CHAPTER 1

Accounting in Action

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Do It!	Exercises	A Problems	B Problems
1. Explain what accounting is.	1, 2, 5		1	1		
2. Identify the users and uses of accounting.	3, 4		1	2		
3. Understand why ethics is a fundamental business concept.				3		
4. Explain generally accepted accounting principles.	6		1	4		
5. Explain the monetary unit assumption and the economic entity assumption.	7, 8, 9, 10			4		
6. State the accounting equation, and define its components.	11, 12, 13, 14	1, 2, 3, 4, 5, 8, 9	2	5, 6, 7, 11	1A, 2A, 4A	1B, 2B, 4B
7. Analyze the effects of business transactions on the accounting equation.	15, 16, 17, 18	6, 7	3	6, 7, 8, 10, 11	1A, 2A, 4A, 5A	1B, 2B, 4B, 5B
8. Understand the four financial statements and how they are prepared.	19, 20, 21 22	10, 11	4	8, 9, 11, 12, 13, 14, 15, 16, 17	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Analyze transactions and compute net income.	Moderate	40–50
2A	Analyze transactions and prepare income statement, retained earnings statement, and balance sheet.	Moderate	50–60
3A	Prepare income statement, retained earnings statement, and balance sheet.	Moderate	50–60
4A	Analyze transactions and prepare financial statements.	Moderate	40–50
5A	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50
1B	Analyze transactions and compute net income.	Moderate	40–50
2B	Analyze transactions and prepare income statement, retained earnings statement, and balance sheet.	Moderate	50–60
3B	Prepare income statement, retained earnings statement, and balance sheet.	Moderate	50–60
4B	Analyze transactions and prepare financial statements.	Moderate	40–50
5B	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50

WEYGANDT FINANCIAL ACCOUNTING 9E
CHAPTER 1
ACCOUNTING IN ACTION

Number	LO	BT	Difficulty	Time (min.)
BE1	6	AP	Simple	2–4
BE2	6	AP	Simple	3–5
BE3	6	AP	Moderate	4–6
BE4	6	AP	Moderate	4–6
BE5	6	K	Simple	2–4
BE6	7	C	Simple	2–4
BE7	7	C	Simple	2–4
BE8	6	C	Simple	2–4
BE9	6	C	Simple	1–2
BE10	8	AP	Simple	3–5
BE11	8	C	Simple	2–4
DI1	1, 2, 4	K	Simple	2–4
DI2	6	K	Simple	2–4
DI3	7	AP	Simple	6–8
DI4	8	AP	Moderate	8–10
EX1	1	C	Moderate	5–7
EX2	2	C	Simple	6–8
EX3	3	C	Moderate	6–8
EX4	4, 5	C	Moderate	6–8
EX5	6	C	Simple	4–6
EX6	6, 7	C	Simple	6–8
EX7	6, 7	C	Simple	4–6
EX8	7, 8	AP	Moderate	12–15
EX9	8	AP	Simple	12–15
EX10	7	AP	Moderate	8–10
EX11	6, 7, 8	AP	Moderate	6–8
EX12	8	AP	Simple	8–10
EX13	8	AN	Simple	8–10
EX14	8	AP	Simple	10–12
EX15	8	AP	Simple	6–8
EX16	8	AP	Moderate	6–8
EX17	8	AP	Moderate	8–10

ACCOUNTING IN ACTION (Continued)

Number	LO	BT	Difficulty	Time (min.)
P1A	6, 7	AP	Moderate	40–50
P2A	6–8	AP	Moderate	50–60
P3A	8	AP	Moderate	50–60
P4A	6–8	AP	Moderate	40–50
P5A	7, 8	AP	Moderate	40–50
P1B	6, 7	AP	Moderate	40–50
P2B	6–8	AP	Moderate	50–60
P3B	8	AP	Moderate	50–60
P4B	6–8	AP	Moderate	40–50
P5B	7, 8	AP	Moderate	40–50
BYP1	8	AN	Simple	10–15
BYP2	8	AN, E	Simple	10–15
BYP3	8	AN, E	Simple	10–15
BYP4	3–9	C, AN	Simple	15–20
BYP5	8	E	Moderate	15–20
BYP6	8	E	Simple	12–15
BYP7	3	E	Simple	10–12
BYP8	3	E	Moderate	15–20
BYP9	8	E	Moderate	15–20
BYP10	–	AP	Moderate	15–20
BYP11	–	C	Simple	10–15

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what accounting is.	DI1-1	Q1-1 Q1-2 Q1-5 E1-1				
2. Identify the users and uses of accounting.	DI1-1	Q1-3 Q1-4 E1-2				
3. Understand why ethics is a fundamental business concept.		E1-3				
4. Explain generally accepted accounting principles.	DI1-1	Q1-6 E1-4				
5. Explain the monetary unit assumption and the economic entity assumption.	Q1-7 Q1-8 Q1-9 Q1-10	E1-4				
6. State the accounting equation, and define its components.	Q1-11 Q1-12 Q1-13 DI1-2 BE1-5	Q1-11 Q1-14 BE1-4 BE1-8 BE1-9 E1-5 E1-6 E1-7	BE1-1 BE1-2 BE1-3 E1-11 P1-1A P1-2A P1-4A P1-1B P1-2B P1-4B			
7. Analyze the effects of business transactions on the accounting equation.		Q1-15 Q1-16 Q1-17 Q1-18 BE1-6 BE1-7 E1-6 E1-7	DI1-3 E1-8 E1-10 E1-11 P1-1A P1-2A P1-4A P1-5A P1-1B P1-2B P1-4B P1-5B			
8. Understand the four financial statements and how they are prepared.		Q1-19 Q1-20 BE1-11	Q1-21 Q1-22 BE1-10 DI1-4 E1-8 E1-9 E1-11 E1-12 E1-14 E1-15 E1-16 E1-17 P1-2A P1-3A P1-4A P1-5A P1-2B P1-3B P1-4B P1-5B	E1-13		
Broadening Your Perspective		Real–World Focus Considering People, Planet, and Profit	FASB Codification	Financial Reporting Comparative Analysis		All About You Comparative Analysis Decision–Making Across the Organization Communication Activity Ethics Case

ANSWERS TO QUESTIONS

1. Yes, this is correct. Virtually every organization and person in our society uses accounting information. Businesses, investors, creditors, government agencies, and not-for-profit organizations must use accounting information to operate effectively.

2. Accounting is the process of identifying, recording, and communicating the economic events of an organization to interested users of the information. The first step of the accounting process is therefore to identify economic events that are relevant to a particular business. Once identified and measured, the events are recorded to provide a history of the financial activities of the organization. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner. The information is communicated through the preparation and distribution of accounting reports, the most common of which are called financial statements. A vital element in the communication process is the accountant's ability and responsibility to analyze and interpret the reported information.

3. (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.
(b) To assist management, accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.

4. (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell stock.
(b) Creditors use accounting information to evaluate the risks of granting credit or lending money.

5. No, this is incorrect. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.

6. Harper Travel Agency should report the land at $85,000 on its December 31, 2015 balance sheet. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use cost. Only in situations where assets are actively traded do companies apply the fair value principle. An important concept that accountants follow is the cost principle.

7. The monetary unit assumption requires that only transaction data capable of being expressed in terms of money be included in the accounting records. This assumption enables accounting to quantify (measure) economic events.

8. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.

