### Chapter 1

**Introducing Financial Statements**

**QUICK STUDIES**

**Quick Study 1-1 (10 minutes)**

|  |  |
| --- | --- |
| **1.** | **f Artificial Intelligence** |
| **2.** | **c Recording** |
| **3.** | **h Recordkeeping (bookkeeping)** |

**Quick Study 1-2 (10 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **External user** | **g.** | **External user** |
| **b.** | **External user** | **h.** | **External user** |
| **c.** | **External user** | **i.** | **Internal user** |
| **d.** | **External user** | **j.** | **External user** |
| **e.** | **Internal user** | **k.** | **External user** |
| **f.** | **External user** | **l.** | **External user** |

**Quick Study 1-3 (10 minutes)**

**1. Opportunity**

**2. Pressure**

**3. Rationalization**

**4. Opportunity**

**5. Pressure**

**6. Rationalization**

**Quick Study 1-4 (5 minutes)**

**1. Principle**

**2. Assumption**

**3. Assumption**

**4. Principle**

**Quick Study 1-5 (10 minutes)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Attribute Present** | **Proprietorship** | **Partnership** | **Corporation** | **LLC** |
| **1.** | **Business taxed** | **no** | **no** | **yes** | **no** |
| **2.** | **Limited liability** | **no** | **no** | **yes** | **yes** |
| **3.** | **Legal entity** | **no** | **no** | **yes** | **yes** |

**Quick Study 1-6 (10 minutes)**

**1. Revenue recognition principle**

**2. Measurement (cost) principle**

**3. Business entity assumption**

**Quick Study 1-7 (5 minutes)**

Assets = Liabilities + Equity

**$700,000 (a) $280,000 $420,000**

**$500,000 (b) $250,000 (b) $250,000**

**Quick Study 1-8 (10 minutes)**

**1.**

Assets = Liabilities + Equity

**$75,000 (a) $35,000 $40,000**

**(b) $95,000 $25,000 $70,000**

**$85,000 $20,000 (c) $65,000**

**2.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Assets = | Liabilities | + Common  Stock | - Dividends | + Revenues | - Expenses |
| **$40,000** | **$16,000** | **$20,000** | **$ 0** | **(a) $12,000** | **$ 8,000** |
| **$80,000** | **$32,000** | **$44,000** | **(b) $2,000** | **$24,000** | **$18,000** |

**Quick Study 1-9 (5 minutes)**

**a. Increase**

**b. Decrease**

**c. Increase**

**d. Decrease**

**Quick Study 1-10 (15 minutes)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | |
|  | **Cash** | **+** | **Accounts**  **Recble.** | **=** | **Accounts**  **Payable** | **+** | **Common Stock** | **-** | **Dividends** | **+** | **Revenues** | **-** | **Expenses** |
| **(a)** | **$5,500** |  |  | **=** |  |  |  |  |  |  | **$5,500 Consulting** |  |  |
| **(b)** |  | **+** | **$4,000** | **=** |  |  |  |  |  | **+** | **4,000 Commission** |  |  |
| **Bal.** | **5,500** | **+** | **4,000** | **=** |  |  |  |  |  | **+** | **9,500** |  |  |
| **(c)** | **-1,400** |  |  | **=** |  |  |  |  |  |  |  | **-** | **$1,400 Wages** |
| **Bal.** | **4,100** | **+** | **4,000** | **=** |  |  |  |  |  | **+** | **9,500** | **-** | **1,400** |
| **(d)** | **+1,000** | **+** | **- 1,000** | **=** |  |  |  |  |  |  |  | **-** |  |
| **Bal.** | **5,100** | **+** | **3,000** | **=** |  |  |  |  |  | **+** | **9,500** | **-** | **1,400** |
| **(e)** | **-700** | **+** |  | **=** |  |  |  |  |  |  |  | **-** | **700 Cleaning** |
| **Bal.** | **$4,400** | **+** | **$3,000** | **=** |  |  |  |  |  | **+** | **$9,500** | **-** | **$2,100** |

**Quick Study 1-11 (15 minutes)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | | | | | | **=** | | | **Liabilities** | | | **+** | | **Equity** | | | | | | | | | | | | |
|  | **Cash** | **+** | **Supplies** | **+** | **Equip.** | | **+** | | **Land** | **=** | | | **Accts.**  **Pay.** | | | **+** | | **Common Stock** | | **-** | | **Divi-dends** | | **+** | | **Rev.** | | **-** | | **Exp.** | |
| **(a)** | **$15,000** |  |  |  |  |  | |  | | | | **=** | | |  | |  | | **$15,000** | |  | |  | |  | |  | |  | |  |
| **(b)** | **-500** | **+** | **$500** |  |  |  | |  | | | | **=** | | |  | |  | |  | |  | |  | |  | |  | |  | |  |
| **Bal.** | **14,500** | **+** | **500** |  |  |  | |  | | | | **=** | | |  | | **+** | | **15,000** | |  | |  | |  | |  | |  | |  |
| **(c)** |  |  |  | **+** | **$10,000** |  | |  | | | | **=** | | |  | |  | | **10,000** | |  | |  | |  | |  | |  | |  |
| **Bal.** | **14,500** | **+** | **500** | **+** | **10,000** |  | |  | | | | **=** | | |  | | **+** | | **25,000** | |  | |  | |  | |  | |  | |  |
| **(d)** |  | **+** | **200** |  |  |  | |  | | | | **=** | | | **+$200** | |  | |  | |  | |  | |  | |  | |  | |  |
| **Bal.** | **14,500** | **+** | **700** | **+** | **10,000** |  | |  | | | | **=** | | | **200** | | **+** | | **25,000** | |  | |  | |  | |  | |  | |  |
| **(e)** | **-9,000** |  |  |  |  | **+** | | **$9,000** | | | | **=** | | |  | |  | |  | |  | |  | |  | |  | |  | |  |
| **Bal.** | **$5,500** | **+** | **$700** | **+** | **$10,000** | **+** | | **$9,000** | | | | **=** | | | **$200** | | **+** | | **$25,000** | |  | |  | |  | |  | |  | |  |

**Quick Study 1-12 (10 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Balance sheet** | **e.** | **Balance sheet** |
| **b.** | **Statement of cash flows** | **f.** | **Statement of cash flows** |
| **c.** | **Balance sheet** | **g.** | **Income statement** |
| **d.** | **Income statement** | **h.** | **Balance sheet** |

**Quick Study 1-13 (5 minutes)**

**1. Expenses 4. Dividends 7. Expenses**

**2. Revenues 5. Expenses 8. Revenues**

**3. Expenses 6. Revenues**

**Quick study 1-14 (5 minutes)**

**1. Assets 3. Assets 5. Assets**

**2. Equity 4. Liabilities 6. Assets**

Quick Study 1-15 (15 minutes)

**HAWKIN**

**Income Statement**

**For Month Ended December 31**

**Revenues**

**Services revenue $16,000**

**Expenses**

**Wages expense $8,000**

**Rent expense 1,500**

**Utilities expense 700**

**Total expenses 10,200**

**Net income $ 5,800**

**Quick Study 1-16 (15 minutes)**

**HAWKIN**

**Statement of Retained Earnings**

**For Month Ended December 31**

**Retained earnings, December 1 $4,000**

**Add: Net income 5,800**

**9,800**

**Less: Dividends (1,000)**

**Retained earnings, December 31 $8,800**

Quick Study 1-17 (15 minutes)

**HAWKIN**

**Balance Sheet**

**December 31**

***Assets Liabilities***

**Cash $ 5,100 Accounts payable $ 6,000**

**Accounts receivable 600  *Equity***

**Supplies 2,000 Common stock 6,900**

**Equipment 14,000 Retained earnings 8,800**

**. Total equity 15,700**

**Total assets $21,700 Total liabilities and equity $21,700**

Quick Study 1-18 (15 minutes)

**STUDIO ONE**

**Statement of Cash Flows**

**For Month Ended December 31**

**Cash flows from operating activities**

Cash received from customers $23,500

**Cash paid for expenditures (6,000)**

**Net cash provided by operating activities 17,500**

**Cash flows from investing activities**

**Cash paid for equipment (3,000)**

**Cash paid for truck (22,000)**

**Net cash used by investing activities (25,000)**

**Cash flows from financing activities**

**Cash investments from shareholders 11,000**

**Cash dividends to shareholders (2,000)**

**Net cash provided by financing activities 9,000**

**Net increase in cash $ 1,500**

**Cash balance, December 1 1,000**

**Cash balance, December 31 $ 2,500**

Quick Study 1-19 (10 minutes)

**1. Investing activities**

**2. Financing activities**

**3. Operating activities**

**4. Operating activities**

**5. Operating activities**

**6. Operating activities**

**7. Operating activities**

**8. Financing activities**

**Quick Study 1-20 (5 minutes)**

**Improve**

***Explanation*: Deutsche Auto’s return on assets increased in each of the years shown, which is a positive result. It suggests the company is more effectively using its assets to generate net income.**

**Quick Study 1-21 (10 minutes)**

**a.**

**$8 billion**

**$42 billion**

**Net income**

**Average total assets**

**Return on assets = = = 19.0%**

**b. Better**

***Explanation*: Home Depot’s return on assets exceeds that of Lowe’s, which is a positive result for Home Depot. It suggests Home Depot is more effectively using its assets to generate net income.**

**EXERCISES**

**Exercise 1-1 (10 minutes)**

**1. Communicating**

**2. Communicating**

**3. Recording**

**4. Recording**

**5. Communicating**

**6. Identifying**

**7. Identifying**

**8. Recording**

**Exercise 1-2 (20 minutes)**

**Part A.**

|  |  |  |  |
| --- | --- | --- | --- |
| **1.** | **Internal user** | **5.** | **Internal user** |
| **2.** | **External user** | **6.** | **External user** |
| **3.** | **Internal user** | **7.** | **Internal user** |
| **4.** | **External user** |  |  |

**Part B.**

|  |  |  |  |
| --- | --- | --- | --- |
| **1.** | **Internal user** | **5.** | **Internal user** |
| **2.** | **Internal user** | **6.** | **External user** |
| **3.** | **External user** | **7.** | **Internal user** |
| **4.** | **External user** | **8.** | **Internal user** |

**Exercise 1-3 (10 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **1.** | **Managerial accounting** | **5.** | **Tax accounting** |
| **2.** | **Financial accounting** | **6.** | **Tax accounting** |
| **3.** | **Managerial accounting** | **7.** | **Financial accounting** |
| **4.** | **Managerial accounting** | **8.** | **Financial accounting** |

**Exercise 1-4 (10 minutes)**

**1. A. Audit**

**2. G. Net income**

**3. D. FASB**

**4. F. Public accountants**

**5. C. Ethics**

**Exercise 1-5 (20 minutes)**

**1. E. Audit**

**2. D. Internal controls**

**3. C. Prevention**

**4. B. Fraud triangle**

**5. A. Ethics**

**Exercise 1-6 (10 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Corporation** | **e.** | **Corporation** |
| **b.** | **Partnership** | **f.** | **Sole proprietorship** |
| **c.** | **Sole proprietorship** | **g.** | **Corporation** |
| **d.** | **Sole proprietorship** | **h.** | **Limited liability company** |

**Exercise 1-7 (10 minutes)**

|  |  |  |
| --- | --- | --- |
|  |  | **Principle or Assumption** |
| **1.** |  | **Full disclosure principle** | |
| **2.** |  | **Going-concern assumption** | |
| **3.** |  | **Expense recognition (matching) principle** | |
| **4.** |  | **Business entity assumption** | |
| **5.** |  | **Revenue recognition principle** | |
| **6.** |  | **Measurement (cost) principle** | |

**Exercise 1-8 (15 minutes)**

**a. $10,000 recorded for truck.**

***Explanation*: Accounting information is based on actual cost. Therefore, it makes no difference that the seller was asking a higher price or that the owner believes the vehicle is worth more.**

**b. Revenue recorded by month:**

**May: $1,000**

**June: $0**

**July: $0**

***Explanation*: Revenue is recognized when services are provided to customers, and not necessarily when customers pay for the services. In this case, all work was performed and the customer was billed in May. Therefore, the revenue for this work is recorded in May.**

**Exercise 1-9 (10 minutes)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **(a) $ 65,000** | **=** | **$ 20,000** | **+** | **$45,000** |
| **$100,000** | **=** | **$ 34,000** | **+** | **(b) $66,000** |
| **$154,000** | **=** | **(c) $114,000** | **+** | **$40,000** |

**Exercise 1-10 (20 minutes)**

**a. Using the accounting equation at the *beginning* of the year:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **$300,000** | **=** | **?** | **+** | **$100,000** |

**Thus, *beginning* liabilities = $200,000**

**Using the accounting equation at the *end* of the year:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | | **Liabilities** | | **+** | **Equity** |
| **$300,000 + $80,000** | | **=** | | **$200,000+ $50,000** | **+** | **?** |
| **$380,000** | | **=** | | **$250,000** | **+** | **?** |

**Thus, *ending* equity = $130,000**

**Alternative approach to solving part (b):**

ΔAssets($80,000) = ΔLiabilities($50,000) + ΔEquity(?)

