

EXERCISES: SET B

E1-1B Quarsee Company performs the following accounting tasks during the year.

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

Classify the three activities of accounting.

(LO 1)

Accounting is “an information system that **identifies**, **records**, and **communicates** the economic events of an organization to interested users.”

Instructions

Categorize the accounting tasks performed by Quarsee as relating to either the identification (I), recording (R), or communication (C) aspects of accounting.

E1-2B (a) The following are users of financial statements.

- | | |
|--------------------------------|------------------------------------------|
| _____ Customers | _____ Securities and Exchange Commission |
| _____ Internal Revenue Service | _____ Store manager |
| _____ Labor unions | _____ Suppliers |
| _____ Marketing manager | _____ Vice-president of finance |
| _____ Production supervisor | |

Identify users of accounting information.

(LO 2)

Instructions

Identify the users as being either **external users** or **internal users**.

(b) The following questions could be asked by an internal user or an external user.

- _____ Will the company be able to pay its short-term debts?
- _____ Which product should we emphasize?
- _____ What does it cost us to manufacture each unit produced?
- _____ How does the company's profitability compare to other companies?
- _____ Do we need to borrow in the near future?
- _____ Did the company earn a satisfactory income?
- _____ Can we afford to give our employees a pay raise?

Instructions

Identify each of the questions as being more likely asked by an **internal user** or an **external user**.

E1-3B Jimmie Jones, president of Jones Company, has instructed Tom Hanks, the head of the accounting department for Jones Company, to report the company's land in the company's accounting reports at its fair value of \$250,000 instead of its cost of \$100,000. Jones says, “Showing the land at \$250,000 will make our company look like a better investment when we try to attract new investors next month.”

Discuss ethics and the cost principle.

(LO 3)

Instructions

Explain the ethical situation involved for Tom Hanks, identifying the stakeholders and the alternatives.

E1-4B The following situations involve accounting principles and assumptions.

Use accounting concepts.

1. Armstrong Company owns equipment that is worth substantially more than they originally cost. In an effort to provide more relevant information, Armstrong reports the equipment at market value in its accounting reports.

(LO 4, 5)

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2. Smyth Company includes in its accounting records only transaction data that can be expressed in terms of money.
3. Carlos Caine, president of Carlos' Cantina, records his personal living costs as expenses of the Cantina.

Instructions

For each of the three situations, say if the accounting method used is correct or incorrect. If correct, identify which principle or assumption supports the method used. If incorrect, identify which principle or assumption has been violated.

Classify accounts as assets, liabilities, and stockholders' equity.

(LO 6)

E1-5B Qwik Cleaners has the following balance sheet items.

Retained earnings	Accounts receivable
Cash	Salaries and wages payable
Equipment	Income taxes payable
Supplies	Common stock

Instructions

Classify each item as an asset, liability, or stockholders' equity.

Analyze the effect of transactions.

(LO 6, 7)

E1-6B Selected transactions for Beale Lawn Care Company are listed below.

1. Sold common stock for cash to start business.
2. Paid monthly utilities.
3. Purchased land on account.
4. Billed customers for services performed.
5. Paid dividends.
6. Received cash from customers billed in (4).
7. Incurred utilities expense on account.
8. Purchased equipment for cash.
9. Received cash from customers when service was performed.

Instructions

List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and stockholders' equity. For example, the first answer is: (1) Increase in assets and increase in stockholders' equity.

Analyze the effect of transactions on assets, liabilities, and stockholders' equity.

(LO 6, 7)

E1-7B Hayes Computer Timeshare Company entered into the following transactions during May 2014.

1. Purchased office equipment for \$10,000 from Office Outfitters on account.
2. Paid \$3,000 cash for May rent on storage space.
3. Received \$12,000 cash from customers for contracts billed in April.
4. Provided services to Bayliss Construction Company for \$4,000 cash.
5. Paid Southern Power Co. \$10,000 cash for energy usage in May.
6. Stockholders invested an additional \$30,000 in the business.
7. Paid Office Outfitters for the equipment purchased in (1) above.
8. Incurred advertising expense for May of \$1,500 on account.

