**CHAPTER 1**

**SOLUTIONS TO EXERCISES – SET B**

**EXERCISE 1-1B**

**R Summarizing economic events.**

**I Selecting economic activities relevant to the company.**

**C Reporting information in a standard format.**

**C Preparing accounting reports.**

**R Measuring events in dollars and cents.**

**R Keeping a systematic chronological diary of events.**

**C Explaining uses, meaning, and limitations of data.**

**R Classifying economic events.**

**C Analyzing and interpreting information.**

**EXERCISE 1-2B**

**(a) *Internal users***

**Marketing manager**

**Production supervisor**

**Store manager**

**Vice-president of finance**

***External users***

**Customers**

**Internal Revenue Service**

**Labor unions**

**Securities and Exchange Commission**

**Suppliers**

**(b) E Will the company be able to pay its short-term debts?**

**I Which product should we emphasize?**

**I What does it cost us to manufacture each unit produced?**

**E How does the company’s profitability compare to other companies?**

**I Do we need to borrow in the near future?**

**E Did the company earn a satisfactory income?**

**I Can we afford to give our employees a pay raise?**

**EXERCISE 1-3B**

**Bill Belachek, president of Belachek Company, instructed Tom Brady, the head of the accounting department, to report the company’s land in their accounting reports at its market value of $150,000 instead of its cost of $100,000, in an effort to make the company appear to be a better investment. Although we have an accounting system that permits various measurement approaches cost should be used whenever there are questions regarding the reliability of a market value. In this case, valuation of land is too subjective and therefore the cost principle should be used.**

**The stakeholders include stockholders and creditors of Belachek Company, potential stockholders and creditors, other users of Belacheck’s accounting reports, Bill Belachek, and Tom Brady. All users of Belachek’s accounting reports could be harmed by relying on information which violates accounting principles. Bill Belachek could benefit if the company is able to attract more investors, but would be harmed if the fraudulent reporting is discovered. Similarly, Tom Brady could benefit by pleasing his boss, but would be harmed if the fraudulent reporting is discovered.**

**Tom’s alternatives are to report the land at $100,000 or to report it at $150,000. Reporting the land at $150,000 is not appropriate since it would mislead many people who rely on Belachek’s accounting reports to make financial decisions. Tom should report the land at its cost of $100,000. He should try to convince Bill Belachek that this is the appropriate course of action, but be prepared to resign his position if Belachek insists.**

**EXERCISE 1-4B**

**1. Incorrect. The *cost principle* requires that most assets be recorded and reported at their cost due to reliability concerns about valuation. In this case, the cost principle should be applied.**

**2. Correct. The *monetary unit assumption* requires that companies include in the accounting records only transaction data that can be expressed in terms of money.**

**3. Incorrect. The *economic entity assumption* requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.**

**EXERCISE 1-5B**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset** |  | **Liability** |  | **Stockholders’ Equity** |
| **Cash** |  | **Salaries and wages** |  | **Common stock** |
| **Equipment** | **payable** | **Retained earnings** |
| **Supplies** | **Income taxes payable** |
| **Accounts receivable** |  |  |  |  |

