https://selldocx.com/products/solution-manual-financial-accounting-2e-waybright

Chapter 1: Business, Accounting, and You

ACCOUNTING PRACTICE

Discussion Questions: Key Points

1. The economic events that affect a business are communicated through the accounting function. Language helps us to make sense of the world around us. If we don't know the language, we will be limited in our ability to operate effectively in the business environment.
2. Valid arguments can be made on both sides of this question. Without technical knowledge an accountant will not be able to provide much value. Without ethics, however, an accountant can be dangerous. Accounting exists because of a need for an objective account of the economic events that affect an entity. Accounting is primarily an ethical discipline.
3. Careers in accounting can be grouped into four categories—financial accounting, management accounting, taxation, and banking and financial services. Financial accountants prepare and analyze financial statements, and they can also perform audit or review compliance. The information gathered is mainly for external use. Management accountants gather cost information, prepare budget, and help companies set performance measures, and the information gathered is mainly for internal use.
4. Reasons why—reliability, objectivity. Disadvantages—relevance, decision-usefulness.
5. Financial statement uses discussed in the text: allow investors and creditors to make investment decisions, enable suppliers and customers to determine the financial condition of a business, report to regulatory agencies.
6. A corporation is a separate legal entity from its owners. Factors—liability of owners for business activities, taxation, distribution of income.
7. A = L + SE. Assets—things of value a company has. Liabilities—amount a business owes to third parties. Shareholders' equity—the amount of assets that is owned by the shareholders.
8. The transactions would have the following effects:
   a. A+, SE+
   b. A+, L+
   c. A+, SE+
   d. A+, A-
9. Income Statement, Statement of Retained Earnings, Statement of Financial Position, Statement of Cash Flows. The financial statements articulate (join together). The income statement needs to be prepared to produce the net income amount that is reported on the statement of retained earnings. The ending balance in retained earnings is needed to prepare the statement of financial position. The ending balance in cash and other information is needed for the statement of cash flows.
10. The financial statements are
    a. Statement of financial position
    b. Statement of retained earnings
    c. Statement of cash flows
    d. Income statement

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Short Exercises

(5–10 min.) S1-1

1. d
2. a
3. c
4. b

(5–10 min.) S1-2

Answer: a. Accrual basis accounting

(5–10 min.) S1-3

1. b
2. a
3. a
4. b
5. d
6. a
7. c

(5–10 min.) S1-4

1. e
2. b
3. a
4. e
5. c

(10–15 min.) S1-5

1. e
2. f
3. d
4. g
5. b
6. c
7. a

(5–10 min.) S1-6

a. $43,000 ($75,000 − $32,000)

b. $80,000 ($43,000 + $37,000)

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c. $32,000 ($92,000 − $60,000)

(5–10 min.) S1-7

Assets	=	Liabilities	+	Shareholders' Equity
Cash + Equipment	=	Accounts Payable + Notes Payable	+	Shareholders' Equity
$3,000 + $12,000	=	$6,000 + $5,000	+	$4,000

Based on the accounting equation, Ming has $4,000 of equity in the business. Assets of $15,000 ($3,000 + $12,000) − liabilities of $11,000 ($6,000 + $5,000) = shareholders' equity of $4,000.

(5–10 min.) S1-8

Assets	=	Liabilities	+	Shareholders' Equity
Cash + Supplies	=		+	Shareholders' Equity
$2,000 + $800	=	$1,500	+	$1,300

Based on the accounting equation, Apex Financial Services has $1,500 of liabilities. Assets of $2,800 ($2,000 + $800) − shareholders' equity of $1,300 = liabilities of $1,500

(5–10 min.) S1-9

	Assets	=	Liabilities	+	Shareholders' Equity
	Cash	=	Notes Payable	+	Shareholders' Equity
Investment	+ $8,000	=			+ $8,000
Borrowing	+ 5,000	=	+ $5,000	+	
Bal.	$13,000	=	$5,000	+	$8,000

(5–10 min.) S1-10

	Assets			=	Liabilities	+	Shareholders' Equity					
	Cash	+	Accounts Receivable		Accounts Payable		Common Shares	+	Retained Earnings			
									Service Revenue	– Salary Expense	-	Dividends
a.			+$14,000						+ $14,000			
b.	($8,000)									+ $8,000		

(5–10 min.) S1-11

1. e
2. a
3. c
4. a
5. e
6. e
7. a
8. e
9. d
10. b
11. a

(5–10 min.) S1-12

1. SFP
2. SFP
3. IS
4. IS
5. SFP, SCE
6. SFP
7. SFP, SCE
8. SFP
9. IS
10. SCE

(5–10 min.) S1-13

1. d
2. e
3. b
4. a
5. c

(5–10 min.) S1-14

1. Increased assets (Cash)
2. No effect on total assets. The increase in Land offset the decrease in Cash.

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3. Decreased assets (Cash)
4. Increased assets (Machinery and Equipment)
5. Increased assets (Accounts Receivable)
6. Decreased assets (Cash)
7. No effect on total assets. The increase in Cash offsets the decrease in Accounts Receivable.
8. No effect on total assets. The increase in Cash offsets the decrease in Land.
9. Increased assets (Cash)

(5–10 min.) S1-15

1. True
2. False (Increase Supplies, decrease Cash)
3. True
4. True
5. True
6. False (Decrease Cash, decrease Accounts Payable)
7. True
8. True
9. False (Decrease Cash, increase Expense/decrease Shareholders' Equity)

(5–10 min.) S1-16

Req. 1

1. f Sold shares to start the painting service business.
2. e Paid cash to purchase painting equipment.
3. g Borrowed money from the bank to purchase painting equipment
4. a Earned revenue for painting services provided, but customer will pay later.
5. d Paid cash for expenses incurred to operate the business.
6. c Received cash for revenue earned by providing painting services.
7. b Customers paid cash for painting services completed earlier in the month.

