Financial Accounting 14th edition Tietz Solutions Manual

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Chapter 1

Financial Statements

Ethics Check

(5-10 min.) EC 1-1

a. Objectivity and independence

b. Due care

c. Integrity

d. Integrity

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Short Exercises

(10 min.) S 1-1

a. *Corporation, limited partners of a Limited-liability partnership (LLP) and Limited-liability company (LLC).* If any of these businesses fails and cannot pay its liabilities, creditors cannot force the owners to pay the business's debts from the owners' personal assets. Creditors can go after the general partner of a limited liability partnership.

b. *Proprietorship*. There is a single owner of the business, so the owner is answerable to no other owner.

c. *Partnership*. If the partnership fails and cannot pay its liabilities, creditors can force the partners to pay the business's debts from their personal assets. A partnership affords more protection for creditors than a proprietorship because there are two or more owners to share this liability.

(5 min.) S 1-2

1. **The *entity assumption* applies.**
2. **Application of the entity assumption will separate Osmond's personal assets from the assets of Simple Treats, Inc. This will help Osmond, investors, and lenders know how much assets, liabilities and equity the business has, and this knowledge will help all parties evaluate the business realistically.**

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(5-10 min.) S 1-3

a. Stable-monetary-unit assumption

b. Historical cost principle; $300 is the accounting value of the laptop

c. Historical cost principle; the sale price is the amount actually received from the sale

d. Entity assumption

(10 min.) S 1-4

Computed amounts in boxes

	Total Assets	=	Total Liabilities	+	Stockholders' Equity
a.	$660,000	=	$300,000	+	$360,000
b.	85,000	=	50,000	+	35,000
c.	350,000	=	75,000	+	275,000

(5 min.) S 1-5

1. Liabilities = Assets − Owners' Equity

2. Owners' Equity = Assets − Liabilities

This way of determining the amount of owners' equity applies to any company or your household.

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(5-10 min.) S 1-6

a. Land A
b. Accrued expenses payable L
c. Supplies A
d. Equipment A
e. Notes payable L
f. Long-term debt L
g. Retained earnings S
h. Prepaid expenses A
i. Accounts payable L
j. Accounts receivable A
k. Merchandise inventory A
l. Common stock S

(5-10 min.) S 1-7

1. ***Assets*** **are the** ***economic resources*** **of a business that are expected to produce a benefit in the future.**

   Owners' (stockholders') equity **represents the** ***insider claims*** **of a business, the owners' interest in its assets.**

   Assets and owners' equity ***differ*** **in that assets are** ***resources*** **and owners' equity is a** ***claim to assets*****.**

   Assets must be at least as large as owners' equity, so equity can be smaller than assets.

2. **Both liabilities and owners' (stockholders') equity are** ***claims to assets*****.**

   Liabilities are the ***outsider*** **claims to the assets of a business; they are obligations to pay creditors.**

   Owners' equity represents the ***insider*** **claims to the assets of the business; they are the owners' interest in its assets.**

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(5 min.) S 1-8

1. Revenues and expenses **2. Net income (or net loss)**

(10 min.) S 1-9

a. Salary expense I
b. Dividends R, C
c. Accounts payable B
d. Net income I, R, C
e. Common stock B
f. Inventory B
g. Interest revenue I
h. Cash B, C
i. Retained earnings R, B
j. Long-term debt B
k. Increase or decrease in cash C
l. Net cash provided by operating activities C
m. Sales revenue I
n. Net cash used for financing activities C

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(15-20 min.) S 1-10

a. *Paying large dividends* will cause retained earnings to be low.

b. Heavy *investing activity* and *paying off debts* can result in a cash shortage even if net income has been high.

c. The single best source of cash for a business is operating activities. This source of cash is best because it results from the core operations of the business. Operating activities should be the main source of cash for a business.

d. Borrowing, issuing stock, and selling land, buildings, and equipment can bring in cash even when the company has experienced losses. Reducing accounts receivable and inventory can also increase cash flow.

