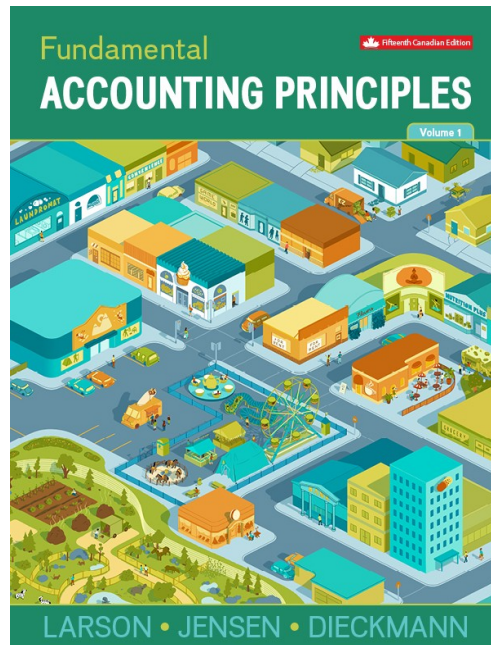


SOLUTIONS MANUAL
to accompany
Fundamental Accounting Principles
15th Canadian Edition
by **Larson/Jensen/Dieckmann**



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Chapter 1 Accounting in Business

Chapter Opening Vignette Critical Thinking Challenge Questions*

1. What questions might Zane need the answers to in order to get a loan from a bank?

The key question the bank wants answered is whether Zane can repay the loan. In order to assess this, they would ask questions such as:

- **Financial Results:** How much is the business earning per year? How profitable has the food truck been for the past year? How much are revenues and expenses? How are the results compared to the past year or couple of years? Where do you expect results to be in the next few years?
- **Cash:** How much cash does Zane currently have? How much does he want for the loan? What is his credit score?
- **Debt:** Are there any outstanding loans? If so, what is the balance outstanding, the term, the payments, and the interest rate?
- **Assets:** What personal or business assets does Zane have? The bank may want to take some of Zane's assets as collateral.
- **Customers:** How many customers on average are served per day? How many customers are new or repeat customers?
- **Employees:** How many employees does he need to hire to serve his customers? Does Zane pay his employees a salary or a wage? How much does he pay them? Does he have the cash in the bank to pay his employees?
- **Food Truck:** Does Zane own his food trucks? If the trucks are purchased, did he pay cash or does he owe money on it? If he owes money, does he pay interest? Does he lease them? Does he have insurance?
- **Toronto Pearson Airport Location:** How much is the rent?
- **Food (Inventory):** How much food is purchased in advance? How does Zane manage his food to prevent spoilage? Does Zane need to pay his suppliers right away or can he pay on credit?
- **Advertising:** Does Zane advertise? If so, how much does he pay?
- **Taxes:** What is the amount of income tax he has to pay?
- There are many other questions that could be asked.

2. Who else might require accounting information from Zane's business?

Other stakeholders that might require accounting information from Zane's business include Canada Revenue Agency (CRA), employees, and potential investors.

***The Chapter 1 Critical Thinking Challenge questions are asked at the beginning of this chapter. Students are reminded at the conclusion of the chapter to refer to the Critical Thinking Challenge questions at the beginning of the chapter. The solutions to the Critical Thinking Challenge questions are available here in the Solutions Manual and accessible to students at Connect.**

Concept Review Questions

1. Accounting will provide Zane useful information to make good decisions. For instance, it is important for Zane to track his revenues and expenses to determine whether his business is profitable (his revenues are exceeding his expenses). Based on the accounting information, Zane can make decisions on how to price his food and where he can decrease expenses to improve his profits. Accounting will provide Zane important information on his business' performance to make informed decisions on his expansion strategy.
2. Businesses offering products include Danier Leather., Lululemon, NIKE, and Reebok which produce apparel; Dell, Hewlett-Packard, and Apple which produce computer equipment; and Abercrombie and Fitch GAP, and Zara which produce clothing. Service business examples include: WestJet Airlines which provides airline services; Bell Canada, Rogers Communications, and Telus provide information communication services; and Google, Twitter, Skype, Facebook and Instagram which provide internet services.
3. "Accounting is relevant to all students even if they do not plan on becoming an accountant. If you are pursuing a career in marketing, you will need to understand information such as sales volume, advertising costs, promotion costs, salaries of sales personnel, and sales commissions. If you are studying human resources, you will need to understand the financial position of your company to determine whether you have the resources to hire new employees or provide existing employees a pay increase. Even if you do not pursue a career in business, understanding the basics of accounting can help you better understand your own personal finances and the world around us. I am convinced that this course will be a good investment of our time."
4. Answers will vary on what students would sell. Business organizations can be organized in one of three forms: sole proprietorship, partnership, or corporation. These forms have implications for legal liability, taxation, continuity, number of owners, and legal status as follows:

	Sole Proprietorship	Partnership	Corporation
Legal entity	no	no	yes
Limited liability	no	no	yes
Unlimited life	no	no	yes
Business income taxed	no	no	yes
One owner allowed	yes	no	yes

Answers and reasons will vary for the best form of business. Possible answers include: A sole proprietorship would be easiest to form for a student. A partnership would be helpful in bringing people with multiple skills and/or resources together. A corporation would be the easiest to obtain financing and to limit liability.

5. The equity section of the balance sheet reports a Hailey Walker, Capital account. The presence of the owner's capital account indicates that Organico has been organized as a sole proprietorship.
6. The two organizations for which accounting information is available in Appendix III at the end of the book are WestJet Airlines and Danier Leather.
7. Hospitals, colleges, prisons, and bus lines are examples of organizations that can be formed as profit-oriented businesses, government units, or nonprofit establishments.

8. **External users and their uses of accounting information include: (1) lenders for measuring the return of loans; (2) shareholders for assessing the acquisition of shares; (3) members of the board of directors for overseeing management; and (4) potential employees for judging employment opportunities. Other users are auditors, consultants, regulators, unions, suppliers, and appraisers. Internal users and their uses of accounting information include: (1) management for overseeing performance, financial position, and cash flow; (2) current employees for generating special purpose reports to assist management; (3) internal auditors for identifying high risk areas to audit; and (4) Sales staff to determine how to increase sales.**
9. **The internal role of accounting is to serve the organization's internal operating functions by providing useful information in completing their tasks more effectively and efficiently. By providing this information, accounting helps the organization reach its overall goals.**
10. **"Tyler, there are a number of areas you could pursue within accounting. There are also a number of opportunities within those accounting areas. I have put together some information to help with your decision."**

Accounting professionals practice in four broad fields including:	Accounting-related opportunities within each field are numerous and include:
Financial accounting	- Statement preparation - Statement analysis - Auditing - Regulatory - Consulting - Planning - Criminal investigation
Managerial accounting	- General accounting - Cost accounting - Budgeting - Internal auditing - Management advisory services
Taxation	- Preparation - Planning - Regulatory - Investigations - Consulting
Accounting-related	- Lenders - Consultants - Analysts - Traders - Managers - Directors - Underwriters - Planners - Appraisers

11. **The independent auditor for WestJet is KPMG LLP.**

12. The purpose of accounting is to provide decision makers with information helping them make better decisions. Examples include information for people making investments, loans and similar decisions.
13. Accounting professionals deal with a variety of information about their employers and clients that is not generally available to the public. Ethical issues arise concerning the possibility that accounting professionals might personally benefit by using confidential information. There is also the possibility that their employers and clients might be harmed if certain information is not kept confidential.
14. An income statement user must know what time period is covered to judge whether the company's performance is satisfactory. For example, a statement user would not be able to assess whether the amounts of revenue and profit are satisfactory without knowing whether they were earned over a week, a month, or a year.
15. The revenue recognition principle provides guidance that managers and auditors need for knowing when to recognize revenue. For example, if revenue is recognized too early, the income statement reports income earlier than it should and the business looks more profitable than it really is. On the other hand, if the revenue is not recognized on time, the income statement shows lower amounts of revenue and profit than it should and the business looks less profitable than it really is. Basically, this principle requires revenue to be recognized when it is earned and can be measured reliably. The amount of revenue should equal the value of the assets received from the customers.
16. The four financial statements are: the income statement, the balance sheet, the statement of changes in equity, and the statement of cash flows.
17. An income statement reports on the business's performance during the period. It shows whether the business earned a profit (or loss). The statement does not simply report the amount of profit or loss but lists the types and amounts of the revenues and expenses.

The balance sheet reports on the financial position of a business at a specific point in time. It is often called the statement of financial position. It provides information that helps users understand a company's financial status. The balance sheet lists the types and dollar amounts of assets, liabilities, and equity of the business.
18. Cash has purchasing power and can be used to acquire other assets. A business that sells products to a customer and does not collect cash immediately has created an Accounts Receivable. This account represents a future collection of cash. Supplies are resources that will help a business carry on its operations.
19. I disagree with Rachel. While an accounts receivable and an accounts payable both show up on the balance sheet and in the accounting equation, an accounts receivable is an asset and an accounts payable is a liability. These two accounts also represent two different perspectives. When a company sells products or services on credit, an accounts receivable is created. When a company buys products on credit, an accounts payable is created.
20. A revenue is an inflow of assets received in exchange for goods or services provided to customers as part of the major or central operations of the business. A revenue also may occur as a decrease in liabilities as when a service or product is delivered having been paid for in advance. The accountant has recorded revenue incorrectly. The accountant should record \$5,000 in revenue from the sale of frozen yogurt and \$10,000 as an owner's investment in the owner's equity account.

21. A business's equity is increased by investments into the business made by the owner and by profit. It is decreased by withdrawals made by the owner and by a loss, which is the excess of expenses over revenues.
22. (a) Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. (b) Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. (c) Equity is the residual interest in the assets of an entity that remains after deducting its liabilities. (d) The term "net assets" means the same thing as equity, which is also determined as assets less liabilities. $\text{Assets} = \text{Liabilities} + \text{Equity}$ (Net assets).

A celebrity's assets may include land, real estate, cars and companies. A celebrity's liabilities may include a mortgage, bank debt and credit card debt. A celebrity's equity represents their net worth, which is their assets less liabilities.

23. Financial statements need to be prepared in a specific order because they are integrated. Some of the numbers on one financial statement are inputs for other financial statements. Financial statements should be prepared in the following order: 1) Income Statement 2) Statement of Changes in Equity 3) Balance Sheet and 4) Statement of Cash Flow. The profit on the income statement is an input in the statement of changes in equity. The ending equity balance on the statement of changes in equity is an input for the balance sheet. The cash balance on the balance sheet corresponds to the ending cash balance on the statement of cash flows.

QUICK STUDY

Quick Study 1-1

There are a variety of questions and this list is certainly not exhaustive:

1. How much was spent on advertising last year? And/or how much is projected to be spent this year?
2. What is the effect of advertising on sales? And/or what is the projected effect of advertising on this year's sales?
3. How much was spent on delivering flowers last year? And/or how much is projected to be spent this year?
4. How much will it cost to create a webpage and sell flowers online?
5. Can sales be increased by selling online? And/or what is the experience of our competitors in this regard?
6. When pricing flowers, how much is being charged for delivery?
7. Are there enough sales staff to answer phones/emails and/or are sales being lost because of insufficient staffing and/or staffing issues?

