

# 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*

Factory manager  
Human resource worker  
Vice-president of finance

*External users*

Customers  
Internal Revenue Service  
Labor unions  
Securities and Exchange Commission  
Suppliers  
Investors

- (b)
- I What price should we set for our product?
  - E Did the company earn a satisfactory income?
  - I Should we hire more employees?
  - E How does the company's profitability compare to other companies?
  - I What does it cost us to manufacture each unit produced?
  - I Which product should we emphasize?
  - E Will the company be able to provide a return to its stockholders?

### EXERCISE 1-3B

Rick Payne, president of Lions Company, instructed Kev Mason, the head of the accounting department, to report the company's land in their accounting reports at its fair value of \$225,000 instead of its cost of \$125,000, in an effort to make the company appear to be a better investment. The historical cost principle requires that assets be recorded and reported at their cost, because cost is reliable and can be objectively measured and verified.

The stakeholders include stockholders and creditors of Lions Company, potential stockholders and creditors, other users of Lions' accounting reports, Rick Payne, and Kev Mason. All users of Lions' accounting reports could be harmed by relying on information which violates accounting principles. Rick Payne could benefit if the company is able to attract more investors, but would be harmed if the fraudulent reporting is discovered. Similarly, Kev Mason could benefit by pleasing his boss, but would be harmed if the fraudulent reporting is discovered.

Kev's alternatives are to report the land at \$125,000 or to report it at \$225,000. Reporting the land at \$225,000 is not appropriate since it would mislead many people who rely on Lions' accounting reports to make financial decisions. Kev should report the land at its cost of \$125,000. He should try to convince Rick Payne that this is the appropriate course of action, but be prepared to resign his position if Payne insists.

### EXERCISE 1-4B

1. Incorrect. The *historical cost principle* requires that assets be recorded and reported at their cost.
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

<u>Asset</u>	<u>Liability</u>	<u>Owner's Equity</u>
Cash	Accounts payable	Owner's capital
Equipment	Notes payable	
Supplies	Rent payable	
Accounts receivable		

### EXERCISE 1-6B

1. Increase in assets and increase in owner's equity.
2. Increase in assets and increase in liabilities.
3. Decrease in assets and decrease in owner's equity.
4. Increase in assets and increase in owner's equity.
5. Increase in assets and decrease in assets.
6. Decrease in assets and decrease in owner's equity.
7. Increase in liabilities and decrease in owner's equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in owner's 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. Owner invested \$20,000 cash in the business.
  2. Purchased equipment for \$5,000, paying \$2,000 in cash and the balance of \$3,000 on account.
  3. Paid \$750 cash for supplies.
  4. Earned \$8,300 in revenue, receiving \$5,600 cash and \$2,700 on account.
  5. Paid \$1,500 cash on accounts payable.

## EXERCISE 1-8B (Continued)

6. Owner withdrew \$2,000 cash for personal use.
7. Paid \$820 cash for rent.
8. Collected \$450 cash from customers on account.
9. Paid salaries and wages of \$5,400.
10. Incurred \$500 of utilities expense on account.

(b)	Investment.....	\$20,000
	Service revenue .....	8,300
	Drawings.....	(2,000)
	Rent expense .....	(820)
	Salaries and wages expense .....	(5,400)
	Utilities expense .....	<u>(500)</u>
	Increase in owner's equity .....	<u>\$19,580</u>
(c)	Service revenue .....	\$8,300
	Rent expense .....	(820)
	Salaries and wages expense .....	(5,400)
	Utilities expense .....	<u>(500)</u>
	Net income .....	<u>\$1,580</u>

## EXERCISE 1-9B

**HOLMES & CO.**  
**Income Statement**  
**For the Month Ended August 31, 2014**

<b>Revenues</b>		
	Service revenue .....	\$8,300
<b>Expenses</b>		
	Salaries and wages expense .....	\$5,400
	Rent expense .....	820
	Utilities expense .....	<u>500</u>
	Total expenses .....	<u>6,720</u>
	Net income .....	<u>\$1,580</u>

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

**HOLMES & CO.**  
**Owner's Equity Statement**  
**For the Month Ended August 31, 2014**

Owner's Capital, August 1 .....		\$ 0
Add: Investments .....	\$20,000	
Net income.....	<u>1,580</u>	<u>21,580</u>
		21,580
Less: Drawings.....		<u>2,000</u>
Owner's Capital, August 31 .....		<u><u>\$19,580</u></u>