(5 min.) S 1-11

a.	**I**	**f.**	**I**
b.	**B**	**g.**	**R**
c.	**C**	**h.**	**C**
d.	**R**	**i.**	**B**
e.	**B**		

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(5 min.) S 1-12

MacKensie Services Corporation
Income Statement
Year Ended December 31, 2024

	(millions)
Revenues	**$394**
Expenses	**171**
Net income	**$223**

(5 min.) S 1-13

Journey Corporation
Statement of Retained Earnings
Year Ended December 31, 2024

	(millions)
Retained earnings, December 31, 2023	**$270**
Add: Net income ($460 − $380)	**80**
Less: Dividends declared	**(64)**
Retained earnings, December 31, 2024	**$286**

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(10-15 min.) S 1-14

Jackson Corporation
Balance Sheet
December 31, 2024

	(in millions)
ASSETS	
Current assets:	
Cash	**$ 52**
Accounts receivable	**23**
Total current assets	**75**
Long-term assets	**45**
Total assets	**$120**
LIABILITIES	
Current liabilities:	
Accounts payable	**$ 21**
Total current liabilities	**21**
Long-term liabilities:	
Long-term notes payable	**31**
Total liabilities	**52**
STOCKHOLDERS' EQUITY	
Common stock	**28**
Retained earnings	**40**
Total stockholders' equity	**68**
Total liabilities and stockholders' equity	**$120**

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Sullivan Corporation
Balance Sheet
September 30, 2024

	(in millions)
ASSETS	
Current assets:	
Cash	**$ 78**
Accounts receivable	**27**
Total current assets	**105**
Property and equipment	**27**
Other long-term assets	**21**
Total assets	**$153**
LIABILITIES	
Current liabilities:	
Accounts payable	**$ 34**
Total current liabilities	**34**
Long-term liabilities:	
Long-term notes payable	**17**
Total liabilities	**51**
STOCKHOLDERS' EQUITY	
Common stock	**31**
Retained earnings	**71***
Total stockholders' equity	**102**
Total liabilities and stockholders' equity	**$153**

***Computation of retained earnings: Total assets ($153) − total liabilities ($51) − common stock ($31) = $71**
Or, total stockholders' equity ($102) – common stock ($31) = $71

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(10-15 min.) S 1-16

Python Legal Services, Inc.
Statement of Cash Flows
Year Ended December 31, 2024

Cash flows from operating activities:		
Net income		**$115,000**
Adjustments to reconcile net income to net cash provided by operating activities		**(9,000)**
Net cash provided by operating activities		**106,000**
Cash flows from investing activities:		
Purchases of equipment	**$(20,000)**	
Net cash used for investing activities		**(20,000)**
Cash flows from financing activities:		
Payment of dividends	**$(15,000)**	
Net cash used for financing activities		**(15,000)**
Net increase in cash		**71,000**
Cash balance, December 31, 2023		**16,000**
Cash balance, December 31, 2024		**$ 87,000**

(10-15 min.) S 1-17

Solve in this order:

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a. $82

b. $82

c. $149

f. $149

g. $182

h. $230

e. $230

d. $112

(5 min.) S 1-18

Ethics is a factor that should be included in every business and accounting decision, beyond the potential economic and legal consequences. Ideally, for each decision, honesty and truthfulness should prevail, considering the rights of others. The decision guidelines at the end of the chapter spell out the considerations we should take when making decisions. Simply, we might ask ourselves three questions: (1) Is the action legal? (2) Who will be affected by the decision? (3) How will the decision make me feel afterward?