Instructions

Indicate with the appropriate letter whether each of the transactions above results in:

- (a) an increase in assets and a decrease in assets.
- (b) an increase in assets and an increase in stockholders' equity.
- (c) an increase in assets and an increase in liabilities.
- (d) a decrease in assets and a decrease in stockholders' equity.
- (e) a decrease in assets and a decrease in liabilities.
- (f) an increase in liabilities and a decrease in stockholders' equity.
- (g) an increase in stockholders' equity and a decrease in liabilities.


Analyze transactions and compute net income.

(LO 7)

E1-8B An analysis of the transactions made by M. Malone & Co., a certified public accounting firm, for the month of August is shown below. Each increase and decrease in stockholders' equity is explained.

Assets					=	Liabilities	+	Stockholders' Equity								
Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Common Stock	+	Retained Earnings				
												Rev.	–	Exp.	–	Div.
1.	+\$25,000									+25,000						
2.	–4,000					+\$6,000		+\$2,000								
3.	–650			+\$650												
4.	+\$5,000	+\$2,500										+\$7,500				Service Revenue
5.	–1,200							–1,200								
6.	–1,500														–\$1,500	Dividends
7.	–850													–\$850		Rent Expense
8.	+750	–750														Salaries and
9.	–4,200													–4,200		Wages Expense
10.								+300						–300		Utilities Expense

Instructions

- (a)  Describe each transaction that occurred for the month.
 (b) Determine how much stockholders' equity increased for the month.
 (c) Compute the amount of net income for the month.

E1-9B An analysis of transactions for M. Malone & Co. was presented in E1-8B.

Prepare financial statements.

Instructions

(LO 8)

Prepare an income statement and a retained earnings statement for August and a balance sheet at August 31, 2014.

E1-10B Lily Company had the following assets and liabilities on the dates indicated.

Determine net income (or loss).

<u>December 31</u>	<u>Total Assets</u>	<u>Total Liabilities</u>
2013	\$400,000	\$220,000
2014	\$510,000	\$300,000
2015	\$590,000	\$400,000

(LO 7)

Lily began business on January 1, 2013, with an investment of \$120,000 from stockholders.

Instructions

From an analysis of the change in stockholders' equity during the year, compute the net income (or loss) for:

- (a) 2013, assuming Lily paid \$13,000 in dividends for the year.
 (b) 2014, assuming stockholders made an additional investment of \$60,000 and Lily paid no dividends in 2014.
 (c) 2015, assuming stockholders made an additional investment of \$15,000 and Lily paid dividends of \$45,000 in 2015.

E1-11B Two items are omitted from each of the following summaries of balance sheet and income statement data for two corporations for the year 2014, Bruce Willis and Moore Enterprises.

Analyze financial statements items.

(LO 6, 7)

	<u>Bruce Willis</u>	<u>Moore Enterprises</u>
Beginning of year:		
Total assets	\$ 95,000	\$129,000
Total liabilities	80,000	(c)
Total stockholders' equity	(a)	90,000
End of year:		
Total assets	160,000	180,000
Total liabilities	120,000	50,000
Total stockholders' equity	40,000	130,000
Changes during year in stockholders' equity:		
Additional investment	(b)	5,000
Dividends	24,000	(d)
Total revenues	215,000	120,000
Total expenses	185,000	75,000

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Instructions

Determine the missing amounts.

Prepare income statement and retained earnings statement.

(LO 8)

E1-12B The following information relates to Alona Macarty Co. for the year 2014.

Retained earnings, January 1, 2014	\$42,000	Advertising expense	\$ 1,300
Dividends during 2014	4,000	Rent expense	10,200
Service revenue	65,500	Utilities expense	3,000
Salaries and wages expense	28,000		

Instructions

After analyzing the data, prepare an income statement and a retained earnings statement for the year ending December 31, 2014.

Correct an incorrectly prepared balance sheet.

(LO 8)

E1-13B Marty Feldman is the bookkeeper for Ortiz Company. Marty has been trying to get the balance sheet of Ortiz Company to balance. Ortiz's balance sheet is shown below.

Ortiz Company Balance Sheet December 31, 2014

Assets		Liabilities	
Cash	\$14,000	Accounts payable	\$19,000
Supplies	7,000	Accounts receivable	(9,500)
Equipment	45,000	Common stock	49,000
Dividends	8,000	Retained earnings	15,500
Total assets	<u>\$74,000</u>	Total liabilities and stockholders' equity	<u>\$74,000</u>

Instructions

Prepare a correct balance sheet.