Quick Study 1-2

- | | |
|------------------|--|
| a. Do not record | Meeting with the mechanical staff to determine new machine requirements for next year. |
| b. Record | Receiving the company's utility bill detailing the usage for the past month. |
| c. Do not record | Analyzing last year's sales report to determine if the discount policy is effective in getting customers to buy in multiple quantities |
| d. Record | Downloading the online bank statements and identifying customer payments. |
| e. Do not record | After an employee is interviewed, hiring them for the accounting position. |

Quick Study 1-3

- | | | | |
|-----------------------------|--------------|--------------------------|--------------|
| a. Highlands United Church | Non-business | d. University of Toronto | Business |
| b. Royal Alexandra Hospital | Non-business | e. Loblaw | Business |
| c. Toronto-Dominion Bank | Business | f. World Vision | Non-business |

Quick Study 1-4

1. SP
2. C
3. P
4. SP
5. C
6. C
7. P

Quick Study 1-5

1. A
2. C
3. B
4. A
5. A
6. B
7. B
8. C

Quick Study 1-6

1. **Relevant facts:** You have failed your midterms and are at high risk of failing the course. Your university policy will punish all academic acts of dishonesty. You have faced a difficult personal situation during the semester.
2. **Ethical issues involved:** Whether it is ethical for you to look at accounting notes during the final exam.
3. **Fundamental principles and rules applicable to the matter in question:** Your university policy will punish all academic acts of dishonesty. You believe in the principle of honesty. It is not honest to misrepresent the amount of accounting knowledge you know.
4. **Established internal procedures:** The university's policy will punish all acts of academic dishonesty.
5. **Alternative courses of action:** Continue engaging in acts of academic dishonesty until you are caught. The consequence will be that you may be caught in the future and be punished for it. Resolve to not engage in any acts of academic dishonesty in the future. The consequence will be that you avoid the chance of being punished for unethical behavior in the future.

Conclusion

The behaviour in the situation described appears to be unethical based on the application of the Chartered Professional Accountants of Ontario's Rules of Professional Conduct - Approach to Ethical Conflict Resolution. You are acting against your University's policy and against your own personal value of being honest.

Quick Study 1-7

- a. Business entity principle
- b. Revenue recognition principle
- c. Historical cost accounting standard (see page 18)

Quick Study 1-8

1. Revenue Recognition
2. Historical Cost

3. Business Entity
4. Going Concern
5. Currency

Quick Study 1-9

Currency	a.	Delco performed work for a client located in China and collected 8,450,000 RMB (Chinese currency), the equivalent of about \$1,320,000 Canadian. Delco recorded it as 8,450,000.
Revenue Recognition	b.	Delco collected \$180,000 from a customer on December 20, 2017 for work to be done in February 2018. The \$180,000 was recorded as revenue during 2017. Delco's year end is December 31.
Going Concern	c.	Delco's December 31, 2017 balance sheet showed total assets of \$840,000 and liabilities of \$1,120,000. The income statement for the past 6 years has shown a trend of increasing losses.
Historical Cost	d.	Included in Delco's assets was land and building purchased for \$310,000 and reported on the balance sheet at \$470,000.
Business Entity	e.	Delco's owner, Tom Del, consistently buys personal supplies and charges them to the company.

Quick Study 1-10

- a. Equity = \$ 75,000 – \$ 40,500 = \$ 34,500
- b. Liabilities = \$300,000 – \$ 85,500 = \$214,500
- c. Assets = \$187,500 + \$ 95,400 = \$282,900

Quick Study 1-11

- a. Equity = \$374,700 – \$252,450 = \$122,250
- b. Liabilities = \$150,900 – \$126,000 = \$ 24,900
- c. Assets = \$ 37,650 + \$112,500 = \$150,150

Quick Study 1-12

a.

Allin Servicing Income Statement For Month Ended April 30, 2017	
Revenues	\$300
Expenses	<u>125</u>
Profit (loss)	<u>175</u>

Allin Servicing Statement of Changes in Equity For Month Ended April 30, 2017		
Tim Allin, capital, April 1	\$ 50	
Add: Investments by owner	\$ 30	
Profit	<u>175</u>	<u>205</u>
Total		\$255
Less: Withdrawals by owner		<u>15</u>
Tim Allin, capital, April 30		<u>\$240</u>

Allin Servicing Balance Sheet April 30, 2017			
Assets		Liabilities	
Cash	\$ 60	Accounts payable	\$ 25
Equipment	<u>205</u>	Equity	
		Tim Allin, capital	<u>240</u>
Total assets	<u>\$265</u>	Total liabilities and equity	<u>\$265</u>

b.

Allin Servicing Income Statement For Month Ended May 31, 2017	
Revenues	\$135
Expenses	<u>85</u>
Profit (loss)	<u>\$ 50</u>

Allin Servicing Statement of Changes in Equity For Month Ended May 31, 2017		
Tim Allin, capital, May 1	\$240	
Add: Investments by owner	\$ 60	
Profit	<u>50</u>	<u>\$110</u>
Total		350
Less: Withdrawals by owner		<u>75</u>
Tim Allin, capital, May 31		<u>\$275</u>

Allin Servicing Balance Sheet May 31, 2017			
Assets		Liabilities	
Cash	\$120	Accounts payable	\$ 45
Equipment	<u>200</u>	Equity	
		Tim Allin, capital	<u>275</u>
Total assets	<u>\$320</u>	Total liabilities and equity	<u>\$320</u>

Quick Study 1-13

1. $\$20,000 - \$15,000 = \underline{\$5,000}$ beginning capital on January 1, 2017
2. $\$5,000 + \$3,000 + \$8,000 - \$4,000 = \underline{\$12,000}$ ending capital on December 31, 2017

Quick Study 1-14

Assets	=	Liabilities	+	Equity
a. Increase/Decrease				
b. Increase		Increase		
c. Decrease		Decrease		
d.		Increase		Decrease
e. Decrease				Decrease

Quick Study 1-15

c	1.	Supplies.....	\$10
a	2.	Supplies expense.....	22
c	3.	Accounts receivable.....	25
c	4.	Accounts payable.....	12
c	5.	Equipment.....	40
b	6.	Tim Roadster's withdrawals in April.....	35
c	7.	Notes payable.....	30
a	8.	Utilities expense.....	10
c	9.	Furniture.....	20
a	10.	Revenue.....	70
a	11.	Rent revenue.....	35
a	12.	Salaries expense.....	45
b	13.	Tim Roadster's investments in April.....	60
a+b	14.	Profit*.....	28

*Calculated as: $70 + 35 - 22 - 10 - 45 = 28$

Quick Study 1-16

1	Total revenues.....	70 + 35 = 105
2	Total operating expenses.....	22 + 10 + 45 = 77
3	Profit.....	105 – 77 = 28
4	Total assets.....	10 + 25 + 40 + 20 = 95
5	Total liabilities.....	12 + 30 = 42
6	Tim Roadster, capital (April 30, 2017).....	60 – 35 + 28 = 53
7	Total liabilities and equity.....	42 + 53 = 95

Quick Study 1-17

d	1. Loss.....	2	Income statement & Statement of changes in equity
d	2. Rent expense.....	22	Income statement
b	3. Rent payable.....	6	
a	4. Accounts receivable.....	14	
d	5. Joan Bennish's investments in May.....	30	Statement of changes in equity
d	6. Interest income.....	2	Income statement
d	7. Joan Bennish's, capital, May 1, 2017....	0	Statement of changes in equity
a	8. Repair supplies.....	5	
b	9. Notes payable.....	25	
d	10 Joan Bennish's withdrawals in May.....	5	Statement of changes in equity
a	11 Truck.....	15	
d	12 Consulting revenue.....	18	Income statement
c	13 Joan Bennish, capital, May 31, 2017.....	23	
a	14 Cash.....	20	

* See QS1-18 for details on how this amount was calculated; this calculation was not a requirement of QS1-17.

Quick Study 1-18

CORNERSTONE CONSULTING
Income Statement
For Month Ended May 31, 2017

Revenues:		
Consulting revenue.....	\$18	
Interest income.....	<u>2</u>	
Total revenues.....		\$20
Operating expenses:		
Rent expense.....		<u>22</u>
Loss		<u>\$ 2</u>

CORNERSTONE CONSULTING
Statement of Changes in Equity
For Month Ended May 31, 2017

Joan Bennish, capital, May 1.....		\$ 0
Add: Investments by owner		<u>30</u>
Total		\$30
Less: Withdrawals by owner.....	\$ 5	
Loss.....	<u>2</u>	<u>7</u>
Joan Bennish, capital, May 31.....		<u>\$23</u>

CORNERSTONE CONSULTING
Balance Sheet
May 31, 2017

Assets		Liabilities	
Cash.....	\$20	Rent payable.....	\$ 6
Accounts receivable.....	14	Notes payable.....	<u>25</u>
Repair supplies.....	5	Total liabilities.....	\$31
Truck.....	<u>15</u>	Equity	
		Joan Bennish, capital.....	<u>23</u>
		Total liabilities and	
Total assets.....	<u>\$54</u>	equity.....	<u>\$54</u>

EXERCISES

Exercise 1-1 (10 minutes)

- a. Corporation
- b. Sole proprietorship
- c. Corporation
- d. Partnership
- e. Sole proprietorship
- f. Sole proprietorship
- g. Corporation

Exercise 1-2 (10 minutes)

External Users	Decisions
Investor	Whether to invest in the company. Whether to buy or sell their stocks in the company.
Supplier	Whether to sell to Starbucks? Will Starbucks be able to pay for products? Does Starbucks represent ethical/socially responsible practices that suppliers want to align their image with?
Canada Revenue Agency	Has Starbucks filed their tax return? Have they appropriately reported their financial information and paid their taxes? Should we audit Starbucks?
Customer	Will the company be here to serve me in the long-run? Will Starbucks continue to honour their loyalty program? Does Starbucks represent ethical/socially responsible practices that suppliers want to align their image with?
External Auditors	Has Starbucks reported all of their financial information appropriately in accordance with the appropriate accounting standards? Have they recorded all of their transactions and are they recorded at the correct amounts? Has Starbucks disclosed all the necessary information to provide useful information to it's investors and other financial statement users?
Lenders	Should we provide a loan to Starbucks? Will Starbucks be able to repay the loan? Should we take any assets as collateral?

Exercise 1-2 (Continued)

Internal Users	Decisions
Marketing	Do we have enough money to launch a new marketing campaign? What products or promotion should we promote? How should we price our products?
Human Resources	How many employees can we afford to hire this year? How much should we pay employees? How much money should we invest into training? Can we provide employees with benefits?
Finance / Management	How is Starbucks' performance? What changes should we make in the coming year? Do we have enough money to operate in the short and long term?
Employees	Will Starbucks be able to pay my wages? Should I participate in the stock option plan? If I have stock options, when should I exercise them?

There are a number of users and decisions that can be identified.