**where “Δ” refers to “change in.”**

**Thus: Ending Equity = $100,000 + $30,000 = $130,000**

**b. Using the accounting equation:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **$123,000** | **=** | **$47,000** | **+** | **?** |

**Thus, equity = $76,000**

**c. Using the accounting equation at the *end* of the year:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **$190,000** | **=** | **$70,000 - $5,000** | **+** | **?** |
| **$190,000** | **=** | **$65,000** | **+** | **$125,000** |

**Using the accounting equation at the *beginning* of the year:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **$190,000 - $60,000** | **=** | **$70,000** | **+** | **?** |
| **$130,000** | **=** | **$70,000** | **+** | **?** |

**Thus: *Beginning* Equity = $60,000**

Exercise 1-11 (15 minutes)

**a. Using the accounting equation on January 1:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **?** | **=** | **$60,000** | **+** | **$40,000** |

**Thus, *beginning* assets = $100,000**

**Using the accounting equation on January 3:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | | **Liabilities** | | **+** | **Equity** |
| **?** | | **=** | | **$60,000 + $6,000** | **+** | **$40,000** |
| **?** | | **=** | | **$66,000** | **+** | **$40,000** |

Thus, *January 3* assets = $106,000

Alternatively, we begin with $100,000 in assets, then add $10,000 in solar panels, then subtract $4,000 in cash🡪resulting in $106,000 in ending assets.

**b. Using the accounting equation on March 1:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **$100,000** | **=** | **$30,000** | **+** | **?** |

**Thus, *beginning* equity = $70,000**

**Using the accounting equation on March 5:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | | **Liabilities** | | **+** | **Equity** |
| **$100,000 - $15,000** | | **=** | | **$30,000** | **+** | **?** |
| **$85,000** | | **=** | | **$30,000** | **+** | **?** |

Thus, *March 5* equity = $55,000

**c. Using the accounting equation on August 1:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **$30,000** | **=** | **$10,000** | **+** | **?** |

**Thus, *beginning* equity = $20,000**

**Using the accounting equation on August 5:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | | **Liabilities** | | **+** | **Equity** |
| **$30,000 + $10,000** | | **=** | | **$10,000** | **+** | **?** |
| **$40,000** | | **=** | | **$10,000** | **+** | **?** |

**Thus, August 5 equity = $30,000**

Exercise 1-12 (20 minutes)

**1. d. The owner invested $40,000 cash in the business in exchange for its common stock.**

**2. e. The company purchased supplies for $3,000 by paying $2,000 cash and putting $1,000 on credit.**

**3. a. The company purchased equipment for $8,000 cash.**

**4. f. The company billed a customer $6,000 for services provided.**

**5. h. The company provided services for $1,000 cash*.***

**Exercise 1-13 (20 minutes)**

**1. f. The company purchased land for $4,000 cash.**

**2. a. The company purchased $1,000 of supplies on credit.**

**3. g. The company billed a client $1,900 for services provided.**

**4. h. The company paid $1,000 cash toward an account payable*.***

**5. b. The company collected $1,900 cash from an account receivable.**

**Exercise 1-14 (15 minutes)**

**a. 3. Decreases an asset and decreases a liability.**

**b. 2. Increases an asset and increases a liability.**

**c. 5. Increases an asset and increases equity.**

**d. 1. Decreases an asset and decreases equity.**

**e. 4. Increases an asset and decreases an asset.**

**f. 5. Increases an asset and increases equity.**

Exercise 1-15 (30 minutes)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | |
|  | **Cash** | **+** | **Accounts   Receivable** | **+** | **Equip-**  **ment** | **=** | **Accounts Payable** | **+** | **Common Stock** | **–** | **Divi-dends** | **+** | **Revenues** | **–** | **Expenses** |
| **a.** | **+$60,000** |  |  | **+** | **$15,000** | **=** |  | **+** | **$75,000** |  |  |  |  |  |  |
| **b.** | **– 1,500** |  |  |  | **\_\_\_\_\_\_** |  |  |  | **\_\_\_\_\_\_** |  |  |  |  | **–** | **$1,500** |
| **Bal.** | **58,500** | **+** |  | **+** | **15,000** | **=** |  | **+** | **75,000** |  |  |  |  | **–** | **1,500** |
| **c.** | **\_\_\_\_\_\_\_** |  |  | **+** | **10,000** |  | **+$10,000** |  | **\_\_\_\_\_\_** |  |  |  |  |  | **\_\_\_\_\_** |
| **Bal.** | **58,500** | **+** |  | **+** | **25,000** | **=** | **10,000** | **+** | **75,000** |  |  |  |  | **–** | **1,500** |
| **d.** | **+ 2,500** |  |  |  | **\_\_\_\_\_\_** |  | **\_\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** |  |  | **+** | **$2,500** |  | **\_\_\_\_\_** |
| **Bal.** | **61,000** | **+** |  | **+** | **25,000** | **=** | **10,000** | **+** | **75,000** |  |  | **+** | **2,500** | **–** | **1,500** |
| **e.** | **\_\_\_\_\_\_\_** | **+** | **$8,000** |  | **\_\_\_\_\_\_** |  | **\_\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** |  |  | **+** | **8,000** |  | **\_\_\_\_\_** |
| **Bal.** | **61,000** | **+** | **8,000** | **+** | **25,000** | **=** | **10,000** | **+** | **75,000** |  |  | **+** | **10,500** | **–** | **1,500** |
| **f.** | **– 6,000** |  | **\_\_\_\_\_\_** | **+** | **6,000** |  | **\_\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** |  |  |  | **\_\_\_\_\_** |  | **\_\_\_\_\_** |
| **Bal.** | **55,000** | **+** | **8,000** | **+** | **31,000** | **=** | **10,000** | **+** | **75,000** |  |  | **+** | **10,500** | **–** | **1,500** |
| **g.** | **– 3,000** |  | **\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** |  | **\_\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** |  |  |  | **\_\_\_\_\_** | **–** | **3,000** |
| **Bal.** | **52,000** | **+** | **8,000** | **+** | **31,000** | **=** | **10,000** | **+** | **75,000** |  |  | **+** | **10,500** | **–** | **4,500** |
| **h.** | **+ 5,000** | **-** | **5,000** |  | **\_\_\_\_\_\_** |  | **\_\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** |  |  |  | **\_\_\_\_\_** |  | **\_\_\_\_\_** |
| **Bal.** | **57,000** | **+** | **3,000** | **+** | **31,000** | **=** | **10,000** | **+** | **75,000** |  |  | **+** | **10,500** | **–** | **4,500** |
| **i.** | **– 10,000** |  | **\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** |  | **– 10,000** |  | **\_\_\_\_\_\_** |  |  |  | **\_\_\_\_\_** |  | **\_\_\_\_\_** |
| **Bal.** | **47,000** | **+** | **3,000** | **+** | **31,000** | **=** | **0** | **+** | **75,000** |  |  | **+** | **10,500** | **–** | **4,500** |
| **j.** | **– 1,000** |  | **\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** |  | **\_\_\_\_\_\_\_** |  | **\_\_\_\_\_\_** | **–** | **$1,000** |  | **\_\_\_\_\_** |  | **\_\_\_\_\_** |
| **Bal.** | **$46,000** | **+** | **$3,000** | **+** | **$31,000** | **=** | **$ 0** | **+** | **$75,000** | **–** | **$1,000** | **+** | **$10,500** | **–** | **$4,500** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Exercise 1-16 (20 minutes)**

**Equity: *Beginning Ending***

**Assets $50,000 $80,000**

**Liabilities (22,000) (35,000)**

**Equity $28,000 $45,000**

**(a) Net income for year:**

**Equity, *beginning* of year $28,000**

**Plus stock issuances 3,000**

**Plus net income ?**

**Less cash dividends (7,000)**

**Equity, *end* of year $45,000**

**Therefore, net income must have been $21,000**

**(b) Net income for year:**

**Equity, *beginning* of year $28,000**

**Plus stock issuances 15,000**

**Plus net income ?**

**Less cash dividends (0)**

**Equity, *end* of year $45,000**

**Therefore, net income must have been $ 2,000**

**(c) Net income for year:**

**Equity, *beginning* of year $28,000**

**Plus stock issuances 0**

**Plus net income ?**

**Less cash dividends (12,000)**

**Equity, *end* of year $45,000**

**Therefore, net income must have been $29,000**

**Exercise 1-17 (20 minutes)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **a. Statement of Cash Flow Category** | **b. Cash Inflow/Outflow** | |
| **1.** |  | **Cash flows from Operating Activities** | **Cash Inflow** |
| **2.** |  | **Cash flows from Financing Activities** | **Cash Inflow** |
| **3.** |  | **Cash flows from Operating Activities** | **Cash Outflow** |
| **4.** |  | **Cash flows from Investing Activities** | **Cash Outflow** |
| **5.** |  | **Cash flows from Operating Activities** | **Cash Outflow** |
| **6.** |  | **Cash flows from Financing Activities** | **Cash Outflow** |

Exercise 1-18 (15 minutes)

**ERNST CONSULTING**

**Income Statement**

**For Month Ended December 31**

**Revenues**

**Consulting revenue $14,000**

**Expenses**

**Salaries expense $7,000**

**Rent expense 3,550**

**Telephone expense 760**

**Miscellaneous expenses 580**

**Total expenses 11,890**

**Net income $ 2,110**

**Exercise 1-19 (15 minutes)**

**ERNST CONSULTING**

**Statement of Retained Earnings**

**For Month Ended December 31**

**Retained earnings, December 1 $ 0**

**Add: Net income (from Exercise 1-18) 2,110**

**2,110**

**Less: Dividends 2,000**

**Retained earnings, December 31 $ 110**

Exercise 1-20 (15 minutes)

**ERNST CONSULTING**

**Balance Sheet**

**December 31**

***Assets Liabilities***

**Cash $11,360 Accounts payable $ 8,500**

**Accounts receivable 14,000  *Equity***

**Office supplies 3,250 Common stock 84,000**

**Office equipment 18,000 Retained earnings\* 110**

**Land 46,000 Total equity 84,110**

**Total assets $92,610 Total liabilities and equity $92,610**

**\* For computation of this amount see Exercise 1-19.**

Exercise 1-21 (20 minutes)

**ERNST CONSULTING**

**Statement of Cash Flows**

**For Month Ended December 31**

**Cash flows from operating activities**

Cash received from customers $ 0

**Cash paid to employeesa (1,750)**

**Cash paid for rent (3,550)**

**Cash paid for telephone expenses (760)**

**Cash paid for miscellaneous expenses (580)**

**Net cash used by operating activities ( 6,640)**

**Cash flows from investing activities**

**Cash paid for office equipment (18,000)**

**Net cash used by investing activities (18,000)**

**Cash flows from financing activities**

**Cash investments from shareholders 38,000**

**Cash dividends to shareholders (2,000)**

**Net cash provided by financing activities 36,000**

**Net increase in cash $11,360**

**Cash balance, December 1 0**

**Cash balance, December 31 $11,360**

a $7,000 Salaries Expense - $5,250 still owed = $1,750 paid to employees.