**HOLMES & CO.**  
**Balance Sheet**  
**August 31, 2014**

<b>Assets</b>		
Cash.....	\$13,580	
Accounts receivable.....	2,250	
Supplies .....	750	
Equipment.....	<u>5,000</u>	
Total assets .....		<u><u>\$21,580</u></u>
<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Accounts payable .....		\$ 2,000
<b>Owner's equity</b>		
Owner's capital .....		<u>19,580</u>
Total liabilities and owner's equity.....		<u><u>\$21,580</u></u>

**EXERCISE 1-10B**

(a) Owner's equity—12/31/13 (\$390,000 – \$240,000) .....	\$150,000
Owner's equity—1/1/13 .....	<u>100,000</u>
Increase in owner's equity .....	50,000
Add: Drawings .....	<u>20,000</u>
Net income for 2013.....	<u><u>\$ 70,000</u></u>

### EXERCISE 1-10B (Continued)

(b)	Owner's equity—12/31/14 (\$460,000 – \$280,000) .....	\$180,000
	Owner's equity—1/1/14—see (a) .....	<u>150,000</u>
	Increase in owner's equity .....	30,000
	Less: Additional investment .....	<u>55,000</u>
	Net loss for 2014 .....	<u>\$ 25,000</u>
(c)	Owner's equity—12/31/15 (\$590,000 – \$360,000) .....	\$230,000
	Owner's equity—1/1/15—see (b) .....	<u>180,000</u>
	Increase in owner's equity .....	50,000
	Less: Additional investment .....	<u>10,000</u>
		40,000
	Add: Drawings .....	<u>20,000</u>
	Net income for 2015 .....	<u>\$ 60,000</u>

### EXERCISE 1-11B

(a)	Total assets (beginning of year) .....	\$115,000
	Total liabilities (beginning of year) .....	<u>90,000</u>
	Total owner's equity (beginning of year) .....	<u>\$ 25,000</u>
(b)	Total owner's equity (end of year) .....	\$ 60,000
	Total owner's equity (beginning of year) .....	<u>25,000</u>
	Increase in owner's equity .....	<u>\$ 35,000</u>
	Total revenues .....	\$215,000
	Total expenses .....	<u>175,000</u>
	Net income .....	<u>\$ 40,000</u>
	Increase in owner's equity .....	\$ 35,000
	Less: Net income .....	<u>\$(40,000)</u>
	Add: Drawings .....	<u>19,000</u>
	Additional investment .....	<u>(21,000)</u>
		<u>\$ 14,000</u>
(c)	Total assets (beginning of year) .....	\$129,000
	Total owner's equity (beginning of year) .....	<u>78,000</u>
	Total liabilities (beginning of year) .....	<u>\$ 51,000</u>

**EXERCISE 1-11B (Continued)**

(d) Total owner's equity (end of year) .....		\$130,000
Total owner's equity (beginning of year).....		<u>78,000</u>
Increase in owner's equity .....		<u>\$ 52,000</u>
Total revenues .....		\$100,000
Total expenses .....		<u>61,000</u>
Net income .....		<u>\$ 39,000</u>
Increase in owner's equity .....		\$ 52,000
Less: Net income .....	\$(39,000)	
Additional investment .....	<u>(25,000)</u>	<u>(64,000)</u>
Drawings .....		<u>\$ 12,000</u>

**EXERCISE 1-12B**

**EUSEY CO.**  
**Income Statement**  
**For the Year Ended December 31, 2014**

<b>Revenues</b>		
Service revenue .....		\$65,000
<b>Expenses</b>		
Salaries and wages expense .....	\$30,000	
Rent expense .....	12,000	
Utilities expense .....	3,100	
Advertising expense .....	<u>1,800</u>	
Total expenses .....		<u>46,900</u>
Net income .....		<u>\$18,100</u>

**EUSEY CO.**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2014**

Owner's Capital, January 1 .....	\$48,000
Add: Net income .....	<u>18,100</u>
	66,100
Less: Drawings .....	<u>7,000</u>
Owner's Capital, December 31 .....	<u>\$59,100</u>

**EXERCISE 1-13B**

**NYMEYER COMPANY**  
**Balance Sheet**  
**December 31, 2014**

<b>Assets</b>		
Cash.....	\$11,000	
Accounts receivable.....	10,500	
Supplies .....	7,000	
Equipment.....	<u>48,000</u>	
<b>Total assets .....</b>		<b><u>\$76,500</u></b>
 <b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Accounts payable .....		\$18,000
<b>Owner's equity</b>		
Owner's capital (\$64,500 – \$6,000) .....		<u>58,500</u>
<b>Total liabilities and owner's equity.....</b>		<b><u>\$76,500</u></b>