Exercise 1-3 (20 minutes)

Accounting Role	Typical Day
(1) External Auditor	An external auditor is hired by a company's board of directors to express an opinion on whether their financial statements are prepared appropriately in accordance with the accounting standards (CAS 200). A typical day for an external auditor could involve: • Working at the client's site with a team of auditors. • Each team member will be assigned sections of the financial statements to audit. • Interviewing the Chief Financial Officer, Controller, internal accountants and employees from various departments to gain a strong understanding of the company • Understanding the company's processes for how they sell product/services, how they purchase product or supplies, how they pay their employees. • Reviewing the client's financial statements • Performing testing over the financial statements by selecting a sample of items or transactions from the general ledger • Reviewing supporting documents such as bank statements, invoices, contracts • Submitting completed sections to the senior auditor or manager for review. • Having a coffee break and lunch with the auditing team
Exercise 1-3 (continued)	
(2) Controller	A controller is often responsible for preparing the financial statements with

	the assistance of one or more staff accountants. A controller will report to more senior Finance staff such as the Chief Financial Officer. A typical day for an external auditor could involve: • Meeting with the management team to discuss the company's performance. • Preparing monthly, quarterly or annual financial statements • Providing analysis and comments on the financial information for management and the Board of Directors • Preparing reports with financial information that will help management make strategic and operational decisions • Preparing budgets and cash flow projections • Ensuring employees are following company policies and procedures • Managing and supervising a team of accounting staff
(3) Tax Specialist	• Meet with client to understand their tax planning needs • Researching the tax standards • Writing a tax memo analyzing and concluding on appropriate tax treatment. • Working on corporate or personal tax returns. • Looking through the documents the client has given you had using tax software to prepare the tax return. • Discuss ideas with other tax specialists or the Tax Manager / Partner.

Exercise 1-4 (20 minutes) (Answers will vary.)

a.

1. **Relevant facts:** Your colleague mentioned that he makes personal calls and gets them reimbursed by your company. Your employer allows you to submit business calls for reimbursement.
2. **Ethical issues involved:** Whether it is ethical to submit personal calls for reimbursement.
3. **Fundamental principles and rules applicable to the matter in question:** Your employer's rule is that you can submit business calls for reimbursement. It is not honest to misrepresent personal calls for business calls.
4. **Established internal procedures:** Your employer reimburses business calls.
5. **Alternative courses of action:** Bring the situation up with your colleague. Your colleague may become upset and this could affect your working relationship. Stay silent, which will likely result in your colleague continuing to submit personal calls for reimbursement. Let your employer know. This action could result in your colleague being disciplined by your employer.

Conclusion

The behaviour in the situation described appears to be unethical based on the application of the Chartered Professional Accountants of Ontario's Rules of Professional Conduct - Approach to Ethical Conflict Resolution. Your colleague is acting against your employer's policy and a personal value of being honest.

b.

1. **Relevant facts:** It appears that the three people ahead of you entered without tickets.
2. **Ethical issues involved:** Whether it is ethical watch a movie without purchasing a ticket. Whether it is ethical for the ticket-taker to let non-paying patrons into the movie theatre.
3. **Fundamental principles and rules applicable to the matter in question:** The movie theater's rule is that people must pay for a ticket to watch a movie. To watch a movie without paying is like stealing. Stealing a movie viewing is not honest. The three people have misrepresented themselves as paying patrons.
4. **Established internal procedures:** Patrons of the theatre must pay for the movie they will watch. The ticket-taker needs to see a ticket before admitting people into the theatre.
5. **Alternative courses of action:** Bring the situation up to the manager at the movie theatre. The consequence will be that the ticket-taker will likely lose his/her job. Do not take action as this situation does not involve you. This will likely lead to more people entering the movie theatre without paying. This may lead to ticket prices being increased to cover the cost of this kind of lost sale.

Exercise 1-4 (*Continued*)

Conclusion

The behaviour in the situation described appears to be unethical based on the application of the Chartered Professional Accountants of Ontario's Rules of Professional Conduct - Approach to Ethical Conflict Resolution. The three people and the ticket-taker have violated the movie's theater's policy.

c.

1. Relevant facts: The cashier only provides a cash register receipt if the customer asks. The cash register records will be inaccurate if not all sales are recorded.
2. Ethical issues involved: Whether it is ethical to only provide a cash register receipt if a customer asks.
3. Fundamental principles and rules applicable to the matter in question: The fitness centre would require the cashier to perform all of their duties. It is not honest for the cashier to intentionally or unintentionally not perform all of their duties.
4. Established internal procedures: The fitness centre requires that all sales are recorded in the cash register and the customer receives a receipt.
5. Alternative courses of action: The cashier could continue providing cash receipts only if they are asked. Eventually, the supervisor and/or owner of the facility will recognize that drop-in revenues are lower than the actual number of drop-in customers attending the facility and the cashier will lose his/her job and perhaps face criminal charges. Also, the prices may increase if the owner believes revenues are decreasing. The cashier could follow procedure and provide all customers with a receipt whether or not they ask for one. This cashier will be able to work at the fitness center and earn wages for a longer period of time.

Conclusion

The behaviour in the situation described appears to be unethical based on the application of the Chartered Professional Accountants of Ontario's Rules of Professional Conduct - Approach to Ethical Conflict Resolution.

Exercise 1-5 (10 minutes)

Description

- B 1. Requires every business to be accounted for separately from its owner or owners.
- A 2. Requires financial statement information to be based on costs incurred in transactions.
- D 3. Requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold.
- C 4. Requires revenue to be recorded only when the earnings process is complete

Exercise 1-6 (15 minutes)

Exercise 1-7 (10 minutes)

a) $\$516,000 - \$492,000 = \underline{\$24,000}$ profit

Balance Sheet			Income Statement		Statement of Changes in Equity
Assets	Liabilities	Owner's Equity	Revenue	Expenses	
Cash	Accounts Payable	Owner's Capital, Ending balance	Interest Income	Advertising Expense	Owner's Capital, Beginning balance
Accounts Receivable	Interest Payable		Service Revenue	Fuel Expense	Investment by Owner
Interest Receivable	Salaries Payable		Rent Revenue	Insurance Expense	Profit / Loss
Merchandise Inventory	Unearned Revenue			Interest Expense	Withdrawals
Supplies	Notes Payable			Maintenance Expense	Owner's Capital, Ending balance
Prepaid Expenses				Other Expenses	
Prepaid Rent				Rent Expense	
Land				Salaries Expense	
Building				Supplies Expense	
Vehicles				Telephone Expense	
Equipment				Utilities Expense	
Furniture				Vehicle Expenses	
				Wages Expense	

b) $\$165,000 - \$240,000 = \underline{\$75,000}$ loss

c) $\$32,000 + 0 - 0 + x = \$86,000$
 $x = \$86,000 - \$32,000$
 $x = \underline{\$54,000}$ profit

d) $\$48,000 + \$40,000 - 0 + x = \$52,000$
 $x = \$52,000 - \$48,000 - \$40,000$
 $x = -\$36,000$ or a $\underline{\$36,000}$ loss

Exercise 1-8 (15 minutes)

	(a)	(b)	(c)	(d)	(e)
Answers	\$ (19,750)	\$46,000	\$7,000	\$10,250	\$102,000

Proofs:

Equity, January 1.....	\$.	0	\$	0	\$	0	\$	0	\$102,000
Owner's investments									
during the year.....	60,000	46,000	31,500	37,500	140,000				
Profit (loss) for the year.....	15,750	30,500	(4,500)	10,250	(8,000)				
Owner's withdrawals									
during the year	(19,750)	(27,000)	(20,000)	(15,750)	(63,000)				
Equity, December 31.....	<u>\$56,000</u>	<u>\$49,500</u>	<u>\$7,000</u>	<u>\$32,000</u>	<u>\$171,000</u>				

Exercise 1-9 (15 minutes)

EXTRAORDINARY STUDIOS
Income Statement
For Month Ended November 30, 2017

Revenues:	
Wedding consulting revenue.....	\$22,000
Operating expenses:	
Salaries expense.....	\$6,000
Rent expense.....	2,550
Telephone expense.....	1,680
Utilities expenses.....	<u>660</u>
Total operating expenses.....	10,890
Profit	<u><u>\$ 11,110</u></u>

Exercise 1-10 (15 minutes)

EXTRAORDINARY STUDIOS
Statement of Changes in Equity
For Month Ended November 30, 2017

Jean Higgins, capital, November 1.....	\$	0
Add: Investments by owner	84,000	
Profit.....	<u>11,110</u>	<u>95,110</u>
Total		\$95,110
Less: Withdrawals by owner.....		<u>3,360</u>
Jean Higgins, capital, November 30.....		<u><u>\$91,750</u></u>

Analysis component:

The owner, Jean Higgins, invested \$84,000 of assets during the month, which caused equity to increase. Also, profit earned during the month was \$11,110 also causing equity to increase during November. The total increases in equity during the month were a total of \$95,110 (\$84,000 + \$11,110).

NOTE: Students might point out that equity decreased by a total of \$3,360 in withdrawals which in combination with the total increase of \$95,110 caused a net increase in equity of \$91,750.

Exercise 1-11 (15 minutes)

EXTRAORDINARY STUDIOS
Balance Sheet
November 30, 2017

Assets		Liabilities	
Cash.....	\$16,000	Accounts payable.....	\$ 7,500
Accounts receivable.....	17,000		
Office supplies.....	5,000		
Automobiles.....	36,000	Equity	
Office equipment.....	<u>25,250</u>	Jean Higgins, capital.....	<u>91,750</u>
Total assets.....	<u>\$99,250</u>	Total liabilities and	
		equity.....	<u>\$99,250</u>

Analysis component:

\$91,750 (or 92.44% calculated as $\$91,750 / \$99,250 \times 100$) of the total \$99,250 assets are financed by Jean Higgins, the owner of Extraordinary Studios.

Exercise 1-12 (15 minutes)

WINDSOR LEARNING SERVICES
Income Statement
For Month Ended July 31, 2017

Revenues:		
Tutoring revenue.....		\$4,200
Textbook rental revenue.....		<u>300</u>
Total revenues.....		\$ 4,500
Operating expenses:		
Office rent expense.....	\$2,500	
Tutors wages expense.....	1,540	
Utilities expense.....	<u>680</u>	
Total operating expenses.....		<u>4,720</u>
Loss		<u>\$ 220</u>

Exercise 1-13 (15 minutes)

WINDSOR LEARNING SERVICES
Statement of Changes in Equity
For Month Ended July 31, 2017

Milton Windsor, capital, July 1.....		\$ 7,400
Add: Investments by owner		<u>1,200</u>
Total		\$ 8,600
Less: Withdrawals by owner.....	\$ 1,000	
Loss.....	<u>220</u>	<u>1,220</u>
Milton Windsor, capital, July 31.....		<u><u>\$ 7,380</u></u>

Analysis component:

Withdrawals of \$1,000 by the owner, Milton Windsor, caused equity to decrease during July, 2017. Also, the loss of \$220 caused equity to decrease in July. The total decrease in equity during the month of July was \$1,220 (calculated as \$1,000 + \$220).

NOTE: Students might point out that equity increased by \$1,200 of owner investments which, in combination with the total decrease of \$1,220, caused a net decrease in equity of \$20.

Exercise 1-14 (15 minutes)

WINDSOR LEARNING SERVICES
Balance Sheet
July 31, 2017

Assets		Liabilities	
Cash.....	\$ 1,600	Accounts payable.....	\$ 1,500
Accounts receivable.....	2,000		
Supplies.....	1,280	Equity	
Furniture.....	1,800	Milton Windsor, capital.....	<u>7,380</u>
Computer equipment.....	<u>2,200</u>	Total liabilities and	
Total assets.....	<u><u>\$8,880</u></u>	equity.....	<u><u>\$8,880</u></u>

Analysis component:

\$1,500 or 16.89% (calculated as $\$1,500 / \$8,880 \times 100$) of the total \$8,880 assets held by Windsor Learning Services are financed by debt.

