

Short Exercises

S1-1. (Learning Objective 1: Explain accounting language) Accounting definitions are precise, and you must understand the vocabulary to properly use accounting. Sharpen your understanding of key terms by answering the following questions:

L0 1

- How do the assets and owners' equity of Nike, Inc., differ from each other? Which one (assets or owners' equity) must be at least as large as the other? Which one can be smaller than the other?
- How are Nike, Inc.'s, liabilities and owners' equity similar? Different?

S1-2. (Learning Objective 4: Evaluate business activity) Consider Walmart, a large retailer. Classify the following items as an asset (A), a liability (L), or stockholders' equity (S) for Walmart:

L0 4

- | | |
|-----------------------------------|----------------------------|
| a. _____ Accounts receivable | g. _____ Notes payable |
| b. _____ Long-term debt | h. _____ Retained earnings |
| c. _____ Merchandise inventory | i. _____ Land |
| d. _____ Prepaid expenses | j. _____ Accounts payable |
| e. _____ Accrued expenses payable | k. _____ Common stock |
| f. _____ Equipment | l. _____ Supplies |

S1-3. (Learning Objective 5: Construct an income statement)

L0 5

- Identify the two basic categories of items on an income statement.
- What do we call the bottom line of the income statement?

S1-4. (Learning Objective 1: Explain and differentiate between business organizations)

L0 1

Regal Signs, Inc., needs funds, and Megan Regal, the president, has asked you to consider investing in the business. Answer the following questions about the different ways that Regal might organize the business. Explain each answer.

- What forms of organization will enable the owners of Regal Signs, Inc., to limit their risk of loss to the amounts they have invested in the business?
- What form of business organization will give Megan Regal the most freedom to manage the business as she wishes?
- What form of organization will give creditors the maximum protection in the event that Regal Signs, Inc., fails and cannot pay its debts?

S1-5. (Learning Objective 2: Explain underlying accounting concepts, assumptions, and principles of accounting) Mason Olson is chairman of the board of Healthy Fast Foods, Inc. Suppose Olson has just founded Healthy Fast Foods, and assume that he treats his home and other personal assets as part of Healthy Fast Foods. Answer these questions about the evaluation of Healthy Fast Foods, Inc.

L0 2

- Which accounting assumption governs this situation?
- How can the proper application of this accounting assumption give Olson and others a realistic view of Healthy Fast Foods, Inc.? Explain in detail.

S1-6. (Learning Objective 2: Apply underlying accounting concepts, assumptions, and principles) Identify the accounting concept, assumption, or principle that best applies to each of the following situations:

L0 2

- Burger King, the restaurant chain, sold a store location to McDonald's. How can Burger King determine the sale price of the store—by a professional appraisal, Burger King's original cost, or the amount actually received from the sale?
- General Motors wants to determine which division of the company—Chevrolet or GMC—is more profitable.
- Inflation has been around 5.5% for some time. Woodlake Realtors is considering measuring its land values in inflation-adjusted amounts.
- You get an especially good buy on a laptop, paying only \$300 when it normally costs \$800. What is your accounting value for this laptop?

LO 3

S1-7. (Learning Objective 3: Apply the accounting equation) Suppose you manage a Thai restaurant. Identify the missing amount for each situation:

	Total Assets	=	Total Liabilities	+	Stockholders' Equity
a.	\$?		\$270,000		\$340,000
b.	95,000		70,000		?
c.	420,000		?		350,000

LO 3

S1-8. (Learning Objective 3: Apply the accounting equation)

1. If you know the assets and the owners' equity of a business, how can you measure its liabilities? Give the equation.
2. Use the accounting equation to show how to determine the amount of a company's owners' equity. How would your answer change if you were analyzing your own household or a single IHOP restaurant?

LO 4

S1-9. (Learning Objective 4: Evaluate business activity) Suppose you are analyzing the financial statements of Bartelle, Inc. Identify each item with its appropriate financial statement, using the following abbreviations: Income statement (I), Statement of retained earnings (R), Balance sheet (B), and Statement of cash flows (C). Three items appear on two financial statements, and one item shows up on three statements.

- | | |
|---|--|
| a. _____ Accounts payable | h. _____ Dividends |
| b. _____ Inventory | i. _____ Increase or decrease in cash |
| c. _____ Interest revenue | j. _____ Net income |
| d. _____ Long-term debt | k. _____ Net cash provided by operating activities |
| e. _____ Net cash used for financing activities | l. _____ Retained earnings |
| f. _____ Salary expense | m. _____ Sales revenue |
| g. _____ Cash | n. _____ Common stock |

LO 2 4

S1-10. (Learning Objectives 2, 4: Apply accounting concepts; evaluate business activity) Apply your understanding of the relationships among the financial statements to answer these questions.