(10-15 min.) S 1-19

Asset (m) Economic resources that are

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	expected to produce a benefit in the future
Balance sheet (l)	**Also called the statement of financial Position**
Bookkeeping (k)	**Mechanical part of accounting**
Corporation (f)	**Owned by stockholders whose liability is limited to the amount they have invested in the business**
Equity (r)	**Insider claims of a business**
Ethical duties (d)	**Responsibilities of the members of society to each other**
Expenses (h)	**Costs of doing business**
Financial accounting (b)	**Provides information for decision makers outside of the organization**
Historical cost principle (j)	**States that assets should be recorded at their actual cost on the date of purchase**
Income statement (o)	**Answers the question "How well did the company perform during the period?"**
Investors and creditors (n)	**Entities that provide money to finance a company's operations**
Liability (g)	**A debt payable to an outsider**

(continued) S 1-19

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Managerial accounting (c)	**Provides information for managers of the organization**
Net income (a)	**Total revenues minus total expenses**
Partnership (q)	**A business organization form with two or more owners who are each personally liable for all of the business's debts**
Proprietorship (i)	**A business organization form with a single owner who is personally liable for all of the business's debts**
Revenues (e)	**Inflows of resources resulting from delivering goods or services to customers**
Statement of cash flows (p)	**Reports cash flows from operating, investing, and financing activities**

(10-15 min.) S 1-20

1.	**Triple bottom line**
2.	**Global Reporting Initiative**

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3. Integrated reporting
4. Sustainability
5. Corporate social responsibility
6. United Nations Global Compact
7. Ratio analysis
8. Environment, social, and governance
9. Global Reporting Initiative
10. Third-party assurance

(10-15 min.) S 1-21

1. I
2. E
3. L
4. D
5. H
6. J
7. B
8. A
9. G
10. C
11. F
12. K

(5-10 min.) S 1-22

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1. Artificial intelligence
2. Formula bar
3. Spreadsheet
4. Data analytics
5. Active cell
6. Insert Function dialog box
7. Spreadsheet
8. Machine learning
9. Robotic process automation
10. Ribbon

(5-10 min.) S 1-23

1. Active cell (J)
2. Insert Sheet icon (F)
3. Row header numbers (G)
4. Worksheet tabs (K)
5. Ribbon (I)
6. File name (B)
7. Column header letters (C)
8. Zoom slider (A)
9. Ribbon tabs (H)
10. Quick Access toolbar (E)
11. Insert Function dialog box (D)
12. Formula bar (L)

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Exercises

(10-15 min.) E 1-24A

Amounts in billions; (computed amounts in boxes)

	Assets	=	Liabilities	+	Stockholders' Equity
Smythe Real Estate	$73		$41		$32
Odessa Florals	26		11		15
Hometown Bank	29		14		15

Odessa Florals appears to have the strongest financial position because its liabilities make up the smallest percentage of company assets ($11/$26 = .42). Stated differently, Odessa Florals' equity is the highest percentage of company assets ($15/$26 = .58).

Liabilities as a percent of total assets:

Smythe Real Estate: $41/$73 = 0.56
Odessa Florals: $11/$26 = 0.42
Hometown Bank: $14/$29 = 0.48

(10-15 min.) E 1-25A

Req. 1

(Amounts in millions)

	Assets	=	Liabilities	+	Stockholders' Equity
	$220		$160		
	320		380		
	130				
Total	$670	=	$540	+	$130

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Req. 2 Resources to work with	*Req. 3* Amount owed to creditors	*Req. 4* Actually owned by company stockholders

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(10-20 min.) E 1-26A

	Situation		
	1	2	3
		(Millions)	
Total stockholders' equity, January 31, 2024 ($47 − $19)	$28	$28	$28
Add: Issuances of stock	11	-0-	15
Net income	13*	44*	84*
Less: Dividends declared	-0-	(20)	(75)
Net loss	-0-	-0-	-0-
Total stockholders' equity, January 31, 2025 ($77 − $25)	$52	$52	$52

*Must solve for these amounts.

