

Exercises: Set B—Solutions

E1B. Business Transactions

- | | |
|----|-----------------------------------------------------------------------------------------|
| 1. | Yes, this is an expense of the business. |
| 2. | Yes, this is an expense of the business (assuming that Dave intends to repay the loan). |
| 3. | No, this is not a business transaction because no economic exchange has taken place. |
| 4. | Yes, this is an expense of the business. |

E2B. Accounting Concepts

- | | | | |
|----|---|-----|---|
| 1. | b | 6. | c |
| 2. | c | 7. | b |
| 3. | a | 8. | a |
| 4. | a | 9. | c |
| 5. | b | 10. | a |

E3B. Money Measure

Company	Sales				
Ritz Chip	2,750,000	×	1.000	=	\$2,750,000
Mykha	5,000,000	×	0.130	=	\$650,000
Rizzoli	350,000,000	×	0.012	=	\$4,200,000
Volia	3,500,000	×	1.320	=	\$4,620,000

Company	Assets				
Ritz Chip	1,300,000	×	1.000	=	\$1,300,000
Mykha	2,800,000	×	0.130	=	\$364,000
Rizzoli	290,000,000	×	0.012	=	\$3,480,000
Volia	3,900,000	×	1.320	=	\$5,148,000

Volia is the largest in terms of sales and assets due to the high value of the euro.

E4B. The Accounting Equation

1.		Assets	=	Liabilities	+	Owner's Equity	
		\$380,000	=	Liabilities	+	\$155,000	
		Liabilities	=	<u>\$225,000</u>			
2.		Assets	=	Liabilities	+	Owner's Equity	
		Assets	=	\$ 65,000	+	\$79,500	
		Assets	=	<u>\$144,500</u>			
3.		Assets	=	1/3 Assets	+	\$180,000	
		2/3 Assets	=	\$180,000			
		Assets	=	\$270,000			
		Liabilities	=	1/3	×	\$270,000	= <u>\$90,000</u>
4.	Beginning:	\$310,000	=	Liabilities	+	\$150,000	
		Liabilities	=	\$160,000			
		\$310,000	=	\$160,000	+	\$150,000	
	Change:	+ 45,000		- 22,500			
		\$355,000	=	\$137,500	+	Owner's Equity	
	End:	Owner's Equity	=	<u>\$217,500</u>			

E5B. Owner's Equity and the Accounting Equation

1.	Net income is:	\$13,250					
		Assets	=	Liabilities	+	Owner's Equity	
	End:	\$275,000	=	\$150,500	+	\$124,500	
	Beginning:	180,000	=	68,750	+	<u>111,250</u>	
	Net income					<u>\$ 13,250</u>	
2.	Net income is:	\$40,750					
	Change in owner's equity			\$ 13,250			
	+ Owner's withdrawals			<u>27,500</u>			
	Net income			<u>\$ 40,750</u>			
3.	Net loss is:	\$3,000					
	Change in owner's equity			\$ 13,250			
	- Owner's investments			<u>16,250</u>			
	Net loss			<u>\$ (3,000)</u>			
4.	Net income is:	\$29,750					
	Change in owner's equity			\$ 13,250			
	+ Owner's withdrawals			<u>29,000</u>			
				\$ 42,250			
	- Owner's investments			<u>12,500</u>			
	Net income			<u>\$ 29,750</u>			

E6B. Identification of Accounts					
1.	a.	A	2.	a.	IS
	b.	L		b.	BS
	c.	A		c.	IS
	d.	OE		d.	BS
	e.	A		e.	IS
	f.	L		f.	BS
	g.	A		g.	OE

E7B. Preparation of a Balance Sheet

Mita Mac Services Company			
Balance Sheet			
December 31, 2014			
Assets		Liabilities	
Cash	\$ 12,500	Accounts payable	\$ 25,000
Accounts receivable	31,250	Total liabilities	\$ 25,000
Supplies	6,250	Owner's Equity	
Building	56,250	M. Mac, capital	106,250
Equipment	25,000	Total liabilities and	
Total assets	\$131,250	owner's equity	\$131,250

E8B. Preparation and Integration of Financial Statements

Mizkan Company			
Income Statement			
For the Year Ended December 31, 2014			
Revenues:			
Service revenue			\$26,400
Expenses:			
Rent expense	\$ 2,400		
Wages expense	16,680		
Advertising expense	2,700		
Utilities expense	<u>1,800</u>		
Total expenses			<u>23,580</u>
Net income			<u>\$ 2,820</u>

