assets and decreases liabilities.

(c) decreases assets and increases equity.

(d) decreases assets and decreases liabilities.

**Answer**

(d) decreases assets and decreases liabilities.

**1-12.** (LO 8)

Which of the following statements is **false**?

(a) A statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

(b) A statement of financial position reports the assets, liabilities, and equity at a specific date.

(c) An income statement presents the revenues, expenses, changes in equity, and resulting net income or net loss for a specific period of time.

(d) A retained earnings statement summarizes the changes in retained earnings for a specific period of time.

**Answer**

(c) An income statement presents the revenues, expenses, changes in equity, and resulting net income or net loss for a specific period of time.

**1-13.** (LO 8)

On the last day of the period, Jim Otto Company buys a $900 machine on credit. This transaction will affect the:

(a) income statement only.

(b) statement of financial position only.

(c) income statement and retained earnings statement only.

(d) income statement, retained earnings statement, and statement of financial position.

**Answer**

(b) statement of financial position only.

**1-14.** (LO 8)

The financial statement that reports assets, liabilities, and equity is the:

(a) income statement.

(b) retained earnings statement.

(c) statement of financial position.

(d) statement of cash flows.

**Answer**

(c) statement of financial position.

**\*1-15.** (LO 9)

Services provided by a public accountant include:

(a) auditing, taxation, and management consulting.

(b) auditing, budgeting, and management consulting.

(c) auditing, budgeting, and cost accounting.

(d) internal auditing, budgeting, and management consulting.

**Answer**

(a) auditing, taxation, and management consulting.

QUESTIONS

**1-1.** “Accounting is ingrained in our society and it is vital to our economic system.” Do you agree? Explain.

**1-2.** Identify and describe the steps in the accounting process.

**1-3.** (a) Who are internal users of accounting data?

(b) How does accounting provide relevant data to these users?

**1-4.** What uses of financial accounting information are made by (a) investors and (b) creditors?

**1-5.** “Bookkeeping and accounting are the same.” Do you agree? Explain.

**1-6.** Jackie Remmers Travel Agency purchased land for £85,000 cash on December 10, 2017. At December 31, 2017, the land's value has increased to £93,000. What amount should be reported for land on Jackie Remmers' statement of financial position at December 31, 2017? Explain.

**1-7.** What is the monetary unit assumption?

**1-8.** What is the economic entity assumption?

**1-9.** What are the three basic forms of profit-oriented business organizations?

**1-10.** Teresa Alvarez is the owner of a successful printing shop. Recently, her business has been increasing, and Teresa has been thinking about changing the organization of her business from a proprietorship to a corporation. Discuss some of the advantages Teresa would enjoy if she were to incorporate her business.

**1-11.** What is the basic accounting equation?

**1-12.** (a) Define the terms assets, liabilities, and equity.

(b) What items affect equity?

**1-13.** Which of the following items are liabilities of Designer Jewelry Stores?

(a) Cash.

(b) Accounts payable.

(c) Dividends.

(d) Accounts receivable.

(e) Supplies.

(f) Equipment.

(g) Salaries and wages payable.

(h) Service revenue.

(i) Rent expense.

**1-14.** Can a business enter into a transaction in which only the left side of the basic accounting equation is affected? If so, give an example.

**1-15.** Are the following events recorded in the accounting records? Explain your answer in each case.

(a) The president of the company dies.

(b) Supplies are purchased on account.

(c) An employee is fired.

**1-16.** Indicate how the following business transactions affect the basic accounting equation.

(a) Paid cash for janitorial services.

(b) Purchased equipment for cash.

(c) Received cash in exchange for ordinary shares.

(d) Paid accounts payable in full.

**1-17.** Listed below are some items found in the financial statements of Alex Greenway Co. Indicate in which financial statement(s) the following items would appear.

(a) Service revenue.

(b) Equipment.

(c) Advertising expense.

(d) Accounts receivable.

(e) Retained earnings.

(f) Salaries and wages payable.

**1-18.** In February 2017, Paula Klink invested an additional £10,000 in Midtown plc. Midtown's accountant, Jon Shin, recorded this receipt as an increase in cash and revenues. Is this treatment appropriate? Why or why not?

**1-19.** “A company's net income appears directly on the income statement and the retained earnings statement, and it is included indirectly in the company's statement of financial position.” Do you agree? Explain.

**1-20.** Jardine plc had an equity balance of £158,000 at the beginning of the period. At the end of the accounting period, the equity balance was £198,000.

(a) Assuming no additional investment or distributions during the period, what is the net income for the period?

(b) Assuming an additional investment of £13,000 but no distributions during the period, what is the net income for the period?

**1-21.** Summarized operations for H. J. Oslo Co. plc for the month of July are as follows.

Revenues earned: for cash £30,000; on account £70,000.

Expenses incurred: for cash £26,000; on account £40,000.

Indicate for H. J. Oslo Co. plc (a) the total revenues, (b) the total expenses, and (c) net income for the month of July.

**1-22.** The basic accounting equation is Assets = Liabilities + Equity. Replacing the words in that equation with numeric amounts, what is TSMC's accounting equation at December 31, 2013?

BRIEF EXERCISES

**BE1-1.** *Use basic accounting equation*.

(LO 6)

Presented below is the basic accounting equation (in thousands). Determine the missing amounts.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liabilities** | **+** | **Equity** |
|  |  |  |  |  |  |
| (a) | ¥88,000 |  | ¥50,000 |  | ? |
| (b) | ? |  | ¥45,000 |  | ¥70,000 |
| (c) | ¥94,000 |  | ? |  | ¥60,000 |

**BE1-2.** *Use basic accounting equation*.

(LO 6)

Given the accounting equation, answer each of the following questions.

(a) The liabilities of Shumway Company Ltd. are £120,000 and the equity is £232,000. What is the amount of Shumway Company Ltd.'s total assets?

(b) The total assets of Shumway Company Ltd. are £190,000 and its equity is £80,000. What is the amount of its total liabilities?

(c) The total assets of Shumway Company Ltd. are £600,000 and its liabilities are equal to one half of its total assets. What is the amount of Shumway Company Ltd.'s equity?

**BE1-3.** *Use basic accounting equation*.

(LO 6)

At the beginning of the year, Gonzales Company SLU had total assets of €870,000 and total liabilities of €500,000. Answer the following questions.

(a) If total assets increased €150,000 during the year and total liabilities decreased €80,000, what is the amount of equity at the end of the year?

(b) During the year, total liabilities increased €100,000 and equity decreased €55,000. What is the amount of total assets at the end of the year?

(c) If total assets decreased €80,000 and equity increased €120,000 during the year, what is the amount of total liabilities at the end of the year?

**BE1-4.** *Solve accounting equation*.

(LO 6)

Use the accounting equation to answer each of the following questions.