**Exercise 1-22 (15 minutes)**

**a.**

**JARVIS**

**Statement of Retained Earnings**

**For Year Ended December 31, Year 1**

**Retained earnings, January 1, Year 1 $ 0**

**Add: Net income 30,000**

**30,000**

**Less: Dividends (8,000)**

**Retained earnings, December 31, Year 1 $22,000**

**b.**

**JARVIS**

**Statement of Retained Earnings**

**For Year Ended December 31, Year 2**

**Retained earnings, December 31, Year 1 $22,000**

**Add: Net income 50,000**

**72,000**

**Less: Dividends (14,000)**

**Retained earnings, December 31, Year 2 $58,000**

**Exercise 1-23 (25 minutes)**

**a.**

**TERRELL CO**

**Income Statement**

**For Year Ended December 31**

**Revenues**

**Services revenue $48,000**

**Rent revenue 9,000**

**Total revenue $57,000**

**Expenses**

**Salaries expense 37,000**

**Advertising expense 3,000**

**Utilities expenses 1,000**

**Total expenses 41,000**

**Net income $16,000**

**b.**

**TERRELL CO**

**Statement of Retained Earnings**

**For Year Ended December 31**

**Retained earnings, January 1 $ 0**

**Add: Net income 16,000**

**16,000**

**Less: Dividends (5,000)**

**Retained earnings, December 31 $11,000**

**Exercise 1-24 (25 minutes)**

**a.**

**MAHOMES CO**

**Statement of Retained Earnings**

**For Year Ended December 31**

**Retained earnings, January 1 $ 0**

**Add: Net income 60,000**

**60,000**

**Less: Dividends (22,000)**

**Retained earnings, December 31 $38,000**

b.

**MAHOMES CO**

**Balance Sheet**

**December 31**

***Assets Liabilities***

**Cash $ 6,000 Accounts payable $ 3,000**

**Accounts receivable 7,000  *Equity***

**Equipment 9,000 Common stock 15,000**

**Land 34,000 Retained earnings 38,000**

**. Total equity 53,000**

**Total assets $56,000 Total liabilities and equity $56,000**

**Exercise 1-25 (10 minutes)**

|  |  |  |
| --- | --- | --- |
| **Return on assets** | **=** | **Net income / Average total assets** |
|  | **=** | **$40,000 / [($200,000 + $300,000)/2]** |
|  | **=** | **16.0%** |

Better than competitors.

Explanation: Swiss Group’s return on assets of 16% is markedly better than the 11% return of its competitors. Accordingly, its performance is assessed as superior to its competitors.

**PROBLEM SET A**

**Problem 1-1A (25 minutes)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **a.** | | | | **b.** | | |
| **Balance Sheet** | | | **Income Statement** | **Statement of Cash Flows** | | |
|  | **Transaction** | **Total Assets** | **Total Liab.** | **Total Equity** | **Net Income** | **Operating Activities** | **Investing Activities** | **Financing Activities** |
| **1** | **Owner invests $900 cash in business in exchange for stock** | **+900** |  | **+900** |  |  |  | **+900** |
| **2** | **Receives $700 cash for services provided** | **+700** |  | **+700** | **+700** | **+700** |  |  |
| **3** | **Pays $500 cash for employee wages** | **–500** |  | **–500** | **–500** | **–500** |  |  |
| **4** | **Buys $100 of equipment on credit** | **+100** | **+100** |  |  |  |  |  |
| **5** | **Purchases $200 supplies on credit** | **+200** | **+200** |  |  |  |  |  |
| **6** | **Buys equipment for $300 cash** | **+300**  **–300** |  |  |  |  | **–300** |  |
| **7** | **Pays $200 on accounts payable** | **–200** | **–200** |  |  | **–200** |  |  |
| **8** | **Provides $400 services on credit** | **+400** |  | **+400** | **+400** |  |  |  |
| **9** | **Pays $50 cash in dividends** | **–50** |  | **–50** |  |  |  | **–50** |
| **10** | **Collects $400 cash on account receivable** | **+400**  **–400** |  |  |  | **+400** |  |  |

**Problem 1-2A (40 minutes)**

***Part 1***

**Company A**

**(a) Equity at *beginning* of year:**

**Assets $55,000**

**Liabilities (24,500)**

**Equity $30,500**

**(b) Equity at *end* of year:**

**Equity, *beginning* of year $30,500**

**Plus stock issuances 6,000**

**Plus net income 8,500**

**Less cash dividends (3,500)**

**Equity, *end* of year $41,500**

**(c) Liabilities at *end* of year:**

**Assets $58,000**

**Equity (41,500)**

**Liabilities $16,500**

***Part 2***

**Company B**

**(a) and (b)**

**Equity: *Beginning Ending***

**Assets $34,000 $40,000**

**Liabilities (21,500) (26,500)**

**Equity $12,500 $13,500**

**(c) Net income for year:**

**Equity, *beginning* of year $12,500**

**Plus stock issuances 1,400**

**Plus net income ?**

**Less cash dividends (2,000)**

**Equity, *end* of year $13,500**

**Therefore, net income must have been $ 1,600**

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

# Part 3

**Company C**

**First, compute the beginning balance of equity:**

***Beginning of Year***

**Assets $24,000**

**Liabilities ( 9,000)**

**Equity $15,000**

**Next, find the ending balance of equity by completing this table:**

**Equity, *beginning* of year $15,000**

**Plus stock issuances 9,750**

**Plus net income 8,000**

**Less cash dividends (5,875)**

**Equity, *end* of year $26,875**

**Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of liabilities:**

***End of Year***

**Liabilities $29,000**

**Equity 26,875**

**Assets $55,875**

***Part 4***

**Company D**

**First, compute the beginning and ending equity balances:**

***Beginning Ending***

**Assets $60,000 $85,000**

**Liabilities (40,000) (24,000)**

**Equity $20,000 $61,000**

**Then, find the amount of stock issuances during the year:**

**Equity, *beginning* of year $20,000**

**Plus stock issuances ?**

**Plus net income 14,000**

**Less cash dividends 0**

**Equity, *end* of year $61,000**

**Thus, stock issuances must have been $27,000**

**Problem 1-2A (*Concluded*)**

***Part 5***

**Company E**

**First, compute the balance of equity at *end* of year:**

**Assets $113,000**

**Liabilities (70,000)**

**Equity $ 43,000**

**Next, find the beginning balance of equity as follows:**

**Equity, *beginning* of year $ ?**

**Plus stock issuances 6,500**

**Plus net income 20,000**

**Less cash dividends (11,000)**

**Equity, *end* of year $43,000**

**Thus, the beginning balance of equity is: $27,500**

Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of assets:

***Beginning of Year***

**Assets $119,000**

**Equity (27,500)**

**Liabilities $ 91,500**

**Problem 1-3A (20 minutes)**

**Armani Company**

**Income Statement**

**For Current Year Ended December 31**

**Revenues**

**Consulting revenue $33,000**

**Rental revenue 22,000**

**Total revenues $55,000**

**Expenses**

**Salaries expense 20,000**

**Rent expense 12,000**

**Selling and administrative expenses 8,000**

**Total expenses 40,000**

**Net income $15,000**

**Problem 1-4A (20 minutes)**

**Armani Company**

**Statement of Retained Earnings**

**For Current Year Ended December 31**

**Retained earnings, Dec. 31, prior year $ 3,000**

**Add: Net income (from Problem 1-3A) 15,000**

**18,000**

**Less: Dividends 13,000**

**Retained earnings, Dec. 31, current year $ 5,000**

**Problem 1-5A (20 minutes)**

**Armani Company**

**Balance Sheet**

**December 31**

**Assets Liabilities**

**Cash $10,000 Accounts payable $11,000**

**Accounts receivable 9,000 Total liabilities 11,000**

**Supplies 7,000 Equity**

**Equipment 4,000 Common stock 14,000**

**Retained earnings\* 5,000**

**\_\_\_\_\_\_ Total equity 19,000**

**Total assets $30,000 Total liabilities and equity $30,000**

**\* For computation of this amount see Problem 1-4A.**

**Problem 1-6A (15 minutes)**

**Kia Company**

**Statement of Cash Flows**

**For Current Year Ended December 31**

Cash from operating activities $ 6,000

**Cash used by investing activities (2,000)**

**Cash used by financing activities (2,800)**

Net increase in cash $ 1,200

**Cash, December 31, prior year 2,300**

Cash, December 31, current year $ 3,500

**Problem 1-7A (60 minutes) *Part 1***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets = Liabilities + Equity** | | | | | | | | | | | | | | | | | | | | |
| **Date** | | **Cash** | **+** | **Accounts Receivable** | **+** | **Equipment** | **=** | | Accounts **Payable** | **+** | **Common Stock** | **-** | **Dividends** | **+** | **Revenues** | **-** | | **Expenses** | |
|  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  | |
| **May** | **1** | **+$40,000** |  |  |  |  | | **=** |  | **+** | **$40,000** |  |  |  |  |  |  | |
|  | **1** | **- 2,200** |  |  |  |  | | **=** |  |  |  |  |  |  |  | **-** | **$2,200 Rent** | |
|  | **3** |  |  |  | **+** | **$1,890** | | **=** | **+ $1,890** |  |  |  |  |  |  |  |  | |
|  | **5** | **- 750** |  |  |  |  | | **=** |  |  |  |  |  |  |  | **-** | **750 Cleaning** | |
|  | **8** | **+ 5,400** |  |  |  |  | | **=** |  |  |  |  |  | **+** | **$5,400** |  |  | |
|  | **12** |  | **+** | **$2,500** |  |  | | **=** |  |  |  |  |  | **+** | **2,500** |  |  | |
|  | **15** | **- 750** |  |  |  |  | | **=** |  |  |  |  |  |  |  | **-** | **750 Salary** | |
|  | **20** | **+ 2,500** | **-** | **2,500** |  |  | | **=** |  |  |  |  |  |  |  |  |  | |
|  | **22** |  | **+** | **3,200** |  |  | | **=** |  |  |  |  |  | **+** | **3,200** |  |  | |
|  | **25** | **+ 3,200** | **-** | **3,200** |  |  | | **=** |  |  |  |  |  |  |  |  |  | |
|  | **26** | **- 1,890** |  |  |  |  | | **=** | **- 1,890** |  |  |  |  |  |  |  |  | |
|  | **27** |  |  |  | **+** | **80** | | **=** | **+ 80** |  |  |  |  |  |  |  |  | |
|  | **28** | **- 750** |  |  |  |  | | **=** |  |  |  |  |  |  |  | **-** | **750 Salary** | |
|  | **30** | **- 300** |  |  |  |  | | **=** |  |  |  |  |  |  |  | **-** | **300 Telephone** | |
|  | **30** | **- 280** |  |  |  |  | | **=** |  |  |  |  |  |  |  | **-** | **280 Utilities** | |
|  | **31** | **- 1,400** |  |  |  |  | | **=** |  |  |  | **-** | **$1,400** |  |  |  |  | |
|  |  | **$42,780** | **+** | **$ 0** | **+** | **$1,970** | | **=** | **$ 80** | **+** | **$40,000** | **-** | **$1,400** | **+** | **$11,100** | **-** | **$5,030** | |