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(10-15 min.) E 1-27A

a. Income statement

b. Balance sheet

c. Balance sheet

d. Balance sheet

e. Statement of retained earnings, Statement of cash flows

f. Balance sheet, Statement of cash flows

g. Statement of cash flows

h. Statement of cash flows

i. Income statement

j. Balance sheet, Statement of retained earnings

k. Income statement

l. Balance sheet

m. Income statement, Statement of retained earnings, Statement of cash flows

n. Balance sheet

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(10-20 min.) E 1-28A

Landy Products
Balance Sheet
December 31, 2024

ASSETS	
Current assets:	
Cash	**$ 24,000**
Receivables	**18,000**
Inventory	**80,000**
Total current assets	**122,000**
Equipment	**182,000**
Total assets	**$304,000**
LIABILITIES	
Current liabilities:	
Accounts payable	**$ 22,000**
Total current liabilities	**22,000**
Long-term liabilities:	
Long-term notes payable	**172,000**
Total liabilities	**194,000**
STOCKHOLDERS' EQUITY	
Common stock	**34,500**
Retained earnings	**75,500***
Total stockholders' equity	**110,000**
Total liabilities and stockholders' equity	**$304,000**

***Computation of retained earnings:**
Total assets ($304,000) − current liabilities ($22,000) − long-term notes payable ($172,000) − common stock ($34,500) = $75,500

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(10-20 min.) E 1-29A

Req. 1

Fernanda Carlson Realty Company
Balance Sheet
January 31, 2024

(Amounts in millions)

ASSETS		LIABILITIES	
Cash	$ 57.2	Current liabilities	$ 2.9
Receivables	0.5	Long-term liabilities	102.6
Investment assets (long-term)	79.4	Total liabilities	105.5
Property and equipment, net	1.6	STOCKHOLDERS' EQUITY	
Other assets (long-term)	9.3		
		Common stock	39.2
		Retained earnings	3.3*
		Total stockholders' equity	42.5
		Total liabilities and	
Total assets	$148.0	stockholders' equity	$148.0

*Computation of retained earnings:
Total assets ($148.0) − Total liabilities ($105.5) − Common stock ($39.2) = $3.3

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(15-25 min.) E 1-30A

Req. 1

Fernanda Carlson Realty Company
Income Statement
Year Ended January 31, 2024

(Amounts in millions)

Total revenue		**$25.7**
Expenses:		
Salary and other employee expenses	**$13.7**	
Other expenses	**7.6**	
Interest expense	**1.5**	
Total expenses		**22.8**
Net income		**$2.9**

Req. 2

The statement of retained earnings helps to compute dividends, as follows:

Fernanda Carlson Realty Company
Statement of Retained Earnings
Year Ended January 31, 2024

(Amounts in millions)

Retained earnings, beginning of year	**$2.6**
Add: Net income for the year (Req. 1)	**2.9**
Subtotal	**5.5**
Less: Dividends declared**	**2.2**
Retained earnings, end of year (from Exercise 1-29A)	**$3.3**

****($5.5 – $3.3 = $2.2)**

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(15-20 min.) E 1-31A

Req. 1

Giada Coffee Roasters Corp.
Income Statement
For the Month Ended August 31, 2025

Revenue:		
Service revenue		**$278,700**
Expenses:		
Salary expense	**$78,500**	
Utilities expense	**5,100**	
Rent expense	**1,800**	
Total expenses		**85,400**
Net income		**$193,300**

Giada Coffee Roasters Corp.
Statement of Retained Earnings
For the Month Ended August 31, 2025

Retained earnings, August 1, 2025	**$ -0-**
Add: Net income for the month	**193,300**
Subtotal	**193,300**
Less: Dividends declared	**(2,800)**
Retained earnings, August 31, 2025	**$190,500**

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(15-20 min.) E 1-32A

Req. 1

Giada Coffee Roasters Corp.
Balance Sheet
August 31, 2025

Assets		Liabilities	
Cash	$ 5,300	Accounts payable.....	$ 8,800
Office supplies	7,400		
Equipment.....	201,500	Stockholders' Equity	
		Common stock	14,900
		Retained earnings	190,500
		Total stockholders' equity	205,400
		Total liabilities and	
Total assets	$214,200	stockholders' equity	$214,200