(a) The liabilities of Alli Company Ltd. are £90,000. Share capital—ordinary is £150,000; dividends are £40,000; revenues, £450,000; and expenses, £320,000. What is the amount of Alli Company Ltd.'s total assets?

(b) The total assets of Planke Company Ltd. are £57,000. Share capital—ordinary is £23,000; dividends are £7,000; revenues, £50,000; and expenses, £35,000. What is the amount of the company's total liabilities?

(c) The total assets of Thao Co. Ltd. are £600,000 and its liabilities are equal to two-thirds of its total assets. What is the amount of Thao Co. Ltd.'s equity?

**BE1-5.** *Identify assets, liabilities, and equity*.

(LO 6)

Indicate whether each of the following items is an asset (A), liability (L), or part of equity (E).

\_\_\_\_\_\_\_\_ (a) Accounts receivable

\_\_\_\_\_\_\_\_ (b) Salaries and wages payable

\_\_\_\_\_\_\_\_ (c) Equipment

\_\_\_\_\_\_\_\_ (d) Supplies

\_\_\_\_\_\_\_\_ (e) Share capital—ordinary

\_\_\_\_\_\_\_\_ (f) Notes payable

**BE1-6.** *Determine effect of transactions on basic accounting equation*.

(LO 7)

Presented below are three business transactions. On a sheet of paper, list the letters (a), (b), and (c) with columns for assets, liabilities, and equity. For each column, indicate whether the transactions increased (＋), decreased (－), or had no effect (NE) on assets, liabilities, and equity.

(a) Purchased supplies on account.

(b) Received cash for providing a service.

(c) Paid expenses in cash.

**BE1-7.** *Determine effect of transactions on accounting equation*.

(LO 7)

Follow the same format as BE1-6 above. Determine the effect on assets, liabilities, and equity of the following three transactions.

(a) Shareholders invested cash in the business for ordinary shares.

(b) Paid a cash dividend.

(c) Received cash from a customer who had previously been billed for services provided.

**BE1-8.** *Classify items affecting equity*.

(LO 6)

Classify each of the following items as dividends (D), revenue (R), or expense (E).

\_\_\_\_\_\_\_\_ (a) Advertising expense

\_\_\_\_\_\_\_\_ (b) Service revenue

\_\_\_\_\_\_\_\_ (c) Insurance expense

\_\_\_\_\_\_\_\_ (d) Salaries and wages expense

\_\_\_\_\_\_\_\_ (e) Dividends

\_\_\_\_\_\_\_\_ (f) Rent revenue

\_\_\_\_\_\_\_\_ (g) Utilities expense

**BE1-9.** *Determine effect of transactions on equity*.

(LO 6)

Presented below are three transactions. Mark each transaction as affecting share capital—ordinary (SC), dividends (D), revenue (R), expense (E), or not affecting equity (NE).

\_\_\_\_\_\_\_\_ (a) Received cash for services performed.

\_\_\_\_\_\_\_\_ (b) Paid cash to purchase equipment.

\_\_\_\_\_\_\_\_ (c) Paid employee salaries.

**BE1-10.** *Prepare a statement of financial position*.

(LO 8)

In alphabetical order below are statement of financial position items for Grande Company Ltd. at December 31, 2017. Kit Grande is the owner of Grande Company Ltd. Prepare a statement of financial position, following the format of Illustration 1-11.

|  |  |
| --- | --- |
| Accounts payable | £85,000 |
| Accounts receivable | £72,500 |
| Cash | £44,000 |
| Share capital—ordinary | £31,500 |

**BE1-11.** *Determine where items appear on financial statements*.

(LO 8)

Indicate whether the following items would appear on the income statement (IS), statement of financial position (FP), or retained earnings statement (RE).

\_\_\_\_\_\_\_\_ (a) Notes payable

\_\_\_\_\_\_\_\_ (b) Advertising expense

\_\_\_\_\_\_\_\_ (c) Share capital—ordinary

\_\_\_\_\_\_\_\_ (d) Cash

\_\_\_\_\_\_\_\_ (e) Service revenue

\_\_\_\_\_\_\_\_ (f) Dividends

**DO IT! REVIEW**

**DO IT! 1-1.** *Review basic concepts*.

(LO 1, 2)

Indicate whether each of the five statements presented below is true or false. If false, indicate how to correct the statement.

1. The three steps in the accounting process are identification, recording, and examination.

2. The accounting process includes the bookkeeping function.

3. Managerial accounting provides reports to help investors and creditors evaluate a company.

4. The two most common types of external users are investors and creditors.

5. Internal users include human resources managers.

**DO IT! 1-2.** *Review basic concepts*.

(LO 3, 4, 5)

Indicate whether each of the five statements presented below is true or false. If false, indicate how to correct the statement.

1. IFRSs are issued by the IASB.

2. The standards of conduct by which actions are judged as loyal or disloyal are ethics.

3. The primary accounting standard-setting body in the United States is the Securities and Exchange Commission (SEC).

4. The historical cost principle dictates that companies record assets at their cost and continue to report them at their cost over the time the asset is held.

5. The monetary unit assumption requires that companies record only transactions that can be measured in money terms.

**DO IT! 1-3.** *Evaluate effects of transactions on equity*.

(LO 6)

Classify the following items as issuance of shares (I), dividends (D), revenues (R), or expenses (E). Then indicate whether each item increases or decreases equity.

1. Dividends

2. Rent revenue

3. Advertising expense

4. Shareholders invest cash in the business

**DO IT! 1-4.** *Prepare tabular analysis*.

(LO 7)

Transactions made by Callahan and Co. Ltd., a law firm, for the month of March are shown below. Prepare a tabular analysis which shows the effects of these transactions on the accounting equation, similar to that shown in Illustration 1-10.

1. The company provided R23,000 of services for customers, on credit.

2. The company received R23,000 in cash from customers who had been billed for services (in transaction 1).

3. The company received a bill for R1,600 of advertising but will not pay it until a later date.

4. The company paid a dividend of R5,000 in cash to shareholders.

**DO IT! 1-5.** *Calculate effects of transactions on financial statement items*.

(LO 8)

Presented below is selected information related to Rivera Company SA at December 31, 2017. Rivera reports financial information monthly.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounts Payable | R$ 3,000 |  | Salaries and Wages Expense | R$16,500 |
| Cash | 9,000 |  | Notes Payable | 25,000 |
| Advertising Expense | 6,000 |  | Rent Expense | 9,800 |
| Service Revenue | 54,000 |  | Accounts Receivable | 13,500 |
| Equipment | 29,000 |  | Dividends | 7,500 |

(a) Determine the total assets of Rivera Company SA at December 31, 2017.

(b) Determine the net income that Rivera Company SA reported for December 2017.

(c) Determine the equity of Rivera Company SA at December 31, 2017.

EXERCISES

**E1-1.** *Classify the three activities of accounting*.

(LO 1)

Sondgeroth NV performs the following accounting tasks during the year.