**Problem 1-7A *(Continued)***

***Part 2***

**The Gram Co.**

**Income Statement**

**For Month Ended May 31**

**Revenues**

**Consulting services revenue $11,100**

**Expenses**

**Rent expense $2,200**

**Salaries expense 1,500**

**Cleaning expense 750**

**Telephone expense 300**

**Utilities expense   280**

**Total expenses   5,030**

**Net income $ 6,070**

**The Gram Co.**

**Statement of Retained Earnings**

**For Month Ended May 31**

**Retained earnings, May 1 $ 0**

**Add: Net income 6,070**

**6,070**

**Less: Dividends 1,400**

**Retained earnings, May 31 $ 4,670**

**The Gram Co.**

**Balance Sheet**

**May 31**

**Assets Liabilities**

**Cash $42,780 Accounts payable $ 80**

**Equipment 1,970 Equity**

**Common stock 40,000**

**Retained earnings 4,670**

**Total equity 44,670**

**Total assets $44,750 Total liabilities and equity $44,750**

**Problem 1-7A (*Concluded)***

*Part 3*

**The Gram Co.**

**Statement of Cash Flows**

**For Month Ended May 31**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | | | |  | | |  | |
| **Cash flows from operating activities** |  | | | | |  | | |  | |
| **Cash received from customers** | **$11,100** | |  | | | | | |  | |
| **Cash paid for rent** | **(2,200)** | | | |  | | | |  | |
| **Cash paid for cleaning** | **(750)** | | | |  | | | |  | |
| **Cash paid for telephone** | **(300)** | | | |  | | | |  | |
| **Cash paid for utilities** | **(280)** | | | |  | | | |  | |
| **Cash paid to employees** | **(1,500)** | | | |  | | | |  | |
| **Net cash provided by operating activities** | |  | | **$ 6,070** | | | | |  | | |
|  |  | | | | |  | |  | | |
| **Cash flows from investing activities** |  | | | | |  | |  | | |
| **Cash paid for equipment** | **(1,890)** | | | |  | | |  | | |
| **Net cash used by investing activities** | |  | | **(1,890)** | | | | | |  | |
|  |  | | | | |  | | | |  |
| **Cash flows from financing activities** |  | | | | |  | | | |  |
| **Cash investment from shareholder** | **40,000** | |  | | | | | | |  |
| **Cash dividend to shareholder** | **(1,400)** | | | |  | | | | |  |
| **Net cash provided by financing activities** |  | | | | | **38,600** | | |  | |
|  |  | | | | |  | | |  | |
| **Net increase in cash** |  | | **$42,780** | | | | | |  | |
| **Cash balance, May 1** |  | | | | | **0** | | |  | |
| **Cash balance, May 31** | |  | | | | | **$42,780** | |  | |

Problem 1-8A (60 minutes) *Part 1*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | | | | | | | | **=** | **Liabilities** | | | **+** | | **Equity** | | | | | | | | | | | | |
|  | **Cash** | **+** | **Accounts Receivable** | **+** | **Supplies** | **+** | **Equipment** | **+** | Building | **=** | **Accounts Payable** | | **+** | | **Common Stock** | | - | | **Dividends** | | | **+** | | **Reve-nues** | | - | **Expen-ses** | |
| **a.** | **+$70,000** |  |  |  |  | **+** | **$10,000** |  |  |  | |  | **+** | | **$80,000** | | |  | |  |  | |  | |  | | |  |
| **b.** | **- 40,000** |  |  |  |  |  |  | **+** | **$40,000** |  | |  |  | |  | | |  | |  |  | |  | |  | | |  |
| **Bal.** | **30,000** |  |  |  |  | **+** | **10,000** | **+** | **40,000** | **=** | |  | **+** | | **80,000** | | |  | |  |  | |  | |  | | |  |
| **c.** | **- 15,000** |  |  |  |  | **+** | **15,000** |  |  |  | |  |  | |  | | |  | |  |  | |  | |  | | |  |
| **Bal.** | **15,000** |  |  |  |  | **+** | **25,000** | **+** | **40,000** | **=** | |  | **+** | | **80,000** | | |  | |  |  | |  | |  | | |  |
| **d.** |  |  |  | **+** | **$1,200** | **+** | **1,700** |  |  |  | | **+ $2,900** |  | |  | | |  | |  |  | |  | |  | | |  |
| **Bal.** | **15,000** |  |  | **+** | **1,200** | **+** | **26,700** | **+** | **40,000** | **=** | | **2,900** | **+** | | **80,000** | | |  | |  |  | |  | |  | | |  |
| **e.** | **- 500** |  |  |  |  |  |  |  |  |  | |  |  | |  | | |  | |  |  | |  | | **-** | | | **$ 500** |
| **Bal.** | **14,500** |  |  | **+** | **1,200** | **+** | **26,700** | **+** | **40,000** | **=** | | **2,900** | **+** | | **80,000** | | |  | |  |  | |  | | **-** | | | **500** |
| **f.** |  | **+** | **$2,800** |  |  |  |  |  |  |  | |  |  | |  | | |  | |  | **+** | | **$2,800** | |  | | |  |
| **Bal.** | **14,500** | **+** | **2,800** | **+** | **1,200** | **+** | **26,700** | **+** | **40,000** | **=** | | **2,900** | **+** | | **80,000** | | |  | |  | **+** | | **2,800** | | **-** | | | **500** |
| **g.** | **+ 4,000** |  |  |  |  |  |  |  |  |  | |  |  | |  | | |  | |  | **+** | | **4,000** | |  | | |  |
| **Bal.** | **18,500** | **+** | **2,800** | **+** | **1,200** | **+** | **26,700** | **+** | **40,000** | **=** | | **2,900** | **+** | | **80,000** | | |  | |  | **+** | | **6,800** | | **-** | | | **500** |
| **h.** | **- 3,275** |  |  |  |  |  |  |  |  |  | |  |  | |  | | | **-** | | **$3,275** |  | |  | |  | | |  |
| **Bal.** | **15,225** | **+** | **2,800** | **+** | **1,200** | **+** | **26,700** | **+** | **40,000** | **=** | | **2,900** | **+** | | **80,000** | | | **-** | | **3,275** | **+** | | **6,800** | | **-** | | | **500** |
| **i.** | **+ 1,800** | **-** | **1,800** |  |  |  |  |  |  |  | |  |  | |  | | |  | |  |  | |  | |  | | |  |
| **Bal.** | **17,025** | **+** | **1,000** | **+** | **1,200** | **+** | **26,700** | **+** | **40,000** | **=** | | **2,900** | **+** | | **80,000** | | | **-** | | **3,275** | **+** | | **6,800** | | **-** | | | **500** |
| **j.** | **- 700** |  |  |  |  |  |  |  |  |  | | **- 700** |  | |  | | |  | |  |  | |  | |  | | |  |
| **Bal.** | **16,325** | **+** | **1,000** | **+** | **1,200** | **+** | **26,700** | **+** | **40,000** | **=** | | **2,200** | **+** | | **80,000** | | | **-** | | **3,275** | **+** | | **6,800** | | **-** | | | **500** |
| **k.** | **- 1,800** |  |  |  |  |  |  |  |  |  | |  |  | |  | | |  | |  |  | |  | | **-** | | | **1,800** |
| **Bal.** | **$14,525** | **+** | **$1,000** | **+** | **$1,200** | **+** | **$26,700** | **+** | **$40,000** | **=** | | **$2,200** | **+** | | **$80,000** | | | **-** | | **$3,275** | **+** | | **$6,800** | | **-** | | | **$2,300** |
|  |  |  |  |  |  |  |  |  |  |  | |  |  | |  | | |  | |  |  | |  | |  | | |  |

Problem 1-8A *(Concluded)*

# Part 2

**Biz Consulting’s net income = $6,800 - $2,300 = $4,500**

**Problem 1-9A (60 minutes) *Part 1***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Assets** | | | | | | | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | | |
| **Date** |  | **Cash** | **+** | **Accounts Receivable** | **+** | **Supplies** | **+** | **Office Equipment** | **+** | Electrical Equipment | **=** | **Accounts Payable** | **+** | | **Common Stock** | **-** | **Dividends** | **+** | **Revenues** | **-** | **Expenses** |
| **Dec.** | **1** | **+$65,000** |  |  |  |  |  |  |  |  | **=** |  | **+** | **$65,000** | |  |  |  |  |  |  |
|  | **2** | **- 1,000** |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | **-** | **$1,000** |
| **Bal.** |  | **64,000** |  |  |  |  |  |  |  |  | **=** |  |  | **65,000** | |  |  |  |  | **-** | **1,000** |
|  | **3** | **- 4,800** |  |  |  |  |  |  | **+** | **$13,000** |  | **+ $8,200** |  |  | |  |  |  |  |  |  |
| **Bal.** |  | **59,200** |  |  |  |  |  |  | **+** | **13,000** | **=** | **8,200** | **+** | **65,000** | |  |  |  |  | **-** | **1,000** |
|  | **5** | **- 800** |  |  | **+** | **$ 800** |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |
| **Bal.** |  | **58,400** |  |  | **+** | **800** |  |  | **+** | **13,000** | **=** | **8,200** | **+** | **65,000** | |  |  |  |  | **-** | **1,000** |
|  | **6** | **+ 1,200** |  |  |  |  |  |  |  |  |  |  |  |  | |  |  | **+** | **$1,200** |  |  |
| **Bal.** |  | **59,600** |  |  | **+** | **800** |  |  | **+** | **13,000** | **=** | **8,200** | **+** | **65,000** | |  |  | **+** | **1,200** | **-** | **1,000** |
|  | **8** |  |  |  |  |  | **+** | **$2,530** |  |  |  | **+ 2,530** |  |  | |  |  |  |  |  |  |
| **Bal.** |  | **59,600** |  |  | **+** | **800** | **+** | **2,530** | **+** | **13,000** | **=** | **10,730** | **+** | **65,000** | |  |  | **+** | **1,200** | **-** | **1,000** |
|  | **15** |  | **+** | **$5,000** |  |  |  |  |  |  |  |  |  |  | |  |  | **+** | **5,000** |  |  |
| **Bal.** |  | **59,600** | **+** | **5,000** | **+** | **800** | **+** | **2,530** | **+** | **13,000** | **=** | **10,730** | **+** | **65,000** | |  |  | **+** | **6,200** | **-** | **1,000** |
|  | **18** |  |  |  | **+** | **350** |  |  |  |  |  | **+ 350** |  |  | |  |  |  |  |  |  |
| **Bal.** |  | **59,600** | **+** | **5,000** | **+** | **1,150** | **+** | **2,530** | **+** | **13,000** | **=** | **11,080** | **+** | **65,000** | |  |  | **+** | **6,200** | **-** | **1,000** |
|  | **20** | **- 2,530** |  |  |  |  |  |  |  |  |  | **- 2,530** |  |  | |  |  |  |  |  |  |
| **Bal.** |  | **57,070** | **+** | **5,000** | **+** | **1,150** | **+** | **2,530** | **+** | **13,000** | **=** | **8,550** | **+** | **65,000** | |  |  | **+** | **6,200** | **-** | **1,000** |
|  | **24** |  | **+** | **900** |  |  |  |  |  |  |  |  |  |  | |  |  | **+** | **900** |  |  |
| **Bal.** |  | **57,070** | **+** | **5,900** | **+** | **1,150** | **+** | **2,530** | **+** | **13,000** | **=** | **8,550** | **+** | **65,000** | |  |  | **+** | **7,100** | **-** | **1,000** |
|  | **28** | **+ 5,000** | **-** | **5,000** |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |
| **Bal.** |  | **62,070** | **+** | **900** | **+** | **1,150** | **+** | **2,530** | **+** | **13,000** | **=** | **8,550** | **+** | **65,000** | |  |  | **+** | **7,100** | **-** | **1,000** |
|  | **29** | **- 1,400** |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | **-** | **1,400** |
| **Bal.** |  | **60,670** | **+** | **900** | **+** | **1,150** | **+** | **2,530** | **+** | **13,000** | **=** | **8,550** | **+** | **65,000** | |  |  | **+** | **7,100** | **-** | **2,400** |
|  | **30** | **- 540** |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | **-** | **540** |
| **Bal.** |  | **60,130** | **+** | **900** | **+** | **1,150** | **+** | **2,530** | **+** | **13,000** | **=** | **8,550** | **+** | **65,000** | |  |  | **+** | **7,100** | **-** | **2,940** |
|  | **31** | **- 950** |  |  |  |  |  |  |  |  |  |  |  |  | | **-** | **$950** |  |  |  |  |
| **Bal.** |  | **$59,180** | **+** | **$ 900** | **+** | **$1,150** | **+** | **$2,530** | **+** | **$13,000** | **=** | **$8,550** | **+** | **$65,000** | | **-** | **$950** | **+** | **$7,100** | **-** | **$2,940** |