Req. 2

Revenues (Transactions a and c)	$2,200
Less: Expenses (Transaction d)..	750
Net income...	$1,450

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Exercises

(10–15 min.) E1-1A

Fresh Produce, Corp. $51,600 + $12,200 = *$63,800*
Hudson Gift and Cards, Inc. $97,000 – $35,000 = *$62,000*
Nice Cuts, Inc.$115,700 – $95,900 = *$19,800*

(10–15 min.) E1-2A

Req. 1

	Total Assets	−	Total Shareholders' Equity	=	Total Liabilities
Beginning	$87,000	−	$52,000	=	$35,000
Ending	$153,000	−	$81,000	=	$72,000
Increase during the year				=	$ 37,000

Req. 2

Possible reasons for the increase in Liabilities may include:

- Purchases were made on account
- A note payable was signed in exchange for cash or equipment

(10–15 min.) E1-3A

Req. 1

	Total Assets	−	Total Liabilities	=	Total Shareholders' Equity
Beginning	$32,000	−	$14,000	=	$18,000
Ending	$42,000	−	$18,500	=	$23,500
Increase during the year				=	$ 5,500

Req. 2

Possible reasons for the increase in Shareholders' Equity may include:

- Changes in common shares—issuing new shares
- Net income

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(15–20 min.) E1-4A

		Aug. 31, 2015	Sept. 30, 2015
	Total assets	$130,000	$165,000
-	Total liabilities	$(87,000)	$(131,000)
=	Shareholders' equity	$43,000	$34,000

Assumption A: No dividends were paid

$34,000 ending balance	=	$43,000 Beg bal + Net income – Dividends
$34,000	=	$43,000 + Net income – 0
$(9,000)	=	Net loss

Assumption B: $8,000 of dividends were paid

$34,000 ending balance	=	$43,000 Beg bal + Net income – Dividends
$34,000	=	$43,000 + Net income – $8,000
$(1,000)	=	Net loss

Assumption C: $14,000 of dividends were paid

$34,000 ending balance	=	$43,000 Beg bal + Net income – Dividends
$34,000	=	$43,000 + Net income – $14,000
$5,000	=	Net income

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(15–20 min.) E1-5A

	Assets					=	Liabilities	+	Shareholders' Equity				
	Cash	+	Supplies	+	Land		Accounts Payable		Common Shares	+	Retained Earnings		
March											Service Revenue	–	Rent Expense
2	+ 65,000								+ 65,000				
6	–55,000				+ 55,000								
11			+ 1,000				+ 1,000						
15	No entry required												
17	+ 7,000										+ 7,000		
19	– 1,800												+ 1,800
22	+ 250		–250										
30	– 500						–500						
Bal.	$14,950	+	$750	+	$55,000	=	$500	+	$65,000	+	$7,000	–	$1,800

(10–15 min.) E1-6A

Req. 1

The business is a corporation, as shown by the fact that it has a common share account.

Req. 2

Hair Today Salon			
Statement of Financial Position			
July 31, 2015			
Assets		Liabilities	
Cash	$ 3,500	Accounts Payable	$2,500
Accounts Receivable	1,200	Note Payable	4,000
Supplies	700	Total Liabilities	6,500
Office Equipment	6,300	Shareholders' Equity	
		Common Shares	3,000
		Retained Earnings	2,200
		Total Shareholders' Equity	5,200
		Total Liabilities &	
Total Assets	$11,700	Shareholders' Equity	$11,700

Req. 3

The balance sheet reports financial position of a company at a given point in time and that Assets = Liabilities + Shareholders' Equity.

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(10–15 min.) E1-7A

1	Common Shares	Retained Earnings	Total
Balance, Jan. 1, 2015	$12,000	$6,000	$18,000
Issued Common Shares	$8,000		$8,000
Net Income		$19,000	$19,000
Dividends		$(3,000)	$(3,000)
Balance, Dec. 31, 2015	$20,000	$22,000	$42,000

2. Revenue – Expenses = Net Income
$45,000 – X = $19,000   Expenses = $26,000

(15–20 min.) E1-8A

Req. 1

Account	Type of Account	Account	Type of Account
Office Furniture	Asset	Rent Expense	Expense
Utilities Expense	Expense	Cash	Asset
Accounts Payable	Liability	Office Supplies	Asset
Notes Payable	Liability	Salary Expense	Expense
Service Revenue	Revenue	Salary Payable	Liability
Accounts Receivable	Asset	Property Tax Expense	Expense
Supplies Expense	Expense	Equipment	Asset

Req. 2

Armstrong Consulting , Inc. **Income Statement** **For the Year Ended December 31, 2015**		
Revenue		$141,500
Expenses		
Salary Expense	$43,000	
Rent Expense	36,000	
Utilities Expense	12,600	
Supplies Expense	4,200	
Property Tax Expense	2,300	
Total Expenses		98,100
Net income		$ 43,400