\_\_\_\_\_\_\_\_ Analyzing and interpreting information.

\_\_\_\_\_\_\_\_ Classifying economic events.

\_\_\_\_\_\_\_\_ Explaining uses, meaning, and limitations of data.

\_\_\_\_\_\_\_\_ Keeping a systematic chronological diary of events.

\_\_\_\_\_\_\_\_ Measuring events in monetary units.

\_\_\_\_\_\_\_\_ Preparing accounting reports.

\_\_\_\_\_\_\_\_ Reporting information in a standard format.

\_\_\_\_\_\_\_\_ Selecting economic activities relevant to the company.

\_\_\_\_\_\_\_\_ Summarizing economic events.

Accounting is “an information system that **identifies**, **records**, and **communicates** the economic events of an organization to interested users.”

***Instructions***

Categorize the accounting tasks performed by Sondgeroth NV as relating to either the identification (I), recording (R), or communication (C) aspects of accounting.

**E1-2.** *Identify users of accounting information*.

(LO 2)

(a) The following are users of financial statements.

\_\_\_\_\_\_\_\_ Customers

\_\_\_\_\_\_\_\_ Labor unions

\_\_\_\_\_\_\_\_ Marketing manager

\_\_\_\_\_\_\_\_ Production supervisor

\_\_\_\_\_\_\_\_ Securities regulator

\_\_\_\_\_\_\_\_ Store manager

\_\_\_\_\_\_\_\_ Suppliers

\_\_\_\_\_\_\_\_ Taxing agency

\_\_\_\_\_\_\_\_ Vice president of finance

***Instructions***

Identify the users as being either **external users** (E) or **internal users** (I).

(b) The following questions could be asked by an internal user or an external user.

\_\_\_\_\_\_\_\_ Can we afford to give our employees a pay raise?

\_\_\_\_\_\_\_\_ Did the company earn a satisfactory income?

\_\_\_\_\_\_\_\_ Do we need to borrow in the near future?

\_\_\_\_\_\_\_\_ How does the company's profitability compare to other companies?

\_\_\_\_\_\_\_\_ What does it cost us to manufacture each unit produced?

\_\_\_\_\_\_\_\_ Which product should we emphasize?

\_\_\_\_\_\_\_\_ Will the company be able to pay its short-term debts?

***Instructions***

Identify each of the questions as being more likely asked by an **internal user** (I) or an **external user** (E).

**E1-3.** *Discuss ethics and the historical cost principle*.

(LO 3)

Leon Manternach, president of Manternach SE, has instructed Carla Ruden, the head of the accounting department for Manternach SE, to report the company's recently acquired land in the company's accounting reports at its fair value of €170,000 instead of its cost of €100,000. Manternach says, “I think we got a real deal on the purchase. It is probably worth €170,000. Showing the land at €170,000 will make our company look like a better investment when we try to attract new investors next month.”

***Instructions***

Explain the ethical situation involved for Carla Ruden, identifying the stakeholders and the alternatives.

**E1-4.** *Use accounting concepts*.

(LO 4, 5)

The following situations involve accounting principles and assumptions.

1. Julia Company A/S owns buildings that are worth substantially more than they originally cost. In an effort to provide more relevant information, Julia reports the buildings at fair value in its accounting reports.

2. Dekalb Company AG includes in its accounting records only transaction data that can be expressed in terms of money.

3. Omar Shariff, president of Omar's Oasis SJSC, records his personal living costs as expenses of the Oasis.

***Instructions***

For each of the three situations, state if the accounting method used is correct or incorrect. If correct, identify which standard or assumption supports the method used. If incorrect, identify which standard or assumption has been violated.

**E1-5.** *Classify accounts as assets, liabilities, and equity*.

(LO 6)

Robinson Cleaners has the following statement of financial position items.

|  |  |
| --- | --- |
| Accounts payable | Accounts receivable |
| Cash | Notes payable |
| Equipment | Salaries and wages payable |
| Supplies | Share capital—ordinary |

***Instructions***

Classify each item as an asset, liability, or equity.

**E1-6.** *Analyze the effect of transactions*.

(LO 7)

Selected transactions for Spring Cruises ASA are listed below.

1. Sold ordinary shares for cash to start business.

2. Paid monthly rent.

3. Purchased equipment on account.

4. Billed customers for services performed.

5. Paid dividends.

6. Received cash from customers billed in (4).

7. Incurred advertising expense on account.

8. Purchased additional equipment for cash.

9. Received cash from customers when service was performed.

***Instructions***

List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and equity. For example, the first answer is (1) Increase in assets and increase in equity.

**E1-7.** *Analyze the effect of transactions on assets, liabilities, and equity*.

(LO 7)

Collins Computer Timeshare Company SA entered into the following transactions during May 2017.

1. Purchased computer terminals for R$20,000 from Digital Equipment on account.

2. Paid R$3,000 cash for May rent on storage space.

3. Received R$14,000 cash from customers for contracts billed in April.

4. Performed computer services to Schmidt Construction Company for R$2,400 cash.

5. Paid Central States Power Co. R$11,000 cash for energy usage in May.

6. Shareholders invested an additional R$32,000 in the business.

7. Paid Digital Equipment for the terminals purchased in (1) above.

8. Incurred advertising expense for May of R$1,100 on account.

***Instructions***

Indicate with the appropriate letter whether each of the transactions above results in:

(a) An increase in assets and a decrease in assets.

(b) An increase in assets and an increase in equity.

(c) An increase in assets and an increase in liabilities.

(d) A decrease in assets and a decrease in equity.

(e) A decrease in assets and a decrease in liabilities.

(f) An increase in liabilities and a decrease in equity.

(g) An increase in equity and a decrease in liabilities.

**E1-8.** *Analyze transactions and compute net income*.

(LO 7, 8)

An analysis of the transactions made by J. L. Kang & Co. Ltd., a public accounting firm, for the month of August is shown below. Each increase and decrease in equity is explained.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | | | | | | **=** | **Liabilities** | **+** | **Equaity** | | | | | | |  |  |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Accounts Payable | + | Share Capital | + | Retained Earnings | | | | |  |  |
| Rev. | − | Exp. | − | Div. |  |  |
| 1. | +£15,000 |  |  |  |  |  |  |  |  |  | +£15,000 |  |  |  |  |  |  |  | **Issued Shares** |
| 2. | −2,000 |  |  |  |  |  | +£5,000 |  | +£3,000 |  |  |  |  |  |  |  |  |  |  |
| 3. | −750 |  |  |  | +£750 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. | +4,600 |  | +£4,500 |  |  |  |  |  |  |  |  |  | +£9,100 |  |  |  |  |  | **Service Revenue** |
| 5. | −1,500 |  |  |  |  |  |  |  | −1,500 |  |  |  |  |  |  |  |  |  |  |
| 6. | −2,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | −£2,000 |  |  |
| 7. | −650 |  |  |  |  |  |  |  |  |  |  |  |  |  | −£650 |  |  |  | **Rent Expense** |
| 8. | +450 |  | −450 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. | −3,900 |  |  |  |  |  |  |  |  |  |  |  |  |  | −3,900 |  |  |  | **Sal./Wage Expense** |
| 10. |  |  |  |  |  |  |  |  | +500 |  |  |  |  |  | −500 |  |  |  | **Utilities Expense** |

***Instructions***

(a) Describe each transaction that occurred for the month.