**Problem 1-9A *(Continued*)**

***Part 2***

**Sony Electric**

**Income Statement**

**For Month Ended December 31**

**Revenues**

**Electrical services revenue $7,100**

**Expenses**

**Rent expense $1,000**

**Salaries expense 1,400**

**Utilities expense 540**

**Total expenses 2,940**

**Net income $4,160**

**Sony Electric**

**Statement of Retained Earnings**

**For Month Ended December 31**

**Retained earnings, December 1 $ 0**

**Add: Net income 4,160**

**4,160**

**Less: Dividends 950**

**Retained earnings, December 31 $ 3,210**

**Sony Electric**

**Balance Sheet**

**December 31**

**Assets Liabilities**

**Cash $59,180 Accounts payable $ 8,550**

**Accounts receivable 900 Equity**

**Supplies 1,150 Common stock 65,000**

Office equipment 2,530 Retained earnings 3,210

Electrical equipment 13,000 Total equity 68,210

**Total assets $76,760 Total liabilities and equity $76,760**

**Problem 1-9A *(Concluded)***

***Part 3***

**Sony Electric**

**Statement of Cash Flows**

**For Month Ended December 31**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | | | |  | |
| **Cash flows from operating activities** |  | | | | |  | |
| **Cash received from customers1** | **$ 6,200** |  | | | | | |
| **Cash paid for rent** | **(1,000)** | | | |  | | |
| **Cash paid for supplies** | **(800)** | | | |  | | |
| **Cash paid for utilities** | **(540)** | | | |  | | |
| **Cash paid to employees** | **(1,400)** | | | |  | | |
| **Net cash provided by operating activities** |  | | | **$ 2,460** | | | |
|  |  | | | | |  |
| **Cash flows from investing activities** |  | | | | |  |
| **Cash paid for office equipment** | **(2,530)** | | | |  | |
| **Cash paid for electrical equipment** | **(4,800)** | | | |  | |
| **Net cash used by investing activities** |  | | | **(7,330)** | | | | | |
|  |  | | | | |  | | |
| **Cash flows from financing activities** |  | | | | |  | | |
| **Cash investment from shareholder** | **65,000** | |  | | | | | |
| **Cash dividend to shareholder** | **(950)** | | | |  | | | |
| **Net cash provided by financing activities** |  | | | | | **64,050** | |
|  |  | | | | |  | |
| **Net increase in cash** |  | | **$59,180** | | | | |
| **Cash balance, Dec. 1** |  | | | | | **0** | |
| **Cash balance, Dec. 31** |  | | | | | **$59,180** |

**1$1,200 + $5,000 = $6,200**

# Part 4

**If the December 1 investment had been $49,000 cash instead of $65,000 and the $16,000 difference was borrowed by the company from a bank, then:**

**(a) Total assets would remain the same.**

**(b) Total liabilities would be $16,000 greater.**

**(c) Total equity would be $16,000 lower (due to less owner investment).**

**Problem 1-10A (15 minutes)**

1. **Return on assets is net income divided by the average total assets.**

**Kyzera’s return: $65,000 / $250,000 = 0.26 or 26%.**

**2. Return on assets seems satisfactory for the risk involved in the manufacturing, marketing, and selling of cellular telephones. Moreover, Kyzera’s 26% return is more than twice as high as that of its competitors’ 12% return.**

1. **We know that revenues less expenses equal net income. Taking the revenues and net income numbers for Kyzera we obtain:**

**$475,000 - Expenses = $65,000 🡪 Expenses must equal $410,000.**

1. **We know from the accounting equation that total financing (liabilities plus equity) must equal the total for assets (investing). Since average total assets are $250,000, we know the average total of liabilities plus equity (financing) must equal $250,000.**

Problem 1-11A (20 minutes)

1. **Return on assets equals net income divided by average total assets.**

**a. Coca-Cola return: $8,634 / $76,448 = 0.113 or 11.3%.**

**b. PepsiCo return: $6,462 / $70,518 = 0.092 or 9.2%.**

**2. Strictly on the amount of sales to consumers, Coca-Cola’s sales of $46,542 are less than PepsiCo’s $66,504.**

**3. Success in returning net income from the average amount invested is revealed by the return on assets. Part 1 showed that Coca-Cola’s 11.3% return is better than PepsiCo‘s 9.2% return.**

**PROBLEM SET B**

**Problem 1-1B (25 minutes)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **a.** | | | | **b.** | | |
| **Balance Sheet** | | | **Income Statement** | **Statement of Cash Flows** | | |
|  | **Transaction** | **Total Assets** | **Total Liab.** | **Total**  **Equity** | **Net Income** | **Operating Activities** | **Investing Activities** | **Financing Activities** | |
| **1** | **Owner invests $800 cash in business in exchange for stock** | **+800** |  | **+800** |  |  |  | **+800** | |
| **2** | **Purchases $100 supplies on credit** | **+100** | **+100** |  |  |  |  |  | |
| **3** | **Buys equipment for $400 cash** | **+400**  **–400** |  |  |  |  | **–400** |  | |
| **4** | **Provide services for $900 cash** | **+900** |  | **+900** | **+900** | **+900** |  |  | |
| **5** | **Pays $400 cash for rent incurred** | **–400** |  | **–400** | **–400** | **–400** |  |  | |
| **6** | **Buys $200 of equipment on credit** | **+200** | **+200** |  |  |  |  |  | |
| **7** | **Pays $300 cash for wages incurred** | **–300** |  | **–300** | **–300** | **–300** |  |  | |
| **8** | **Pays $50 cash in dividends** | **–50** |  | **–50** |  |  |  | **–50** | |
| **9** | **Provide $600 services on credit** | **+600** |  | **+600** | **+600** |  |  |  | |
| **10** | **Collects $600 cash on accounts receivable** | **+600**  **–600** |  |  |  | **+600** |  |  | |

**Problem 1-2B (40 minutes)**

***Part 1***

**Company V**

**(a) and (b)**

**Calculation of equity:  *Beginning Ending***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | **$54,000** | | **$59,000** | | |
| **Liabilities** | | **(25,000)** | | | | **(36,000)** | | |
| **Equity** | | **$29,000** | | **$23,000** | | |

**(c) Calculation of net income for the year:**

**Equity, *beginning* of year $29,000**

**Plus stock issuances 5,000**

**Plus net income ?**

**Less cash dividends (5,500)**

**Equity, *end* of year $23,000**

**Therefore, the net loss must have been $(5,500).**

***Part 2***

**Company W**

**(a) Calculation of equity at *beginning* of year:**

**Assets $80,000**

**Liabilities (60,000)**

**Equity $20,000**

**(b) Calculation of equity at *end* of year:**

**Equity, *beginning* of year $20,000**

**Plus stock issuances 20,000**

**Plus net income 40,000**

**Less cash dividends (2,000)**

**Equity, *end* of year $78,000**

**(c) Calculation of the amount of liabilities at *end* of year:**

**Assets $100,000**

**Equity (78,000)**

**Liabilities $ 22,000**

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

***Part 3***

**Company X**

**First, compute the beginning and ending equity balances:**

***Beginning Ending***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | **$141,500** | | **$186,500** | | |
| **Liabilities** | | **(68,500)** | | | | **(65,800)** | | |
| **Equity** | | **$ 73,000** | | **$120,700** | | |

**Then, find the amount of stock issuances during the year:**

**Equity, beginning of year $ 73,000**

**Plus stock issuances ?**

**Plus net income 18,500**

**Less cash dividends  0**

**Equity, end of year $120,700**

**Thus, the stock issuances must have been $ 29,200**

***Part 4***

**Company Y**

**First, compute the beginning balance of equity:**

***Beginning***

**Assets $92,500**

**Liabilities 51,500**

**Equity $41,000**

**Next, find the ending balance of equity as follows:**

**Equity, beginning of year $41,000**

**Plus stock issuances 48,100**

**Plus net income 24,000**

**Less cash dividends (20,000)**

**Equity, end of year $93,100**

**Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of liabilities:**

***Ending***

**Liabilities $ 42,000**

**Equity 93,100**

**Assets $135,100**

**Problem 1-2B *(Concluded)***

***Part 5***

**Company Z**

**First, compute the balance of equity at end of year:**

**Assets $170,000**

**Liabilities (42,000)**

**Equity $128,000**

**Next, find the beginning balance of equity as follows:**

**Equity, beginning of year $ ?**

**Plus stock issuances 60,000**

**Plus net income 32,000**

**Less cash dividends (8,000)**

**Equity, end of year $128,000**

**Thus, the beginning balance of equity is $44,000.**

**Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of assets:**

***Beginning***

**Assets $144,000**

**Equity (44,000)**

**Liabilities $100,000**

**Problem 1-3B (20 minutes)**

**Audi Company**

**Income Statement**

**For Current Year Ended December 31**

**Revenues**

**Consulting revenue $6,600**

**Rental revenue 4,400**

**Total revenues $11,000**

**Expenses**

**Salaries expense 4,000**

**Rent expense 2,400**

**Selling and administrative expenses 1,600**

**Total expenses 8,000**

**Net income $ 3,000**

**Problem 1-4B (20 minutes)**

**Audi Company**

**Statement of Retained Earnings**

**For Current Year Ended December 31**

**Retained earnings, Dec. 31, prior year $ 900**

**Add: Net income (from Problem 1-3B) 3,000**

**3,900**

**Less: Dividends 2,600**

**Retained earnings, Dec. 31, current year $1,300**

**Problem 1-5B (20 minutes)**

**Audi Company**

**Balance Sheet**

**December 31**

**Assets Liabilities**

**Cash $2,000 Accounts payable $3,600**

**Accounts receivable 1,800 Total liabilities 3,600**

**Supplies 1,200 Equity**

**Equipment 1,000 Common stock 1,100**

**Retained earnings\* 1,300**

**\_\_\_\_\_ Total equity 2,400**

**Total assets $6,000 Total liabilities and equity $6,000**

**\* For computation of this amount see Problem 1-4B.**

**Problem 1-6B (15 minutes)**

**Banji Company**

**Statement of Cash Flows**

**For Current Year Ended December 31**

Cash used by operating activities $(3,000)

**Cash from investing activities 1,600**

**Cash from financing activities 1,800**

Net increase in cash $ 400

**Cash, December 31, prior year 1,300**

Cash, December 31, current year $ 1,700

**Problem 1-7B (60 minutes) *Part 1***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | | | | | | | | | | | **=** | **Liabilities** | | **+** | | **Equity** | | | | | | | | |
| **Date** | | | | **Cash** | **+** | | **Accounts Receivable** | | **+** | | **Equipment** | | **=** | Accounts **Payable** | | **+** | | **Common Stock** | | | **-** | **Dividends** | **+** | **Revenues** | **-** | **Expenses** |
| **June** | | **1** | **+$130,000** | | |  | |  | |  | |  | **=** | |  | | **+** | | **$130,000** |  | |  |  |  |  |  |
|  | **2** | | **- 6,000** | | |  | |  | |  | |  | **=** | |  | |  | |  |  | |  |  |  | **-** | **$6,000 Rent** |
|  | **4** | |  | | |  | |  | | **+** | | **$2,400** | **=** | | **+ $2,400** | |  | |  |  | |  |  |  |  |  |
|  | **6** | | **- 1,150** | | |  | |  | |  | |  | **=** | |  | |  | |  |  | |  |  |  | **-** | **1,150 Advertising** |
|  | **8** | | **+ 850** | | |  | |  | |  | |  | **=** | |  | |  | |  |  | |  | **+** | **$ 850** |  |  |
|  | **14** | |  | | | **+** | | **$7,500** | |  | |  | **=** | |  | |  | |  |  | |  | **+** | **7,500** |  |  |
|  | **16** | | **- 800** | | |  | |  | |  | |  | **=** | |  | |  | |  |  | |  |  |  | **-** | **800 Salary** |
|  | **20** | | **+ 7,500** | | | **-** | | **7,500** | |  | |  | **=** | |  | |  | |  |  | |  |  |  |  |  |
|  | **21** | |  | | | **+** | | **7,900** | |  | |  | **=** | |  | |  | |  |  | |  | **+** | **7,900** |  |  |
|  | **24** | |  | | | **+** | | **675** | |  | |  | **=** | |  | |  | |  |  | |  | **+** | **675** |  |  |
|  | **25** | | **+ 7,900** | | | **-** | | **7,900** | |  | |  | **=** | |  | |  | |  |  | |  |  |  |  |  |
|  | **26** | | **- 2,400** | | |  | |  | |  | |  | **=** | | **- 2,400** | |  | |  |  | |  |  |  |  |  |
|  | **28** | | **- 800** | | |  | |  | |  | |  | **=** | |  | |  | |  |  | |  |  |  | **-** | **800 Salary** |
|  | **29** | | **- 4,000** | | |  | |  | |  | |  | **=** | |  | |  | |  | **-** | | **$4,000** |  |  |  |  |
|  | **30** | | **- 150** | | |  | |  | |  | |  | **=** | |  | |  | |  |  | |  |  |  | **-** | **150 Telephone** |
|  | **30** | | **- 890** | | |  | |  | |  | |  | **=** | |  | |  | |  |  | |  |  |  | **-** | **890 Utilities** |
|  |  | | **$130,060** | | | **+** | | **$ 675** | | **+** | | **$2,400** | **=** | | **$ 0** | | **+** | | **$130,000** | **-** | | **$4,000** | **+** | **$16,925** | **-** | **$9,790** |