Exercise 1-15 (20 minutes)

	Assets	–	Liabilities	=	Equity
Beginning of the year.....	\$ 75,000	–	\$30,000	=	\$ 45,000
End of the year.....	\$120,000	–	\$46,000	=	74,000

	(a)	(b)	(c)	(d)
Answers	\$ 29,000	\$86,000	\$(51,000)	\$(4,000)

Proofs:

Equity, January 1.....	\$... 45,000	\$ 45,000	\$ 45,000	\$ 45,000
Owner's investments				
during the year.....	0	0	80,000	75,000
Profit (loss) for the year.....	29,000	86,000	(51,000)	(4,000)
Owner's withdrawals				
during the year	(0)	(57,000)	(0)	(42,000)
Equity, December 31.....	<u>\$74,000</u>	<u>\$74,000</u>	<u>\$74,000</u>	<u>\$74,000</u>

a. An alternative calculation:

$$\$45,000 + 0 + x - 0 = \$74,000; x = \$29,000$$

b. An alternative calculation:

$$\$45,000 + 0 + x - \$57,000 = \$74,000; x = \$86,000$$

c. An alternative calculation:

$$\$45,000 + \$80,000 + x - 0 = \$74,000; x = (\$51,000) \text{ where the negative represents a loss.}$$

Exercise 1-15 (Continued)

d. An alternative calculation:

$$\$45,000 + \$75,000 + x - \$42,000 = \$74,000; x = (\$4,000) \text{ where the negative represents a loss.}$$

Exercise 1-16 (10 minutes)

a.

If assets decreased by \$15,000 during August, then

$$\$25,000 + \$15,000 = \underline{\$40,000} \text{ Assets at August 1, 2017.}$$

$$\text{Therefore, Equity at August 1, 2017} = \$40,000 - \$10,000 = \underline{\underline{\$30,000}}$$

b.

If liabilities increased by \$9,000 during August, then

$$\$10,000 + \$9,000 = \underline{\$19,000} \text{ Liabilities at August 31, 2017.}$$

$$\text{Therefore, Equity at August 31, 2017} = \$25,000 - \$19,000 = \underline{\underline{\$6,000}}$$

Exercise 1-17 (15 minutes)

	Assets				Liabilities	+	Equity
	Cash	Accounts Receivable	Office Supplies	=	Accounts Payable	+	Marnie Wesson, Capital
a)	+ \$25,000						+ \$25,000
b)			+ \$600		+ \$600		
c)	+ 7,000						+ 7,000
d)*							
e)	- 4,500						- 4,500
f)		+ \$1,250					+ 1,250
Totals	\$27,500	+ \$1,250	+ \$600	=	\$600	+	\$28,750
	\$29,350			=	\$29,350		

*Note: For (d), since no exchange has occurred, no entry is required.

Exercise 1-18 (20 minutes)

	Assets					Liabilities	+	Equity
	Cash	Accounts Receivable	Parts Supplies	Equipment	=	Accounts Payable	+	Stacey Crowe, Capital
a)	+ \$14,000							+ \$ 14,000
b)	- 2,500							- 2,500
c)			+ \$800			+ \$800		
d)		+ \$3,400						+ \$ 3,400
e)	- \$ 1,950			+ \$1,950				
f)*								
g)	- \$800					- \$800		
h)	+ \$3,400							+ \$ 3,400

i)											
	- \$2,700					- \$ 2,700					
Totals	\$9,450 +	\$3,400 +	\$800 +	\$1,950	=	\$	0 +	\$15,600			
	\$15,600					=	\$15,600				

*Note: For (f), since no exchange has occurred, no entry is required.

Exercise 1-19: (15 minutes)

- b. Office Supplies were purchased paying cash of \$500.
- c. Office Furniture was purchased paying cash of \$8,000.
- d. Completed work for a client on credit; \$1,000.
- e. Purchased office supplies on credit; \$400.
- f. Paid \$250 to a creditor.
- g. Collected \$750 cash from a credit customer.

Exercise 1-20 (20 minutes)

	Assets				=	Liabilities	+	Equity	Explanation of Equity Transaction
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+	Mailin Moon, Capital	
a)	+ \$3,000			+ \$2,500				+ \$5,500	Owner Investment
b)	+ \$6,500							+ \$6,500	Revenue
c)			+ \$600			+ \$600			
d)	− \$ 1,450							− \$ 1,450	Sal. Expense
e)*									
f)	− \$ 1,400							− \$ 1,400	Rent Expense
g)		+ \$4,500						+ \$4,500	Revenue
Total s	\$6,650	+ \$4,500	+ \$600	+ \$2,500	=	\$600	+ \$13,650		
	\$14,250				=	\$14,250			

*Note: For (e), since no exchange has occurred, no entry is required.

Exercise 1-21 (25 minutes)

Mailin Moon– Freelance Writing Income Statement For Month Ended March 31, 2017		
Revenues:		
Freelance writing revenue		\$11,000
Operating expenses:		
Salaries expense	\$ 1,450	
Rent expense	1,400	
Total operating expenses		2,850
Profit		\$8,150

Mailin Moon– Freelance Writing Statement of Changes in Equity For Month Ended March 31, 2017		
Mailin Moon, capital, March 1		\$ 0
Add: Investment by owner	\$5,500	
Profit	8,150	13,650
Mailin Moon, capital, March 31		\$13,650

Mailin Moon– Freelance Writing Balance Sheet March 31, 2017			
Assets		Liabilities	
Cash	\$6,650	Accounts payable	\$ 600
Accounts receivable	4,500		
Supplies	600		
Equipment	2,500		
		Equity	
		Mailin Moon, capital	13,650
Total assets	\$14,250	Total liabilities and equity	\$14,250

Analysis component:

- Supplies of \$600 were financed by accounts payable, a liability.
- Equipment of \$2,500 was financed by owner investment, an equity transaction.
- Cash of \$6,650 and Accounts receivable of \$4,500 were financed by an investment by owner of \$3,000 and profit of \$8,150. Profit includes the equity transactions of revenues and expenses (revenues of \$11,000 less expenses of \$2,850).

Exercise 1-22 (20 minutes)

Assets					= Liabilities +	Equity	Explanation of Equity Transaction
						Omar Ali	
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable +		
a)	+ \$4,300			+\$15,000		+\$19,300	Owner Investment
b)			+\$1,600		+\$1,600		
c)			+\$950		+\$950		
d)*							
e)		+\$550				+\$550	Revenue
f)		+\$600				+\$600	Revenue
g)	-\$200				-\$200		
h)	-\$250					-\$250	Adv. Expense
i)	+\$600	-\$600					
Totals	\$4,450 +	\$550 +	\$2,550 +	\$15,000 =	\$2,350 +	\$20,200	
					=	\$22,550	

***Note:** For (d), since no exchange has occurred, no entry is required.

Exercise 1-23 (25 minutes)

Omar's Yard Care Income Statement For Month Ended March 31, 2017		
Revenues:		
Yard care revenue		\$1,150
Operating expenses:		
Advertising expense		250
Profit		\$ 900

Omar's Yard Care Statement of Changes in Equity For Month Ended March 31, 2017		
Omar Ali, capital, March 1		\$ 0
Add: Investment by owner	\$19,300	
Profit	900	20,200
Omar Ali, capital, March 31		\$20,200

Omar's Yard Care Balance Sheet March 31, 2017			
Assets		Liabilities	
Cash	\$ 4,450	Accounts payable	\$ 2,350
Accounts receivable	550		
Supplies	2,550		
Equipment	15,000		
		Equity	
		Omar Ali, capital	20,200
Total assets	\$22,550	Total liabilities and equity	\$22,550

Analysis component:

The \$900 of profit does not represent cash because all of the revenues (\$550 + \$600 = \$1,150) were on account. The \$250 of advertising expense was paid in cash. The profit (loss) on an income statement represents the profit (loss) that was actually earned which is not necessarily going to agree to the profit (loss) actually received in cash. This is in accordance with the revenue recognition principle which says that revenues (and also expenses) are recorded at the time earned (or expensed in the case of expenses) regardless of whether cash has been exchanged.

Exercise 1-24 (20 minutes)

	Assets				=	Liabilities	+	Equity	Explanation of Equity Transaction		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+	Natalie Gold, Capital			
Bal.	\$6,000	\$1,200	\$1,900	\$6,500		\$4,000		\$11,600			
a)	+\$800	-\$800									
b)	-\$2,500					-\$2,500					
c)	+\$1,100							+\$1,100	Revenue		
d)	-\$950							-\$950	Wage Exp.		
e)	-\$1,200							-\$1,200	Rent Exp.		
f)	-\$600							-\$600	Utilities Exp.		
g)		+\$1,600						+\$1,600	Revenue		
h)*											
Total s	\$2,650	+	\$2,000	+	\$1,900	+	\$6,500	=	\$1,500	+	\$11,550
	\$13,050				=	\$13,050					

***Note:** For (h), since no exchange has occurred, no entry is required.

Exercise 1-25 (25 minutes)

VIVID VOICE Income Statement For Month Ended July 31, 2017		
Revenues:		
Consulting revenue		\$2,700
Operating expenses:		
Rent expense	\$ 1,200	
Utilities expense	600	
Wage expense	950	
Total operating expenses		2,750
Loss		\$ 50

VIVID VOICE Statement of Changes in Equity For Month Ended July 31, 2017		
Natalie Gold, capital, July 1		\$ 11,600
Less: Loss		50
Natalie Gold, capital, July 31		\$ 11,550

VIVID VOICE Balance Sheet July 31, 2017			
Assets		Liabilities	
Cash	\$2,650	Accounts payable	\$ 1,500
Accounts receivable	2,000		
Supplies	1,900		
Equipment	6,500		
		Equity	
		Natalie Gold, capital	11,550
Total assets	\$13,050	Total liabilities and equity	\$13,050

Analysis component:

\$11,550 or 88.54% (calculated as $\$11,550 / \$13,050 \times 100$) of the assets are financed by Natalie Gold, the owner. \$1,500 or 11.49% (calculated as $\$1,500 / \$13,050 \times 100$) of the assets are financed by debt.

PROBLEM SET “A”

Problem 1-1A (10 minutes)

Characteristic	Type of Business Organization		
	Sole Proprietorship	Partnership	Corporation
Limited liability			✓
Unlimited liability	✓	✓	
Owners are shareholders			✓
Owners are partners		✓	
Taxed as a separate legal entity			✓

Problem 1-2A (20 minutes)

To: CEO

From: Accountant

Subject: Analysis of recording employees as assets

This memo analyzes whether it is appropriate to record our employees as assets on Bright Consulting's balance sheet.