(b) Determine how much equity increased for the month.

(c) Compute the amount of net income for the month.

**E1-9.** *Prepare financial statements*.

(LO 8)

An analysis of transactions for J. L. Kang & Co. Ltd. was presented in E1-8. Assume that August is the company’s first month of business.

***Instructions***

Prepare an income statement and a retained earnings statement for August and a statement of financial position at August 31, 2017.

**E1-10.** *Determine net income* (*or loss*).

(LO 8)

Kimmy A.S. had the following assets and liabilities on the dates indicated.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **December 31** |  | **Total Assets** |  | **Total Liabilities** |
| 2016 |  | 400,000 |  | 260,000 |
| 2017 |  | 480,000 |  | 300,000 |
| 2018 |  | 590,000 |  | 400,000 |

Kimmy began business on January 1, 2016, with an investment of [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)100,000 from shareholders.

***Instructions***

From an analysis of the change in equity during the year, compute the net income (or loss) for:

(a) 2016, assuming Kimmy paid [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)15,000 in dividends for the year.

(b) 2017, assuming shareholders made an additional investment of [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)50,000 and Kimmy paid no dividends in 2017.

(c) 2018, assuming shareholders made an additional investment of [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)15,000 and Kimmy paid dividends of [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)30,000 in 2018.

**E1-11.** *Analyze financial statements items*.

(LO 6, 7)

Two items are omitted from each of the following summaries of statement of financial position and income statement data for two companies for the year 2017, Steven Craig Ltd. and Georgia Enterprises Ltd.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Steven Craig** |  | **Georgia Enterprises** |
| Beginning of year: |  |  |  |
| Total assets | £97,000 |  | £129,000 |
| Total liabilities | 63,000 |  | (c) |
| Total equity | (a) |  | 75,000 |
| End of year: |  |  |  |
| Total assets | 160,000 |  | 180,000 |
| Total liabilities | 100,000 |  | 50,000 |
| Total equity | 60,000 |  | 130,000 |
| Changes during year in equity: |  |  |  |
| Additional investment | (b) |  | 25,000 |
| Dividends | 44,000 |  | (d) |
| Total revenues | 215,000 |  | 100,000 |
| Total expenses | 155,000 |  | 55,000 |

***Instructions***

Determine the missing amounts.

**E1-12.** *Prepare income statement and retained earnings statement*.

(LO 8)

The following information relates to Karen Weigel Co. Ltd. for the year 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Retained earnings, January 1, 2017 | £48,000 |  | Advertising expense | £ 1,800 |
| Dividends during 2017 | 5,000 |  | Rent expense | 10,400 |
| Service revenue | 62,500 |  | Utilities expense | 3,100 |
| Salaries and wages expense | 28,000 |  | Other comprehensive income | 400 |

***Instructions***

After analyzing the data, prepare (a) an income statement, (b) a comprehensive income statement, and (c) a retained earnings statement for the year ending December 31, 2017.

**E1-13.** *Correct an incorrectly prepared statement of financial position*.

(LO 8)

Lynn Dreise is the bookkeeper for Sanculi Company SpA. Lynn has been trying to get the statement of financial position of Sanculi Company SpA to balance. Sanculi's statement of financial position is shown as follows.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SANCULI COMPANY SpA**  **Statement of Financial Position**  **December 31, 2017** | | | | |
| **Assets** | |  | **Liabilities** | |
| Equipment | €48,000 |  | Share capital—ordinary | €50,000 |
| Supplies | 8,000 |  | Retained earnings | 17,500 |
| Cash | 14,000 |  | Accounts payable | 16,000 |
| Dividends | 5,000 |  | Accounts receivable | (8,500) |
| Total assets | €75,000 |  | Total equity and liabilities | €75,000 |

***Instructions***

Prepare a correct statement of financial position.

**E1-14.** *Compute net income and prepare a statement of financial position*.

(LO 8)

Bear Park Ltd., a camping ground in the Lake District, has compiled the following financial information as of December 31, 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Revenues during 2017—camping fees | £140,000 |  | Notes payable | £ 60,000 |
| Revenues during 2017—general store | 47,000 |  | Expenses during 2017 | 150,000 |
| Accounts payable | 11,000 |  | Supplies on hand | 2,500 |
| Cash on hand | 20,000 |  | Share capital—ordinary | 20,000 |
| Original cost of equipment | 105,500 |  | Retained earnings | ? |
| Fair value of equipment | 140,000 |  |  |  |

***Instructions***

(a) Determine Bear Park's net income for 2017.

(b) Prepare a statement of financial position for Bear Park as of December 31, 2017.

**E1-15.** *Prepare an income statement*.

(LO 8)

Presented below is financial information related to the 2017 operations of Delgado Cruise Company.

|  |  |
| --- | --- |
| Maintenance and repairs expense | R$ 97,000 |
| Utilities expense | 10,000 |
| Salaries and wages expense | 142,000 |
| Advertising expense | 3,500 |
| Ticket revenue | 342,000 |
| Other comprehensive income | 4,200 |

***Instructions***

Prepare the 2017 income statement and comprehensive income statement for Delgado Cruise Company SA.

**E1-16.** *Prepare a retained earnings statement*.

(LO 8)

Presented below is information related to Williams and Douglas, Attorneys at Law Ltd.

|  |  |
| --- | --- |
| Retained earnings, January 1, 2017 | £ 23,000 |
| Legal service revenue—2017 | 340,000 |
| Total expenses—2017 | 211,000 |
| Assets, January 1, 2017 | 85,000 |
| Liabilities, January 1, 2017 | 62,000 |
| Assets, December 31, 2017 | 168,000 |
| Liabilities, December 31, 2017 | 80,000 |
| Dividends—2017 | 64,000 |

***Instructions***

Prepare the 2017 retained earnings statement for Williams and Douglas, Attorneys at Law Ltd.

**E1-17.** *Prepare a cash flow statement*.

(LO 8)

This information is for Java Company Ltd. for the year ended December 31, 2017 (amounts in thousands).

|  |  |
| --- | --- |
| Cash received from revenues from customers | Rp600,000 |
| Cash received for issuance of ordinary shares | 280,000 |
| Cash paid for new equipment | 95,000 |
| Cash dividends paid | 20,000 |
| Cash paid for expenses | 430,000 |
| Cash balance 1/1/17 | 28,000 |

***Instructions***

Prepare the 2017 statement of cash flows for Java Company Ltd.