**Problem 1-7B *(Continued)***

***Part 2***

**Niko’s Maintenance Co.**

**Income Statement**

**For Month Ended June 30**

**Revenues**

**Maintenance services revenue $16,925**

**Expenses**

**Rent expense $6,000**

**Salaries expense 1,600**

**Advertising expense 1,150**

**Utilities expense 890**

**Telephone expense 150**

**Total expenses 9,790**

**Net income $ 7,135**

**Niko’s Maintenance Co.**

**Statement of Retained Earnings**

**For Month Ended June 30**

**Retained earnings, June 1 $ 0**

**Add: Net income 7,135**

**7,135**

**Less: Dividends 4,000**

**Retained earnings, June 30 $ 3,135**

**Niko’s Maintenance Co.**

**Balance Sheet**

**June 30**

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** | | **Liabilities** | |
| Cash | **$130,060** | Accounts payable | **$ 0** |
| **Accounts receivable** | **675** | **Equity** |  |
| **Equipment** | **2,400** | Common stock | **130,000** |
|  |  | Retained earnings | **3,135** |
|  | **\_\_\_\_\_\_\_** | Total equity | **133,135** |
| **Total assets** | **$133,135** | **Total liabilities and equity** | **$133,135** |

**Problem 1-7B *(Concluded)***

# Part 3

**Niko’s Maintenance Co.**

**Statement of Cash Flows**

**For Month Ended June 30**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | | | | | |  | |
| **Cash flows from operating activities** |  | | | | | | |  | |
| **Cash received from customers1** | **$ 16,250** | | | |  | | | | |
| **Cash paid for rent** | **(6,000)** | | | | | |  | | |
| **Cash paid for advertising** | **(1,150)** | | | | | |  | | |
| **Cash paid for telephone** | **(150)** | | | | | |  | | |
| **Cash paid for utilities** | **(890)** | | | | | |  | | |
| **Cash paid to employees** | **(1,600)** | | | | | |  | | |
| **Net cash provided by operating activities** | |  | | | | **$ 6,460** | | | |
|  |  | | | | | | |  |
| **Cash flows from investing activities** |  | | | | | | |  |
| **Cash paid for equipment** | **(2,400)** | | | | | |  | | |
| **Net cash used by investing activities** | |  | | | | **(2,400)** | | | | |
|  |  | | | | | | |  | |
| **Cash flows from financing activities** |  | | | | | | |  | |
| **Cash investments from shareholder** | **130,000** | | |  | | | | | |
| **Cash dividends to shareholder** | **(4,000)** | | | | | |  | | |
| **Net cash provided by financing activities** |  | | | | | | | **126,000** | |
|  |  | | | | | | |  | |
| **Net increase in cash** |  | | **$130,060** | | | | | | |
| **Cash balance, June 1** |  | | **0** | | | | | | |
| **Cash balance, June 30** | |  | **$130,060** | | | | | | |

1$850 + $7,500 + $7,900 = $16,250

Problem 1-8B (60 minutes) *Part 1*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | | | | | | | | **=** | **Liabilities** | | **+** | | **Equity** | | | | | | |
|  | **Cash** | **+** | **Accounts Receivable** | **+** | **Supplies** | **+** | **Equipment** | **+** | Building | **=** | **Accounts Payable** | **+** | | **Common Stock** | | **-** | **Dividends** | **+** | **Reve-nues** | **-** | **Expen-ses** |
| **a.** | **+ $90,000** |  |  |  |  | **+** | **$10,000** |  |  |  |  | **+** | | **$100,000** | |  |  |  |  |  |  |
| **b.** | **- 50,000** |  |  |  |  |  |  | **+** | **$50,000** |  |  |  | |  | |  |  |  |  |  |  |
| **Bal.** | **40,000** |  |  |  |  | **+** | **10,000** | **+** | **50,000** | **=** |  | **+** | | **100,000** | |  |  |  |  |  |  |
| **c.** | **- 25,000** |  |  |  |  | **+** | **25,000** |  |  |  |  |  | |  | |  |  |  |  |  |  |
| **Bal.** | **15,000** |  |  |  |  | **+** | **35,000** | **+** | **50,000** | **=** |  | **+** | | **100,000** | |  |  |  |  |  |  |
| **d.** |  |  |  | **+** | **$1,200** | **+** | **1,700** |  |  |  | **+ $2,900** |  | |  | |  |  |  |  |  |  |
| **Bal.** | **15,000** |  |  |  | **1,200** | **+** | **36,700** | **+** | **50,000** | **=** | **2,900** | **+** | | **100,000** | |  |  |  |  |  |  |
| **e.** | **- 750** |  |  |  |  |  |  |  |  |  |  |  | |  | |  |  |  |  | **-** | **$ 750** |
| **Bal.** | **14,250** |  |  | **+** | **1,200** | **+** | **36,700** | **+** | **50,000** | **=** | **2,900** | **+** | | **100,000** | |  |  |  |  | **-** | **750** |
| **f.** |  | **+** | **$2,800** |  |  |  |  |  |  |  |  |  | |  | |  |  | **+** | **$2,800** |  |  |
| **Bal.** | **14,250** | **+** | **2,800** | **+** | **1,200** | **+** | **36,700** | **+** | **50,000** | **=** | **2,900** | **+** | | **100,000** | |  |  | **+** | **2,800** | **-** | **750** |
| **g.** | **+ 4,000** |  |  |  |  |  |  |  |  |  |  |  | |  | |  |  | **+** | **4,000** |  |  |
| **Bal.** | **18,250** | **+** | **2,800** | **+** | **1,200** | **+** | **36,700** | **+** | **50,000** | **=** | **2,900** | **+** | | **100,000** | |  |  | **+** | **6,800** | **-** | **750** |
| **h.** | **- 11,500** |  |  |  |  |  |  |  |  |  |  |  | |  | | **-** | **$11,500** |  |  |  |  |
| **Bal.** | **6,750** | **+** | **2,800** | **+** | **1,200** | **+** | **36,700** | **+** | **50,000** | **=** | **2,900** | **+** | | **100,000** | | **-** | **11,500** | **+** | **6,800** | **-** | **750** |
| **i.** | **+ 1,800** | **-** | **1,800** |  |  |  |  |  |  |  |  |  | |  | |  |  |  |  |  |  |
| **Bal.** | **8,550** | **+** | **1,000** | **+** | **1,200** | **+** | **36,700** | **+** | **50,000** | **=** | **2,900** | **+** | | **100,000** | | **-** | **11,500** | **+** | **6,800** | **-** | **750** |
| **j.** | **- 700** |  |  |  |  |  |  |  |  |  | **- 700** |  | |  | |  |  |  |  |  |  |
| **Bal.** | **7,850** | **+** | **1,000** | **+** | **1,200** | **+** | **36,700** | **+** | **50,000** | **=** | **2,200** | **+** | | **100,000** | | **-** | **11,500** | **+** | **6,800** | **-** | **750** |
| **k.** | **- 2,500** |  |  |  |  |  |  |  |  |  |  |  | |  | |  |  |  |  | **-** | **2,500** |
| **Bal.** | **$ 5,350** | **+** | **$1,000** | **+** | **$1,200** | **+** | **$36,700** | **+** | **$50,000** | **=** | **$2,200** | **+** | | **$100,000** | | **-** | **$11,500** | **+** | **$6,800** | **-** | **$3,250** |
|  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  |  |  |  |  |  |

Problem 1-8B *(Concluded)*

# Part 2

**The company’s net income = $6,800 - $3,250 = $3,550**

Problem 1-9B (60 minutes) *Part 1*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Assets** | | | | | | | | | **=** | **Liabilities** | | **+** | **Equity** | | | | | | |
| **Date** |  | **Cash** | **+** | **Accounts Receivable** | **+** | **Supplies** | **+** | **Office Equipment** | **+** | Roofing Equipment | **=** | **Accounts Payable** | **+** | | **Common Stock** | **-** | **Dividends** | **+** | **Revenues** | - | **Expenses** |
| **July** | **1** | **+ $80,000** |  |  |  |  |  |  |  |  | **=** |  | **+** | | **$80,000** |  |  |  |  |  |  |
|  | **2** | **- 700** |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  | **-** | **$700** |
| **Bal.** |  | **79,300** |  |  |  |  |  |  |  |  | **=** |  |  | | **80,000** |  |  |  |  | **-** | **700** |
|  | **3** | **- 1,000** |  |  |  |  |  |  | **+** | **$5,000** |  | **+ $4,000** |  | |  |  |  |  |  |  |  |
| **Bal.** |  | **78,300** |  |  |  |  |  |  | **+** | **5,000** | **=** | **4,000** | **+** | | **80,000** |  |  |  |  | **-** | **700** |
|  | **6** | **- 600** |  |  | **+** | **$ 600** |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |
| **Bal.** |  | **77,700** |  |  | **+** | **600** |  |  | **+** | **5,000** | **=** | **4,000** | **+** | | **80,000** |  |  |  |  | **-** | **700** |
|  | **8** | **+ 7,600** |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | **+** | **$7,600** |  |  |
| **Bal.** |  | **85,300** |  |  | **+** | **600** |  |  | **+** | **5,000** | **=** | **4,000** | **+** | | **80,000** |  |  | **+** | **7,600** | **-** | **700** |
|  | **10** |  |  |  |  |  | **+** | **$2,300** |  |  |  | **+ 2,300** |  | |  |  |  |  |  |  |  |
| **Bal.** |  | **85,300** |  |  | **+** | **600** | **+** | **2,300** | **+** | **5,000** | **=** | **6,300** | **+** | | **80,000** |  |  | **+** | **7,600** | **-** | **700** |
|  | **15** |  | **+** | **$8,200** |  |  |  |  |  |  |  |  |  | |  |  |  | **+** | **8,200** |  |  |
| **Bal.** |  | **85,300** | **+** | **8,200** | **+** | **600** | **+** | **2,300** | **+** | **5,000** | **=** | **6,300** | **+** | | **80,000** |  |  | **+** | **15,800** | **-** | **700** |
|  | **17** |  |  |  | **+** | **3,100** |  |  |  |  |  | **+ 3,100** |  | |  |  |  |  |  |  |  |
| **Bal.** |  | **85,300** | **+** | **8,200** | **+** | **3,700** | **+** | **2,300** | **+** | **5,000** | **=** | **9,400** | **+** | | **80,000** |  |  | **+** | **15,800** | **-** | **700** |
|  | **23** | **- 2,300** |  |  |  |  |  |  |  |  |  | **- 2,300** |  | |  |  |  |  |  |  |  |
| **Bal.** |  | **83,000** | **+** | **8,200** | **+** | **3,700** | **+** | **2,300** | **+** | **5,000** | **=** | **7,100** | **+** | | **80,000** |  |  | **+** | **15,800** | **-** | **700** |
|  | **25** |  | **+** | **5,000** |  |  |  |  |  |  |  |  |  | |  |  |  | **+** | **5,000** |  |  |
| **Bal.** |  | **83,000** | **+** | **13,200** | **+** | **3,700** | **+** | **2,300** | **+** | **5,000** | **=** | **7,100** | **+** | | **80,000** |  |  | **+** | **20,800** | **-** | **700** |
|  | **28** | **+ 8,200** | **-** | **8,200** |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |
| **Bal.** |  | **91,200** | **+** | **5,000** | **+** | **3,700** | **+** | **2,300** | **+** | **5,000** | **=** | **7,100** | **+** | | **80,000** |  |  | **+** | **20,800** | **-** | **700** |
|  | **30** | **- 1,560** |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  | **-** | **1,560** |
| **Bal.** |  | **89,640** | **+** | **5,000** | **+** | **3,700** | **+** | **2,300** | **+** | **5,000** | **=** | **7,100** | **+** | | **80,000** |  |  | **+** | **20,800** | **-** | **2,260** |
|  | **31** | **- 295** |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  | **-** | **295** |
| **Bal.** |  | **89,345** | **+** | **5,000** | **+** | **3,700** | **+** | **2,300** | **+** | **5,000** | **=** | **7,100** | **+** | | **80,000** |  |  | **+** | **20,800** | **-** | **2,555** |
|  | **31** | **- 1,800** |  |  |  |  |  |  |  |  |  |  |  | |  | **-** | **$1,800** |  |  |  |  |
| **Bal.** |  | **$87,545** | **+** | **$ 5,000** | **+** | **$3,700** | **+** | **$2,300** | **+** | **$5,000** | **=** | **$7,100** | **+** | | **$80,000** | **-** | **$1,800** | **+** | **$20,800** | **-** | **$2,555** |