Based on our generally accepted accounting principles, the definition of an asset has three key characteristics:

- 1. An asset is a resource controlled by a business.**
- 2. An asset results from a past transaction.**
- 3. An asset is expected to generate future economic benefits for the business.**

a) Recording employees as assets

- 1. At Bright Consulting, we employ many employees. We hire employees and we pay them salaries. It can be argued that our employees are controlled by our company.**
- 2. As our employees have all been hired, it can be argued that their employment has resulted from a past transaction.**
- 3. I understand that at Bright Consulting, our business is based on the knowledge and skills of our employees. Our employees perform consulting work for our clients that generate revenue for our company. It can be argued that we can expect our employees to generate future economic benefit for our company.**

b) Not recording employees as assets

- 1. While employees are hired by Bright Consulting, it can be argued that our company does not control our employees. We may control our employees' time while they are at work, but we cannot say that we control them as a whole.**
- 2. As our employees have all been hired, it can be argued that their employment has resulted from a past transaction.**
- 3. Our employees help our company earn consulting revenue. However, it is difficult to quantify and put a dollar amount on how much future benefit an employee will generate. We cannot reliably measure the amount of future benefit our employees may generate. Some employees may provide a lot of future benefit while others may provided limited future benefit.**

c) Conclusion

Based on the above analysis, I recommend that we do not record our employees on the balance sheet. We cannot argue that we control our employees and we cannot reliably quantify the future benefit our employees may generate for our company.

Problem 1-3A (20 minutes)

	Year		
	2018	2017	2016
Beginning capital	125,000 ¹	28,000 ³	0
+ Owner investment	0	0	10,000
+ Profit (loss)	(5,000)	175,000	60,000 ⁵
– Owner withdrawals	0	78,000	42,000
= Ending capital	120,000	125,000 ²	28,000 ⁴

Note: The superscripts show the order in which the answers were calculated.

Calculations:

1. $\$120,000 + 5,000 = \underline{\$125,000}$
2. $\$125,000$ (The beginning capital balance for one period is the ending capital balance of the previous period)
3. $\$125,000 + \$78,000 - \$175,000 = \underline{\$28,000}$
4. $\$28,000$ (The beginning capital balance for one period is the ending capital balance of the previous period)
5. $\$28,000 + \$42,000 - \$10,000 = \underline{\$60,000}$

Problem 1-4A (30 minutes)

CROSS FITNESS
Income Statement
For Year Ended July 31, 2017

Revenues:		
Group training revenue.....		\$131,000
Personal training revenue.....		<u>2,500</u>
Total revenues.....		\$133,500
Operating expenses:		
Wages expense.....	\$68,000	
Rent expense.....	14,000	
Supplies expense.....	15,900	
Utilities expense.....	9,800	
Interest expense.....	<u>2,100</u>	
Total operating expenses.....		<u>109,800</u>
Profit		<u>\$ 23,700</u>

CROSS FITNESS
Statement of Changes in Equity
For Year Ended July 31, 2017

Jay-Jay Grey, capital, August 1, 2016.....		\$ 79,300
Add: Investments by owner	\$ -0-	
Profit.....	<u>23,700</u>	<u>23,700</u>
Total		\$ 103,000
Less: Withdrawals by owner.....		<u>46,000</u>
Jay-Jay Grey, capital, July 31, 2017.....		<u>\$ 57,000</u>

CROSS FITNESS
Balance Sheet
July 31, 2017

Assets		Liabilities	
Cash.....	\$ 5,600	Accounts payable.....	\$ 9,400
Accounts receivable.....	42,000	Notes payable.....	<u>20,000</u>
Supplies.....	2,400	Total liabilities	\$ 29,400
Prepaid rent.....	4,000		
Workout equipment.....	19,200	Equity	
Furniture.....	<u>13,200</u>	Jay-Jay Grey, capital.....	<u>57,000</u>
Total assets.....	<u>\$86,400</u>	Total liabilities and equity.....	<u>\$ 86,400</u>

Problem 1-4A (concluded)

Analysis component:

\$29,400 or 34.03% (calculated as $\$29,400 / \$86,400 \times 100$) of the assets are financed by debt. \$57,000 or 65.97% (calculated as $\$57,000 / \$86,400 \times 100$) of the assets are financed by Jay-Jay Grey, the owner.

Problem 1-5A (60 minutes)

Part 1

LeCLAIRE DELIVERY SERVICES
Balance Sheet
December 31, 2016

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$ 26,250	Accounts payable.....	\$ 3,750
Accounts receivable.....	14,250		
Office supplies.....	2,250		
Trucks.....	27,000		
Office equipment.....	<u>69,000</u>	<i>Equity</i>	
		Jess LeClaire, capital.....	<u>135,000¹</u>
Total assets.....	<u>\$138,750</u>	Total liabilities and equity.....	<u>\$138,750</u>

Calculations:

1. $\$138,750 - \$3,750 = \$135,000$ (calculation of unknown amount)

LeCLAIRE DELIVERY SERVICES
Balance Sheet
December 31, 2017

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$ 9,375	Accounts payable.....	\$ 18,750
Accounts receivable.....	11,175	Notes payable.....	<u>52,500</u>
Office supplies.....	1,650	Total liabilities.....	\$ 71,250
Trucks.....	27,000		
Office equipment.....	73,500		
Land.....	22,500	<i>Equity</i>	
Building.....	<u>90,000</u>	Jess LeClaire, capital.....	<u>163,950²</u>
Total assets.....	<u>\$235,200</u>	Total liabilities and equity.....	<u>\$235,200</u>

Calculations:

2. $\$235,200 - \$71,250 = \$163,950$

Problem 1-5A (concluded)

Part 2

Calculation of profit for 2017:

Jess LeClaire, Capital December 31, 2016	\$135,000
+ Owner investment	17,500
+ Profit (loss)	?
– Owner withdrawals	18,000
= Jess LeClaire, capital December 31, 2017	<u>\$163,950</u>

OR

$$\$135,000 + \$17,500 + ? - \$18,000 = \$163,950; ? = \underline{\underline{\$29,450}}$$

Analysis component:

Assets increased by \$96,450 (\$235,200 - \$138,750). \$67,500 of the increase in assets were financed by an increase in debt (total liabilities went from \$3,750 at December 31, 2016 to \$71,250 at December 31, 2017). The remaining \$28,950 increase in assets (\$96,450 - \$67,500) resulted from equity financing (equity increased to \$163,950 at December 31, 2017 from \$135,000 at December 31, 2016 because of \$17,500 owner investment plus \$29,450 profit less \$18,000 of withdrawals during 2017).

Problem 1-6A (40 minutes) Part 1

Company A:

(a) Equity on December 31, 2016:

Assets.....	\$90,000
Liabilities.....	<u>–38,000</u>
Equity.....	<u>\$52,000</u>

(b) Equity on December 31, 2017:

Equity, December 31, 2016.....	\$52,000
Add: Owner investments.....	10,000
Less: Owner's withdrawals.....	5,000
Loss.....	<u>16,000</u>
Equity, December 31, 2017.....	<u>\$41,000</u>

(c) Amount of liabilities on December 31, 2017:

Assets	\$96,000
Equity	<u>–41,000</u>
Liabilities.....	<u>\$55,000</u>

Problem 1-6A (Continued)

Part 2

Company B:

(a) and (b)

	Dec. 31, 2016	Dec. 31, 2017
Equity:		
Assets.....	\$105,000	\$82,000
Liabilities.....	<u>-45,000</u>	<u>-55,000</u>
Equity.....	<u>\$60,000</u>	<u>\$27,000</u>

(c) Profit (loss) for 2017:

Equity, December 31, 2016.....	\$60,000
Add: Owner investments.....	19,000
Profit (loss).....	?
Less: Owner withdrawals.....	<u>6,000</u>
Equity, December 31, 2017.....	<u>\$27,000</u>

Therefore, the loss must have been \$(46,000).

Part 3

Company C:

First, calculate the beginning balance of equity:

	Dec. 31, 2016
Assets.....	\$58,000
Liabilities.....	<u>-28,000</u>
Equity.....	<u>\$30,000</u>

Next, find the ending balance of equity by completing this table:

Equity, December 31, 2016.....	\$30,000
Add: Owner investments.....	15,500
Profit.....	18,000
Less: Owner withdrawals.....	<u>7,750</u>
Equity, December 31, 2017.....	<u>\$55,750</u>

Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of the liabilities:

	Dec. 31, 2017
Liabilities.....	\$38,000
Equity.....	<u>55,750</u>
Assets.....	<u>\$93,750</u>

Part 4

Company D:

First, calculate the beginning and ending equity balances:

	<i>Dec. 31, 2016</i>	<i>Dec. 31, 2017</i>
Assets.....	\$160,000	\$250,000
Liabilities.....	<u>-76,000</u>	<u>-128,000</u>
Equity.....	<u>\$84,000</u>	<u>\$ 122,000</u>

Then, find the amount of owner investments during 2017 by completing this table:

Equity, December 31, 2016.....	\$84,000
Add: Owner investments.....	?
Profit.....	24,000
Less: Owner withdrawals.....	<u>0</u>
Equity, December 31, 2017.....	<u>\$122,000</u>

Therefore, the owner investments must have been \$14,000.

Part 5

Company E:

First, calculate the balance of equity as of December 31, 2017:

Assets.....	\$225,000
Liabilities.....	<u>-150,000</u>
Equity.....	<u>\$ 75,000</u>

Next, find the beginning balance of equity by completing this table:

Equity, December 31, 2016.....	\$?
Add: Owner investments.....	9,000
Profit.....	36,000
Less: Owner withdrawals.....	<u>18,000</u>
Equity, December 31, 2017.....	<u>\$75,000</u>

Therefore, the beginning balance of equity was \$48,000.

Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of the assets:

	<i>Dec. 31, 2016</i>
Assets.....	\$246,000
Equity.....	<u>-48,000</u>
Liabilities.....	<u>\$198,000</u>

Problem 1-7A (45 minutes) *Parts 1 and 2*

	Assets					=	Liabilities		+	Equity		
	Cash	+ Accounts Receivable	+ Office Supplies	+ Office Equipment	+ Building	=	Accounts Payable	+ Notes Payable		George Littlechild, Capital	Explanation of Equity Transaction	
(a)	+\$160,000			+\$20,000						+\$180,000	Investment by owner	
(b)	- 100,000				+\$600,000			+\$500,000				
(c)	- 3,000		+\$3,000									
(d)				+\$72,000			+\$72,000					
(e)*												
(f)		+\$5,200								+ 5,200	Service Revenue	
(g)	- 3,500									- 3,500	Advertising Expense	
(h)	+ 4,000									+ 4,000	Service Revenue	
(i)	- 4,000						- 4,000					
(j)	+ 2,500	- 2,500										
(k)	- 7,000									- 7,000	Wages Expense	
(l)	- 3,600									- 3,600	Withdrawal by owner	
Bal.	\$ 45,400	+ \$2,700	+ \$3,000	+\$92,000	+ \$600,000	=	\$68,000	+ \$500,000		+ \$175,100		
	\$743,100					=	\$743,100					

*NOTE: For (e), since no exchange has occurred, no entry is required.