9. The three basic forms of business organizations are: (1) proprietorship, (2) partnership, and (3) corporation.

10. One of the advantages would enjoy is that ownership of a corporation is represented by transferable shares of stock. This would allow to raise money easily by selling a part of her ownership in the company. Another advantage is that because holders of the shares (stockholders) enjoy limited liability, they are not personally liable for the debts of the corporate entity. Also, because ownership can be transferred without dissolving the corporation, the corporation enjoys an unlimited life.

11. The basic accounting equation is Assets = Liabilities + Stockholders' (Owners') Equity.

12. (a) Assets are resources owned by a business. Liabilities are claims against assets—that is,, existing debts and obligations. Stockholders' equity is the ownership claim on total assets.
(b) Stockholders' equity is affected by stockholders' investments, dividends, revenues, and expenses.

13. The liabilities are: (b) Accounts payable and (g) Salaries and wages payable.

14. Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the Equipment account which is offset by a decrease in the Cash account is a specific example.

15. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic equation.
(a) No, the death of the president of the company is not a business transaction as it does not affect the basic equation.
(b) Yes, supplies purchased on account is a business transaction as it affects the basic equation.
(c) No, an employee being fired is not a business transaction as it does not affect the basic equation.

16. (a) Decrease assets and decrease stockholders' equity.
(b) Increase assets and decrease assets.
(c) Increase assets and increase stockholders' equity.
(d) Decrease assets and decrease liabilities.

17. (a) Income statement.
(b) Balance sheet.
(c) Income statement.
(d) Balance sheet.
(e) Balance sheet and retained earnings statement.
(f) Balance sheet.

18. No, this treatment is not proper. While the transaction does involve a receipt of cash, it does not represent revenues. Revenues are the gross increase in stockholders' equity resulting from business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by one of the owners of the business.

19. Yes. Net income does appear on the income statement—it is the result of subtracting expenses from revenues. In addition, net income appears in the retained earnings statement—it is shown as an addition to the beginning-of-period retained earnings. Indirectly, the net income of a company is also included in the balance sheet. It is included in the Retained Earnings account which appears in the stockholders' equity section of the balance sheet.

20. (a)

Ending stockholders' equity balance	$198,000
Beginning stockholders' equity balance	158,000
Net income	$ 40,000

(b)

Ending stockholders' equity balance	$198,000
Beginning stockholders' equity balance	158,000
	40,000
Deduct: Investment	16,000
Net income	$ 24,000

21. (a)

Total revenues ($30,000 + $70,000)	$100,000

(b)

Total expenses ($26,000 + $38,000)	$64,000

(c)

Total revenues	$100,000
Total expenses	64,000
Net income	$ 36,000

22. Apple's accounting equation at September 24, 2011 was $116,371,000,000 = $39,756,000,000 + $76,615,000,000.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1-1

(a) $78,000 – $50,000 = $28,000 (Stockholders' Equity).
(b) $45,000 + $70,000 = $115,000 (Assets).
(c) $94,000 – $60,000 = $34,000 (Liabilities).

BRIEF EXERCISE 1-2

(a) $120,000 + $232,000 = $352,000 (Total assets).
(b) $190,000 – $86,000 = $104,000 (Total liabilities).
(c) $600,000 – 0.5($600,000) = $300,000 (Stockholders' equity).

BRIEF EXERCISE 1-3

(a) ($870,000 + $150,000) – ($500,000 – $80,000) = $600,000 (Stockholders' equity).
(b) ($500,000 + $100,000) + ($870,000 – $500,000 – $66,000) = $904,000 (Assets).
(c) ($870,000 – $80,000) – ($870,000 – $500,000 + $120,000) = $300,000 (Liabilities).

BRIEF EXERCISE 1-4

							Stockholders' Equity				
					Common		Retained Earnings				
	Assets	=	Liabilities	+	Stock	+	Revenues	–	Expenses	–	Dividends
(a)	X	=	$90,000	+	$150,000	+	$450,000	–	$320,000	–	$40,000
	X	=	$90,000	+	$240,000						
	X	=	<u>$330,000</u>								
(b)	$57,000	=	X	+	$23,000	+	$50,000	–	$35,000	–	$7,000
	$57,000	=	X	+	$31,000						
	X	=	<u>$26,000</u> ($57,000 – $31,000)								
(c)	$600,000	=	($600,000 x 2/3)	+	X (Stockholders' equity)						
	$600,000	=	$400,000	+	X						

X = $200,000

BRIEF EXERCISE 1-5

A	(a)	Accounts receivable	A	(d)	Supplies
L	(b)	Salaries and wages payable	SE	(e)	Owner's investment
A	(c)	Equipment	L	(f)	Notes payable

BRIEF EXERCISE 1-6

	Assets	Liabilities	Stockholders' Equity
(a)	+	+	NE
(b)	+	NE	+
(c)	–	NE	–

BRIEF EXERCISE 1-7

	Assets	Liabilities	Stockholders' Equity
(a)	+	NE	+
(b)	–	NE	–
(c)	NE	NE	NE

BRIEF EXERCISE 1-8

E	(a)	Advertising expense	D	(e)	Dividends
R	(b)	Service revenue	R	(f)	Rent revenue
E	(c)	Insurance expense	E	(g)	Utilities expense
E	(d)	Salaries and wages expense			

BRIEF EXERCISE 1-9

R	(a)	Received cash for services performed
NSE	(b)	Paid cash to purchase equipment
E	(c)	Paid employee salaries

BRIEF EXERCISE 1-10

ELLERBY COMPANY
Balance Sheet
December 31, 2015

Assets	
Cash	$ 44,000
Accounts receivable	72,500
Total assets	$116,500
Liabilities and Stockholders' Equity	
Liabilities	
Accounts payable	$ 85,000
Stockholders' equity	
Common stock	31,500
Total liabilities and stockholders' equity	$116,500

BRIEF EXERCISE 1-11

BS	(a)	Notes payable
IS	(b)	Advertising expense
BS	(c)	Common stock
BS	(d)	Cash
IS	(e)	Service revenue
RE	(f)	Dividends

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 1-1

1. False. The three steps in the accounting process are identification, recording, and communication.
2. True
3. False. Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.
4. False. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
5. True.

DO IT! 1-2

1. Dividends is dividends (D); it decreases stockholders' equity.
2. Rent Revenue is revenue (R); it increases stockholders' equity.
3. Advertising Expense is an expense (E); it decreases stockholders' equity.
4. When stockholders pay cash into the business, they receive shares of stock (I); it increases stockholders' equity.

DO IT! 1-3

	Assets		=	Liabilities	+	Stockholders' Equity						
		Accounts		Accounts		Common		Retained Earnings				
	Cash	+ Receivable	=	Payable	+	Stock	+	Revenues	–	Expenses	–	Dividends
(1)		+$23,000						+$23,000				
(2)	+$23,000	–$23,000										
(3)				+$1,800						–$1,800		
(4)	–$ 5,000											–$5,000

DO IT! 1-4

(a) The total assets are $51,500, comprised of Cash $9,000, Accounts Receivable $13,500, and Equipment $29,000.

(b) Net income is $21,700, computed as follows:

Revenues		
Service revenue		$54,000
Expenses		
Salaries and wages expense	$16,500	
Rent expense	9,800	
Advertising expense	6,000	
Total expenses		32,300
Net income		$21,700

DO IT! 1-4 (Continued)

(c) The ending stockholders' equity balance of Garryowen Company is $51,500. By rewriting the accounting equation, we can compute Stockholders' Equity as Assets minus Liabilities, as follows:

Total assets [as computed in (a)]		**$51,500**
Less: Liabilities		
Notes payable	**$25,000**	
Accounts payable	**3,000**	**28,000**
Stockholders' equity		**$23,500**

Note that it is not possible to determine the company's stockholders' equity in any other way, because the beginning balance for stockholders' equity is not provided.