PROBLEMS: SET A AND PROBLEMS: SET B

**Problems: Set A**

**P1-1A** *Analyze transactions and compute net income*.

(LO 6, 7)

Kinney's Repair Ltd. was started on May 1. A summary of May transactions is presented below.

1. Shareholders invested £10,000 cash in the business in exchange for ordinary shares.

2. Purchased equipment for £5,000 cash.

3. Paid £400 cash for May office rent.

4. Paid £700 cash for supplies.

5. Incurred £250 of advertising costs in the *Beacon News* on account.

6. Received £4,700 in cash from customers for repair service.

7. Declared and paid a £1,000 cash dividend.

8. Paid part-time employee salaries £1,000.

9. Paid utility bills £160.

10. Provided repair service worth £980 on account.

11. Collected cash of £120 for services billed in transaction (10).

***Check figures*** *next to some Problems give you a key number, to let you know if you are on the right track with your solution*.

***Instructions***

(a) Prepare a tabular analysis of the transactions, using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Share Capital, and Retained Earnings (with separate columns for Revenues, Expenses, and Dividends). Include margin explanations for any changes in Retained Earnings. Revenue is called Service Revenue.

Total assets £13,120

(b) From an analysis of the Retained Earnings columns, compute the net income or net loss for May.

Net income £3,870

**P1-2A** *Analyze transactions and prepare income statement, retained earnings statement, and statement of financial position*.

(LO 6, 7, 8)

On August 31, 2017, the statement of financial position of Donahue Veterinary Clinic Ltd. showed Cash £9,000, Accounts Receivable £1,700, Supplies £600, Equipment £6,000, Accounts Payable £3,600, Share Capital—Ordinary £13,000, and Retained Earnings £700. During September, the following transactions occurred.

1. Paid £2,900 cash for accounts payable due.

2. Collected £1,300 of accounts receivable.

3. Purchased additional equipment for £2,100, paying £800 in cash and the balance on account.

4. Recognized revenue of £7,300, of which £2,500 is collected in cash and the balance is due in October.

5. Declared and paid a £400 cash dividend.

6. Paid salaries £1,700, rent for September £900, and advertising expense £200.

7. Incurred utilities expense for month on account £170.

8. Received £10,000 from Capital Bank on a 6-month note payable.

***Instructions***

(a) Prepare a tabular analysis of the September transactions beginning with August 31 balances. The column headings should be as follows: Cash + Accounts Receivable + Supplies + Equipment = Notes Payable + Accounts Payable + Share Capital + Retained Earnings + Revenues – Expenses – Dividends.

Ending cash £15,900

(b) Prepare an income statement for September, a retained earnings statement for September, and a statement of financial position at September 30, 2017.

Net income £4,330

Total assets £29,800

**P1-3A** *Prepare income statement, retained earnings statement, and statement of financial position*.

(LO 8)

On May 1, 2017, Park Flying School, a company that provides flying lessons, was started with an investment of ₩45,000 cash in the business. Following are the assets and liabilities of the company on May 31, 2017, and the revenues and expenses for the month of May (all amounts in thousands).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash | ₩ 4,500 |  | Notes Payable | ₩28,000 |
| Accounts Receivable | 7,420 |  | Rent Expense | 1,000 |
| Equipment | 64,000 |  | Maintenance and  Repairs Expense | 400 |
| Service Revenue | 6,800 |  |
| Advertising Expense | 500 |  | Gasoline Expense | 2,500 |
| Accounts Payable | 1,400 |  | Utilities Expense | 400 |

No additional investments were made in May, but the company paid dividends of ₩480,000 during the month.

***Instructions***

(a) Prepare an income statement and a retained earnings statement for the month of May and a statement of financial position at May 31. (Show numbers in thousands.)

Net income ₩2,000

Total assets ₩75,920

(b) Prepare an income statement and a retained earnings statement for May assuming the following data are not included above: (1) ₩900,000 worth of services were perform and billed but not collected at May 31, and (2) ₩1,500,000 of gasoline expense was incurred but not paid.

Net income ₩1,400

**P1-4A** *Analyze transactions and prepare financial statements*.

(LO 6, 7, 8)

Matt Stiner started a delivery service, Stiner Deliveries Ltd., on June 1, 2017. The following transactions occurred during the month of June.

June 1 Shareholders invested £10,000 cash in the business in exchange for ordinary shares.

2 Purchased a used van for deliveries for £14,000. Matt paid £2,000 cash and signed a note payable for the remaining balance.

3 Paid £500 for office rent for the month.

5 Performed services worth £4,800 on account.

9 Declared and paid £300 in cash dividends.

12 Purchased supplies for £150 on account.

15 Received a cash payment of £1,250 for services provided on June 5.

17 Purchased gasoline for £100 on account.

20 Received a cash payment of £1,500 for services provided.

23 Made a cash payment of £500 on the note payable.

26 Paid £250 for utilities.

29 Paid for the gasoline purchased on account on June 17.

30 Paid £1,000 for employee salaries.

***Instructions***

(a) Show the effects of the previous transactions on the accounting equation using the following format.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | | | | **=** | **Liabilities** | | | **+** | **Equity** | | | | | | |
| Date |  | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Notes Payable | + | Accounts Payable | + | Share Capital | + | Retained Earnings | | | | |
| Rev. | **−** | Exp. | **−** | Div. |

Include margin explanations for any changes in the Retained Earnings account in your analysis.

Total assets £25,800

(b) Prepare an income statement for the month of June.

Net income £4,450

(c) Prepare a statement of financial position at June 30, 2017.

Cash £8,100

**P1-5A** *Determine financial statement amounts and prepare retained earnings statement*.

(LO 7, 8)

Financial statement information about four different companies is as follows.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Crosby Company** |  | **Stills Company** |  | **Nash Company** |  | **Young Company** |
| January 1, 2017 |  |  |  |  |  |  |  |
| Assets | HK$ 900,000 |  | HK$1,100,000 |  | (g) |  | HK$1,500,000 |
| Liabilities | 650,000 |  | (d) |  | HK$ 750,000 |  | (j) |
| Equity | (a) |  | 500,000 |  | 450,000 |  | 1,000,000 |
| December 31, 2017 |  |  |  |  |  |  |  |
| Assets | (b) |  | 1,370,000 |  | 2,000,000 |  | (k) |
| Liabilities | 550,000 |  | 750,000 |  | (h) |  | 800,000 |
| Equity | 400,000 |  | (e) |  | 1,300,000 |  | 1,400,000 |
| Equity changes in year |  |  |  |  |  |  |  |
| Additional investment | (c) |  | 150,000 |  | 100,000 |  | 150,000 |
| Dividends | 100,000 |  | (f) |  | 140,000 |  | 100,000 |
| Total revenues | 3,500,000 |  | 4,200,000 |  | (i) |  | 5,000,000 |
| Total expenses | 3,300,000 |  | 3,850,000 |  | 3,420,000 |  | (l) |

***Instructions***

(a) Determine the missing amounts. (*Hint*: For example, to solve for (a), Assets − Liabilities = Equity = HK$250,000.)