Results of operations for 2015: Net income of $43,400

Req. 3

Armstrong Consulting , Inc. Statement of Retained Earnings For the Year Ended December 31, 2015	
Retained Earnings, Jan. 1, 2015	$0
Add: Net Income	43,400
Subtotal	43,400
Less: Dividends	25,000
Retained Earnings, Dec. 31, 2015	$18,400

The dividends for the year were $25,000. ($0 + $43,400 – $18,400)

(15–20 min.) E1-9A

Req. 1

		Telco, Inc.
Beginning:		
	Assets	$ 66,000
−	Liabilities	(15,000)
=	Shareholders' Equity	*$ 51,000*

Req. 2

Ending:		
	Assets	$ 94,000
−	Liabilities	(28,000)
=	Shareholders' Equity	*$ 66,000*

Req. 3

	Ending Shareholders' Equity	$66,000
–	Beginning Shareholders' Equity	(51,000)
=	Change in Shareholders' Equity	15,000
–	Sale of shares	(7,000)
=	Change in retained earnings	8,000
+	Dividends	20,000
=	Net income	$28,000

Note: The change in retained earnings equals net income minus dividends. So, dividends are added back to the change in retained earnings to arrive at net income.

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(10–15 min.) E1-1B

Corner Grocery, Corp. $45,000 + $27,900 = *$72,900*
Sampson Hardware, Inc. $104,000 – $44,000 = *$60,000*
Perfect Cleaners, Inc. $108,800 – $92,600 = *$16,200*

(10–15 min.) E1-2B

Req. 1

	Total Assets	−	Total Shareholders' Equity	=	Total Liabilities
Beginning	$93,000	−	$31,000	=	$62,000
Ending	$147,000	−	$87,000	=	$60,000
Decrease during the year				=	$ 2,000

Req. 2

Possible reasons for the decrease in Liabilities may include:

- Made payments on Accounts Payable
- Made payments on Notes Payable

(10–15 min.) E1-3B

Req. 1

	Total Assets	−	Total Liabilities	=	Total Shareholders' Equity
Beginning	$35,000	−	$32,000	=	$3,000
Ending	$65,000	−	$20,000	=	$45,000
Increase during the year				=	$ 42,000

Req. 2

Possible reasons for the increase in Shareholders' Equity may include:

- Changes in Common Shares—issuing new shares
- Net Income

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(15–20 min.) E1-4B

		Oct. 31, 2015	Nov. 30, 2015
	Total assets	$140,000	$175,000
-	Total liabilities	$(75,000)	$(117,000)
=	Shareholders' equity	$65,000	$58,000

Assumption A: No dividends were paid.

$58,000 ending balance = $65,000 Beg bal + Net income – Dividends
$58,000 = $65,000 + Net income – 0
$(7,000) = Net loss

Assumption B: $17,000 of dividends were paid.

$58,000 ending balance = $65,000 Beg bal + Net income – Dividends
$58,000 = $65,000 + Net income—$17,000
$10,000 = Net income

Assumption C: $25,000 of dividends were paid.

$58,000 ending balance = $65,000 Beg bal + Net income – Dividends
$58,000 = $65,000 + Net income – $25,000
$18,000 = Net income

(15–20 min.) E1-5B

Req. 1

	Assets					=	Liabilities	+	Shareholders' Equity				
	Cash	+	Medical Supplies	+	Land		Accounts Payable		Common Shares	+	Retained Earnings		
January											Service Revenue	–	Rent Expense
2	+ 80,000								+ 80,000				
6	– 30,000				+ 30,000								
11			+ 600				+ 600						
15	No entry required												
17	+ 13,000										+ 13,000		
19	– 1,100												+ 1,100
22	+ 400		- 400										
30	– 150						– 150						
Bal.	$62,150	+	$200	+	$30,000	=	$450	+	$80,000	+	$13,000	–	$1,100

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(10–15 min.) E1-6B

Req. 1

The business is a corporation, as shown by the fact that it has a common share account.

Req. 2

Kite Runner, Inc.			
Statement of Financial Position			
August 31, 2015			
ASSETS		LIABILITIES	
Cash	$ 24,000	Accounts Payable	$5,000
Accounts Receivable	600	Note Payable	1,000
Supplies	700	Total Liabilities	6,000
Office Equipment	4,100	SHAREHOLDERS' EQUITY	
		Common Shares	5,000
		Retained Earnings	18,400
		Total Shareholders' Equity	23,400
		Total Liabilities &	
Total Assets	$29,400	Shareholders' Equity	$29,400

Req. 3

The statement of financial position reports financial position of a company at a given point in time and that Assets = Liabilities + Shareholders' Equity.

(10–15 min.) E1-7B

Req. 1

	Common Shares	Retained Earnings	Total
Balance, Jan. 1, 2015	$10,000	$28,000	$38,000
Issued Common Shares	$24,000		$24,000
Net Income		$(9,000)	$(9,000)
Dividends		$(5,000)	$(5,000)
Balance, Dec. 31, 2015	$34,000	$14,000	$48,000

Req. 2

Revenue – Expenses = Net Income

$26,000 – X = $9,000 Expenses = $35,000

(15–20 min.) E1-8B

Req. 1

Account	Type of Account	Account	Type of Account
Office Furniture	Asset	Rent Expense	Expense
Utilities Expense	Expense	Cash	Asset
Accounts Payable	Liability	Office Supplies	Asset
Notes Payable	Liability	Salary Expense	Expense
Service Revenue	Revenue	Salary Payable	Liability

Accounts Receivable	Asset	Property Tax Expense	Expense
Supplies Expense	Expense	Equipment	Asset

Req. 2

Albright Consulting , Inc.		
Income Statement		
For the Year Ended January 31, 2015		
Revenue		$155,000
Expenses		
Salary Expense	$43,000	
Rent Expense	36,000	
Utilities Expense	13,500	
Supplies Expense	3,700	
Property Tax Expense	3,000	
Total Expenses		99,200
Net Income		$ 55,800

Results of operations for 2015: Net income of $55,800.