SOLUTIONS TO EXERCISES

EXERCISE 1-1

C Analyzing and interpreting information.
R Classifying economic events.
C Explaining uses, meaning, and limitations of data.
R Keeping a systematic chronological diary of events.
R Measuring events in dollars and cents.
C Preparing accounting reports.
C Reporting information in a standard format.
I Selecting economic activities relevant to the company.
R Summarizing economic events.

EXERCISE 1-2

(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) I Can we afford to give our employees a pay raise?
E Did the company earn a satisfactory income?
I Do we need to borrow in the near future?
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 pay its short-term debts?

EXERCISE 1-3

Sam Cresco, president of Cresco Company, instructed Sharon Gross, the head of the accounting department, to report the company's land in their accounting reports at its market value of $170,000 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 Cresco Company, potential stockholders and creditors, other users of Cresco accounting reports, Sam Cresco, and Sharon Gross. All users of Cresco's accounting reports could be harmed by relying on information which violates accounting principles. Sam Cresco could benefit if the company is able to attract more investors, but would be harmed if the fraudulent reporting is discovered. Similarly, Sharon Gross could benefit by pleasing her boss, but would be harmed if the fraudulent reporting is discovered.

Sharon's alternatives are to report the land at $100,000 or to report it at $170,000. Reporting the land at $170,000 is not appropriate since it would mislead many people who rely on Cresco's accounting reports to make financial decisions. Sharon's should report the land at its cost of $100,000. She should try to convince Sam Cresco that this is the appropriate course of action, but be prepared to resign her position if Cresco insists.

EXERCISE 1-4

1. **Incorrect. The *cost principle* requires that assets (such as buildings) 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 1-5

Asset	Liability	Stockholders' Equity
Cash	Accounts payable	Common stock
Equipment	Notes payable	
Supplies	Salaries and wages payable	
Accounts receivable		

EXERCISE 1-6

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 1-7

1.	(c)	5.	(d)
2.	(d)	6.	(b)
3.	(a)	7.	(e)
4.	(b)	8.	(f)

EXERCISE 1-8

(a)
1. Stockholders invested $15,000 cash in the business.
2. Purchased office 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 $9,400 in revenue, receiving $4,900 cash and $4,500 on account.
5. Paid $1,500 cash on accounts payable.

EXERCISE 1-8 (Continued)

6. **Paid $2,000 cash dividends to stockholders.**
7. **Paid $850 cash for rent.**
8. **Collected $450 cash from clients on account.**
9. **Paid salaries and wages of $3,900.**
10. **Incurred $500 of utilities expense on account.**

(b)	Investment	$15,000
	Service revenue	9,400
	Dividends	(2,000)
	Rent expense	(850)
	Salaries and wages expense	(3,900)
	Utilities expense	(500)
	Increase in stockholders' equity	$17,150

(c)	Service revenue	$9,400
	Rent expense	(850)
	Salaries and wages expense	(3,900)
	Utilities expense	(500)
	Net income	$4,150

EXERCISE 1-9

FOLEY & CO.
Income Statement
For the Month Ended August 31, 2015

Revenues		
Service revenue		$9,400
Expenses		
Salaries and wages expense	$3,900	
Rent expense	850	
Utilities expense	500	
Total expenses		5,250
Net income		$4,150

EXERCISE 1-9 (Continued)

FOLEY & CO.
Retained Earnings Statement
For the Month Ended August 31, 2015

Retained earnings, August 1	$ 0
Add: Net income	4,150
	4,150
Less: Dividends	2,000
Retained earnings, August 31	$ 2,150

FOLEY & CO.
Balance Sheet
August 31, 2015

Assets		
Cash		$ 9,350
Accounts receivable		4,050
Supplies		750
Equipment		5,000
Total assets		$19,150
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable		$ 2,000
Stockholders' equity		
Common stock	$15,000	
Retained earnings	2,150	17,150
Total liabilities and stockholders' equity		$19,150

EXERCISE 1-10

(a)	Stockholders' equity—12/31/14 ($400,000 – $260,000)	$140,000
	Stockholders' equity—1/1/14	100,000
	Increase in stockholders' equity	40,000
	Add: Dividends	15,000
	Net income for 2014	$ 55,000

EXERCISE 1-10 (Continued)

(b)

Stockholders' equity—12/31/15 ($480,000 – $300,000)......	$180,000
Stockholders' equity—1/1/15—see (a)................................	140,000
Increase in stockholders' equity..	40,000
Less: Additional investment..	50,000
Net loss for 2015..	$ (10,000)

(c)

Stockholders' equity—12/31/16 ($590,000 – $400,000)......	$190,000
Stockholders' equity—1/1/16—see (b)................................	180,000
Increase in stockholders' equity..	10,000
Less: Additional investment..	15,000
	(5,000)
Add: Dividends..	30,000
Net income for 2016..	$ 25,000

EXERCISE 1-11

(a)

Total assets (beginning of year)...	$ 97,000
Total liabilities (beginning of year).....................................	85,000
Total stockholders' equity (beginning of year)..................	$ 12,000

(b)

Total stockholders' equity (end of year).............................		$ 40,000
Total stockholders' equity (beginning of year)..................		12,000
Increase in stockholders' equity..		$ 28,000
Total revenues..		$215,000
Total expenses...		175,000
Net income...		$ 40,000
Increase in stockholders' equity.....................		$ 28,000
Less: Net income...	$(40,000)	
Add: Dividends...	15,000	(25,000)
Additional investment....................................		$ 3,000

(c)

Total assets (beginning of year)...	$122,000
Total stockholders' equity (beginning of year)..................	75,000
Total liabilities (beginning of year).....................................	$ 47,000

EXERCISE 1-11 (Continued)

(d)

Total stockholders' equity (end of year)		$130,000
Total stockholders' equity (beginning of year)		75,000
Increase in stockholders' equity		$ 55,000
Total revenues		$100,000
Total expenses		55,000
Net income		$ 45,000
Increase in stockholders' equity		$ 55,000
Less: Net income	$45,000	
Additional investment	25,000	70,000
Dividends		$ 15,000

EXERCISE 1-12

LA GRECA CO.
Income Statement
For the Year Ended December 31, 2015

Revenues		
Service revenue		$62,500
Expenses		
Salaries and wages expense	$28,000	
Rent expense	10,400	
Utilities expense	3,100	
Advertising expense	1,800	
Total expenses		43,300
Net income		$19,200

LA GRECA CO.
Retained Earnings Statement
For the Year Ended December 31, 2015

Retained earnings, January 1	$48,000
Add: Net income	19,200
	67,200
Less: Dividends	5,000
Retained earnings, December 31	$62,200

EXERCISE 1-13

MADISON COMPANY
Balance Sheet
December 31, 2015

Assets		
Cash		$14,000
Accounts receivable		8,500
Supplies		3,000
Equipment		48,000
Total assets		$73,500
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable		$15,000
Stockholders' equity		
Common stock	$50,000	
Retained earnings ($17,500 – $9,000)	8,500	58,500
Total liabilities and stockholders' equity		$73,500

EXERCISE 1-14

(a)