Compute net income and prepare a balance sheet.

(LO 8)

E1-14B Wapiti Park, a public camping ground near the Lake Wallowa National Recreation Area, has compiled the following financial information as of December 31, 2014.

Revenues during 2014—camping fees	\$160,000	Notes payable	\$ 65,000
Revenues during 2014—general store	50,000	Expenses during 2014	160,000
Accounts payable	12,000	Supplies	3,500
Cash	27,000	Common stock	20,000
Original cost of equipment	116,500	Retained earnings	?
Fair value of equipment	130,000		

Instructions

(a) Determine Wapiti Park's net income for 2014.

(b) Prepare a balance sheet for Wapiti Park as of December 31, 2014.

Prepare an income statement.

(LO 8)

E1-15B Presented below is financial information related to the 2014 operations of Tim Latimer Company.

Maintenance and repairs expense	\$ 98,000
Utilities expense	7,000
Salaries and wages expense	165,000
Advertising expense	3,800
Ticket revenue	340,000

Instructions

Prepare the 2014 income statement for Tim Latimer Company.

Prepare a retained earnings statement.

(LO 8)

E1-16B Presented below is information related to Kobe and Bryant, Attorneys at Law.

Retained earnings, January 1, 2014	\$ 26,000
Service revenue—2014	330,000
Total expenses—2014	210,000
Assets, January 1, 2014	86,000
Liabilities, January 1, 2014	60,000
Assets, December 31, 2014	152,000
Liabilities, December 31, 2014	80,000
Dividends—2014	74,000

Instructions

Prepare the 2014 retained earnings statement for Kobe and Bryant, Attorneys at Law.

E1-17B This information is for Midland Company for the year ended December 31, 2014.

Prepare a cash flow statement.

Cash received from revenues from customers	\$500,000
Cash received for issuance of common stock	300,000
Cash paid for new equipment	90,000
Cash dividends paid	10,000
Cash paid for expenses	340,000
Cash balance 1/1/14	40,000

(LO 8)

Instructions

Prepare the 2014 statement of cash flows for Midland Company.

PROBLEMS: SET C

P1-1C On April 1, Paula Dean established Posh Travel Agency. The following transactions were completed during the month.

Analyze transactions and compute net income.

1. Stockholders invested \$13,000 cash in the business in exchange for common stock.
2. Paid \$500 cash for April office rent.
3. Purchased equipment for \$2,700 cash.
4. Incurred \$400 of advertising costs in the *Chicago Tribune*, on account.
5. Paid \$500 cash for office supplies.
6. Earned \$8,500 for services provided: \$4,000 cash is received from customers, and the balance of \$4,500 is billed to customers on account.
7. Declared and paid a \$260 cash dividend.
8. Paid *Chicago Tribune* amount due in transaction (4).
9. Paid employees' salaries \$2,500.
10. Received \$3,000 in cash from customers billed previously in transaction (6).

(LO 6, 7)

**Instructions**

- (a) Prepare a tabular analysis of the transactions using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Stock, and Retained Earnings (with separate columns for Revenues, Expenses, and Dividends). Include margin explanation for any changes in Retained Earnings.
- (b) From an analysis of the column Retained Earnings, compute the net income or net loss for April.

(a) Ending cash \$13,140

(b) Net income \$5,100

P1-2C Anna Barnes opened a law office, Anna Bafaes, Attorney at Law, on July 1, 2014. On July 31, the balance sheet showed Cash \$5,000, Accounts Receivable \$1,600, Supplies \$400, Equipment \$6,000, Accounts Payable \$5,100, and Common Stock \$7,000, and Retained Earnings \$900. During August the following transactions occurred.

Analyze transactions and prepare income statement, retained earnings statement, and balance sheet.

1. Collected \$1,300 of accounts receivable due from clients.
2. Paid \$2,800 cash for accounts payable due.
3. Earned revenue of \$8,000 of which \$3,000 is collected in cash and the balance is due in September.
4. Purchased additional office equipment for \$1,500, paying \$600 in cash and the balance on account.
5. Paid salaries \$3,500, rent for August \$800, and advertising expenses \$450.
6. Declared and paid a \$650 cash dividend.
7. Received \$2,400 from Standard Federal Bank; the money was borrowed on a 4-month note payable.
8. Incurred utility expenses for month on account \$350.