(b) Prepare the retained earnings statement for Stills Company. Assume beginning retained earnings was HK$200,000.

(c) Write a memorandum explaining the sequence for preparing financial statements and the interrelationship of the retained earnings statement to the income statement and statement of financial position.

**Problems: Set B**

**P1-1B** *Analyze transactions and compute net income*.

(LO 6, 7)

On April 1, Holly Dahl established Holiday Travel Agency Ltd. The following transactions were completed during the month.

1. Shareholders invested €12,000 cash in the business in exchange for ordinary shares.

2. Paid €400 cash for April office rent.

3. Purchased office equipment for €5,500 cash.

4. Incurred €300 of advertising costs in a local newspaper, on account.

5. Paid €600 cash for office supplies.

6. Performed services worth €8,500: €2,000 cash is received from customers, and the balance of €6,500 is billed to customers on account.

7. Declared and paid a €200 cash dividend.

8. Paid the local newspaper amount due in transaction (4).

9. Paid employees' salaries €2,200.

10. Received €5,700 in cash from customers billed previously in transaction (6).

***Instructions***

(a) Prepare a tabular analysis of the transactions using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Share Capital, and Retained Earnings (with separate columns for Revenues, Expenses, and Dividends). Include margin explanation for any changes in Retained Earnings.

Ending cash €10,500

(b) From an analysis of the Retained Earnings columns, compute the net income or net loss for April.

Net income €5,600

**P1-2B** *Analyze transactions and prepare income statement, retained earnings statement, and statement of financial position*.

(LO 6, 7, 8)

Mandy Arnold opened a law office, Mandy Arnold, Attorney at Law Ltd., on July 1, 2017. On July 31, the statement of financial position showed Cash £4,000, Accounts Receivable £1,500, Supplies £500, Equipment £5,000, Accounts Payable £4,200, Share Capital—Ordinary £6,000, and Retained Earnings £800. During August, the following transactions occurred.

1. Collected £1,400 of accounts receivable due from clients.

2. Paid £2,700 cash for accounts payable due.

3. Earned revenue of £7,900 of which £3,000 is collected in cash and the balance is due in September.

4. Purchased additional office equipment for £1,000, paying $400 in cash and the balance on account.

5. Paid salaries £3,000, rent for August £900, and advertising expenses £350.

6. Declared and paid a £450 cash dividend.

7. Received £2,000 from Standard Federal Bank; the money was borrowed on a 4-month note payable.

8. Incurred utility expenses for month on account £210.

***Instructions***

(a) Prepare a tabular analysis of the August transactions beginning with July 31 balances. The column headings should be as follows: Cash + Accounts Receivable + Supplies + Equipment = Notes Payable + Accounts Payable + Share Capital + Retained Earnings + Revenues – Expenses – Dividends.

Ending expenses £4,460

(b) Prepare an income statement for August, a retained earnings statement for August, and a statement of financial position at August 31, 2017.

Net income £3,440

Total assets £14,100

**P1-3B** *Prepare income statement, retained earnings statement, and statement of financial position*.

(LO 8)

Angelic Cosmetics Co. Ltd., a company that provides individual skin care treatment, was started on June 1, 2017, with an investment of ¥25,000,000 cash. Following are the assets and liabilities of the company at June 30 and the revenues and expenses for the month of June (in thousands).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash | ¥10,000 |  | Notes Payable | ¥13,000 |
| Accounts Receivable | 4,000 |  | Accounts Payable | 1,400 |
| Service Revenue | 5,500 |  | Rent Expense | 1,600 |
| Supplies | 2,000 |  | Gasoline Expense | 600 |
| Advertising Expense | 500 |  | Utilities Expense | 300 |
| Equipment | 25,000 |  |  |  |

Shareholders made no additional investments in June. The company paid a cash dividend of ¥900,000 during the month.

***Instructions***

(a) Prepare an income statement and a retained earnings statement for the month of June and a statement of financial position at June 30, 2017. (Show numbers in thousands.)

Net income ¥2,200

Total assets ¥41,000

(b) Prepare an income statement and a retained earnings statement for June assuming the following data are not included above: (1) ¥800,000 worth of services were performed and billed but not collected at June 30, and (2) ¥100,000 of gasoline expense was incurred but not paid.

Net income ¥2,900

**P1-4B** *Analyze transactions and prepare financial statements*.

(LO 6, 7, 8)

Jessi Paulis started a consulting firm, Paulis Consulting Ltd., on May 1, 2017. The following transactions occurred during the month of May.

May 1 Paulis invested £8,000 cash in the business in exchange for shares.

2 Paid £800 for office rent for the month.

3 Purchased £500 of supplies on account.

5 Paid £50 to advertise in the *County News*.

9 Received £3,000 cash for services provided.

12 Declared and paid a £700 cash dividend.

15 Performed £3,300 of services on account.

17 Paid £2,100 for employee salaries.

20 Paid for the supplies purchased on account on May 3.

23 Received a cash payment of £2,000 for services provided on account on May 15.

26 Borrowed £5,000 from the bank on a note payable.

29 Purchased office equipment for £2,300 on account.

30 Paid £150 for utilities.

***Instructions***

(a) Show the effects of the previous transactions on the accounting equation using the following format.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | | | | **=** | **Liabilities** | | | **+** | **Equity** | | | | | | |
| Date |  | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Notes Payable | + | Accounts Payable | + | Share Capital | + | Retained Earnings | | | | |
| Rev. | **−** | Exp. | **−** | Div. |

Include margin explanations for any changes in the Retained Earnings account in your analysis.

Total assets £17,800

(b) Prepare an income statement for the month of May.

Net income £3,200

(c) Prepare a statement of financial position at May 31, 2017.

Cash £13,700

**P1-5B** *Determine financial statement amounts and prepare retained earnings statement*.

(LO 7, 8)

Financial statement information about four different companies is shown below.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **John Ltd.** |  | **Paul**  **Ltd.** |  | **George Ltd.** |  | **Ringo Ltd.** |
| January 1, 2017 |  |  |  |  |  |  |  |
| Assets | £ 78,000 |  | £ 90,000 |  | (g) |  | £140,000 |
| Liabilities | 50,000 |  | (d) |  | £ 75,000 |  | (j) |
| Equity | (a) |  | 50,000 |  | 54,000 |  | 100,000 |
| December 31, 2017 |  |  |  |  |  |  |  |
| Assets | (b) |  | 117,000 |  | 180,000 |  | (k) |
| Liabilities | 55,000 |  | 79,000 |  | (h) |  | 80,000 |
| Equity | 40,000 |  | (e) |  | 100,000 |  | 145,000 |
| Equity changes in year |  |  |  |  |  |  |  |
| Additional investment | (c) |  | 8,000 |  | 10,000 |  | 15,000 |
| Dividends | 7,000 |  | (f) |  | 12,000 |  | 10,000 |
| Total revenues | 350,000 |  | 390,000 |  | (i) |  | 5,00,000 |
| Total expenses | 335,000 |  | 400,000 |  | 360,000 |  | (l) |

***Instructions***

(a) Determine the missing amounts. (*Hint*: For example, to solve for (a), Assets – Liabilities = Equity = £28,000.)