Camping fee revenues	$140,000
General store revenues	47,000
Total revenue	187,000
Expenses	150,000
Net income	$ 37,000

(b)

WYCO PARK
Balance Sheet
December 31, 2015

Assets	
Cash	$ 20,000
Supplies	2,500
Equipment	105,500
Total assets	$128,000

EXERCISE 1-14 (Continued)

WYCO PARK
Balance Sheet (Continued)
December 31, 2015

Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	$ 60,000	
Accounts payable	11,000	
Total liabilities		$ 71,000
Stockholders' equity		
Common stock	20,000	
Retained earnings	37,000	57,000
Total liabilities and stockholders' equity		$128,000

EXERCISE 1-15

LOUISA CRUISE COMPANY
Income Statement
For the Year Ended December 31, 2015

Revenues		
Ticket revenue		$328,000
Expenses		
Salaries and wages expense	$142,000	
Maintenance and repairs expense	92,000	
Utilities expense	10,000	
Advertising expense	3,500	
Total expenses		247,500
Net income		$ 80,500

EXERCISE 1-16

ALEXIS AND RYAN, ATTORNEYS AT LAW
Retained Earnings Statement
For the Year Ended December 31, 2015

Retained earnings, January 1	$ 23,000
Add: Net income	129,000*
	152,000
Less: Dividends	64,000
Retained earnings, December 31	$ 88,000

*Legal service revenue	$340,000
Total expenses	211,000
Net income	$129,000

EXERCISE 1-17

PAULO COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2015

Cash flows from operating activities		
Cash receipts from revenues		$600,000
Cash payments for expenses		(430,000)
Net cash provided by operating activities		170,000
Cash flows from investing activities		
Purchase of equipment		(115,000)
Cash flows from financing activities		
Sale of common stock	$280,000	
Payment of cash dividends	(18,000)	262,000
Net increase in cash		317,000
Cash at the beginning of the period		30,000
Cash at the end of the period		$347,000

PROBLEM 1-1A

(a)

FREDONIA REPAIR INC.

	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Common Stock	+	Retained Earnings: Revenues	–	Retained Earnings: Expenses	–	Retained Earnings: Dividends	
1.	+$10,000										+$10,000	+						
	10,000							=			10,000							
2.	–5,000						+$5,000											
	5,000					+	5,000	=		+	10,000	+						
3.	–400														–$400			(a)
	4,600					+	5,000	=		+	10,000	+			–400			
4.	–300				+$300													
	4,300			+	300	+	5,000	=		+	10,000	+			–400			
5.									+$250						–250			(b)
	4,300			+	300	+	5,000	=	250	+	10,000	+			–650			
6.	+4,700												+$4,700					(c)
	9,000			+	300	+	5,000	=	250	+		+	4,700		–650			
7.	–700										10,000						–$700	(d)
	8,300			+	300	+	5,000	=	250	+		+	4,700		–650		–700	
8.	–1,000										10,000				–1,000			(e)
	7,300			+	300	+	5,000	=	250	+		+	4,700		–1,650		–700	
9.	–140										10,000				–140			(f)
	7,160			+	300	+	5,000	=	250	+		+	4,700		–1,790		–700	
10.			+$1,100								10,000		+1,100					(g)
	7,160	+	1,100	+	300	+	5,000	=	250	+		+	5,800		–1,790		–700	
11.	+120		–120								10,000							
	$ 7,280	+	$980	+	$300	+	$5,000	=	$250	+		+	$5,800	–	$1,790	–	$700	
											$10,000							

$$\underbrace{\qquad\qquad\qquad\qquad}_{}\ \$13,560 \qquad\qquad \underbrace{\qquad\qquad\qquad\qquad}_{}\ \$13,560$$

PROBLEM 1-1A (Continued)

Key to Retained Earnings Column
(a) Rent expense
(b) Advertising expense
(c) Service revenue
(d) Dividends
(e) Salaries and wages expense
(f) Utilities expense
(g) Service revenue

(b)	Service revenue($4,700 + $1,100)...........................		$5,800
	Expenses		
	Salaries and wages..	$1,000	
	Rent..	400	
	Advertising..	250	
	Utilities..	140	1,790
	Net income..		$4,010

PROBLEM 1-2A

(a)

LA BRAVA VETERINARY CLINIC

	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Notes Payable	+	Accounts Payable	+	Common Stock	+	Retained Earnings	+	Revenues	–	Expenses	–	Dividends
Bal.	$ 9,000	+	$1,700	+	$600	+	$ 6,000	=			$3,600	+	$13,000	+	$700						
1.	–2,900										–2,900										
	6,100	+	1,700	+	600	+	6,000	=			700	+	13,000	+	700						
2.	+1,300		–1,300																		
	7,400	+	400	+	600	+	6,000	=			700	+	13,000	+	700						
3.	–800						+2,100				+1,300										
	6,600	+	400	+	600	+	8,100	=			2,000	+	13,000	+	700						
4.	+2,500		+4,800														+$7,300				
	9,100	+	5,200	+	600	+	8,100	=			2,000	+	13,000	+	700		7,300				
5.	–400																				–$400
	8,700	+	5,200	+	600	+	8,100	=			2,000	+	13,000	+	700		7,300				–400
																			–$1,700		
																			–900		
6.	–2,800																		–200		
	5,900	+	5,200	+	600	+	8,100	=			2,000	+	13,000	+	700		7,300		–2,800		–400
7.											+170								–170		
	5,900	+	5,200	+	600	+	8,100	=			2,170	+	13,000	+	700		7,300		–2,970		–400
8.	+10,000								+$10,000												
	$15,900	+	$5,200	+	$600	+	$ 8,100	=	$10,000	+	$2,170	+	$13,000	+	$700	+	$7,300	–	$ 2,970	–	$400

$29,800 $29,800

PROBLEM 1-2A (Continued)

(b)

LA BRAVA VETERINARY CLINIC
Income Statement
For the Month Ended September 30, 2015

Revenues		
Service revenue		$7,300
Expenses		
Salaries and wages expense	$1,700	
Rent expense	900	
Advertising expense	200	
Utilities expense	170	
Total expenses		2,970
Net income		$4,330

LA BRAVA VETERINARY CLINIC
Retained Earnings Statement
For the Month Ended September 30, 2015

Retained earnings, September 1	$ 700
Add: Net income	4,330
	5,030
Less: Dividends	400
Retained earnings, September 30	$4,630

PROBLEM 1-2A (Continued)

LA BRAVA VETERINARY CLINIC
Balance Sheet
September 30, 2015

Assets

Cash		$15,900
Accounts receivable		5,200
Supplies		600
Equipment		8,100
Total assets		$29,800

Liabilities and Stockholders' Equity

Liabilities		
Notes payable	$10,000	
Accounts payable	2,170	
Total liabilities		$12,170
Stockholders' equity		
Common stock	13,000	
Retained earnings	4,630	17,630
Total liabilities and stockholders' equity		$29,800

PROBLEM 1-3A

(a)

NIMBUS FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2015

Revenues		
Service revenue		$6,800
Expenses		
Gasoline expense	$2,500	
Rent expense	900	
Advertising expense	500	
Utilities expense	400	
Maintenance and repairs expense	350	
Total expenses		4,650
Net income		$2,150

NIMBUS FLYING SCHOOL
Retained Earnings Statement
For the Month Ended May 31, 2015

Retained Earnings, May 1	$ 0
Add: Net income	2,150
	2,150
Less: Dividends	500
Retained earnings, May 31	$1,650