Problem 1-7A (continued)

Part 3

Littlechild Enterprises Income Statement For Month Ended March 31, 2017		
Revenues:		
Service revenue		\$9,200
Operating expenses:		
Wages expense	\$7,000	
Advertising expense	3,500	
Total operating expenses		10,500
Loss		\$1,300

Littlechild Enterprises Statement of Changes in Equity For Month Ended March 31, 2017		
George Littlechild, capital, March 1		\$ 0
Add: Investment by owner		180,000
Total		180,000
Less: Withdrawal by owner	\$ 3,600	
Loss	1,300	4,900
George Littlechild, capital, March 31		\$175,100

Littlechild Enterprises Balance Sheet March 31, 2017			
Assets		Liabilities	
Cash	\$ 45,400	Accounts payable	\$ 68,000
Accounts receivable	2,700	Notes payable	500,000
Office supplies	3,000	Total liabilities	\$568,000
Office equipment	92,000		
Building	600,000	Equity	
		George Littlechild, capital	\$175,100
Total assets	\$743,100	Total liabilities and equity	\$743,100

Analysis component:

Assets result from a combination of debt and equity financing ($A = L + E$). Littlechild Enterprises' total assets of \$743,100 resulted from incurring \$568,000 in liabilities (\$68,000 in accounts payable plus \$500,000 of notes payable). $\$568,000 / \$743,100 \times 100 = 76.44\%$ or 76%. The remaining 24% of the assets were financed by equity transactions (owner investment and profit or loss less withdrawals made by the owner).

Problem 1-8A (60 minutes)

		<i>Cash</i>	<i>Accounts Receivable</i>	<i>Office Supplies</i>	<i>Office Equip.</i>	<i>Electrical Equip.</i>	<i>Accounts Payable</i>	<i>Larry Power, Capital</i>	<i>Explanation of Equity Transaction</i>
Bal.	Oct. 31	\$30,000	\$7,000	\$1,900	\$28,000	\$14,000	\$18,000	\$62,900	
	Nov. 1	-7,200						-7,200	Rent expense
	3	+10,000						+10,000	Investment by owner
	3	-10,000				+\$18,000	+ \$8,000		
	5	-1,800		+1,800					
	6	+2,000						+2,000	Electrical revenue
	8				+5,200		+5,200		
	15		+6,000					+6,000	Electrical revenue
	*16								
	18			+1,000			+1,000		
	20	-5,200					-5,200		
	24		+4,800					+4,800	Electrical revenue
	28	+ 6,000	-6,000						
	30	-4,400						-4,400	Salaries expense
	30	-3,600						-3,600	Utilities expense
	30	-1,400						-1,400	Withdrawal by owner
		<u>\$14,400</u>	<u>\$11,800</u>	<u>\$4,700</u>	<u>\$33,200</u>	<u>\$32,000</u>	<u>\$27,000</u>	<u>\$69,100</u>	
		\$96,100					=	\$96,100	

*Note: For November 16, since no exchange has occurred, no entry is required.

Problem 1-8A (concluded)

Analysis component:

Revenue is not recorded on November 28 because the revenue was actually earned on November 15. The revenue recognition principle requires that revenue be recorded when it was incurred (when the economic exchange occurred), on November 15. Cash is being collected on November 28 and is recorded as a reduction of the asset, accounts receivable, that was realized on November 15.

Problem 1-9A

**POWER ELECTRICAL
Income Statement
For Month Ended November 30, 2017**

Revenues:		
Electrical revenue.....		\$12,800
Operating expenses:		
Rent expense.....	\$7,200	
Salaries expense.....	4,400	
Utilities expense	<u>3,600</u>	
Total operating expenses.....		<u>15,200</u>
Loss		<u><u>\$2,400</u></u>

**POWER ELECTRICAL
Statement of Changes in Equity
For Month Ended November 30, 2017**

Larry Power, capital, November 1.....		\$62,900
Add: Investments by owner.....		<u>10,000</u>
Total		\$72,900
Less: Withdrawals by owner.....	\$1,400	
Loss.....	<u>2,400</u>	<u>3,800</u>
Larry Power, capital, November 30.....		<u><u>\$69,100</u></u>

Problem 1-9A (concluded)

POWER ELECTRICAL
Balance Sheet
November 30, 2017

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$14,400	Accounts payable.....	\$27,000
Accounts receivable.....	11,800		
Office supplies.....	4,700		
Office equipment.....	33,200		
Electrical equipment.....	<u>32,000</u>		
		<i>Equity</i>	
		Larry Power, capital.....	<u>69,100</u>
		Total liabilities and	
Total assets.....	<u>\$96,100</u>	equity.....	<u>\$96,100</u>

Analysis component:

Power Electrical incurred a loss of \$2,400 for the month ended November 30, 2017. Therefore, instead of helping to finance assets, the November operating activities had a negative impact on equity. Equity did increase during November but because of an additional investment by the owner. As a sole proprietor, a goal is to increase equity because of positive earnings; not through owner investment.

Problem 1-10A (25 minutes)

	<i>Balance Sheet</i>		<i>Income Statement</i>	
	<i>Total Assets</i>	<i>Total Liab.</i>	<i>Equity</i>	<i>Profit</i>
1 Owner invests cash.....	+		+	
2 Sell services for cash.....	+		+	+
3 Acquire services on credit.....		+	-	-
4 Pay wages with cash.....	-		-	-
5 Owner withdraws cash.....	-		-	
6 Borrow cash with note payable.....	+	+		
7 Sell services on credit.....	+		+	+
8 Buy office equipment for cash.....	+/-			
9 Collect receivable from (7).....	+/-			
10 Buy asset with note payable.....	+	+		

PROBLEM SET "B"

Problem 1-1B (5 minutes)

- a) **WestJet Airlines Ltd. is a corporation because it has shareholders.**
- b) **Danier Leather is a corporation because it has shareholders.**

Problem 1-2B (20 minutes)

To: Marketing Manager

From: Accountant

Subject: Analysis of recording marketing costs as an asset

This memo analyzes whether it is appropriate to record our \$1 million spent on marketing costs as an asset on Global Consulting's balance sheet.

Based on our generally accepted accounting principles, the definition of an asset has three key characteristics:

- 1. An asset is a resource controlled by a business.**
- 2. An asset results from a past transaction.**
- 3. An asset is expected to generate future economic benefits for the business.**

a) Recording marketing costs as an asset

- 1. Global Consulting had \$1 million in cash that it owned. They then spent this money on marketing costs. It can be argued that the cash was controlled by Global Consulting and the benefits of the marketing costs will also benefit the company.**
- 2. The marketing costs have been spent. Thus, they have resulted from a past transaction.**
- 3. Our marketing costs are targeted at promoting our company and building awareness. These efforts strive to increase our sales. As we have already seen a 5% increase in our sales this year, it can be argued that the amount we spent on marketing has and will continue to generate future economic benefits for Global Consulting.**

b) Not recording marketing costs as an asset

- 1. Global Consulting controlled \$1M in cash. However, once the money is spent, the company no longer controls this cash.**
- 2. The marketing costs have been spent. Thus, they have resulted from a past transaction.**
- 3. Marketing costs help promote a company and may introduce the company to new customers or reinforce the relationship with existing customers. This may lead to increased sales. However, there is no guarantee that \$1 million spent on marketing will directly correlate to \$1 million in increased sales. If there are increased sales, it is difficult to quantify what the full future benefit will be. The increased sales also may not be directly related to the \$1M marketing costs.**

c) Conclusion

Based on the above analysis, I recommend that we do not record the marketing costs as an asset. We cannot argue that the \$1 million that has been spent is still controlled by Global Consulting. Also, we cannot reliably determine the future benefit of the marketing costs.

Problem 1-3B (20 minutes)

	2018	2017	2016
Beginning capital	457,000 ¹	369,000 ³	0
+ Owner investment	0	0	400,000
+ Profit (loss)	366,000	192,000	(31,000) ⁵
– Owner withdrawals	218,000	104,000	0
= Ending capital	605,000	457,000 ²	369,000 ⁴

Note: The superscripts show the order in which the answers were calculated.

Calculations:

1. $605,000 + 218,000 - 366,000 = \underline{457,000}$
2. The beginning capital of 457,000 for 2018 is the ending capital from 2017.
3. $457,000 + 104,000 - 192,000 = \underline{369,000}$
4. The beginning capital of 369,000 for 2017 is the ending capital from 2016.
5. $369,000 - 400,000 = \underline{-31,000}$

Problem 1-4B (30 minutes)

FIREWORKS FANTASIA
Income Statement
For Year Ended December 31, 2017

Revenues:

Service revenue.....	\$140,000
Rent revenue.....	<u>66,000</u>
Total revenues.....	\$206,000

Operating expenses:

Wages expense.....	\$92,000
Fireworks supplies expense.....	77,500
Utilities expense.....	25,100
Advertising expense.....	9,000
Office supplies expense.....	<u>3,600</u>
Total operating expenses.....	<u>207,200</u>

Loss	<u>\$ 1,200</u>
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Problem 1-4B (concluded)

FIREWORKS FANTASIA
Statement of Changes in Equity
For Year Ended December 31, 2017

Wes Gandalf, capital, January 1.....		\$175,200
Add: Investments by owner		<u>30,000</u>
Total		\$205,200
Less: Withdrawals by owner.....	\$12,000	
Loss	<u>1,200</u>	<u>13,200</u>
Wes Gandalf, capital, December 31.....		<u>\$192,000</u>

FIREWORKS FANTASIA
Balance Sheet
December 31, 2017

Assets		Liabilities	
Cash.....	\$ 8,000	Accounts payable.....	\$ 58,000
Accounts receivable.....	14,000		
Fireworks supplies.....	49,000		
Office supplies.....	3,000		
Tools.....	18,000		
Building.....	81,000		
Land.....	63,000		
Office equipment.....	<u>14,000</u>		
Total assets.....	<u>\$250,000</u>		
		Equity	
		Wes Gandalf, capital.....	<u>192,000</u>
		Total liabilities and	
		equity.....	<u>\$250,000</u>

Analysis component:

\$58,000 or 23.20% (calculated as $\$58,000 / \$250,000 \times 100$) of the assets are financed by debt. \$192,000 or 76.80% (calculated as $\$192,000 / \$250,000 \times 100$) of the assets are financed by Wes Gandalf, the owner.

Problem 1-5B (60 minutes) *Part 1*

CARMEN CREEK GOURMET MEATS
Balance Sheet
December 31, 2016

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$ 28,000	Accounts payable.....	\$ 10,000
Accounts receivable.....	50,000		
Office supplies.....	20,000		
Office equipment.....	120,000		
Machinery.....	<u>61,000</u>		
		<i>Equity</i>	
		Carmen Munch, capital.....	<u>269,000¹</u>
Total assets.....	<u>\$279,000</u>	Total liabilities and equity.....	<u>\$279,000</u>

CARMEN CREEK GOURMET MEATS
Balance Sheet
December 31, 2017

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$ 20,000	Accounts payable.....	\$ 30,000
Accounts receivable.....	60,000	Notes payable.....	<u>520,000</u>
Office supplies.....	25,000	Total liabilities.....	550,000
Office equipment.....	120,000		
Machinery.....	61,000		
Building.....	520,000		
Land.....	<u>130,000</u>		
		<i>Equity</i>	
		Carmen Munch, capital.....	<u>386,000²</u>
Total assets.....	<u>\$936,000</u>	Total liabilities and equity.....	<u>\$936,000</u>

Calculations:

1. $\$279,000 - \$10,000 = \$269,000$ (calculation of unknown capital amount)
2. $\$936,000 - \$550,000 = \$386,000$ (calculation of unknown capital amount)

.... continued on next page

Problem 1-5B (concluded) Part 2

Calculation of profit for 2017:

Carmen Munch, Capital December 31, 2016	\$269,000
+ Owner investment	50,000
+ Profit (loss)	?
– Owner withdrawals (12 months X \$2,000)	24,000
= Carmen Munch, Capital December 31, 2017	<u>\$386,000</u>

OR

$$\$269,000 + \$50,000 + ? - \$24,000 = \$386,000; ? = \underline{\$91,000}$$

Analysis component:

Assets increased by \$657,000 (\$936,000 - \$279,000). \$540,000 of the increase in assets were financed by an increase in debt (total liabilities went from \$10,000 at December 31, 2016 to \$550,000 at December 31, 2017). The remaining \$117,000 increase in assets (\$657,000 - \$540,000) resulted from equity financing (equity increased to \$386,000 at December 31, 2017 from \$269,000 at December 31, 2016 because of \$50,000 owner investment plus \$91,000 profit less \$24,000 of withdrawals during 2017).