**EXERCISE 1-6B**

**1. Increase in assets and increase in stockholders’ equity.**

**2. Decrease in assets and decrease in stockholders’ equity.**

**3. Increase in assets and increase in liabilities.**

**4. Increase in assets and increase in stockholders’ equity.**

**5. Decrease in assets and decrease in stockholders’ equity.**

**6. Increase in assets and decrease in assets.**

**7. Increase in liabilities and decrease in stockholders’ equity.**

**8. Increase in assets and decrease in assets.**

**9. Increase in assets and increase in stockholders’ equity.**

**EXERCISE 1-7B**

**1. (c) 5. (d)**

**2. (d) 6. (b)**

**3. (a) 7. (e)**

**4. (b) 8. (f)**

**EXERCISE 1-8B**

**(a) 1. Stockholders invested $25,000 cash in the business.**

**2. Purchased equipment for $6,000, paying $4,000 in cash and the balance of $2,000 on account.**

**3. Paid $650 cash for supplies.**

**4. Earned $7,500 in revenue, receiving $5,000 cash and $2,500 on account.**

**5. Paid $1,200 cash on accounts payable.**

**6. Paid $1,500 cash dividends to stockholders.**

**7. Paid $850 cash for rent.**

**8. Collected $750 cash from customers on account.**

**9. Paid salaries of $4,500.**

**10. Incurred $300 of utilities expense on account.**

**(b) Investment $25,000**

**Service revenue 7,500**

**Dividends (1,500 )**

**Rent expense (850 )**

**Salaries and wages expense (4,500 )**

**Utilities expense (300 )**

**Increase in stockholders’ equity $25,350**

**(c) Service revenue $7,500**

**Rent expense (850 )**

**Salaries and wages expense (4,500 )**

**Utilities expense (300 )**

**Net income $1,850**

**EXERCISE 1-9B**

**P. PATRON & CO.**

**Income Statement**

**For the Month Ended August 31, 2020**

**Revenues**

**Service revenue $7,500**

**Expenses**

**Salaries and wages expense $4,500**

**Rent expense 850**

**Utilities expense 300**

**Total expenses 5,650**

**Net income $1,850**

**P. PATRON & CO.**

**Retained Earnings Statement**

**For the Month Ended August 31, 2020**

**Retained earnings, August 1 $ 0**

**Add: Net income 1,850**

**1,850**

**Less: Dividends 1,500**

**Retained earnings, August 31 $ 350**

**P. PATRON & CO.**

**Balance Sheet**

**August 31, 2020**

**Assets**

**Cash $ 18,050**

**Accounts receivable 1,750**

**Supplies 650**

**Office equipment 6,000**

**Total assets $26,450**

**Liabilities and Stockholders’ Equity**

**Liabilities**

**Accounts payable $ 1,100**

**Stockholders’ equity**

**Common stock $25,000**

**Retained earnings        350   25,350**

**Total liabilities and stockholders’ equity $26,450**

**EXERCISE 1-10B**

**(a) Stockholders’ equity—12/31/18 ($400,000 – $220,000) $180,000**

**Stockholders’ equity—1/1/18 120,000**

**Increase in stockholders’ equity 60,000**

**Add: Dividends 13,000**

**Net income for 2019 $ 73,000**

**(b) Stockholders’ equity—12/31/19 ($510,000 – $300,000) $210,000**

**Stockholders’ equity—1/1/19—see (a) 180,000**

**Increase in stockholders’ equity 30,000**

**Less: Additional investment 60,000**

**Net loss for 2020 $ 30,000**

**(c) Stockholders’ equity—12/31/20 ($590,000 – $400,000) $190,000**

**Stockholders’ equity—1/1/20—see (b) 210,000**

**Decrease in stockholders’ equity (20,000)**

**Less: Additional investment 15,000**

**(35,000)**

**Add: Dividends 45,000**

**Net income for 2021 $ 10,000**

**EXERCISE 1-11B**

**(a) Total assets (beginning of year) $ 95,000**

**Total liabilities (beginning of year) 80,000**

**Total stockholders’ equity (beginning of year) $ 15,000**

**(b) Total stockholders’ equity (end of year) $ 40,000**

**Total stockholders’ equity (beginning of year) 15,000**

**Increase in stockholders’ equity $ 25,000**

**Total revenues $215,000**

**Total expenses 185,000**

**Net income $ 30,000**

**Increase