NIMBUS FLYING SCHOOL
Balance Sheet
May 31, 2015

Assets	
Cash	$ 4,650
Accounts receivable	7,400
Equipment	64,000
Total assets	$76,050

PROBLEM 1-3A (Continued)

NIMBUS FLYING SCHOOL
Balance Sheet (Continued)
May 31, 2015

Liabilities and Stockholders' Equity

Liabilities		
Notes payable	$28,000	
Accounts payable	1,400	
Total liabilities		$29,400
Stockholders' equity		
Common stock	45,000	
Retained earnings	1,650	46,650
Total liabilities and stockholders' equity		$76,050

(b)

NIMBUS FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2015

Revenues		
Service revenue ($6,800 + $900)		$7,700
Expenses		
Gasoline expense ($2,500 + $1,500)	$4,000	
Rent expense	900	
Advertising expense	500	
Utilities expense	400	
Maintenance and repairs expense	350	
Total expenses		6,150
Net income		$1,550

NIMBUS FLYING SCHOOL
Retained Earnings Statement
For the Month Ended May 31, 2015

Retained Earnings, May 1	$ 0
Add: Net income	1,550
	1,550
Less: Dividends	500

Retained Earnings, May 31..................................	**$1,050**

PROBLEM 1-4A

(a)

TERCEK DELIVERIES

		Assets			Liabilities		Stockholders' Equity				
								Retained Earnings			
Date	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Notes Payable	+ Accounts Payable	+ Common Stock	+ Revenues	– Expenses	– Dividends	
June 1	$10,000						+$10,000				
June 2	–2,000			+$14,000	+$12,000						
	8,000 +			14,000 =	12,000 +		10,000				
June 3	–500								–$ 500		(a)
	7,500 +			14,000 =	12,000 +		10,000		–500		
June 5		+$4,800						+ $4,800			(b)
	7,500 +	4,800 +		14,000 =	12,000 +		10,000 +	4,800	–500		
June 9	–300									–$300	(c)
	+	4,800 +		14,000 =	12,000 +		10,000 +	4,800 –	–500 –	–300	
June 12	7,200		+$150			+$150					
	+	4,800 +	150 +	14,000 =	12,000 +	150 +	10,000 +	4,800 –	–500 –	–300	
June 15	7,200	–1,250									
	+1,250 +	3,550 +	150 +	14,000 =	12,000 +	150 +	10,000 +	4,800 –	–500 –	–300	
June 17	8,450					+100			–100		(d)
	+	3,550 +	150 +	14,000 =	12,000 +	250 +	10,000 +	4,800 –	–600 –	–300	
June 20	8,450							+ 1,500			(e)
	+1,500 +	3,550 +	150 +	14,000 =	12,000 +	250 +	10,000 +	6,300 –	–600 –	–300	
June 23	9,950				–500						
	–500 +	3,550 +	150 +	14,000 =	11,500 +	250 +	10,000 +	6,300 –	–600 –	–300	
June 26	9,450								–250		(f)
	–250 +	3,550 +	150 +	14,000 =	11,500 +	250 +	10,000 +	6,300 –	–850 –	–300	
June 29	9,200					–100					
	–100 +	3,550 +	150 +	14,000 =	11,500 +	150 +	10,000 +	6,300 –	–850 –	–300	
June 30	9,100							–	–1,000		(g)
	–1,000 +	$3,550 +	$150 +	$14,000 =	$ 11,500 +	$150 +	$10,000 +	$6,300 –	$1,850 –	$300	
	$ 8,100										

$25,800 $25,800

PROBLEM 1-4A (Continued)

Key to Retained Earnings Column

(a) Rent expense
(b) Service revenue
(c) Dividends
(d) Gasoline expense
(e) Service revenue
(f) Utilities expense
(g) Salaries and wages expense

(b)

TERCEK DELIVERIES
Income Statement
For the Month Ended June 30, 2015

Revenues		
Service revenue ($4,800 + $1,500)		$6,300
Expenses		
Salaries and wages expense	$1,000	
Rent expense	500	
Utilities expense	250	
Gasoline expense	100	
Total expenses		1,850
Net income		$4,450

(c)

TERCEK DELIVERIES
Balance Sheet
June 30, 2015

Assets		
Cash		$ 8,100
Accounts receivable		3,550
Supplies		150
Equipment		14,000
Total assets		$25,800
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	$11,500	
Accounts payable	150	
Total liabilities		$11,650
Stockholders' equity		
Common stock	10,000	
Retained earnings ($4,450 – $300)	4,150	14,150

Total liabilities and stockholders' equity…	**$25,800**

PROBLEM 1-5A

(a)

	Donatello Company		Leonardo Company		Michelangelo Company		Raphael Company
(a)	$ 27,000	(d)	$50,000	(g)	$120,000	(j)	$ 50,000
(b)	95,000	(e)	62,000	(h)	70,000	(k)	220,000
(c)	4,000	(f)	51,000	(i)	431,000	(l)	465,000

(b)

LEONARDO COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2015

Retained earnings, January 1............................	$20,000
Add: Net income...	38,000
	58,000
Less: Dividends..	51,000
Retained earnings, December 31.......................	$ 7,000

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

PROBLEM 1-1B

(a)

TAYLOR MADE TRAVEL AGENCY

	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Common Stock	+	Stockholders' Equity / Retained Earnings: Revenues	–	Expenses	–	Dividends	
1.	+$8,000										+$8,000							
	8,000							=			8,000							
2.	–400													–	$ 400			(a)
	7,600							=			8,000			–	400			
3.	–2,500						+$2,500											
	5,100					+	2,500	=			8,000			–	400			
4.									+$300					–	300			(b)
	5,100					+	2,500	=	300	+				–	700			
5.	–500				+$500													
	4,600			+	500	+	2,500	=	300	+	8,000			–	700			
6.	+2,000		+$6,500									+	$8,500					(c)
	6,600	+	6,500	+	500	+	2,500	=	300	+	8,000	+	8,500	–	700			
7.	–200															–	$200	(d)
	6,400	+	6,500	+	500	+	2,500	=	300	+	8,000	+	8,500	–	700	–	200	
8.	–300								–300									
	6,100	+	6,500	+	500	+	2,500	=	0	+	8,000	+	8,500	–	700	–	200	
9.	–2,000													–	2,000			(e)
	4,100	+	6,500	+	500	+	2,500	=			8,000	+	8,500	–	2,700	–	200	
10.	+5,700		–5,700															
	$9,800	+	$800	+	$500	+	$2,500	=	$ 0	+	$8,000	+	$8,500	–	$2,700	–	$200	

$13,600 = $13,600

PROBLEM 1-1B (Continued)

Key to Retained Earnings Column

(a) Rent Expense	**(d) Dividends**
(b) Advertising Expense	**(e) Salaries and Wages Expense**
(c) Service Revenue	

(b) Service revenue		**$8,500**
Expenses		
Salaries and wages	**$2,000**	
Rent	**400**	
Advertising	**300**	**2,700**
Net income		**$5,800**

PROBLEM 1-2B

(a)

