**Weygandt AP 11e**

**Chapter 1**

**Solutions to**

**Challenging Exercises**

**Challenge Exercise 1-1 – Solution**

1. a. January 1 owner’s equity = $76,000 - $26,000 = $50,000.

December 31 owner’s equity = $112,000 - $28,800 = $83,200.

The change in owner’s equity = $83,200 - $50,000 = $33,200.

$33,200 = Net income + investment by owner – drawings.

$33,200 = NI + $0 - $10,800.

NI = $44,000.

b. Revenues – expenses = net income.

$110,000 – expenses = $44,000.

Expenses = $66,000.

1. a. January 1 owner’s equity = $76,000 - $26,000 = $50,000.

December 31 owner’s equity = $112,000 - $28,800 = $83,200.

The change in owner’s equity = $83,200 - $50,000 = $33,200.

$33,200 = Net income + investment by owners – drawings.

$33,200 = NI + $4,800 - $0.

NI = $28,400.

b. Revenues – expenses = net income.

Revenues – $42,000 = $28,400.

Revenues = $70,400.

1. January 1 owner’s equity = $76,000 - $26,000 = $50,000.

December 31 owner’s equity = $112,000 - $28,800 = $83,200.

The change in owner’s equity = $83,200 - $50,000 = $33,200.

$33,200 = Net income + investment by owners – drawings.

$33,200 = NI + $62,000 - $15,600.

NI = ($13,200). (a net loss).

1. January 1 owner’s equity = $76,000 - $26,000 = $50,000.

December 31 owner’s equity = $112,000 - $28,800 = $83,200.

The change in owner’s equity = $83,200 - $50,000 = $33,200.

$33,200 = Net income + investment by owners – drawings.

$33,200 = $51,000 + $6,000 - drawings.

Drawings = $23,800.

**Challenge Exercise 1-2 – Solution**

**Seattle Service**

**Income Statement**

**For the Year Ended December 31, 2014**

Revenues

Service revenue $40,000

Expenses

Salaries and wages expense $16,000

Rent expense 3,500

Utilities expense 2,500

Advertising expense 1,000 23,000

Net income $17,000

**Seattle Service**

**Owner’s Equity Statement**

**For the Year Ended December 31, 2014**

Owner’s capital, 1/1/14 $ 21,000

Add: net income 17,000

38,000

Less: Owner’s drawings 9,000

Owner’s capital, 12/31/14 $ 29,000

**Seattle Service**

**Balance Sheet**

**December 31, 2014**

Assets

Cash $11,000

Accounts receivable 20,000

Equipment 33,000

Total assets $64,000

Liabilities

Notes payable $15,000

Accounts payable 20,000

Total liabilities $35,000

Owner’s Equity

Owner’s capital 29,000

Total liabilities and owner’s equity $64,000