**Problem 1-9B *(Continued*)**

***Part 2***

**Rivera Roofing Company**

**Income Statement**

**For Month Ended July 31**

**Revenues**

**Roofing services revenue $20,800**

**Expenses**

**Rent expense $ 700**

**Salaries expense 1,560**

**Utilities expense 295**

**Total expenses 2,555**

**Net income $18,245**

**Rivera Roofing Company**

**Statement of Retained Earnings**

**For Month Ended July 31**

**Retained earnings, July 1 $ 0**

**Add: Net income 18,245**

**18,245**

**Less: Dividends 1,800**

**Retained earnings, July 31 $16,445**

**Rivera Roofing Company**

**Balance Sheet**

**July 31**

***Assets Liabilities***

Cash $ 87,545 Accounts payable $ 7,100

**Accounts receivable 5,000 *Equity***

**Supplies 3,700 Common stock 80,000**

Office equipment 2,300 Retained earnings 16,445

Roofing equipment 5,000 Total equity 96,445

**Total assets $103,545 Total liabilities & equity $103,545**

**Problem 1-9B *(Concluded)***

***Part 3***

**Rivera Roofing Company**

**Statement of Cash Flows**

**For Month Ended July 31**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | | | |  | |
| **Cash flows from operating activities** |  | | | | |  | |
| **Cash received from customers1** | **$15,800** |  | | | | | |
| **Cash paid for rent** | **(700)** | | | |  | | |
| **Cash paid for supplies** | **(600)** | | | |  | | |
| **Cash paid for utilities** | **(295)** | | | |  | | |
| **Cash paid to employees** | **(1,560)** | | | |  | | |
| **Net cash provided by operating activities** |  | | | **$12,645** | | | |
|  |  | | | | |  |
| **Cash flows from investing activities** |  | | | | |  |
| **Cash paid for roofing equipment** | **(1,000)** | | | |  | |
| **Cash paid for office equipment** | **(2,300)** | | | |  | |
| **Net cash used by investing activities** |  | | | **(3,300)** | | | | | |
|  |  | | | | |  | | |
| **Cash flows from financing activities** |  | | | | |  | | |
| **Cash investments from shareholder** | **80,000** | |  | | | | | |
| **Cash dividends to shareholder** | **(1,800)** | | | |  | | | |
| **Net cash provided by financing activities** |  | | | | | **78,200** | |
|  |  | | | | |  | |
| **Net increase in cash** |  | | **$87,545** | | | | |
| **Cash balance, July 1** |  | | | | | **0** | |
| **Cash balance, July 31** |  | | | | | **$87,545** |

**1$7,600 + $8,200 = $15,800**

# Part 4

**If the $5,000 purchase on July 3 had been acquired through an additional owner investment of cash, then:**

1. **Total assets would be greater by $1,000.**
2. **Total liabilities would be $4,000 less.**
3. **Total equity would be $5,000 greater.**

**Problem 1-10B (15 minutes)**

1. **Return on assets is net income divided by average total assets (the average amount invested). For Ski-Doo Company this return is computed as:**

**$201,000 / $3,000,000 = 0.067 or 6.7%.**

1. **Return on assets does not seem satisfactory for the risk involved in the manufacturing, marketing, and selling of snowmobile equipment. Ski-Doo Company’s 6.7% return is less than the 9.5% return earned by its competitors.**
2. **We know that revenues less expenses equal net income. Taking the revenues and net income numbers for Ski-Doo Company we obtain:**

**$1,400,000 - Expenses = $201,000 🡪 Expenses must equal $1,199,000.**

1. **We know from the accounting equation that the total of liabilities plus equity (financing) must equal the total for assets (investing). Since average total assets are $3,000,000, we know the average total of liabilities plus equity (financing) must equal $3,000,000.**

**Problem 1-11B (15 minutes)**

1. **Return on assets equals net income divided by average total assets.**

**a. AT&T return: $4,184/ $269,868 = 0.016 or 1.6%**

**b. Verizon return: $10,198/ $225,233 = 0.045 or 4.5%**

1. **On strictly the amount of sales to consumers, AT&T’s sales of $126,723 are greater than Verizon’s sales of $110,875.**

**3. Success in returning net income from the amount invested is revealed by the return on assets ratio. Part 1 showed that AT&T has a much lower return on assets of 1.6% versus Verizon with a 4.5% return on assets.**

4. The reported figures suggest Verizon is more successful in generating income based on assets. Based on this information alone, we would be better advised to invest in Verizon than AT&T.

**Nevertheless, we would look for additional information in financial statements and other sources for further guidance. For example, if AT&T could reduce its expenses, or reduce its assets without reducing income, it could potentially be a more appealing investment given its greater market share; or, Verizon could do the same and make it appear more appealing as an investment. We would also look for consumer trends, market expansion, competition, and product development and promotion plans.**

**Serial Problem — SP 1 (30 minutes) *Business Solutions***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **Assets** | | | | | | | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | | |
| **Date** | | **Cash** | **+** | **Accounts Receivable** | **+** | **Computer Supplies** | **+** | **Computer System** | **+** | **Office Equipment** | **=** | **Accounts Payable** | **+** | **Common Stock** | **-** | **Dividends** | **+** | **Revenues** | **-** | **Expenses** |
| **Oct.** | **1** | **+$45,000** |  |  |  |  |  | **$20,000** | **+** | **$8,000** |  |  | **+** | **$73,000** |  |  |  |  |  |  |
|  | **3** |  |  |  | **+** | **$1,420** |  |  |  |  |  | **+ $1,420** |  |  |  |  |  |  |  |  |
| **Bal.** |  | **45,000** |  |  | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **1,420** | **+** | **73,000** |  |  |  |  |  |  |
|  | **6** |  | **+** | **$4,800** |  |  |  |  |  |  |  |  |  |  |  |  | **+** | **$ 4,800** |  |  |
| **Bal.** |  | **45,000** | **+** | **4,800** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **1,420** | **+** | **73,000** |  |  | **+** | **4,800** |  |  |
|  | **8** | **- 1,420** |  |  |  |  |  |  |  |  |  | **- 1,420** |  |  |  |  |  |  |  |  |
| **Bal.** |  | **43,580** | **+** | **4,800** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **0** | **+** | **73,000** |  |  | **+** | **4,800** |  |  |
|  | **12** |  | **+** | **1,400** |  |  |  |  |  |  |  |  |  |  |  |  | **+** | **1,400** |  |  |
| **Bal.** |  | **43,580** | **+** | **6,200** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **0** | **+** | **73,000** |  |  | **+** | **6,200** |  |  |
|  | **15** | **+ 4,800** | - | **4,800** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Bal.** |  | **48,380** | **+** | **1,400** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **0** | **+** | **73,000** |  |  | **+** | **6,200** |  |  |
|  | **17** | **- 805** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **-** | **$ 805** |
| **Bal.** |  | **47,575** | **+** | **1,400** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **0** | **+** | **73,000** |  |  | **+** | **6,200** | **-** | **805** |
|  | **20** | **- 1,728** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **-** | **1,728** |
| **Bal.** |  | **45,847** | **+** | **1,400** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **0** | **+** | **73,000** |  |  | **+** | **6,200** | **-** | **2,533** |
|  | **22** | **+ 1,400** | **-** | **1,400** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Bal.** |  | **47,247** | **+** | **0** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **0** | **+** | **73,000** |  |  | **+** | **6,200** | **-** | **2,533** |
|  | **28** |  | **+** | **5,208** |  |  |  |  |  |  |  |  |  |  |  |  | **+** | **5,208** |  |  |
| **Bal.** |  | **47,247** | **+** | **5,208** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **0** | **+** | **73,000** |  |  | **+** | **11,408** | **-** | **2,533** |
|  | **31** | **- 875** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **-** | **875** |
| **Bal.** |  | **46,372** | **+** | **5,208** | **+** | **1,420** | **+** | **20,000** | **+** | **8,000** | **=** | **0** | **+** | **73,000** |  |  | **+** | **11,408** | **-** | **3,408** |
|  | **31** | **- 3,600** |  |  |  |  |  |  |  |  |  |  |  |  | **-** | **$3,600** |  |  |  |  |
| **Bal.** |  | **$42,772** | **+** | **$5,208** | **+** | **$1,420** | **+** | **$20,000** | **+** | **$8,000** | **=** | **$ 0** | **+** | **$73,000** | **-** | **$3,600** | **+** | **$11,408** | **-** | **$3,408** |

**Company Analysis — FSA 1-1**

**1. $365,725 ($ millions)**

***Explanation*: An organization’s total assets always equal total liabilities plus total equity. Therefore, Apple’s liabilities plus equity equal Apple’s total assets.**

**2. 16.1%**

***Explanation*: Return on assets is net income divided by the average total assets invested. For Apple this return is ($ millions):**

**$59,531 / [($365,725 + 375,319)/2] = 0.161 or 16.1%.**

1. **$206,064 ($ millions)**

***Explanation*: We know that net income equals total revenues less total expenses. For Apple, we are told net income is $59,531 and revenues are $265,595. Thus, Apple’s total expenses are computed as: $265,595 - Expenses = $59,531. Total expenses must equal $206,064 ($ millions).**

1. **Better**

***Explanation*: Apple’s return on assets of 16.1% is good given that it exceeds its competitors’ return on assets of 10% for this period.**

**Comparative Analysis — FSA 1-2**

|  |  |  |
| --- | --- | --- |
| **($ millions)** | **Apple** | **Google** |
| **1. Total Assets = Liabilities + Equity** | | **$365,725** | **$232,792** |
| **2. Return on assets** | | **$59,531** | **$30,736** |
|  | | **[($365,725 + $375,319)/2]** | **[($232,792 + $197,295)/2]** |
|  | | **16.1%** | **14.3%** |
| 1. **Revenues-Expenses**   **= Net income** | | **$265,595 – Expenses**  **= $59,531** | **$136,819 – Expenses**  **= $30,736** |
| **🡪 Expenses =** | | **Expenses = $206,064** | **Expenses = $106,083** |

1. (a) Better

*Explanation*: Apple’s 16.1% return is good given the moderate risk Apple confronts and vis-à-vis the 10% return of its competitors.