in stockholders’ equity $ 25,000**

**Less: Net income $(30,000)**

**Add: Dividends 20,000) (10,000 )**

**Additional investment $ 15,000**

**(c) Total assets (beginning of year) $129,000**

**Total stockholders’ equity (beginning of year) 90,000**

**Total liabilities (beginning of year) $ 39,000**

**(d) Total stockholders’ equity (end of year) $130,000**

**Total stockholders’ equity (beginning of year) 90,000**

**Increase in stockholders’ equity $ 40,000**

**Total revenues $120,000**

**Total expenses 75,000**

**Net income $ 45,000**

**Increase in stockholders’ equity $ 40,000**

**Less: Net income $(45,000)**

**Additional investment (3,000) (48,000)**

**Dividends $ 8,000**

**EXERCISE 1-12B**

**IGNATENKO CO.**

**Income Statement**

**For the Year Ended December 31, 2020**

**Revenues**

**Service revenue $60,500**

**Expenses**

**Salaries and wages expense $28,000**

**Rent expense 10,200**

**Utilities expense 3,000**

**Advertising expense 1,300**

**Total expenses 42,500**

**Net income $18,000**

**IGNATENKO CO.**

**Retained Earnings Statement**

**For the Year Ended December 31, 2020**

**Retained earnings, January 1 $42,000**

**Add: Net income 18,000**

**60,000**

**Less: Dividends 4,000**

**Retained earnings, December 31 $56,000**

**EXERCISE 1-13B**

**PENEZ COMPANY**

**Balance Sheet**

**December 31, 2020**

**Assets**

**Cash $17,000**

**Accounts receivable 9,500**

**Supplies 7,000**

**Equipment 45,000**

**Total assets $78,500**

**Liabilities and Stockholders’ Equity**

**Liabilities**

**Accounts payable $19,000**

**Stockholders’ equity**

**Common stock $49,000**

**Retained earnings ($15,500 – $5,000)     10,500   59,500**

**Total liabilities and stockholders’ equity $78,500**

**EXERCISE 1-14B**

**(a) Camping fee revenues $160,000**

**General store revenues 50,000**

**Total revenue 210,000**

**Expenses 160,000**

**Net income $ 50,000**

**(b) DEER PARK**

**Balance Sheet**

**December 31, 2020**

**Assets**

**Cash $ 27,000**

**Supplies 3,500**

**Equipment 116,500**

**Total assets $147,000**

**December 31, 2020**

**Liabilities and Stockholders’ Equity**

**Liabilities**

**Notes payable $ 65,000**

**Accounts payable 12,000**

**Total liabilities 77,000**

**Stockholders’ equity**

**Common stock $20,000**

**Retained earnings   50,000 70,000**

**Total liabilities and stockholders’ equity $147,000**

**EXERCISE 1-15B**

**MIKE GREGORY COMPANY**

**Income Statement**

**For the Year Ended December 31, 2020**

**Revenues**

**Ticket revenue $340,000**

**Expenses**

**Salaries and wages expense $160,000**

**Maintenance and repairs expense 98,000**

**Utilities expense 7,000**

**Advertising expense 3,800**

**Total expenses 268,800**

**Net income $ 71,200**

**EXERCISE 1-16B**

**KING AND JAMES, ATTORNEYS AT LAW**

**Retained Earnings Statement**

**For the Year Ended December 31, 2020**

**Retained earnings, January 1 $ 26,000**

**Add: Net income 120,000\***

**146,000**

**Less: Dividends 74,000**

**Retained earnings, December 31 $ 72,000**

**\*Service revenue $330,000**

**Total expenses 210,000**

**Net income $120,000**

**EXERCISE 1-17B**

**MIDVALE COMPANY**

**Statement of Cash Flows**

**For the Year Ended December 31, 2020**

**Cash flows from operating activities**

**Cash receipts from revenues $500,000**

**Cash payments for expenses (340,000)**

**Net cash provided by operating activities 160,000**

**Cash flows from investing activities**

**Purchase of equipment (90,000)**

**Cash flows from financing activities**

**Sale of common stock $250,000**

**Payment of cash dividends    (10,000) 240,000**

**Net increase in cash 310,000**

**Cash at the beginning of the period     40,000**

**Cash at the end of the period $350,000**