**EXERCISE 1-14B**

(a)	Camping fee revenues .....	\$120,000	
	General store revenues.....	<u>60,000</u>	
	<b>Total revenue.....</b>		<b>\$180,000</b>
	Expenses .....		<u>145,000</u>
	Net income .....		<b><u>\$ 35,000</u></b>

(b) **WILDERNESS PARK**  
**Balance Sheet**  
**December 31, 2014**

<b>Assets</b>		
Cash.....	\$ 11,000	
Supplies.....	3,500	
Equipment .....	<u>119,000</u>	
<b>Total assets .....</b>		<b><u>\$133,500</u></b>



**EXERCISE 1-14B (Continued)**

**WILDERNESS PARK**  
**Balance Sheet (Continued)**  
**December 31, 2014**

<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Notes payable.....	\$ 50,000	
Accounts payable .....	<u>12,000</u>	
Total liabilities .....		\$ 62,000
<b>Owner's equity</b>		
Owner's capital (\$133,500 – \$62,000) .....		<u>71,500</u>
Total liabilities and owner's equity .....		<u>\$133,500</u>

**EXERCISE 1-15B**

**WILLIAMSON COMPANY**  
**Income Statement**  
**For the Year Ended December 31, 2014**

<b>Revenues</b>		
Ticket revenue.....		\$370,000
<b>Expenses</b>		
Salaries and wages expense .....	\$150,000	
Maintenance and repairs expense .....	89,000	
Property tax expense .....	11,000	
Advertising expense.....	<u>5,500</u>	
Total expenses .....		<u>255,500</u>
Net income .....		<u>\$114,500</u>

**EXERCISE 1-16B**

**JEFF TABOR, ATTORNEY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2014**

Owner's Capital, January 1.....	\$ 42,000 (a)
Add: Net income.....	<u>119,000 (b)</u>
	161,000
Less: Drawings .....	<u>99,000</u>
Owner's Capital, December 31 .....	<u>\$ 62,000 (c)</u>

## EXERCISE 1-16B (Continued)

### Supporting Computations

(a)	Assets, January 1, 2014 .....	\$105,000
	Liabilities, January 1, 2014 .....	<u>63,000</u>
	Capital, January 1, 2014 .....	<u>\$ 42,000</u>
(b)	Service revenue .....	\$340,000
	Total expenses .....	<u>221,000</u>
	Net income .....	<u>\$119,000</u>
(c)	Assets, December 31, 2014.....	\$165,000
	Liabilities, December 31, 2014 .....	<u>103,000</u>
	Capital, December 31, 2014 .....	<u>\$ 62,000</u>

# SOLUTIONS TO PROBLEMS—SET C

## PROBLEM 1-1C

(a)	AMERICAN TRAVEL AGENCY					Owner's Equity		
	Accounts		Accounts		Owner's	Owner's		
	Cash	+ Receivable + Supplies + Equipment =	Payable +	Capital	- Drawings +	Revenues -	Expenses	
1.	<u>+\$10,000</u>			<u>+\$10,000</u>				
	10,000	=		10,000				
2.	<u>-400</u>						<u>-\$400</u>	
	9,600	=	+	10,000			-400	
3.	<u>-2,500</u>	<u>+\$2,500</u>						
	7,100	+ 2,500 =	+	10,000				
4.			<u>+\$300</u>				<u>-300</u>	
	7,100	+ 2,500 =	300 +	10,000			-700	
5.	<u>-600</u>	<u>+\$600</u>						
	6,500	+ 600 + 2,500 =	300 +	10,000			-700	
6.	<u>+3,000</u>	<u>+\$6,500</u>				<u>+\$9,500</u>		
	9,500+	6,500 + 600 + 2,500 =	300 +	10,000		9,500	-700	
7.	<u>-200</u>				<u>-\$200</u>			
	9,300+	6,500 + 600 + 2,500 =	300 +	10,000	-200			
8.	<u>-300</u>		<u>-300</u>					
	9,000+	6,500 + 600 + 2,500 =	0 +	10,000	-200		<u>-2,200</u>	
9.	<u>-2,200</u>							
	6,800+	6,500 + 600 + 2,500 =	0 +	10,000	-200		<u>-2,900</u>	
10.	<u>+4,000</u>	<u>-4,000</u>						
	<u>\$10,800+</u>	<u>\$2,500</u> + <u>\$600</u> + <u>\$2,500</u> =	<u>\$ 0</u> +	<u>\$10,000</u>	<u>\$200</u> +	<u>\$9,500</u>	<u>\$2,900</u>	
					-	-		
		<u>\$16,400</u>						<u>\$16,400</u>