Problem 1-6B (40 minutes) Part 1

Company V:

(a) and (b)

Calculation of equity:

	12/31/16	12/31/14
Assets.....	\$165,000	\$192,000
Liabilities.....	<u>–30,000</u>	<u>–26,000</u>
Equity.....	<u>\$135,000</u>	<u>\$166,000</u>

(c) Calculation of profit (loss) for 2017:

Equity, December 31, 2016.....	\$135,000
Add: Owner investments.....	60,000
Profit (loss).....	?
Less: Owner withdrawals.....	<u>4,500</u>
Equity, December 31, 2017.....	<u>\$166,000</u>

Therefore, the net loss must have been \$(24,500).

Problem 1-6B (continued)

Part 2

Company W:

(a) Calculation of equity at December 31, 2016:

Assets.....	\$70,000
Liabilities.....	<u>-50,000</u>
Equity.....	<u>\$20,000</u>

(b) Calculation of equity at December 31, 2017:

Equity, December 31, 2016.....	\$20,000
Add: Owner investments.....	10,000
Profit.....	30,000
Less: Owner withdrawals.....	<u>2,000</u>
Equity, December 31, 2017.....	<u>\$58,000</u>

(c) Calculation of the amount of liabilities at December 31, 2016:

Assets.....	\$90,000
Equity.....	<u>-58,000</u>
Liabilities.....	<u>\$32,000</u>

Part 3

Company X:

First, calculate the beginning and ending equity balances:

	12/31/16	12/31/17
Assets.....	\$121,500	\$136,500
Liabilities.....	<u>-58,500</u>	<u>-55,500</u>
Equity.....	<u>\$ 63,000</u>	<u>\$ 81,000</u>

Then, find the amount of owner investments during 2017 by completing this table:

Equity, December 31, 2016	\$63,000
Add: Owner investments.....	?
Profit.....	16,500
Less: Owner withdrawals.....	<u>0</u>
Equity, December 31, 2017.....	<u>\$81,000</u>

Therefore, the owner investments must have been \$1,500.

Problem 1-6B (continued)

Part 4

Company Y:

First, calculate the beginning balance of equity:

	<i>Dec. 31, 2016</i>
Assets.....	\$82,500
Liabilities.....	<u>-50,000</u>
Equity.....	<u>\$32,500</u>

Next, find the ending balance of equity by completing this table:

Equity, December 31, 2016.....	\$32,500
Add: Owner investments.....	38,100
Less: Owner withdrawals.....	18,000
Loss.....	<u>46,000</u>
Equity, December 31, 2017.....	<u>\$6,600</u>

Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of the liabilities:

	<i>Dec. 31, 2017</i>
Liabilities.....	\$ 72,000
Equity.....	<u>6,600</u>
Assets.....	<u>\$78,600</u>

Problem 1-6B (concluded) Part 5

Company Z:

First, calculate the balance of equity as of December 31, 2017:

Assets.....	\$160,000
Liabilities.....	<u>-52,000</u>
Equity.....	<u>\$108,000</u>

Next, find the beginning balance of equity by completing this table:

Equity, December 31, 2016.....	\$?
Add: Owner investments.....	40,000
 Profit.....	32,000
Less: Owner withdrawals.....	<u>6,000</u>
Equity, December 31, 2017.....	<u>\$108,000</u>

Therefore, the beginning balance of equity was \$42,000.

Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of the assets:

	<i>Dec. 31, 2017</i>
Assets.....	\$124,000
Equity.....	<u>-42,000</u>
Liabilities.....	<u>\$ 82,000</u>

Problem 1-7B (45 minutes) Parts 1 and 2

	Assets					=	Liabilities		+	Equity											
	+ Cash	Accounts Receivable	+ Office Supplies	+ Office Equipment	+ Building	=	Accounts Payable	+ Notes Payable		+ Lily Zhang, Capital		Explanation of Equity Transaction									
(a)	+\$120,000				+ \$10,000					+\$130,000		Investment by owner									
(b)	− 50,000					+\$240,000		+\$190,000													
(c)	− 18,000				+ 18,000																
(d)																					
(e)	− 4,500									− 4,500		Advertising Expense									
(f)										+	6,000	Consulting Services Revenue									
(g)	+	8,000								+	8,000	Consulting Services Revenue									
(h)	− 5,500									− 5,500		Withdrawal by owner									
(i)*																					
(j)	+	4,000	− 4,000																		
(k)	− 6,400							− 6,400													
(l)	− 3,800																				
Bal.	\$43,800	+	\$2,000	+	\$4,000	+	\$34,400	+	\$240,000	=	\$4,000	+	\$190,000	+	\$130,200		Wages Expense				

Problem 1-7B (continued)

Part 3

Zhang Consulting Income Statement For Year Ended December 31, 2017		
Revenues:		
Consulting services revenue		\$14,000
Operating expenses:		
Wages expense	\$3,800	
Advertising expense	4,500	
Total operating expenses		8,300
Profit		\$5,700

Zhang Consulting Statement of Changes in Equity For Year Ended December 31, 2017		
Lily Zhang, capital, January 1		\$ 0
Add: Investment by owner	\$130,000	
Profit	5,700	135,700
Total		\$135,700
Less: Withdrawal by owner		5,500
Lily Zhang, capital, December 31		\$130,200

Zhang Consulting Balance Sheet December 31, 2017			
Assets		Liabilities	
Cash	\$ 43,800	Accounts payable	\$ 4,000
Accounts receivable	2,000	Notes payable	190,000
Office supplies	4,000	Total liabilities	\$194,000
Office equipment	34,400		
Building	240,000	Equity	
		Lily Zhang, capital	130,200
Total assets	\$324,200	Total liabilities and equity	\$324,200

Analysis component:

Assets result from a combination of debt and equity financing ($A = L + E$). Zhang's total assets of \$324,200 resulted from incurring \$194,000 in liabilities (\$4,000 in accounts payable plus \$190,000 of notes payable). $\$194,000 / \$324,200 \times 100 = 59.84\%$ or 60%. The remaining 40% of the assets were financed by equity transactions (owner investment and profit less withdrawals made by the owner).

Problem 1-8B (50 minutes)

		Assets				= Liabilities	+ Equity								
		+ Accounts	+ Office	+ Event	+ Sound System	= Accounts	+ Michael Cantu,	Explanation of							
		Cash	Receivable	Supplies	Equip.	Equip.	Payable	Capital	Equity Transaction						
June 30		\$ 12,000	+	\$4,600	+	\$1,560	+	\$9,600	+	\$24,000	=	\$6,200	+	\$45,560	
July 1		+ 20,000												+ 20,000	Investment by owner
	1	– 1,000												– 1,000	Rent Expense
	1	– 3,000								+ 8,000		+ 5,000			
	6	– 1,000												+ 1,000	
	8	+ 4,400												+ 4,400	DJ Revenue
	10													+ 7,600	
	15													+ 4,800	DJ Revenue
	17													+ 3,840	
	23	– 7,600												– 7,600	
	25													+ 6,000	DJ Revenue
	25													+ 4,000	Equipment Revenue
	28	+ 4,800	– 4,800												
	31	– 4,500												– 4,500	Wages Expense
	31	– 1,700												– 1,700	Utilities Expense
	31	– 2,400												– 2,400	Withdrawal by owner
Bal.		<u>\$20,000</u>	+	<u>\$14,600</u>	+	<u>\$6,400</u>	+	<u>\$17,200</u>	+	<u>\$32,000</u>	=	<u>\$15,040</u>	+	<u>\$75,160</u>	
		\$90,200									=	\$90,200			

Problem 1-8B (concluded)

Analysis component:

The revenue recognition principle requires that revenue be recorded when it is incurred (when the economic exchange occurred), on July 15, even though cash is not received. The payment for this transaction is collected on July 28 and is recorded as a reduction of the asset, accounts receivable, that was realized on July 15.

Problem 1-9B

BEYOND MUSIC
Income Statement
For Month Ended July 31, 2017

Revenues:		
DJ revenue		\$15,200
Equipment rental revenue.....		<u>4,000</u>
Total revenues.....		<u>\$19,200</u>
Operating expenses:		
Wages expense.....	\$4,500	
Rent expense.....	1,000	
Utilities expense	<u>1,700</u>	
Total operating expenses.....		<u>7,200</u>
Profit	<u>\$12,000</u>	

BEYOND MUSIC
Statement of Changes in Equity
For Month Ended July 31, 2017

Michael Cantu, capital, June 30.....		\$45,560
Add: Investments by owner.....	\$20,000	
Profit.....	<u>12,000</u>	<u>32,000</u>
Total.....		<u>\$77,560</u>
Less: Withdrawals by owner.....		<u>2,400</u>
Michael Cantu, capital, July 31.....		<u>\$75,160</u>

BEYOND MUSIC
Balance Sheet
July 31, 2017

Assets		Liabilities	
Cash.....	\$20,000	Accounts payable.....	\$15,040
Accounts receivable.....	14,600		
Office supplies.....	6,400		
Event equipment.....	17,200		
Sound system equipment...	<u>32,000</u>		
Total assets.....	<u>\$90,200</u>		
		Equity	
		Michael Cantu, capital.....	<u>75,160</u>
		Total liabilities and equity.....	<u>\$90,200</u>

Problem 1-9B (concluded)

Analysis component:

The owner of Beyond Music invested \$20,000 during the month ended July 31, 2017 therefore having a positive impact on equity. Equity increased during July largely because of this additional investment by the owner. As a sole proprietor, a goal is to increase equity because of positive earnings; not through owner investment.

Problem 1-10B (25 minutes)

		<i>Balance Sheet</i>		<i>Income Statement</i>	
		<i>Total Assets</i>	<i>Total Liab.</i>	<i>Equity</i>	<i>Profit</i>
1	Owner invests cash.....	+		+	
2	Pay wages with cash.....	-		-	-
3	Acquire services on credit.....		+	-	-
4	Buy store equipment for cash.....	+/-			
5	Borrow cash with note payable.....	+	+		
6	Sell services for cash.....	+		+	+
7	Sell services on credit.....	+		+	+
8	Pay rent with cash.....	-		-	-
9	Owner withdraws cash.....	-		-	
10	Collect receivable from (7).....	+/-			

ANALYTICAL AND REVIEW PROBLEMS

A&R Problem 1-1

TASKER AUTO REPAIR SHOP
Balance Sheet
November 30, 2017

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$ 6,300	Accounts payable.....	\$34,650
Accounts receivable.....	47,250	Mortgage payable.....	<u>28,350</u>
Parts and supplies.....	14,175	Total liabilities.....	\$63,000
Equipment.....	<u>22,050</u>		
		<i>Equity</i>	
		Jack Tasker, capital.....	<u>26,775</u>
Total assets.....	<u>\$89,775</u>	Total liabilities and equity.....	<u>\$89,775</u>

Note to Instructors:

To reinforce students' understanding of the nature of double-entry bookkeeping and the accounting equation, it may be advantageous to use this problem to demonstrate the importance of recording transactions correctly because neither double-entry bookkeeping nor the accounting equation guarantee the correctness of information; they only prove arithmetic accuracy.