Randy Coburn, ATTORNEY AT LAW

	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Notes Payable	+	Accounts Payable	+	Common Stock	+	Retained Earnings	+	Revenues	–	Expenses	–	Dividends
Bal.	$4,000	+	$1,500	+	$400	+	$5,000	=			$4,200	+	$6,000	+	$ 700						
1.	+1,400		–1,400																		
	5,400	+	100	+	400	+	5,000	=			4,200	+	6,000	+	700						
2.	–2,700										–2,700										
	2,700	+	100	+	400	+	5,000	=			1,500	+	6,000	+	700						
3.	+3,000		+4,900														+$7,900				
	5,700	+	5,000	+	400	+	5,000	=			1,500	+	6,000	+	700	+	7,900				
4.	–400						+1,000				+600										
	5,300	+	5,000	+	400	+	6,000	=			2,100	+	6,000	+	700	+	7,900				
5.	–4,150																		–$3,000		
																			–900		
																			–250		
	1,150	+	5,000	+	400	+	6,000	=			2,100	+	6,000	+	700	+	7,900	–	4,150		
6.	–450																				–$450
	700	+	5,000	+	400	+	6,000	=			2,100	+	6,000	+	700	+	7,900	–	4,150	–	450
7.	+2,000								+$2,000												
	2,700	+	5,000	+	400	+	6,000	=	2,000	+	2,100	+	6,000	+	700	+	7,900	–	4,150	–	450
8.											+180	+							–180		
	$2,700	+	$5,000	+	$400	+	$6,000	=	$2,000	+	$2,280		$6,000	+	$ 700	+	$7,900	–	$4.330	–	$450

$14,100 $14,100

PROBLEM 1-2B (Continued)

(b)

RANDY COBURN, ATTORNEY AT LAW
Income Statement
For the Month Ended August 31, 2015

Revenues		
Service revenue		$7,900
Expenses		
Salaries and wages expense	$3,000	
Rent expense	900	
Advertising expense	250	
Utilities expense	180	
Total expenses		4,330
Net income		$3,570

RANDY COBURN, ATTORNEY AT LAW
Retained Earnings Statement
For the Month Ended August 31, 2015

Retained earnings, August 1	$ 700
Add: Net income	3,570
	4,270
Less: Dividends	450
Retained earnings, August 31	$3,820

PROBLEM 1-2B (Continued)

RANDY COBURN, ATTORNEY AT LAW
Balance Sheet
August 31, 2015

Assets		
Cash...		$ 2,700
Accounts receivable..		5,000
Supplies..		400
Equipment...		6,000
Total assets..		$14,100
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable...	$2,000	
Accounts payable...	2,280	
Total liabilities..		$ 4,280
Stockholders' equity		
Common stock...	6,000	
Retained earnings..	3,820	9,820
Total liabilities and stockholders' equity....		$14,100

PROBLEM 1-3B

(a)

BLUSHE COSMETICS CO.
Income Statement
For the Month Ended June 30, 2015

Revenues		
Service revenue...		$5,300
Expenses		
Utilities expense..	$1,200	
Gasoline expense...	600	
Advertising expense....................................	500	
Utilities expense..	300	
Total expenses.....................................		2,600
Net income...		$2,700

BLUSHE COSMETICS CO.
Retained Earnings Statement
For the Month Ended June 30, 2015

Retained Earnings, June 1.................................	$ 0
Add: Net income..	2,700
	2,700
Less: Dividends..	800
Retained Earnings, June 30...............................	$1,900

BLUSHE COSMETICS CO.
Balance Sheet
June 30, 2015

Assets

Cash..	$8,000
Accounts receivable...	4,000
Supplies..	1,300
Equipment...	25,000
Total assets..	$38,300

PROBLEM 1-3B (Continued)

BLUSHE COSMETICS CO.
Balance Sheet (Continued)
June 30, 2015

Liabilities and Stockholders' Equity

Liabilities		
Notes payable	$13,000	
Accounts payable	1,400	
Total liabilities		$14,400
Stockholders' equity		
Common stock	22,000	
Retained earnings	1,900	23,900
Total liabilities and stockholders' equity		$38,300

(b)

BLUSHE COSMETICS CO.
Income Statement
For the Month Ended June 30, 2015

Revenues		
Service revenue ($5,300 + $800)		$6,100
Expenses		
Utilities expense	$1,200	
Gasoline expense ($600 + $100)	700	
Advertising expense	500	
Utilities expense	300	
Total expenses		2,700
Net income		$3,400

BLUSHE COSMETICS CO.
Retained Earnings Statement
For the Month Ended June 30, 2015

Retained earnings, June 1	$ 0
Add: Net income	3,400
	3,400
Less: Dividends	800
Retained earnings, June 30	$2,600

(a)

RODD CONSULTING

	Assets								Liabilities				Stockholders' Equity							
			Accounts						Notes		Accounts		Common		Retained Earnings					
Date	Cash	+	Receivable	+	Supplies	+	Equipment	=	Payable	+	Payable	+	Stock	+	Revenues	–	Expenses	–	Dividends	
May 1	+$ 8,000												+$8,000							
	8,000							=					8,000							
May 2	–800																–$ 800			(a)
	7,200							=					8,000	+		–	800			
May 3					+$500						+$ 500									
	7,200	+			500			=			500	+	8,000	+			800			
May 5	–90																–90			(b)
	7,110	+			500			=			500	+	8,000			–	890			
May 9	+3,000														+$3,000					(c)
	10,110	+			500			=			500	+	8,000	+	3,000	–	890			
May 12	–700																		–$700	(d)
	9,410	+			500			=			500	+	8,000	+	3,000	–	890	–	700	
May 15			+$3,500												+3,500					(e)
	9,410	+	3,500	+	500			=			500	+	8,000	+	6,500	–	890	–	700	
May 17	–2,100															–	–2,100			(f)
	7,310	+	3,500	+	500			=			500	+	8,000	+	6,500	–	2,990	–	700	
May 20	–500										–500									
	6,810	+	3,500	+	500			=			–0–	+	8,000	+	6,500	–	2,990	–	700	
May 23	+2,500		–2,500																	
	9,310	+	1,000	+	500			=			–0–	+	8,000	+	6,500	–	2,990	–	700	
May 26	+5,000								+$5,000											
	14,310	+	1,000	+	500			=	5,000		–0–	+	8,000	+	6,500	–	2,990	–	700	
May 29							+$2,600				+2,600									
	14,310	+	1,000	+	500	+	2,600	=	5,000		2,600	+	8,000	+	6,500	–	2,990	–	700	
May 30	–150																–150			(g)
	$14,160	+	$ 1,000	+	$500	+	$2,600	=	$5,000	+	$2,600	+	$8,000	+	$6,500	–	$3,140	–	$700	

$18,260

$18,260

PROBLEM 1-4B (Continued)

Key to Retained Earnings Column

(a) Rent Expense
(b) Advertising Expense
(c) Service Revenue
(d) Dividends
(e) Service Revenue
(f) Salaries and Wages Expense
(g) Utilities Expense

(b)

RODD CONSULTING
Income Statement
For the Month Ended May 31, 2015

Revenues		
Service revenue ($3,000 + $3,500)		$6,500
Expenses		
Salaries and wages expense	$2,100	
Rent expense	800	
Utilities expense	150	
Advertising expense	90	
Total expenses		3,140
Net income		$3,360

(c)

RODD CONSULTING
Balance Sheet
May 31, 2015

Assets		
Cash		$14,160
Accounts receivable		1,000
Supplies		500
Equipment		2,600
Total assets		$18,260
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	$5,000	
Accounts payable	2,600	
Total liabilities		$ 7,600
Stockholders' equity		
Common stock	8,000	
Retained earnings ($3,360 – $700)	2,660	10,660

Total liabilities and stockholders' equity……	**$18,260**

PROBLEM 1-5B

(a)

Chico Company		Harpo Company		Groucho Company		Zeppo Company	
(a)	$28,000	(d)	$44,000	(g)	$129,000	(j)	$ 50,000
(b)	95,000	(e)	38,000	(h)	80,000	(k)	240,000
(c)	7,000	(f)	6,000	(i)	408,000	(l)	445,000

(b)

CHICO COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2015

Retained earnings, January 1..............................	$ 0
Add: Net income..	15,000
	15,000
Less: Dividends...	10,000
Retained earnings December 31.........................	$ 5,000

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

BYP 1-1 FINANCIAL REPORTING PROBLEM

(a) Apple's total assets at September 24, 2011 were $116,371 million and at September 25, 2010 were $75,183 million.