## PROBLEM 1-1C (Continued)

(b) Service revenue .....			<b>\$9,500</b>
Expenses			
Salaries and wages .....	<b>\$2,200</b>		
Rent .....	<b>400</b>		
Advertising .....	<b>300</b>		<b><u>2,900</u></b>
Net income .....			<b><u>\$6,600</u></b>

**PROBLEM 1-2C**

**NANCY GRIMWOOD, ATTORNEY AT LAW**

(a)

[illegible]

**PROBLEM 1-2C (Continued)**

**(b) NANCY GRIMWOOD, ATTORNEY AT LAW**  
**Income Statement**  
**For the Month Ended August 31, 2014**

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<b>Revenues</b>		
Service revenue.....		<b>\$9,000</b>
<b>Expenses</b>		
Salaries and wages expense.....	<b>\$3,000</b>	
Rent expense.....	<b>900</b>	
Utilities expense.....	<b>550</b>	
Advertising expense .....	<b><u>350</u></b>	
Total expenses .....		<b><u>4,800</u></b>
Net income .....		<b><u><u>\$4,200</u></u></b>

**NANCY GRIMWOOD, ATTORNEY AT LAW**  
**Owner's Equity Statement**  
**For the Month Ended August 31, 2014**

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Owner's Capital, August 1 .....	<b>\$ 6,800</b>
Add: Net income .....	<b><u>4,200</u></b>
	<b>11,000</b>
Less: Drawings .....	<b><u>750</u></b>
Owner's Capital, August 31 .....	<b><u><u>\$10,250</u></u></b>

**PROBLEM 1-2C (Continued)**

**NANCY GRIMWOOD, ATTORNEY AT LAW**  
**Balance Sheet**  
**August 31, 2014**

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<b>Assets</b>		
Cash .....	\$ 4,300	
Accounts receivable .....	6,100	
Supplies .....	500	
Equipment .....	<u>6,000</u>	
<b>Total assets .....</b>		<b><u>\$16,900</u></b>
 <b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Notes payable .....	\$ 4,000	
Accounts payable .....	<u>2,650</u>	
<b>Total liabilities .....</b>		<b>\$ 6,650</b>
<b>Owner's equity</b>		
Owner's capital .....		<u>10,250</u>
<b>Total liabilities and owner's equity .....</b>		<b><u>\$16,900</u></b>

<b>PROBLEM 1-3C</b>
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(a)

**FANCY COSMETICS CO.**  
**Income Statement**  
**For the Month Ended June 30, 2014**

<b>Revenues</b>		
Service revenue.....		<b>\$6,000</b>
<b>Expenses</b>		
Supplies expense.....	<b>\$1,600</b>	
Gasoline expense.....	<b>800</b>	
Advertising expense .....	<b>500</b>	
Utilities expense.....	<b><u>300</u></b>	
Total expenses .....		<b><u>3,200</u></b>
Net income .....		<b><u>\$2,800</u></b>

**FANCY COSMETICS CO.**  
**Owner's Equity Statement**  
**For the Month Ended June 30, 2014**

Owner's Capital, June 1 .....		<b>\$ 0</b>
Add: Investments .....	<b>\$26,200</b>	
Net income .....	<b><u>2,800</u></b>	<b><u>29,000</u></b>
		<b>29,000</b>
Less: Drawings .....		<b><u>1,200</u></b>
Owner's Capital, June 30 .....		<b><u>\$27,800</u></b>

**FANCY COSMETICS CO.**  
**Balance Sheet**  
**June 30, 2014**

<b>Assets</b>		
Cash .....	<b>\$11,000</b>	
Accounts receivable .....	<b>4,000</b>	
Supplies .....	<b>2,000</b>	
Equipment .....	<b><u>25,000</u></b>	
Total assets .....		<b><u>\$42,000</u></b>



**PROBLEM 1-3C (Continued)**

**FANCY COSMETICS CO.**  
**Balance Sheet (Continued)**  
**June 30, 2014**

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<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Notes payable.....	<b>\$13,000</b>	
Accounts payable .....	<u><b>1,200</b></u>	
Total liabilities .....		<b>\$14,200</b>
<b>Owner's equity</b>		
Owner's capital.....		<u><b>27,800</b></u>
Total liabilities and owner's equity .....		<u><b>\$42,000</b></u>

(b) **FANCY COSMETICS CO.**  
**Income Statement**  
**For the Month Ended June 30, 2014**