Accordingly, the best way to explain this seemingly impossible situation to beginning students in accounting is to summarize both incorrect and the correct balance sheets in detail.

A&R Problem 1-2

SUSAN HUANG, LAWYER
Income Statement
For Month Ended October 31, 2017

Revenues		
Legal revenue.....		\$11,550
Operating expenses		
Salaries expense.....	\$2,940	
Rent expense.....	2,100	
Supplies expense.....	420	
Telephone expense.....	<u>210</u>	
Total operating expenses.....		<u>5,670</u>
Profit	<u>\$ 5,880</u>	

SUSAN HUANG, LAWYER
Statement of Changes in Equity
For Month Ended October 31, 2017

Susan Huang, capital, October 1.....		\$ 0
Add: Investment by owner.....	\$10,500	
Profit.....	<u>5,880</u>	
Total.....		<u>16,380</u>
Susan Huang capital, October 31.....		<u>\$16,380</u>

SUSAN HUANG, LAWYER
Balance Sheet
October 31, 2017

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$ 3,780	Accounts payable.....	\$ 1,050
Accounts receivable.....	2,100		
Supplies.....	1,050		
Law library.....	8,400		
Furniture.....	<u>2,100</u>		
Total assets.....	<u>\$17,430</u>		
		<i>Equity</i>	
		Susan Huang, capital.....	<u>16,380</u>
		Total liabilities and equity.....	<u>\$17,430</u>

A&R Problem 1-3

	Income Statement		Balance Sheet		
	Revenues	Expenses	Assets	Liabilities	Equity
1.	↑ \$14,000		↑ \$14,000		↑ \$14,000
2.			↑ ↓ \$5,000		
3.			↑ \$25,000	↑ \$25,000	
4.		↑ \$500		↑ 500	↓ 500
5.			↓ 500	↓ 500	
6.			↑ 10,000		↑ 10,000
7.			↓ 5,000		↓ 5,000
8.			↓ 200		↓ 200
9.			↑ ↓ 2,000		
10.			↑ ↓ 12,000		
11.		4 5	↓ 45		↓ 45
12.	↑ 900	↑	↑ 900		↑ 900

ETHICS CHALLENGE 1-1

- 1. The accounting principle most relevant to this situation is the revenue recognition principle. The revenue recognition principle provides guidance on when revenue should be recognized on the income statement. The principle states that revenue should be recognized when earned. In this case, the earliest the revenue could be considered earned is when the product is shipped to customers.**
- 2. If Sue is aware of the revenue recognition principle she faces a dilemma of applying GAAP, which will result in different revenue recognition than her supervisor is advocating. Sue faces a dilemma of following the guidance of her profession or following her supervisor. If Sue does not conform to her supervisor's wishes she may face the consequence of losing her job. If Sue does what her supervisor requests she may face internal anguish of doing something that she knows is not professionally correct and which may negatively affect any users of the financial statements that she is helping produce.**
- 3. Students should support their decision with appropriate reasons likely echoing the discussion in 2) above.**
- 4. Sue may be able to discuss the situation she is facing with someone else in the company and find support for not following the supervisor's directive. If the intent to violate accounting principles is a commonplace occurrence in the snowboard company Sue may wish to seek employment elsewhere as the problem will likely reoccur in the future.**

FOCUS ON FINANCIAL STATEMENTS

FFS 1-1

Parts 1 and 2

June 2017

		Assets			=	Liabilities	+	Equity	
		+ Cash	Accounts Receivable	+ Office Equip.	=	Accounts Payable	+	Diane Towbell, Capital	Explanation of Equity Transaction
June 1		+20,000						+26,000	Owner investment
5			+3,000					+3,000	Service revenue
7		-1,500						-1,500	Rent expense
9		+1,000	-1,000						
15		-5,000						-5,000	Wages expense
17		+2,000						+2,000	Service revenue
29						+300		-300	Utilities expense
30		-1,500						-1,500	Wages expense
Totals		<u>15,000</u>	+ <u>2,000</u>	+ <u>6,000</u>	=	<u>300</u>	+ <u>22,700</u>		
		<u>23,000</u>				<u>23,000</u>			

FFS 1-1 (continued) *Parts 1 and 2*

July 2017

	Assets			=	Liabilities	+	Equity	
	Cash	+ Accounts Receivable	+ Office Equip.	=	Accounts Payable	+ Diane Towbell, Capital	Explanation of Equity Transaction	
Balance June 30	15,000	2,000	6,000		300	22,700		
July 5		+3,500				+3,500	Service revenue	
8	+2,000	-2,000						
9	-1,500					-1,500	Rent expense	
12			+1,800		+1,800			
14	-1,000				-1,000			
15	-2,500					-2,500	Wages expense	
17	+4,800					+4,800	Service revenue	
25	-600				-300	-300	Utilities expense	
31	-1,700					-1,700	Wages expense	
31	-2,000					-2,000	Owner withdrawals	
Totals	<u>12,500</u>	+ <u>3,500</u>	+ <u>7,800</u>	=	<u>800</u>	+ <u>23,000</u>		
	23,800				23,800			

FFS 1-1 (continued)

Part 3

GLENROSE SERVICING
Income Statement
For Month Ended June 30, 2107

Revenues:		
Service revenue.....		\$5,000
Operating expenses:		
Wages expense.....	\$6,500	
Rent expense.....	1,500	
Utilities expense.....	300	
Total operating expenses.....		<u>8,300</u>
Loss		<u>\$3,300</u>

GLENROSE SERVICING
Statement of Changes in Equity
For Month Ended June 30, 2017

Diane Towbell, capital, June 1.....		\$ -0-
Add: Investments by owner		<u>26,000</u>
Total		\$26,000
Less: Withdrawals by owner.....	\$ -0-	
Net loss	<u>3,300</u>	<u>3,300</u>
Diane Towbell, capital, June 30.....		<u>\$22,700</u>

GLENROSE SERVICING
Balance Sheet
June 30, 2017

Assets		Liabilities	
Cash.....	\$15,000	Accounts payable.....	\$ 300
Accounts receivable.....	2,000		
Office equipment.....	<u>6,000</u>		
		Equity	
		Diane Towbell, capital.....	<u>22,700</u>
Total assets.....	<u>\$23,000</u>	Total liabilities and equity.....	<u>\$23,000</u>

FFS 1-1 (continued) Part 3

GLENROSE SERVICING
Income Statement
For Month Ended July 31, 2017

Revenues:		
Service revenue.....		\$8,300
Operating expenses:		
Wages expense.....	\$4,200	
Rent expense.....	1,500	
Utilities expense.....	<u>300</u>	
Total operating expenses.....		<u>6,000</u>
Profit		<u><u>\$2,300</u></u>

GLENROSE SERVICING
Statement of Changes in Equity
For Month Ended July 31, 2017

Diane Towbell, capital, July 1.....		\$22,700
Add: Investments by owner	\$ -0-	
Profit.....	<u>2,300</u>	<u>2,300</u>
Total		\$25,000
Less: Withdrawals by owner.....		<u>2,000</u>
Diane Towbell, capital, July 31.....		<u><u>\$23,000</u></u>

GLENROSE SERVICING
Balance Sheet
July 31, 2017

Assets		Liabilities	
Cash.....	\$12,500	Accounts payable.....	\$ 800
Accounts receivable.....	3,500		
Office equipment.....	<u>7,800</u>		
		Equity	
		Diane Towbell, capital.....	<u>23,000</u>
Total assets.....	<u><u>\$23,800</u></u>	Total liabilities and equity.....	<u><u>\$23,800</u></u>

FFS 1-1 (concluded)

Analysis component:

1. The increase in assets of \$800 from June 30, 2017 to July 31, 2017 was financed by a \$500 increase in liabilities and a \$300 increase in equity. The \$300 increase in equity resulted from a profit of \$2,300 less withdrawals of \$2,000.
2. a. The income statement reports a company's financial performance. A company's financial performance is how a company performs or operates on a day-by-day basis: the generation of revenues and incurring of expenses that help create the revenues.
b. The balance sheet reports a company's financial position at a specific point in time. Financial position describes what assets, liabilities, and equity a company has on a given date. For example, Glenrose Servicing's cash balance on July 31, 2017 is \$12,500 — this describes how much cash Glenrose had on July 31.
3. Glenrose's July 31, 2017 income statement reports a profit of \$2,300 which is reported on the July statement of changes in equity as one of the activities that caused equity to change during the month. The ending capital balance reported on the July statement of changes in equity is reported on the July balance sheet as the equity position on July 31, 2017.

FFS 1-2

Part A

1. WestJet's assets are classified into four groups on the December 31, 2014 balance sheet: current assets, property and equipment, intangible assets, and other assets.
2. WestJet rounds to thousands of Canadian dollars on its financial statements.
3. The December 31, 2014 balance sheet shows Assets of \$4,646,433 thousand = Liabilities of \$2,868,931 thousand + Equity of \$1,777,502 thousand.
4. No, the personal assets belonging to the owners of WestJet are not included on WestJet's financial statements in accordance with the Business Entity Principle.
5. (variety of answers possible, for example, the accounts receivable manager would want to know if receivables are being collected efficiently)

Part B

6. a. Total assets = \$60,629 thousand;
b. Total net assets = \$60,629 thousand - \$12,222 thousand = \$48,407 thousand;
c. Assets of \$60,629 thousand = Liabilities of \$12,222 thousand + Equity of \$48,407 thousand.
7. Data is provided on a comparative basis so decision makers can see the change from the previous year(s).
8. (variety of answers possible, for example, a potential creditor would be interested in knowing if Danier will have sufficient assets to cover any credit they grant)

CRITICAL THINKING

CT 1-1

Note to instructor: Student responses will vary therefore the answer here is only suggested and not inclusive of all possibilities; it is presented in point form for brevity.

Goal(s)*:

- Correctly state sales reports*

Problem(s):

- Misclassification of items under GAAP

Assumption(s)/Principle(s):

- The report should be prepared in accordance with GAAP to protect users of the information ... so that users know on what basis amounts have been recorded/reported.

Facts:

- as shown in the September sales report prepared by the sales person

Conclusion(s)/Consequence(s):

- August 28 sale should be in August and not in September; consequence of current reporting is that August revenue, profit, and equity was understated and September revenue, profit, and equity are overstated
- September 10 purchase of desk is to be recorded as an asset and not expensed; consequence of current reporting is that September expenses will be overstated causing profit, assets, and equity to be understated.
- September 2–30 lunch costs should have been expensed; consequence of current reporting is that statements won't balance (it appears there are two credit entries with no debit) and that expenses are understated with profit and equity overstated.
- October 5 appears to be recorded correctly.

*This should be the goal since it is assumed that the owner(s) of the business want accurate reports. However, the salesperson might want to overstate the sales to make himself/herself look good; the marketing manager might want to overstate sales for the same reason. The goal is highly dependent on 'perspective'.