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(15-20 min.) E 1-33A

Req. 1

Giada Coffee Roasters Corp.
Statement of Cash Flows
For the Month Ended August 31, 2025

Cash flows from operating activities:		
Net income		**$193,300**
Adjustments to reconcile net income to net cash provided by operating activities		**1,400**
Net cash provided by operating activities		**194,700**
Cash flows from investing activities:		
Acquisition of equipment	**$(201,500)**	
Net cash used for investing activities		**(201,500)**
Cash flows from financing activities:		
Issuance (sale) of stock to owners	**$ 14,900**	
Payment of dividends	**(2,800)**	
Net cash provided by financing activities		**12,100**
Net increase in cash		**$ 5,300**
Cash balance, August 1, 2025		**0**
Cash balance, August 31, 2025		**$ 5,300**

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(10-15 min.) E 1-34A

TO: Owner of Giada Coffee Roasters Corp.

FROM: Student Name

SUBJECT: Opinion of net income, dividends, financial position, and cash flows

---

Your first month of operations was successful. Revenues totaled $278,700 and net income was $193,300. These operating results look very strong.

The company was able to pay a $2,800 dividend, and this should make you happy with so quick a return on your investment. Your financial position looks secure, with assets of $214,200 and liabilities of only $8,800. Your stockholders' equity is $205,400.

Operating activities generated cash of $194,700, which is outstanding. Operating activities are the main source of cash, which is expected for a thriving company. You ended the month with cash of $5,300. Based on the above facts, I believe you should stay in business.

Student responses may vary.

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(20-25 min.) E 1-35A

Req. 1

Edwin Company
Income Statement
For the Year Ended December 31, 2024

		(millions)
Revenue:		
Revenues		**$150**
Expenses:		
Salary expense	**$34**	
Rent expense	**23**	
Utilities expense	**16**	
Total expenses		**73**
Net income		**$ 77**

Req. 2

Edwin Company
Statement of Retained Earnings
Year Ended December 31, 2024

	(millions)
Retained earnings, December 31, 2023	**$ 73**
Add: Net income ($150 − $73)	**77**
Less: Dividends declared	**(16)**
Retained earnings, December 31, 2024	**$134**

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Req. 3

Edwin Company
Balance Sheet
December 31, 2024

ASSETS	***(in millions)***
Current assets:	
Cash	**$185**
Accounts receivable	**70**
Total current assets	**255**
Property and equipment	**35**
Other long-term assets	**22**
Total assets	**$312**
LIABILITIES	
Current liabilities:	
Accounts payable	**$ 56**
Total current liabilities	**56**
Long-term liabilities:	
Long-term notes payable	**26**
Total liabilities	**82**
STOCKHOLDERS' EQUITY	
Common stock	**96***
Retained earnings	**134**
Total stockholders' equity	**230**
Total liabilities and stockholders' equity	**$312**

***Common stock = Total stockholders' equity ($230) – Retained earnings ($134) = $96**

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(10-15 min.) E 1-36B

Amounts in billions; (computed amounts in boxes)

	Assets	=	Liabilities	+	Stockholders' Equity
Water Street Bank	$78		$43		$35
Pufferbelly Restaurant	30		7		23
Blake Gift Shop	34		7		27

Blake Gift Shop appears to have the strongest financial position because its liabilities make up the smallest percentage of company assets ($7/$34 = .21). Stated differently, Blake Gift Shop's equity is the highest percentage of company assets ($27/$34 = .79).