Req. 3

Albright Consulting, Inc.	
Statement of Retained Earnings	
For the Year Ended January 31, 2015	
Retained Earnings, Jan. 31, 2012	$0
Add: Net Income	55,800
Subtotal	55,800
Less: Dividends	50,000
Retained Earnings, Jan. 31, 2015	$5,800

The dividends for the year were $50,000 ($0 + $55,800 – $5,800).

(15–20 min.) E1-9B

Req. 1

		Edo, Inc.
Beginning:		
	Assets	$ 99,000
−	Liabilities	(15,000)
=	Shareholders' Equity	*$ 84,000*

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Req. 2

Ending:		
	Assets	$ 164,000
−	Liabilities	(70,000)
=	Shareholders' Equity	*$ 94,000*

Req. 3

	Ending Shareholders' Equity	$94,000
–	Beginning Shareholders' Equity	(84,000)
=	Change in Shareholders' Equity	10,000
–	Sale of Shares	(17,000)
=	Change in Retained Earnings	(7,000)
+	Dividends	55,000
=	Net Income	$48,000

Note: The change in Retained Earnings equals Net Income minus Dividends. So, Dividends are added back to the change in Retained Earnings to arrive at Net Income.

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Problems

(20–25 min.) P1-1A

Req. 1

	Assets							=	**Liabilities**	+	**Shareholders' Equity**						
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Office Furniture**		**Accounts Payable**		**Common Shares**	+	**Retained Earnings**				
June													**Service Revenue**	–	**Rent Expense**	–	**Dividends**
3	*																
5	+ 60,000										+ 60,000						
Bal.	$60,000	+	$0	+	$0	+	$0	=	$0	+	$60,000	+	$0	–	$0	–	$0
7	–450				+ 450												
Bal.	$59,550	+	$0	+	$450	+	$0	=	$0	+	$60,000	+	$0	–	$0	–	$0
9							+3,800		+3,800								
Bal.	$59,550	+	$0	+	$450	+	$3,800	=	$3,800	+	$60,000	+	$0	–	$0	–	$0
10	*																
14	**																
20			+3,800										+3,800				
Bal.	$59,550	+	$3,800	+	$450	+	$3,800	=	$3,800	+	$60,000	+	$3,800	–	$0	–	$0
27	–1,600														+1,600		
Bal.	$57,950	+	$3,800	+	$450	+	$3,800	=	$3,800	+	$60,000	+	$3,800	–	$1,600	–	$0
30	–1,000																+1,000
Bal.	$56,950	+	$3,800	+	$450	+	$3,800	=	$3,800	+	$60,000	+	$3,800	–	$1,600	–	$1,000

* Represents a personal, not a business transaction

** Not a transaction as there was no financial impact

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Req. 2

a.	Total assets	=	\$65,000 (\$56,950 + \$3,800 + \$450 + \$3,800)
b.	Total liabilities	=	\$3,800
c.	Total shareholders' equity	=	\$61,200 (\$60,000 + \$3,800 – \$1,600 – \$1,000)
d.	Net income for June	=	\$2,200 (\$3,800 − \$1,600)

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(25–30 min.) P1-2A

Req. 1

	Assets							=	Liabilities	+	Shareholders' Equity						
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment		Accounts Payable		Common Shares	+	Retained Earnings				
June													Service Revenue	–	Salaries Expense	–	Dividends
Beg. bal.	$1,540	+	$3,680	+	$0	+	$24,000	=	$5,100	+	$21,000	+	$5,100	–	$1,980	–	$0
a.	+ 10,000										+ 10,000						
Bal.	$11,540	+	$3,680	+	$0	+	$24,000	=	$5,100	+	$31,000	+	$5,100	–	$1,980	–	$0
b.	–5,100								–5,100								
Bal.	$6,440	+	$3,680	+	$0	+	$24,000	=	$0	+	$31,000	+	$5,100	–	$1,980	–	$0
c.	+ 2,500												+ 2,500				
Bal.	$8,940	+	$3,680	+	$0	+	$24,000	=	$0	+	$31,000	+	$7,600	–	$1,980	–	$0
d.	+ 850		– 850														
Bal.	$9,790	+	$2,830	+	$0	+	$24,000	=	$0	+	$31,000	+	$7,600	–	$1,980	–	$0
e.					+ 600				+ 600								
Bal.	$9,790	+	$2,830	+	$600	+	$24,000	=	$600	+	$31,000	+	$7,600	–	$1,980	–	$0
f.			+ 5,000										+ 5,000				
Bal.	$9,790	+	$7,830	+	$600	+	$24,000	=	$600	+	$31,000	+	$12,600	–	$1,980	–	$0
g.	+2,500										+ 2,500						
Bal.	$12,290	+	$7,830	+	$600	+	$24,000	=	$600	+	$33,500	+	$12,600	–	$1,980	–	$0
h.	– 2,400														+ 2,400		
Bal.	$9,890	+	$7,830	+	$600	+	$24,000	=	$600	+	$33,500	+	$12,600	–	$4,380	–	$0
i.	+110				– 110												
Bal.	$10,000	+	$7,830	+	$490	+	$24,000	=	$600	+	$33,500	+	$12,600	–	$4,380	–	$0
j.	–1,500																+1,500
Bal.	$8,500	+	$7,830	+	$490	+	$24,000	=	$600	+	$33,500	+	$12,600	–	$4,380	–	$1,500