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<b>Revenues</b>		
Service revenue (\$6,000 + \$800) .....		<b>\$6,800</b>
<b>Expenses</b>		
Supplies expense.....	<b>\$1,600</b>	
Gasoline expense (\$800 + \$100) .....	<b>900</b>	
Advertising expense .....	<b>500</b>	
Utilities expense.....	<u><b>300</b></u>	
Total expenses .....		<u><b>3,300</b></u>
Net income .....		<u><b>\$3,500</b></u>

**FANCY COSMETICS CO.**  
**Owner's Equity Statement**  
**For the Month Ended June 30, 2014**

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Owner's Capital, June 1 .....		<b>\$ 0</b>
Add: Investments .....	<b>\$26,200</b>	
Net income .....	<u><b>3,500</b></u>	<u><b>29,700</b></u>
		<b>29,700</b>
Less: Drawings .....		<u><b>1,200</b></u>
Owner's Capital, June 30 .....		<u><b>\$28,500</b></u>

# PROBLEM 1-4C

## JENNER CONSULTING

(a)

Date	Assets		=	Liabilities		+	Owner's Equity			
	Cash	Accounts + Receivable + Supplies + Equipment	=	Notes Payable	Accounts Payable	+	Owner's Capital	-	Owner's Drawings	+ Revenues - Expenses
May 1	\$ 8,000						\$8,000			
2	(800)									(\$ 800)
3		\$500			\$ 500					
5	(50)									(50)
9	3,000								\$ 3,000	
12	(700)								(700)	
15		\$4,300							4,300	
17	(3,000)									(3,000)
20	(500)				(500)					
23	3,000									
26	5,000			\$5,000						
29		\$2,800			2,800					
30	(150)									(150)
	<u>\$13,800 +</u>	<u>\$1,300</u>	<u>+</u>	<u>\$500</u>	<u>+</u>	<u>\$2,800</u>	<u>=</u>	<u>\$5,000</u>	<u>+</u>	<u>\$2,800</u>
							<u>+</u>	<u>\$8,000</u>	<u>-</u>	<u>\$7,300</u>
								<u>\$700</u>	<u>+</u>	<u>\$4,000</u>

**PROBLEM 1-4C (Continued)**

**(b) JENNER CONSULTING**  
**Income Statement**  
**For the Month Ended May 31, 2014**

<b>Revenues</b>		
Service revenue.....		<b>\$7,300</b>
<b>Expenses</b>		
Salaries and wages expense.....	<b>\$3,000</b>	
Rent expense.....	<b>800</b>	
Utilities expense.....	<b>150</b>	
Advertising expense.....	<b>50</b>	
Total expenses .....		<b><u>4,000</u></b>
Net income .....		<b><u>\$3,300</u></b>

**(c) JENNER CONSULTING**  
**Balance Sheet**  
**May 31, 2014**

<b>Assets</b>		
Cash.....	<b>\$13,800</b>	
Accounts receivable.....	<b>1,300</b>	
Supplies.....	<b>500</b>	
Equipment .....	<b><u>2,800</u></b>	
Total assets .....		<b><u>\$18,400</u></b>
<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Notes payable.....	<b>\$ 5,000</b>	
Accounts payable .....	<b><u>2,800</u></b>	
Total liabilities .....		<b>\$ 7,800</b>
<b>Owner's equity</b>		
Owner's capital.....		<b><u>10,600</u></b>
Total liabilities and owner's equity .....		<b><u>\$18,400</u></b>

<b>PROBLEM 1-5C</b>
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(a)	Harpo Company	Curly Company	Groucho Company	Moe Company
(a)	\$30,000	(d) \$40,000	(g) \$124,000	(j) \$ 50,000
(b)	95,000	(e) 45,000	(h) 80,000	(k) 225,000
(c)	5,000	(f) 28,000	(i) 413,000	(l) 460,000

(b)

**HARPO COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2014**

Owner's Capital, January 1 .....		\$30,000
Add: Investment .....	\$ 5,000	
Net income .....	<u>15,000</u>	<u>20,000</u>
		50,000
Less: Drawings .....		<u>10,000</u>
Owner's Capital, December 31 .....		<u><u>\$40,000</u></u>

- (c) The sequence of preparing financial statements is income statement, owner's equity statement, and balance sheet. The interrelationship of the owner's equity statement to the other financial statements results from the fact that net income from the income statement is reported in the owner's equity statement and ending capital reported in the owner's equity statement is the amount reported for owner's equity on the balance sheet.