(b) Better

*Explanation*: Google’s 14.3% return is good given the moderate risk Google confronts and vis-à-vis the 10% return of its competitors.

5. Apple

*Explanation*: Apple’s return on assets is superior to Google’s return on assets. Therefore, based only on return on assets, you would invest in Apple.

Global Analysis — FSA 1-3 (20 minutes)

1. **(a) 13.8%**

***Explanation*: Return on assets is net income divided by the average total assets invested. For Samsung this return is (₩ millions): ₩44,344,857 / ₩320,554,667 = 0.138 or 13.8%.**

**(b) 15.0%**

***Explanation*: Return on assets is net income divided by the average total assets invested. For Samsung this return is (₩ millions): ₩42,186,747 / ₩281,963,207 = 0.15 or 15.0%.**

1. **Unfavorable**

***Explanation*: Samsung’s return on assets decreased in the current year versus the prior year.**

1. **(a) Worse**

***Explanation*: Samsung’s return on assets of is worse than Apple’s return on assets. Apple’s return on assets is computed: $ 59,531 / $** **$370,522 = 0.161 or 16.1%.**

(b) Worse

*Explanation*: Samsung’s return on assets of is worse than Google’s return on assets. Google’s return on assets is computed: $30,736 / $215,044 = 0.143 or 14.3%.

**DISCUSSION QUESTIONS**

**1. The purpose of accounting is to provide decision makers with relevant and reliable information to help them make better decisions. Examples include information for people making investments, loans, and business plans.**

**2. Technology reduces the time, effort, and cost of recordkeeping. There is still a demand for people who can design accounting systems, supervise their operation, analyze complex transactions, and interpret reports. Demand also exists for people who can effectively use computers to prepare and analyze accounting reports. Technology will never substitute for qualified people with abilities to prepare, use, analyze, and interpret accounting information.**

**3. External users and their uses of accounting information include: (a) lenders, to measure the risk and return of loans; (b) shareholders, to assess whether to buy, sell, or hold their shares; (c) directors, to oversee the organization; (d) employees and labor unions, to judge the fairness of wages and assess future employment opportunities; and (e) regulators, to determine whether the organization is complying with regulations. Other users are voters, legislators, government officials, contributors to nonprofits, suppliers, and customers.**

**4. Business owners and managers use accounting information to help answer questions such as: What resources does an organization own? What debts are owed? How much income is earned? Are expenses reasonable for the level of sales? Are customers’ accounts being promptly collected?**

**5. Service businesses include: Standard and Poor’s, Dun & Bradstreet, Merrill Lynch, Southwest Airlines, CitiCorp, Humana, Charles Schwab, and Prudential. Businesses offering products include Nike, Reebok, Gap, Apple, Ford Motor Co., Philip Morris, Coca-Cola, Best Buy, and WalMart.**

**6. The internal role of accounting is to serve the organization’s internal operating functions. It does this by providing useful information for internal users in completing their tasks more effectively and efficiently. By providing this information, accounting helps the organization reach its overall goals.**

**7. Accounting professionals offer many services including auditing, management advice, tax planning, business valuation, and money management.**

**8. Marketing managers are likely interested in information such as sales volume, advertising costs, promotion costs, salaries of sales personnel, and sales commissions.**

**9. Accounting is described as a service activity because it serves decision makers by providing information to help them make better business decisions.**

**10. Some accounting-related professions include consultant, financial analyst, underwriter, financial planner, appraiser, FBI investigator, market researcher, and system designer.**

**11. Ethics rules require that auditors avoid auditing clients in which they have a direct investment, or if the auditor’s fee is dependent on the figures in the client’s reports. This will help prevent others from doubting the quality of the auditor’s report.**

**12. In addition to preparing tax returns, tax accountants help companies and individuals plan future transactions to minimize the amount of tax to be paid. They are also actively involved in estate planning and in helping set up organizations. Some tax accountants work for regulatory agencies such as the IRS or the various state departments of revenue. These tax accountants help to enforce tax laws.**

**13. The objectivity concept means that financial statement information is supported by independent, unbiased evidence other than someone’s opinion or imagination.**

**14. This treatment is justified by both the measurement (cost) principle and the going-concern assumption.**

**15. The revenue recognition principle provides guidance for managers and auditors so they know when to recognize revenue. If revenue is recognized too early, the business looks more profitable than it is. On the other hand, if revenue is recognized too late the business looks less profitable than it is. This principle demands that revenue be recognized when it is both earned (when service or product is provided) and can be measured reliably. The amount of revenue should equal the value of the assets received or expected to be received from the business’s operating activities covering a specific time period.**

**16. Business organizations can be organized as a sole proprietorship, partnership, corporation, or LLC. These forms have implications for legal entity and liability, business life, taxation, and number of owners as follows.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | ***Proprietorship*** | ***Partnership*** | ***Corporation*** | ***LLC*** |
|  | **Business entity** | **yes** | **yes** | **yes** | **yes** |
|  | **Legal entity** | **no** | **no** | **yes** | **yes** |
|  | **Limited liability** | **no** | **no** | **yes** | **yes** |
|  | **Unlimited life** | **no** | **no** | **yes** | **yes** |
|  | **Business Taxed** | **no** | **no** | **yes** | **no** |
|  | **One owner allowed** | **yes** | **no** | **yes** | **yes** |

**17. (a) Assets are resources owned or controlled by a company that are expected to yield future benefits. (b) Liabilities are creditors’ claims on assets that reflect obligations to provide assets, products, or services to others. (c) Equity is the owner’s claim on assets and is equal to assets minus liabilities. (d) Net assets refer to equity.**

**18. Equity is increased by investments (stock issuances) from the owner and by net income (which is the excess of revenues over expenses). It is decreased by dividends and by a net loss (which is the excess of expenses over revenues).**

**19. Accounting principles consist of (a) *general* and (b) *specific* principles. General principles are the basic assumptions, concepts, and guidelines for preparing financial statements. They stem from long-used accounting practices. Specific principles are detailed rules used in reporting on business transactions and events. They usually arise from the rulings of authoritative and regulatory groups such as the Financial Accounting Standards Board or the Securities and Exchange Commission.**

**20. Revenue (or sales) is the amount received from selling products and services.**

**21. Net income (also called income, profit, or earnings) equals revenues minus expenses (if revenues exceed expenses). Net income increases equity. If expenses exceed revenues, the company has a net loss. Net loss decreases equity.**

**22. The four basic financial statements are: income statement, statement of retained earnings, balance sheet, and statement of cash flows.**

**23. An income statement reports a company’s revenues and expenses along with the resulting net income or loss over a period of time.**

**24. Rent expense, utilities expense, administrative expenses, advertising and promotion expenses, maintenance expense, and salaries and wages expenses are some examples of business expenses.**

**25. The statement of retained earnings explains the changes in retained earnings from net income or loss, and from any owner contributions (stock issuances) and dividends over a period of time.**

**26. The balance sheet describes a company’s financial position (types and amounts of assets, liabilities, and equity) at a point in time.**

**27. The statement of cash flows reports on the cash inflows and outflows from a company’s operating, investing, and financing activities.**

**28. Return on assets, also called return on investment, is a profitability measure that is useful in evaluating management, analyzing and forecasting profits, and planning activities. It is computed as net income divided by the average total assets. For example, if we have an average annual balance of $100 in a bank account and it earns interest of $5 for the year, then our return on assets is $5 / $100 or 5%. The return on assets is a popular measure for analysis because it allows us to compare companies of different sizes and in different industries.**

**29. The dollar amounts in Google’s financial statements are rounded to the nearest million ($1,000,000). Google’s consolidated statement of income (or income statement) covers the calendar-year ended December 31, 2018. Google also reports comparative income statements for the previous two years.**

**30. The independent auditor for Apple is Ernst & Young, LLP. The auditor expressly states that “our responsibility is to express an opinion on Apple Inc.’s financial statements based on our audits.” The auditor also states that “these financial statements are the responsibility of Apple Inc.’s management.”**

**Ethics Challenge — BTN 1-1**

**1. There are several parties affected. They include the users of financial statements such as shareholders, lenders, investors, analysts, suppliers, directors, unions, regulators, and others. They also include the accounting firm, which can be sued if deemed a party to misleading statements.**

2. A major factor in the value of an auditor's report is the auditor's independence. If an auditor accepted a fee that increases when the client’s reported profit increases, the auditor is (or at least is perceived to be) interested in higher profits for the client. This compromises the auditor's independence.

**3. Thorne should not accept this fee arrangement. To avoid compromising the auditor's independence, Thorne should reject it. (Further, the AICPA Code of Professional Conduct forbids auditors from accepting contingent fees that depend on amounts reported in a client's financial statements. This AICPA Code has been codified into law in most states and, therefore, this action would also be an illegal act for a CPA.)**

**4. Ethical considerations guiding this decision include the potential harm to affected parties by allowing such a fee arrangement to exist. The unacceptable nature of such a fee arrangement guards the profession against unethical actions that could undermine its real and perceived value to society.**

**Communicating in Practice — BTN 1-2**

**1. Deciding whether Apple is a good loan risk can be difficult because the planned expansion is risky if customer demand does not meet expectations. As a loan officer in this situation you would want information on the company’s (1) projections of expected cash receipts and cash payments (best provided on a monthly basis); (2) assessment of the market, the company’s plans, and a strategy to achieve success; (3) cash contributions that the owners will make to the business; and (4) a listing of tangible assets (including their price and useful life) necessary to carry out the company’s plans.**

**2. How the company is organized is important to a loan officer. If it is a standard partnership (which it was, and not a LLC), the personal assets of the owners are available to repay the loan. In this case, a loan officer will want information about the owners’ financial condition. If it is a corporation, the amounts invested in the business by each shareholder are especially important. The loan officer can also require owners or shareholders to personally guarantee the loan for additional protection for the bank. Careful execution of these steps should minimize the bank’s risk of taking on a bad loan.**

**Taking It to the Net — BTN 1-3**

**1.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **$ thousands** | **2018** | **2017** | **2016** | **2015** | **2014** |
| **Revenues** | **$38,075** | **$38,296** | **$40,457** | **$41,508** | **$39,185** |
| **Net income** | **2,964** | **3,450** | **4,426** | **3,938** | **4,392** |

**Its revenues grew from 2014 to 2015, and then slightly regressed from 2016 through 2018. Management must work to pursue policies that grow revenues.**

**2. RMCF has been profitable each of the last 5 years as exhibited by its positive net income. Management must work to increase and sustain higher profitability levels for long-run success.**

**Teamwork in Action — BTN 1-4**

**Suggestions for forming support/learning teams are in the Instructor’s Resource Manual (IRM). The IRM provides the master of a Student Data Form that can be duplicated and used to gather information as a basis for forming these teams. The IRM also includes other administrative materials helpful in creating an active learning environment for studying accounting.**

**[*Note: Instructors often have students use the copy function in e-mail to keep them advised of meeting times and other important team activities. This also encourages students to use and explore additional features of e-mail.*]**

Entrepreneurial Decision — BTN 1-5

**1. (a) AccountApp’s total amount of liabilities and equity consists of the bank loan and the owner investments. Specifically:**

Total assets = Bank Loan + Owner investment

**= Liabilities + Equity**

**$750,000 = $500,000 + $250,000**

(b) AccountApp’s total amount of assets equals its total amount of liabilities plus equity, which is $750,000.

**2. Return on assets = $80,250 / $750,000 = 0.107 = 10.7%**

**AccountApp’s 10.7% return slightly exceeds its competitors’ average return of 10%. Assuming the company can continue to earn 10.7% or more, the owners should consider further investment in the new company.**

Hitting the Road — BTN 1-6

**Check each student’s report for the following content:**

**1. (a) Identification of the form of business organization for the business interviewed.**

(b) Identification of the main business activities for the business interviewed.

**2. Identification of the reasons why the owner(s) chose this particular form of business organization.**

**3. Identification of advantages or disadvantages of the form of business organization chosen.**

**Note: Many instructors have students complete this assignment in teams.**