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Req. 2

Interiors by Donna, Inc.		
Income Statement		
Month Ended September 30, 2015		
Revenues		
Service Revenue		$12,600
Expenses		
Salaries Expense		4,380
Net Income		$8,220

Req. 3

Interiors by Donna, Inc.
Statement of Changes in Equity
Month Ended September 30, 2015

	Common Shares	Retained Earnings	Total
Balance, September 1, 2015	$21,000	$0	$24,120
Issued common shares	12,500		12,500
Net income		8,220	5,100
Dividends		(1,500)	(1,500)
Balance, September 30, 2015	$33,500	$6,720	$40,220

Req. 4

Interiors by Donna, Inc.			
Balance Sheet			
September 30, 2015			
ASSETS		LIABILITIES	
Cash	$ 8,500	Accounts Payable	$ 600
Accounts Receivable	7,830		
Supplies	490	SHAREHOLDERS' EQUITY	
Equipment	24,000	Common Shares	33,500
		Retained Earnings	6,720
		Total Shareholders' Equity	40,220
		Total Liabilities &	
Total Assets	$40,820	Shareholders' Equity	$40,820

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(20–25 min.) P1-3A

Req. 1a.

Gear Heads, Inc.		
Income Statement		
Year Ended December 31, 2015		
Service Revenue		$72,000
Expenses		
Salary Expense	$14,000	
Insurance Expense	4,000	
Advertising Expense	3,000	
Total Expenses		21,000
Net Income		$51,000

Req. 1b.

Gear Heads, Inc.
Statement of Changes in Equity
Year Ended December 31, 2015

	Common Shares	Retained Earnings	Total
Balance, December 31, 2014	$20,000	$32,000	$52,000
Net income		51,000	51,000
Dividends		(40,000)	(40,000)
Balance, December 31, 2015	$20,000	$43,000	$63,000

Req. 1c.

Gear Heads, Inc.			
Statement of Financial Position			
December 31, 2015			
ASSETS		LIABILITIES	
Cash	$7,000	Accounts Payable	$ 2,000
Accounts Receivable	5,000	Notes Payable	25,000
Equipment	78,000	Total Liabilities	27,000
		SHAREHOLDERS' EQUITY	
		Common Shares	20,000
		Retained Earnings	43,000
		Total Shareholders' Equity	63,000
		Total Liabilities &	
Total Assets	$90,000	Shareholders' Equity	$90,000

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(25–30 min.) P1-4A

Req. 1

Account	Type of Account	Account	Type of Account
Accounts Payable	Liability	Interest Expense	Shareholders' Equity
Accounts Receivable	Asset	Land	Asset
Advertising Expense	Shareholders' Equity	Note Payable	Liability
Building	Asset	Property Tax Expense	Shareholders' Equity
Cash	Asset	Rent Expense	Shareholders' Equity
Common Shares	Shareholders' Equity	Salary Expense	Shareholders' Equity
Dividends	Shareholders' Equity	Salary Payable	Liability
Equipment	Asset	Service Revenue	Shareholders' Equity
Insurance Expense	Shareholders' Equity	Supplies	Asset

Req. 2

The Better Body, Inc. Income Statement Year Ended December 31, 2015		
Service Revenue		$185,000
Expenses		
Salary Expense	$71,000	
Rent Expense	24,000	
Advertising Expense	13,000	
Interest Expense	9,000	
Property Tax Expense	3,000	
Insurance Expense	1,000	
Total Expenses		121,000
Net Income		$ 64,000

The Better Body Inc. Statement of Changes in Equity Year Ended December 31, 2015	Common Shares	Retained Earnings	Total
Balance, December 31, 2014	$40,000	$97,000	$137,000
Net income		64,000	64,000
Dividends		(36,000)	(36,000)
Balance, December 31, 2015	$40,000	$125,000	$165,000

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Req. 3

The Better Body, Inc.			
Statement of Financial Position			
December 31, 2015			
ASSETS		LIABILITIES	
Cash	$16,000	Accounts Payable	$ 15,000
Accounts Receivable	14,000	Salaries Payable	2,000
Supplies	2,000	Notes Payable	65,000
Land	40,000	Total Liabilities	82,000
Equipment	45,000		
Building	130,000	SHAREHOLDERS' EQUITY	
		Common Shares	40,000
		Retained Earnings	125,000
		Total Shareholders' Equity	165,000
		Total Liabilities &	
Total Assets	$247,000	Shareholders' Equity	$247,000

Req. 4

a. 64,000 (Net Profit = Net Income).
b. Increase of $28,000 ($64,000 Net Income minus $36,000 Dividends).
c. $247,000 (Total economic resources = total assets).
d. $ 82,000 (Total owed = total liabilities).