(b) Prepare the retained earnings statement for John Ltd. Assume beginning retained earnings was £0.

(c) Write a memorandum explaining the sequence for preparing financial statements and the interrelationship of the retained earnings statement to the income statement and statement of financial position.

MATCHA CREATIONS

**MC1**Mie-ling Lee spent much of her childhood learning the art of cookie-making from her grandmother. They passed many happy hours mastering every type of cookie imaginable and later creating new recipes that were both healthy and delicious. Now at the start of her second year in college, Mie-ling is investigating various possibilities for starting her own business as part of the requirements of the entrepreneurship program in which she is enrolled.

*The* ***Matcha Creations*** *problem**starts in this chapter and continues in every chapter. You also can find this problem at the book's companion website*.

A long-time friend insists that Mie-ling has to somehow include cookies in her business plan. After a series of brainstorming sessions, Mie-ling settles on the idea of operating a cookie-making school. She will start on a part-time basis and offer her services in people's homes. Now that she has started thinking about it, the possibilities seem endless. During the fall, she will concentrate on holiday cookies. She will offer individual lessons and group sessions (which will probably be more entertainment than education for the participants). Mie-ling also decides to include children in her target market.

The first difficult decision is coming up with the perfect name for her business. In the end, she settles on “Matcha Creations” and then moves on to more important issues.

***Instructions***

(a) What form of business organization—proprietorship, partnership, or corporation—do you recommend that Mie-ling use for her business? Discuss the benefits and weaknesses of each form and give the reasons for your choice.

(b) Will Mie-ling need accounting information? If yes, what information will she need and why? How often will she need this information?

(c) Identify specific asset, liability, and equity accounts that Matcha Creations will likely use to record its business transactions.

(d) Should Mie-ling open a separate bank account for the business? Why or why not?

**Broadening Your Perspective**

Financial Reporting and Analysis

**BYP1-1. Financial Reporting Problem: TSMC, Ltd. (TWN)**

The financial statements of TSMC are presented in Appendix A (at the back of the textbook). The company’s complete annual report, including the notes to the financial statements, is available in the Investor section of the company's website, *www.tsmc.com*.

***Instructions***

Refer to TSMC's financial statements and answer the following questions. (Use amounts as reported in New Taiwan dollars.)

(a) What were TSMC's total assets at December 31, 2013? At December 31, 2012?

(b) How much cash (and cash equivalents) did TSMC have on December 31, 2013?

(c) What amount of accounts payable did TSMC report on December 31, 2013? On December 31, 2012?

(d) What was TSMC's revenue in 2012? In 2013?

(e) What is the amount of the change in TSMC's net income from 2012 to 2013? (*Hint*: Use “Profit for the year”.)

**BYP1-2. Comparative Analysis Problem: Nestlé SA (CHE) vs. Petra Foods Ltd. (SGP)**

Nestlé's financial statements are presented in Appendix B. Petra Food's financial statements are presented in Appendix C.

***Instructions***

Refer to the financial statements and answer the following questions.

(a) Based on the information contained in these financial statements, determine the following for each company.

(1) Total assets at December 31, 2013.

(2) Accounts (trade) receivable, net at December 31, 2013.

(3) Net sales for year ended December 31, 2013.

(4) Net income (profit) for year ended December 31, 2013.

(b) What percentage do receivables represent of total assets for the two companies? What percentage does net income represent of sales (revenue) for the two companies?

**BYP1-3. Real-World Focus**

This exercise will familiarize you with skill requirements, job descriptions, and salaries for accounting careers.

***Address*: www.careers-in-accounting.com**, or go to **www.wiley.com/college/weygandt**

***Instructions***

Go to the site shown above. Answer the following questions.

(a) What are the three broad areas of accounting (from “Skills and Talents Required”)?

(b) List eight skills required in accounting.

(c) How do the three accounting areas differ in terms of these eight required skills?

(d) Explain one of the key job alternatives in accounting.

(e) What is the salary range for a junior staff accountant to a Big 4 firm?

Critical Thinking

**BYP1-4. Decision-Making Across the Organization**

Lucy and Nick Lars, local golf stars, opened the Chip-Shot Driving Range Company Ltd. on March 1, 2017. They invested £20,000 cash and received ordinary shares in exchange for their investment. A caddy shack was constructed for cash at a cost of £6,000, and £800 was spent on golf balls and golf clubs. The Lars leased five acres of land at a cost of £1,000 per month and paid the first month's rent. During the first month, advertising costs totaled £750, of which £150 was unpaid at March 31, and £400 was paid to members of the high school golf team for retrieving golf balls. All revenues from customers were deposited in the company's bank account. On March 15, Lucy and Nick received a dividend of £800. A £100 utility bill was received on March 31 but was not paid. On March 31, the balance in the company's bank account was £15,100.

Lucy and Nick thought they had a pretty good first month of operations. But, their estimates of profitability ranged from a loss of £4,900 to net income of £1,650.

***Instructions***

With the class divided into groups, answer the following.

(a) How could the Lars have concluded that the business operated at a loss of £4,900? Was this a valid basis on which to determine net income?

(b) How could the Lars have concluded that the business operated at a net income of £1,650? (*Hint*: Prepare a statement of financial position at March 31.) Was this a valid basis on which to determine net income?

(c) Without preparing an income statement, determine the actual net income for March.

(d) What was the revenue earned in March?

**BYP1-5. Communication Activity**

Erin Danielle, the bookkeeper for Liverpool Company Ltd., has been trying to get the statement of financial position to balance correctly. The company's statement of financial position is shown below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Liverpool Company**  **Statement of Financial Position**  **For the Month Ended December 31, 2017** | | | | |
| **Assets** | |  | **Liabilities** | |
| Equipment | £22,500 |  | Share capital—ordinary | £23,000 |
| Cash | 9,000 |  | Accounts receivable | (6,000) |
| Supplies | 2,000 |  | Retained earnings | (2,000) |
| Accounts payable | (8,000) |  | Notes payable | 10,500 |
|  | £25,500 |  |  | £25,500 |

***Instructions***

Explain to Erin Danielle in a memo why the original statement of financial position is incorrect, and what should be done to correct it.