- a. How can a business earn large profits but have a small balance of retained earnings?
- b. Give two reasons why a business can have a steady stream of net income over a five-year period and still experience a cash shortage.
- c. If you could pick a single source of cash for your business, what would it be? Why?
- d. How can a business be unprofitable several years in a row and still have plenty of cash?

LO 4

S1-11. (Learning Objective 4: Evaluate business activity) For each of the following questions, indicate which financial statement would most likely be used to provide the information. Use the following abbreviations: Income statement (I), Statement of retained earnings (R), Balance sheet (B), and Statement of cash flows (C).

- a. How well did the company perform during the year?
- b. Why did the company's retained earnings change during the year?
- c. Did the company declare a dividend during the year?
- d. How much in total debt does the company have?
- e. How much cash did the company generate and spend during the year?
- f. What assets does the company have?
- g. How much cash was generated by operating activities?
- h. What were the company's net sales for the year?
- i. What is the company's financial position at the end of the year?

LO 5

S1-12. (Learning Objective 5: Construct an income statement) O'Conner Services, Inc., began 2016 with total assets of \$235 million and ended 2016 with assets of \$355 million. During 2016, O'Conner Services earned revenues of \$397 million and had expenses of \$164 million. O'Conner Services paid dividends of \$29 million in 2016. Prepare the company's income statement for the year ended December 31, 2016, complete with an appropriate heading.

L0 4

E1-25A. (*Learning Objective 4: Construct an income statement and a statement of retained earnings*) This exercise should be used with Exercise 1-24A. Refer to the data of Ellen Samuel Realty Company in Exercise 1-24A.

Requirements

1. Prepare the income statement of Ellen Samuel Realty Company for the year ended May 31, 2016.
2. What amount of dividends did Ellen Samuel declare during the year ended May 31, 2016? (*Hint: Prepare a statement of retained earnings.*)

L0 5

E1-26A. (*Learning Objective 5: Construct an income statement and a statement of retained earnings*) Assume the Carson Coffee Roasters Corp. ended the month of August 2017 with these data:

Payments of cash:			
Acquisition of equipment	\$200,400	Cash balance, August 1, 2017	\$ 0
Dividends	2,300	Cash balance, August 31, 2017 ..	5,900
Retained earnings			
August 1, 2017	0	Cash receipts:	
Retained earnings		Issuance (sale) of stock	
August 31, 2017	?	to owners	13,200
Utilities expense	5,400	Rent expense	1,900
Adjustments to reconcile		Common stock	13,200
net income to net cash		Equipment	200,400
provided by operations	1,500	Office supplies	7,500
Salary expense	78,400	Accounts payable	9,000
		Service revenue	279,600

Requirement

1. Prepare the income statement and the statement of retained earnings of Carson Coffee Roasters Corp., for the month ended August 31, 2017.

L0 5

E1-27A. (*Learning Objective 5: Construct a balance sheet*) Refer to the data in Exercise 1-26A.

Requirement

1. Prepare the balance sheet of Carson Coffee Roasters Corp., for August 31, 2017.

L0 5

E1-28A. (*Learning Objective 5: Construct a statement of cash flows*) Refer to the data in Exercises 1-26A and 1-27A.

Requirement

1. Prepare the statement of cash flows of Carson Coffee Roasters Corp., for the month ended August 31, 2017. Using Exhibit 1-11 as a model, show with arrows the relationships among the income statement, statement of retained earnings, balance sheet, and statement of cash flows.

L0 4

E1-29A. (*Learning Objective 4: Evaluate business operations through the financial statements*) This exercise should be used in conjunction with Exercises 1-26A through 1-28A.

The owner of Carson Coffee Roasters Corp. seeks your advice as to whether he should cease operations or continue the business. Complete the report, giving him your opinion of net income, dividends, financial position, and cash flows during his first month of operations. Cite specifics from the financial statements to support your opinion. Conclude your memo with advice on whether to stay in business or cease operations.

L0 5

E1-30A. (*Learning Objective 5: Construct an income statement, statement of retained earnings, and balance sheet*) During 2016, McFall Company earned revenues of \$140 million. McFall incurred, during that same year, salary expense of \$31 million, rent expense of \$16 million,