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(20–25 min.) P1-5A
Req. 1

Aztec Realty, Inc. Statement of Financial Position June 30, 2015			
ASSETS		LIABILITIES	
Cash	$9,000	Accounts Payable	$ 200
Accounts Receivable	1,400	Salaries Payable	1,750
Supplies	800	Notes Payable	5,700
Equipment	7,500	Total Liabilities	7,650
		SHAREHOLDERS' EQUITY	
		Common Shares	8,000
		Retained Earnings	3,050
		Total Shareholders' Equity	11,050
		Total Liabilities &	
Total Assets	$18,700	Shareholders' Equity	$18,700

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(20–25 min.) P1-1B

Req. 1

	Assets							**=**	**Liabilities**	**+**	**Shareholders' Equity**						
	Cash	+	**Accounts Receivable**	+	**Supplies**	+	**Office Furniture**		**Accounts Payable**		**Common Shares**	**+**	**Retained Earnings**				
April													**Service Revenue**	**–**	**Rent Expense**	**–**	**Dividends**
3	*																
5	+ 90,000										+ 90,000						
Bal.	$90,000	+	$0	+	$0	+	$0	=	$0	+	$90,000	+	$0	–	$0	–	$0
7	–600				+ 600												
Bal.	$89,400	+	$0	+	$600	+	$0	=	$0	+	$90,000	+	$0	–	$0	–	$0
9							+4,000		+4,000								
Bal.	$89,400	+	$0	+	$600	+	$4,000	=	$4,000	+	$90,000	+	$0	–	$0	–	$0
10	*																
14	**																
20			+3,900										+3,900				
Bal.	$89,400	+	$3,900	+	$600	+	$4,000	=	$4,000	+	$90,000	+	$3,900	–	$0	–	$0
27	–1,200														+1,200		
Bal.	$88,200	+	$3,900	+	$600	+	$4,000	=	$4,000	+	$90,000	+	$3,900	–	$1,200	–	$0
30	–500																+ 500
Bal.	$87,700	+	$3,900	+	$600	+	$4,000	=	$4,000	+	$90,000	+	$3,900	–	$1,200	–	$500

* Represents a personal, not a business transaction

** Not a transaction as there was no financial impact

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Req. 2

a.	Total Assets	=	\$96,200 (\$87,700+ \$3,900 + \$600 + \$4,000)
b.	Total Liabilities	=	\$4,000
c.	Total Shareholders' Equity	=	\$92,200 (\$90,000 + \$3,900 – \$1,200 – \$500)
d.	Net Income for April	=	\$2,700 (\$3,900 − \$1,200)

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(25–30 min.) P1-2B

Req. 1

	Assets							=	Liabilities	+	Shareholders' Equity						
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment		Accounts Payable		Common Shares	+	Retained Earnings				
November													Service Revenue	–	Salaries Expense	–	Dividends
Beg. bal.	$1,750	+	$3,210	+	$0	+	$24,000	=	$5,400	+	$18,020	+	$6,900	–	$1,360	–	$0
a.	+ 6,900										+ 6,900						
Bal.	$8,650	+	$3,210	+	$0	+	$24,000	=	$5,400	+	$24,920	+	$6,900	–	$1,360	–	$0
b.	–5,400								–5,400								
Bal.	$3,250	+	$3,210	+	$0	+	$24,000	=	$0	+	$24,920	+	$6,900	–	$1,360	–	$0
c.	+ 1,500												+ 1,500				
Bal.	$4,750	+	$3,210	+	$0	+	$24,000	=	$0	+	$24,920	+	$8,400	–	$1,360	–	$0
d.	+ 850		– 850														
Bal.	$5,600	+	$2,360	+	$0	+	$24,000	=	$0	+	$24,920	+	$8,400	–	$1,360	–	$0
e.					+ 400				+ 400								
Bal.	$5,600	+	$2,360	+	$400	+	$24,000	=	$400	+	$24,920	+	$8,400	–	$1,360	–	$0
f.			+ 9,000										+ 9,000				
Bal.	$5,600	+	$11,360	+	$400	+	$24,000	=	$400	+	$24,920	+	$17,400	–	$1,360	–	$0
g.	+5,500										+ 5,500						
Bal.	$11,100	+	$11,360	+	$400	+	$24,000	=	$400	+	$30,420	+	$17,400	–	$1,360	–	$0
h.	– 2,550														+ 2,550		
Bal.	$8,550	+	$11,360	+	$400	+	$24,000	=	$400	+	$30,420	+	$17,400	–	$3,910	–	$0
i.	+250				– 250												
Bal.	$8,800	+	$11,360	+	$150	+	$24,000	=	$400	+	$30,420	+	$17,400	–	$3,910	–	$0
j.	–1,200																+1,200
Bal.	$7,600	+	$11,360	+	$150	+	$24,000	=	$400	+	$30,420	+	$17,400	–	$3,910	–	$1,200

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Req. 2

Reno by Daiyi, Inc.		
Income Statement		
Month Ended November 30, 2015		
Revenues		
Service Revenue		$17,400
Expenses		
Salaries Expense		3,910
Net Income		$13,490

Req. 3

Reno by Daiyi, Inc.	
Statement of Retained Earnings	
Month Ended November 30, 2015	
Retained Earnings, November 1, 2015	$0
Add: Net Income	13,490
Subtotal	13,490
Less: Dividends	1,200
Retained Earnings, November 30, 2015	$12,290

Req. 4

Reno by Daiyi, Inc.			
Statement of Financial Position			
November 30, 2015			
ASSETS		LIABILITIES	
Cash	$ 7,600	Accounts Payable	$ 400
Accounts Receivable	11,360		
Supplies	150	SHAREHOLDERS' EQUITY	
Equipment	24,000	Common Shares	30,420
		Retained Earnings	12,290
		Total Shareholders' Equity	42,710
		Total Liabilities &	
Total Assets	$43,110	Shareholders' Equity	$43,110

(20–25 min.) P1-3B

Req. 1a.