**BYP1-6. Ethics Case**

After numerous campus interviews, Jeff Hunter, a senior at Great Northern College, received two office interview invitations from the Baltimore offices of two large firms. Both firms offered to cover his out-of-pocket expenses (travel, hotel, and meals). He scheduled the interviews for both firms on the same day, one in the morning and one in the afternoon. At the conclusion of each interview, he submitted to both firms his total out-of-pocket expenses for the trip to Baltimore: mileage $112 (280 miles at $0.40), hotel $130, meals $36, parking and tolls $18, for a total of $296. He believes this approach is appropriate. If he had made two trips, his cost would have been two times $296. He is also certain that neither firm knew he had visited the other on that same trip. Within 10 days, Jeff received two checks in the mail, each in the amount of $296.

***Instructions***

(a) Who are the stakeholders (affected parties) in this situation?

(b) What are the ethical issues in this case?

(c) What would you do in this situation?

A LOOK at U.S. GAAP

As indicated in the chapter, IFRSs, which are issued by the IASB, are used by most countries in the world. However, another major standard-setter resides in the United States: the Financial Accounting Standards Board (FASB). Prior to the creation of IFRS, the U.S. accounting standards, referred to as generally accepted accounting principles (GAAP), were used by companies in many countries. Today, the IASB and the FASB are working jointly to achieve a single set of standards, although it may be five to ten years before a conversion to a single set of standards takes place. Until this happens, it is important for investors, accountants, and students to understand the key differences that exist between the standards.

**Key Points**

* Most agree that there is a need for one set of international accounting standards. Here is why:

**Multinational corporations.** Today's companies view the entire world as their market. For example, large companies often generate more than 50% of their sales outside their own boundaries.

**Mergers and acquisitions.** The mergers between Fiat/Chrysler and Vodafone/Mannesmann suggest that we will see even more such business combinations in the future.

**Information technology.** As communication barriers continue to topple through advances in technology, companies and individuals in different countries and markets are becoming more comfortable buying and selling goods and services from one another.

**Financial markets.** Financial markets are of international significance today. Whether it is currency, equity securities (shares), bonds, or derivatives, there are active markets throughout the world trading these types of instruments.

**Similarities**

* GAAP is based on a conceptual framework that is similar to that used to develop IFRS.
* The three common forms of business organization that are presented in the chapter, proprietorships, partnerships, and corporations, are also found in the United States. Because the choice of business organization is influenced by factors such as legal environment, tax rates and regulations, and degree of entrepreneurism, the relative use of each form will vary across countries.
* Transaction analysis is basically the same under IFRS and GAAP but, as you will see in later chapters, the different standards may impact how transactions are recorded.
* Financial frauds have occurred at companies such as Satyam Computer Services (IND), Parmalat (ITA), and Royal Ahold (NLD). They have also occurred at large U.S. companies such as Enron, WorldCom, and AIG.

**Differences**

* The Sarbanes-Oxley Act (SOX) mandates certain internal controls for large public companies listed on U.S. exchanges. There is a continuing debate as to whether non-U.S. companies should have to comply with this extra layer of regulation. Debate about international companies (non-U.S.) adopting SOX-type standards centers on whether the benefits exceed the costs. The concern is that the higher costs of SOX compliance are making the U.S. securities markets less competitive.
  + U.S. regulators have recently eliminated the need for foreign companies that trade shares in U.S. markets to reconcile their accounting with GAAP.
  + IFRS tends to be less detailed in its accounting and disclosure requirements than GAAP. This difference in approach has resulted in a debate about the merits of “principles-based” (IFRS) versus “rules-based” (GAAP) standards.

**Looking to the Future**

Both the IASB and the FASB are hard at work developing standards that will lead to the elimination of major differences in the way certain transactions are accounted for and reported. Consider, for example, that as a result of a joint project on the conceptual framework, the definitions of the most fundamental elements (assets, liabilities, equity, revenues, and expenses) may actually change. However, whether the IASB adopts internal control provisions similar to those in SOX remains to be seen.

**GAAP Practice**

**GAAP Self-Test Questions**

**1.** Which of the following is **not**a reason why a single set of high-quality international accounting standards would be beneficial?

(a) Mergers and acquisition activity.

(b) Financial markets.

(c) Multinational corporations.

(d) GAAP is widely considered to be a superior reporting system.

**Answer**

(d) GAAP is widely considered to be a superior reporting system.

**2.** The Sarbanes-Oxley Act determines:

(a) international tax regulations.

(b) internal control standards as enforced by the IASB.

(c) internal control standards of U.S. publicly traded companies.

(d) U.S. tax regulations.

**Answer**

(c) internal control standards of U.S. publicly traded companies.

**3.** IFRS is considered to be more:

(a) principles-based and less rules-based than GAAP.

(b) rules-based and less principles-based than GAAP.

(c) detailed than GAAP.

(d) None of the above.

**Answer**

(a) principles-based and less rules-based than GAAP.

**4.** Which of the following statements is **false**?

(a) GAAP is based on a conceptual framework that is similar to that used to develop IFRS.

(b) FASB and the IASB are working on a joint project related to the conceptual framework.

(c) Non-U.S. companies that trade shares in U.S. markets must reconcile their accounting with GAAP.

(d) Proprietorships, partnerships, and corporations are also found in countries that use IFRS.

**Answer**

(c) Non-U.S. companies that trade shares in U.S. markets must reconcile their accounting with GAAP.

**5.** Which of the following is **true**?

(a) Financial frauds have not occurred in U.S. companies because GAAP has detailed accounting and disclosure requirements.

(b) Transaction analysis is basically the same under GAAP and IFRS.

(c) IFRS companies have agreed to adopt the Sarbanes-Oxley Act related to internal control in 2017.

(d) Foreign companies that trade shares in U.S. markets must reconcile their accounting with the FASB.

**Answer**

(b) Transaction analysis is basically the same under GAAP and IFRS.

**GAAP Exercises**

**GAAP1-1.** Who are the two key international players in the development of international accounting standards? Explain their role.

**GAAP1-2.** What might explain the fact that different accounting standard-setters have developed accounting standards that are sometimes quite different in nature?

**GAAP1-3.** What is the benefit of a single set of high-quality accounting standards?

**GAAP1-4.** Discuss the potential advantages and disadvantages that countries outside the United States should consider before adopting regulations, such as those in the Sarbanes-Oxley Act, that increase corporate internal control requirements.

**GAAP Financial Reporting Problem: Apple Inc. (USA)**

**GAAP1-5.** The financial statements of Apple Inc. are presented in Appendix D. The company's complete annual report, including the notes to its financial statements, is available at *http://investor.apple.com*.

***Instructions***

Refer to Apple's financial statements to answer the following questions.

(a) What were Apple's total assets at September 28, 2013? At September 29, 2012?

(b) How much cash did Apple have on September 28, 2013?

(c) What amount of accounts payable did Apple report on September 28, 2013? On September 29, 2012?

(d) What were Apple's total revenues in 2013? In 2012? In 2011?

(e) What is the amount of the change in Apple's net income from 2012 to 2013?