Mizkan Company	
Statement of Owner's Equity	
For the Year Ended December 31, 2014	
Owner's capital, December 31, 2013	\$2,000
Investments by K. Mizkan	2,480
Net income for the year	<u>2,820</u>
Subtotal	\$7,300
Less withdrawals	<u>1,400</u>
Owner's capital, December 31, 2014	<u>\$5,900</u>

Mizkan Company			
Balance Sheet			
December 31, 2014			
Assets		Liabilities	
Cash	\$3,100	Accounts payable	<u>\$ 900</u>
Accounts receivable	1,500	Total liabilities	<u>\$ 900</u>
Supplies	200	Owner's Equity	
Land	<u>2,000</u>	Owner's capital	<u>5,900</u>
		Total liabilities and	
Total assets	<u>\$6,800</u>	owner's equity	<u>\$6,800</u>

E9B. Statement of Cash Flows		
Mojoe Service Company Statement of Cash Flows For the Year Ended December 31, 2014		
Cash flows from operating activities:		
Net income		\$ 38,000
Adjustments to reconcile net income to net cash flows from operating activities:		
Increase in accounts receivable	\$ (7,800)	
Increase in accounts payable	11,700	3,900
Net cash flows from operating activities		\$ 41,900
Cash flows from investing activities:		
Purchase of equipment	\$(125,000)	
Net cash flows used by investing activities		(125,000)
Cash flows from financing activities:		
Borrowings from bank	\$ 78,000	
Owner's withdrawals	(19,500)	
Net cash flows from financing activities		58,500
Net increase (decrease) in cash		\$ (24,600)
Cash at beginning of year		55,900
Cash at end of year		\$ 31,300
E10B. Statement of Owner's Equity		
Mrs. Clark's Cookies Statement of Owner's Equity For the Year Ended January 31, 2014		
Owner's capital, January 31, 2013		\$105,000
Net income for the year		54,490
Subtotal		\$159,490
Less withdrawals		—
Owner's capital, January 31, 2014		\$159,490
Owner's equity represents the claims by the owner of a business to the assets of the business. It is affected by the owner's investments in and withdrawals from the business and by the business's revenues and expenses.		
The owner of Mrs. Clark's Cookies may have decided not to make any withdrawals because she wanted to use the funds for other purposes such as to finance the company's growth or pay off debt.		

E11B. Preparation and Integration of Financial Statements

Net income links the income statement and the statement of owner's equity. The ending balance of owner's equity links the statement of owner's equity and the balance sheet.

Thus, start with (c), which must equal \$1,500 (check: $\$14,500 + \$1,500 - \$1,000 = \$15,000$). Then, (b) equals (c), or \$4,050. Thus, (a) must equal \$1,500 (check: $\$5,550 - \$1,500 = \$4,050$). Because (e) equals \$15,000 (ending balance from the statement of owner's equity), (f) must equal \$23,000 (check: $\$8,000 + \$15,000 = \$23,000$). Finally, (d) must equal (f), or \$23,000.

E12B. Users of Accounting Information and Forms of Business Organization

People who are interested in Ranalli's financial statements are the following:

- Management
- Investors (owners of the company)
- Creditors
- Tax authorities
- Regulators
- Employees
- Customers
- Economic planners

A partnership is a business that has two or more owners. A corporation is a business unit that has been granted a charter from the state and is legally separate from its owners (stockholders). A major advantage of the corporate form of business over the partnership is that the stockholders' liability is limited to the amount of the stockholders' investments in the company, whereas the personal assets of partners can be called upon to pay the obligations of a partnership. Also, the transfer of ownership is easier with the corporation because the shares owned by a stockholder can be sold to another party. When ownership of a partnership changes, the partnership must be dissolved and another one formed.

E13B. The Nature of Accounting

1.	a	5.	k	9.	g
2.	l	6.	e	10.	d
3.	c	7.	b	11.	f
4.	i	8.	j	12.	h

E14B. Accounting Abbreviations	
AICPA:	American Institute of Certified Public Accountants
SEC:	Securities and Exchange Commission
PCAOB:	Public Company Accounting Oversight Board
GAAP:	Generally Accepted Accounting Principles
FASB:	Financial Accounting Standards Board
IRS:	Internal Revenue Service
GASB:	Governmental Accounting Standards Board
IASB:	International Accounting Standards Board
IMA:	Institute of Management Accountants
CPA:	Certified Public Accountant
E15B. Ethics and Accounting	
1.	d
2.	b
3.	e
4.	a
5.	c