Barrett, Inc.		
Income Statement		
Year Ended December 31, 2015		
Service Revenue		$70,000
Expenses		
Salary Expense	$16,000	
Insurance Expense	9,000	
Advertising Expense	3,500	
Total Expenses		28,500
Net Income		$41,500

Req. 1b.

Barrett, Inc. Statement of Changes in Equity Year Ended December 31, 2015			
	Common Shares	**Retained Earnings**	**Total**
Balance, December 31, 2014	$32,000	$28,500	$60,500
Net income		41,500	41,500
Dividends		(35,000)	(35,000)
Balance, December 31, 2015	$32,000	$35,000	$67,000

Req. 1c.

Barrett, Inc.			
Statement of Financial Position			
December 31, 2015			
ASSETS		LIABILITIES	
Cash	$10,000	Accounts Payable	$ 2,000
Accounts Receivable	5,000	Notes Payable	16,000
Equipment	70,000	Total Liabilities	18,000
		SHAREHOLDERS' EQUITY	
		Common Shares	32,000
		Retained Earnings	35,000
		Total Shareholders' Equity	67,000
		Total Liabilities &	
Total Assets	$85,000	Shareholders' Equity	$85,000

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(25–30 min.) P1-4B

Req. 1

Account	Type of Account	Account	Type of Account
Accounts Payable	Liability	Interest Expense	Shareholders' Equity
Accounts Receivable	Asset	Land	Asset
Advertising Expense	Shareholders' Equity	Note Payable	Liability
Building	Asset	Property Tax Expense	Shareholders' Equity
Cash	Asset	Rent Expense	Shareholders' Equity
Common Shares	Shareholders' Equity	Salary Expense	Shareholders' Equity
Dividends	Shareholders' Equity	Salary Payable	Liability
Equipment	Asset	Service Revenue	Shareholders' Equity
Insurance Expense	Shareholders' Equity	Supplies	Asset

Req. 2

Camp Out, Inc. **Income Statement** **Year Ended October 31, 2015**		
Service Revenue		$195,000
Expenses		
Salary Expense	$71,000	
Rent Expense	22,000	
Advertising Expense	17,000	
Interest Expense	7,000	
Property Tax Expense	2,500	
Insurance Expense	1,000	
Total Expenses		120,500
Net Income		$ 74,500

Camp Out, Inc.
Statement of Changes in Equity
Year Ended December 31, 2015

	Common Shares	**Retained Earnings**	**Total**
Balance, October 31, 2014	$75,000	$79,700	$154,700
Net income		74,500	74,500
Dividends		(33,000)	(33,000)
Balance, October 31, 2015	$75,000	$121,200	$196,200

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Req. 3

Camp Out, Inc.			
Statement of Financial Position			
October 31, 2015			
ASSETS		LIABILITIES	
Cash	$17,000	Accounts Payable	$ 13,000
Accounts Receivable	21,000	Salaries Payable	1,900
Supplies	1,100	Notes Payable	64,000
Land	36,000	Total Liabilities	78,900
Equipment	50,000		
Building	150,000	SHAREHOLDERS' EQUITY	
		Common Shares	75,000
		Retained Earnings	121,200
		Total Shareholders' Equity	196,200
		Total Liabilities &	
Total Assets	$275,100	Shareholders' Equity	$275,100

Req. 4

a. 74,500 (Net profit = net income).
b. Increase of $41,500 ($74,500 Net income minus $33,000 Dividends).
c. $275,100 (Total economic resources = total assets).
d. $ 78,900 (Total owed = total liabilities).

(20–25 min.) P1-5B

Req. 1

Right Away Realty, Inc.			
Statement of Financial Position			
September 30, 2015			
ASSETS		LIABILITIES	
Cash	$14,000	Accounts Payable	$ 300
Accounts Receivable	2,200	Salaries Payable	1,950
Supplies	600	Notes Payable	7,000
Equipment	8,300	Total Liabilities	9,250
		SHAREHOLDERS' EQUITY	
		Common Shares	12,000
		Retained Earnings	3,850
		Total Shareholders' Equity	15,850
		Total Liabilities &	
Total Assets	$25,100	Shareholders' Equity	$25,100

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Continuing Exercise

	ASSETS							=	LIABILITIES	+	SHAREHOLDERS' EQUITY				
	Cash	+	Accounts Receivable	+	Lawn Supplies	+	Equipment		Accounts Payable		Common Shares	+	Retained Earnings		
													Service Revenue	–	Fuel Expense
6/1	+1,000										+1,000				
6/3							+1,400		+1,400						
6/5	–20														+20
6/6			+200										+200		
6/8	–50				+50										
6/17	+500												+500		
6/30	+50		–50												
Bal	1,480		150		50		1,400		1,400		1,000		700		20

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Continuing Problem

Req. 1

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Req. 2

Aqua Elite, Inc.
Income Statement
Month Ended May 31, 2015

Service Revenue		$4,050
Expenses:		
Salary Expense	$675	
Utilities Expense	480	
Total Expenses		1,155
Net Income		$2,895