(b) Apple had $9,815 million of cash and cash equivalents at September 24, 2011.

(c) Apple had accounts payable totaling $14,632 million on September 24, 2011 and $12,015 million on September 25, 2010.

(d) Apple reports net sales for three consecutive years as follows:

2009	$108,249 million
2010	$65,225 million
2011	$42,905 million

(e) From 2010 to 2011, Apple's net income increased $11,909 million from $14,013 million to $25,922 million.

BYP 1-2 COMPARATIVE ANALYSIS PROBLEM

(a)

(in millions)	PepsiCo	Coca-Cola
1. Total assets	$72,882	$79,974
2. Accounts receivable (net)	$6,912	$4,920
3. Net sales	$66,504	$46,542
4. Net income	$6,462	$8,634

(b) Coca-Cola's total assets were approximately 10% greater than PepsiCo's total assets, but PepsiCo's net sales were 43% greater than Coca-Cola's net sales. PepsiCo's accounts receivable were 40% greater than Coca-Cola's and represent 10% of its net sales. Coca-Cola's accounts receivable amount to 11% of its net sales. Both PepsiCo's and Coca-Cola's accounts receivable are at satisfactory levels.

Coca-Cola's net income is 34% greater than PepsiCo's. It appears that these two companies' operations are comparable in some ways, with Coca- Cola's operations significantly more profitable.

BYP 1-3 COMPARATIVE ANALYSIS PROBLEM

(a)

(in millions)	Amazon	Wal-Mart
1. Total assets	$25,278	$193,406
2. Accounts receivable (net)	$2,571	$5,937
3. Net sales	$42,000	$443,854
4. Net income	$631	$15,699

(b) Wal-Mart’s total assets were approximately 765% greater than Amazon’s total assets, and Wal-Mart’s net sales were over 10 times greater than Amazon’s net sales. Wal-Mart’s accounts receivable were 231% greater than Amazon’s and represent 1% of its net sales. Amazon’s accounts receivable amount to 6% of its net sales. Both Amazon’s and Wal-Mart’s accounts receivable are at satisfactory levels.

Wal-Mart’s net income was 25 times greater than Amazon’s. It appears that these two companies’ operations are comparable in some ways, but Wal-Mart’s operations are substantially more profitable.

BYP 1-4 REAL–WORLD FOCUS

(a) **The field is normally divided into three broad areas: auditing, financial/ tax, and management accounting.**

(b) **The skills required in these areas:**

People skills, sales skills, communication skills, analytical skills, ability to synthesize, creative ability, initiative, computer skills.

(c) **The skills required in these areas differ as follows:**

	Auditing	Financial and Tax	Management Accounting
People skills	Medium	Medium	Medium
Sales skills	Medium	Medium	Low
Communication skills	Medium	Medium	High
Analytical skills	High	Very High	High
Ability to synthesize	Medium	Low	High
Creative ability	Low	Medium	Medium
Initiative	Medium	Medium	Medium
Computer skills	High	High	Very High

(d) **Some key job options in accounting:**

Audit: **Work in audit involves checking accounting ledgers and financial statements within corporations and government. This work is becoming increasingly computerized and can rely on sophisticated random sampling methods. Audit is the bread-and-butter work of accounting. This work can involve significant travel and allows you to really understand how money is being made in the company that you are analyzing. It's great background!**

Budget Analysis: **Budget analysts are responsible for developing and managing an organization's financial plans. There are plentiful jobs in this area in government and private industry. Besides quantitative skills many budget analyst jobs require good people skills because of negotiations involved in the work.**

BYP 1-4 (Continued)

Financial: Financial accountants prepare financial statements based on general ledgers and participate in important financial decisions involving mergers and acquisitions, benefits/ERISA planning, and long-term financial projections. This work can be varied over time. One day you may be running spreadsheets. The next day you may be visiting a customer or supplier to set up a new account and discuss business. This work requires a good understanding of both accounting and finance.

Management Accounting: Management accountants work in companies and participate in decisions about capital budgeting and line of business analysis. Major functions include cost analysis, analysis of new contracts, and participation in efforts to control expenses efficiently. This work often involves the analysis of the structure of organizations. Is responsibility to spend money in a company at the right level of our organization? Are goals and objectives to control costs being communicated effectively? Historically, many management accountants have been derided as "bean counters." This mentality has undergone major change as management accountants now often work side by side with marketing and finance to develop new business.

Tax: Tax accountants prepare corporate and personal income tax statements and formulate tax strategies involving issues such as financial choice, how to best treat a merger or acquisition, deferral of taxes, when to expense items and the like. This work requires a thorough understanding of economics and the tax code. Increasingly, large corporations are looking for persons with both an accounting and a legal background in tax. A person, for example, with a JD and a CPA would be especially desirable to many firms.

(e) Junior Staff Accountant $40,000–$80,000

BYP 1-5 DECISION–MAKING ACROSS THE ORGANIZATION

(a) **The estimate of the $6,100 loss was based on the difference between the $25,000 invested in the driving range and the bank balance of $18,900 at March 31. This is not a valid basis for determining income because it only shows the change in cash between two points in time.**

(b) **The balance sheet at March 31 is as follows:**

CHIP-SHOT DRIVING RANGE COMPANY
Balance Sheet
March 31, 2015

Assets		
Cash		$18,900
Buildings		8,000
Equipment		800
Total assets		$27,700
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable ($150 + $100)		$ 250
Stockholders' equity		
Common stock	$25,000	
Retained earnings	2,450	27,450
Total liabilities and stockholders' equity		$27,700

As shown in the balance sheet, the stockholders' equity at March 31 is $27,450. The estimate of $2,450 of net income is the difference between the initial investment of $25,000 and $27,450. This was not a valid basis for determining net income because changes in stockholders' equity between two points in time may have been caused by factors unrelated to net income. For example, there may be dividends and/or additional capital investments by the stockholders.

BYP 1-5 (Continued)

(c) **Actual net income for March can be determined by adding dividends to the change in stockholders' equity during the month as shown below:**

Stockholders' equity, March 31, per balance sheet	**$27,450**
Stockholders' equity, March 1	**25,000**
Increase in stockholders' equity	**2,450**
Add: Dividends	**1,000**
Net income	**$ 3,450**

Alternatively, net income can be found by determining the revenues earned [described in (d) below] and subtracting expenses.