(LO 6, 7, 8)



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(a) Ending expenses \$5,100

Net income \$2,900
Total assets \$16,100

Prepare income statement,
retained earnings statement,
and balance sheet.

(LO 8)

Instructions

- Prepare a tabular analysis of the August transactions beginning with July 31 balances. The column headings should be as follows: Cash + Accounts Receivable + Supplies + Equipment = Notes Payable + Accounts Payable + Common Stock + Retained Earnings + Revenues – Expenses – Dividends.
- Prepare an income statement for August, a retained earnings statement for August, and a balance sheet at August 31.

P1-3C Elite Cosmetics Co., a company that provides individual skin care treatment, was started on June 1 with an investment of \$25,200 cash. Following are the assets and liabilities of the company at June 30 and the revenues and expenses for the month of June.

Cash	\$11,900	Notes Payable	\$15,000
Accounts Receivable	4,000	Accounts Payable	1,400
Service Revenue	7,000	Rent Expense	1,400
Supplies	2,000	Gasoline Expense	900
Advertising Expense	600	Utilities Expense	400
Equipment	26,000		

Stockholders made no additional investments in June. The company paid a cash dividend of \$1,400 during the month.

Instructions

- Net income \$3,700
Total assets \$43,900
- Net income \$4,450

- Prepare an income statement and a retained earnings statement for the month of June and a balance sheet at June 30, 2014.
- Prepare an income statement and a retained earnings statement for June assuming the following data are not included above: (1) \$900 of revenue was earned and billed but not collected at June 30, and (2) \$150 of gasoline expense was incurred but not paid.

Analyze transactions and
prepare financial statements.

(LO 6, 7, 8)

P1-4C Lisa Bishop started a consulting firm, Bishop Consulting, on May 1, 2014. The following transactions occurred during the month of May.

- May 1 Bishop invested \$9,000 cash in the business in exchange for stock.
2 Paid \$700 for office rent for the month.
3 Purchased \$600 of supplies on account.
5 Paid \$80 to advertise in the *County News*.
9 Received \$3,500 cash for services provided.
12 Declared and paid a \$750 cash dividend.
15 Performed \$5,400 of services on account.
17 Paid \$3,800 for employee salaries.
20 Paid for the supplies purchased on account on May 3.
23 Received a cash payment of \$3,400 for services provided on account on May 15.
26 Borrowed \$4,000 from the bank on a note payable.
29 Purchased equipment for \$3,800 on account.
30 Paid \$250 for utilities.

Instructions

(a) Ending retained earnings
\$3,320

- Show the effects of the previous transactions on the accounting equation using the following format.

Assets							=	Liabilities			+	Stockholders' Equity							
Date	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Notes Payable	+	Accounts Payable	+	Common Stock	+	Retained Earnings				
															Rev.	–	Exp.	–	Div.

Include margin explanations for any changes in the Retained Earnings account in your analysis.

- Net income \$4,070
- Cash \$13,720

- Prepare an income statement for the month of May.
- Prepare a balance sheet at May 31, 2014.


P1-5C Financial statement information about four different companies is as follows.

Determine financial statement amounts and prepare retained earnings statement.

	<u>Mule Company</u>	<u>Sara Company</u>	<u>Getter Company</u>	<u>Himel Company</u>
January 1, 2014				
Assets	\$ 90,000	\$ 90,000	(g)	\$160,000
Liabilities	50,000	(d)	75,000	(j)
Stockholders' equity	(a)	60,000	50,000	100,000
December 31, 2014				
Assets	(b)	117,000	170,000	(k)
Liabilities	56,000	70,000	(h)	70,000
Stockholders' equity	55,000	(e)	100,000	145,000
Stockholders' equity changes in year				
Additional investment	(c)	9,000	17,000	16,000
Dividends	15,000	(f)	10,000	12,000
Total revenues	360,000	400,000	(i)	500,000
Total expenses	335,000	390,000	350,000	(l)

(LO 7, 8)

Instructions

- Determine the missing amounts. (*Hint:* For example, to solve for (a), Assets – Liabilities = Stockholders' Equity = \$30,000.)
- Prepare the retained earnings statement for Mule Company. Assume beginning retained earnings was \$0.
-  Write a memorandum explaining the sequence for preparing financial statements and the interrelationship of the retained earnings statement to the income statement and balance sheet.