	Assets					= Liabilities		+ Shareholders' Equity		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	+ Vehicles	Accounts Payable	+ Note Payable	Common Shares	+ Retained Earnings: Service Revenue	– Salary Expens
5/1	+15,000				+13,500			+28,500		
5/3	–4,700			+4,700						
5/7			+860			+860				
5/12	+850								+850	
5/15	–675									+675
5/16	+13,500				–13,500					
5/18					+31,000		+31,000			
5/21		+3,200							+3,200	
5/27	–500					–500				
5/30	+2,000	–2,000								
5/31						+480				
5/31	–1,000									
Bal	24,475	1,200	860	4,700	31,000	840	31,000	28,500	4,050	675

Req. 3

Aqua Elite, Inc.
Statement of Changes in Equity
Month Ended May 31, 2015

	Common Shares	Retained Earnings	Total
Balance, May 1, 2015	$0	$0	$0
Issued shares	28,500		28,500
Net income		2,895	2,895
Dividends		(1,000)	(1,000)
Balance, May 31, 2015	$28,500	$1,895	$30,395

Req. 4

Aqua Elite, Inc.
Statement of Financial Position
May 31, 2015

ASSETS	LIABILITIES

Cash	$24,475	Accounts Payable	
Accounts Receivable	1,200	Note Payable	$840
Supplies	860	Total Liabilities	31,000
Equipment	4,700		$31,840
Vehicles	31,000	SHAREHOLDERS' EQUITY	
Total Assets		Common Shares	$28,500
		Retained Earnings	1,895
		Total Shareholders' Equity	30,395
	$62,235	Total Liabilities & Shareholders' Equity	$62,235

Req. 5

It is unknown how much Mike was earning at his previous job and, after only one month of operations, it is probably too early to tell. However, Aqua Elite, Inc. generated just under $3,000 of profit for the month. So, it appears that Mike probably made a good decision.

APPLY YOUR KNOWLEDGE

Ethics in Action

Case 1

- What Wen proposed is not unethical as long as the assets contributed can legitimately be used in the business and the shareholders' equity accounts properly reflect the contribution. The entity concept recognizes the difference between the personal assets of the owners and the assets owned by the business. When assets are contribute to the business by the owners, proper accounting will reflect the transaction. Should a business need additional assets, there is nothing wrong or improper for an owner to invest additional assets that can be used in the business.
- What Jung proposed is unethical. His plan would provide information that would not be reliable as the "sales" and would be nothing more than disguised owner distributions. Inflating the income statement by including fictitious sales is unethical, misleading, and not allowable. Jung should not provide false information that is unreliable.

  There is nothing unethical about a business to improving its statement of financial position by properly adding more business assets. It would be unacceptable, however, for a business to temporarily add more assets just to improve the statement of financial position to obtain a loan and remove those assets once the loan is granted.

Case 2

- Under IFRS, companies can choose one of four alternatives to record assets: (1) historical cost, (2) current value, (3) realizable value, and (4) present value. The accountant is not

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correct in saying that the cost principle requires companies to use historical cost to record assets. Eagle Ridge, Inc. can report its assets using realizable value. Companies are required to revalue their assets periodically to show the financial position. If Eagle Ridge, Inc., records the realizable value of the asset, then the unrealized gain should be reported under comprehensive income in the statement of comprehensive income.

KNOW YOUR BUSINESS

Financial Analysis

2. The total assets increased from $23.846 billion in 2011 to $25.790 billion in 2012.
3. The revenues decreased from 18.347 billion in 2011 to 16.768 billion in 2012.
4. Cash flow from operations increased from $243 million in 2011 to $1.348 billion in 2012.

Industry Analysis

The shareholders of Boeing Company have higher claims against assets versus the shareholders of Bombardier Inc. In 2012, Boeing's equity to asset ratio was 6.7% while in 2012 Bombardier's equity to assets ratio was 5.3%.

Small Business Analysis

The accountant tells you, "The income statement is not the only financial statement that will affect your cash balance. The income statement only gives you the results of your operations. If all you did during the year was to collect revenue and pay out expenses, then the net income would directly correspond to the increase in your cash balance. But there are other aspects of BCS Consultants as well. There's the financing aspect, borrowing money and paying money back, as well as the investment aspect, buying and disposing of fixed assets. These will also affect your cash balance.

"You purchased a piece of equipment during the year for $12,000 and paid cash for it. That decreased your cash by $12,000. You paid down your note at the bank from $75,000 to $50,000 during the year. That used $25,000 in cash. And you paid yourself a dividend of $13,000. None of these three items will appear on the income statement because they are not income or expenses, but each of them affects cash."

So here's the recap of what happened to cash for the year:

Cash balance 2014	$40,000
Increase for net income 2015	40,000
Decrease for equipment purchased	(12,000)
Decrease for Note payment	(25,000)
Decrease for Dividends paid 2015	(13,000)
Cash Balance 2015	$30,000 – a decrease of $10,000

Written Communication

In your email back to this potential new client, you would want to list the basic types of business organizations available to most small businesses today. These were outlined in your chapter, and they are sole proprietor, partnership, and corporation. Of course, you would want to elaborate on the tax advantages and disadvantages of each of these types of organizations (that discussion is beyond the scope of our text) as well as talk briefly about the legal aspects of each of them. But remember, we are not attorneys. Leave the high-level discussions about legal liability to them.

However, because we are accountants, we can certainly tell this potential new client about the benefits of having an accountant as part of the team of professionals that is necessary to help achieve success in today's business climate. Accountants "keep score." They help ensure that the business is running profitably. They help to determine what the true cost is for one unit of the product that you are selling. They prepare financial statements for the stakeholders of the business. They speak the language of business.

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