(d) **Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, $1,000; Wages, $400; Advertising, $750; and Utilities, $100 for a total of $2,250. Revenues earned, therefore, were $5,700 ($2,250 + $3,450). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:**

Beginning cash balance		**$25,000**
Less: Cash payments		
Caddy shack	**$8,000**	
Golf balls and clubs	**800**	
Rent	**1,000**	
Advertising	**600**	
Wages	**400**	
Dividends	**1,000**	**11,800**
Cash balance before revenues		**13,200**
Cash balance, March 31		**18,900**
Revenues earned		**$ 5,700**

BYP 1-6 COMMUNICATION ACTIVITY

To: Ashley Hirano
From: Student

I have received the balance sheet of New York Company as of December 31, 2015. A number of items in this balance sheet are not properly reported. They are:

1. **The balance sheet should be dated as of a specific date, not for a period of time. Therefore, it should be dated "December 31, 2015."**

2. **Equipment should be shown as an asset and reported below Supplies on the balance sheet.**

3. **Accounts receivable should be shown as an asset, not a liability, and reported between Cash and Supplies on the balance sheet.**

4. **Accounts payable should be shown as a liability, not an asset. The note payable is also a liability and should be reported in the liability section.**

5. **Liabilities <u>and</u> stockholders' equity should be shown on the balance sheet. Common stock is not a liability.**

6. **Common stock and retained earnings are part of stockholders' equity.**

BYP 1-6 (Continued)

A correct balance sheet is as follows:

NEW YORK COMPANY
Balance Sheet
December 31, 2015

Assets		
Cash		$ 9,000
Accounts receivable		6,000
Supplies		2,000
Equipment		25,500
Total assets		$42,500
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	$10,500	
Accounts payable	8,000	
Total liabilities		$18,500
Stockholders' equity		
Common stock	26,000	
Retained earnings	(2,000)	24,000
Total liabilities and stockholders' equity		$42,500

BYP 1-7 ETHICS CASE

(a) The students should identify all of the stakeholders in the case; that is, all the parties that are affected, either beneficially or negatively, by the action or decision described in the case. The list of stakeholders in this case are:

- Greg Thorpe, interviewee.
- Both Baltimore firms.
- Great Northern College.

(b) The students should identify the ethical issues, dilemmas, or other considerations pertinent to the situation described in the case. In this case the ethical issues are:

- Is it proper that Greg charged both firms for the total travel costs rather than split the actual amount of $296 between the two firms?
- Is collecting $592 as reimbursement for total costs of $296 ethical behavior?
- Did Greg deceive both firms or neither firm?

(c) Each student must answer the question for himself/herself. Would you want to start your first job having deceived your employer before your first day of work? Would you be embarrassed if either firm found out that you double-charged? Would your school be embarrassed if your act was uncovered? Would you be proud to tell your professor that you collected your expenses twice?

BYP 1-8 ALL ABOUT YOU

(a) Answers to the following will vary depending on students' opinions.

(1) This does not represent the hiding of assets, but rather a choice as to the order of use of assets. This would seem to be ethical.
(2) This does not represent the hiding of assets, but rather is a change in the nature of assets. Since the expenditure was necessary, although perhaps accelerated, it would seem to be ethical.
(3) This represents an intentional attempt to deceive the financial aid office. It would therefore appear to be both unethical and potentially illegal.
(4) This is a difficult issue. By taking the leave, actual net income would be reduced. The form asks the applicant to report actual net income. However, it is potentially deceptive since you do not intend on taking unpaid absences in the future, thus future income would be higher than reported income.

(b) Companies might want to overstate net income in order to potentially increase the stock price by improving investors' perceptions of the company. Also, a higher net income would make it easier to receive debt financing. Finally, managers would want a higher net income to increase the size of their bonuses.

(c) Sometimes companies want to report a lower income if they are negotiating with employees. For example, professional sports teams frequently argue that they can not increase salaries because they aren't making enough money. This also occurs in negotiations with unions. For tax accounting (as opposed to the financial accounting in this course) companies frequently try to minimize the amount of reported taxable income.

(d) Unfortunately many times people who are otherwise very ethical will make unethical decisions regarding financial reporting. They might be driven to do this because of greed. Frequently it is because their superiors have put pressure on them to take an unethical action, and they are afraid to not follow directions because they might lose their job. Also, in some instances top managers will tell subordinates that they should be a team player, and do the action because it would help the company, and therefore would help fellow employees.

BYP 1-9 ALL ABOUT YOU

In this chapter you saw that there are very specific rules governing the recording of assets, liabilities, revenues, and expenses. However, within these rules there is lot of room for judgment. It would not be at all unusual for two experienced accountants, when faced with identical situations, to arrive at different results.

Similarly, in reporting your financial situation for financial aid there is a lot of room for judgment. The question is, what kinds of actions are both permissible and ethical, and what kinds of actions are illegal and unethical? It might be argued that paying off your credit card debt to reduce your assets in order to improve your chances of getting aid is unethical. You did so, however, through a legitimate transaction. In fact, given the high interest rates charged on credit card bills, it would probably be a good idea to use the cash to pay off your bills even if you aren't applying for aid.

Now, consider an alternative situation. Suppose that you have $10,000 in cash, and you have a sibling who is five years younger than you. Should you "give" the cash to your sibling while you are being considered for financial aid? This would give the appearance of substantially reducing your assets, and thus increase the likelihood that you will receive aid. Most people would argue that this is unethical, and it is probably illegal.

When completing your FAFSA form, don't ignore the following warning on the front of the form: "If you get Federal student aid based on incorrect information, you will have to pay it back; you may also have to pay fines and fees. If you purposely give false or misleading information on your application, you may be fined $20,000, sent to prison, or both."

BYP 1-10 FASB CODIFICATION ACTIVITY

No solution necessary

BYP 1-11 CONSIDERING PEOPLE, PLANET, AND PROFIT

(a) **The 5 aspirations relate to the company's goals related to sustaining its business, its brands, its people, its community and the planet.**

(b)
i. Support sustainable food and agriculture: Purchased 170 million pounds of organic ingredients since the company's inception.

ii. Embrace zero waste business practices: Caddies are 100% shrinkwrap free and made from 100% recycled paperboard.

iii. Promote climate action and renewable energy: Installed largest "smart" solar array in North America that provides nearly all of its electrical needs.

iv. Conserve natural resources, protect wild places: Planted 40,000 trees in partnership with American Forests.

IFRS EXERCISES

IFRS1-1

The International Accounting Standards Board, IASB, and the Financial Accounting Standards Board, FASB, are two key players in developing international accounting standards. The IASB releases international standards known as International Financial Reporting Standards (IFRS). The FASB releases U.S. standards, referred to as Generally Accepted Accounting Principles or GAAP.

IFRS1-2

Accounting standards have developed in different ways because the standard setters have responded to different user needs. In some countries, the primary users of financial statements are private investors; in others the primary users are taxing authorities or central government planners.

IFRS1-3

A single set of high-quality accounting standards is needed because of increases in multinational corporations, mergers and acquisitions, use of information technology, and international financial markets.

IFRS1-4

Currently the internal control standards applicable to Sarbanes-Oxley (SOX) apply only to large public companies listed on U.S. exchanges. If such standards were adopted by non-U.S. companies, users of statements would benefit from more uniform regulation and U.S. companies would be competing on a more "even" playing field. The disadvantage of adopting SOX would be the additional cost associated with its required internal control measures.

IFRS1-5 INTERNATIONAL FINANCIAL REPORTING PROBLEM

(a) Grant Thornton UK LLP

(b) 1000 Highgate Studios, 53-79 Highgate Road, London, NW5 1TL

(c) The company reports in sterling (pounds).

(d) The company operates in Confectionary which had sales of £85.9 million and Natural and Premium Snacks which had sales of £49.1 million.