Liabilities as a percent of total assets:

Water Street Bank: $43/$78 = 0.55
Pufferbelly Restaurant: $7/$30 = 0.23
Blake Gift Shop: $7/$34 = 0.21

(10-15 min.) E 1-37B

Req. 1

(Amounts in millions)

	Assets	=	Liabilities	+	Stockholders' Equity
	$240		$100		
	390		360		
	130				
Total	$760	=	$460	+	$300

Req. 2 **Resources to work with**

Req. 3 **Amount owed to creditors**

Req. 4 **Actually owned by company stockholders**

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(10-20 min.) E 1-38B

	Situation		
	1	2	3
		Millions	
Total stockholders' equity, January 31, 2024 ($49 − $17)	$32	$32	$32
Add: Issuances of stock	3	-0-	20
Net income	14*	21*	5*
Less: Dividends declared	-0-	(4)	(8)
Net loss	-0-	-0-	-0-
Total stockholders' equity, January 31, 2025 ($72 − $23)	$49	$49	$49

***Must solve for these amounts.**

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(10-15 min.) E 1-39B

a. Balance sheet, Statement of cash flows

b. Statement of cash flows

c. Balance sheet

d. Balance sheet

e. Income statement, Statement of retained earnings, Statement of cash flows

f. Income statement

g. Balance sheet

h. Income statement

i. Balance sheet

j. Statement of cash flows

k. Income statement

l. Balance sheet

m. Statement of retained earnings, Statement of cash flows

n. Balance sheet, Statement of retained earnings

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(10-20 min.) E 1-40B

Patterson Products
Balance Sheet
December 31, 2024

ASSETS	
Current assets:	
Cash	**$ 20,000**
Receivables	**17,600**
Inventory	**78,000**
Total current assets	**115,600**
Equipment	**186,000**
Total assets	**$301,600**
LIABILITIES	
Current liabilities:	
Accounts payable	**$ 22,000**
Total current liabilities	**22,000**
Long-term liabilities:	
Long-term notes payable	**173,000**
Total liabilities	**195,000**
STOCKHOLDERS' EQUITY	
Common stock	**28,500**
Retained earnings	**78,100***
Total stockholders' equity	**106,600**
Total liabilities and stockholders' equity	**$301,600**

*Computation of retained earnings:
Total assets ($301,600) − current liabilities ($22,000) − long-term notes payable ($173,000) − common stock ($28,500) = $78,100

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(10-20 min.) E 1-41B

Req. 1

Reina Burke Realty Company
Balance Sheet
March 31, 2024

(Amounts in millions)

ASSETS		LIABILITIES	
Cash	$ 1.6	Current liabilities	$ 2.7
Receivables	.1	Long-term liabilities	102.3
Investment assets	135.1	Total liabilities	105.0
Property and equipment, net	1.4	STOCKHOLDERS' EQUITY	
Other assets	10.3		
		Common stock	27.9
		Retained earnings	15.6*
		Total stockholders' equity	43.5
		Total liabilities and	
Total assets	$148.5	stockholders' equity	$148.5

*Computation of retained earnings:
Total assets ($148.5) − Total liabilities ($105.0) − Common stock ($27.9) = $15.6

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(15-25 min.) E 1-42B

Req. 1

Reina Burke Realty Company
Income Statement
Year Ended March 31, 2024

(Amounts in millions)		
Total revenue		$40.4
Expenses:		
Salary and other employee expenses	$ 15.2	
Other expenses	6.6	
Interest expense	0.4	
Total expenses		22.2
Net income		$18.2

Req. 2

The statement of retained earnings helps to compute dividends, as follows:

Reina Burke Realty Company
Statement of Retained Earnings
Year Ended March 31, 2024

(*Amounts in millions*)	
Retained earnings, beginning of year	$17.2
Add: Net income for the year (*Req. 1*)	18.2
Subtotal	35.4
Less: Dividends declared**	19.8
Retained earnings, end of year (from Exercise 1-41B)	$15.6

**($35.4 – $15.6 = $19.8)

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(15-20 min.) E 1-43B

Req. 1

Island Coffee Roasters Corporation
Income Statement
For the Month Ended August 31, 2025

Revenue:		
Service revenue		**$279,300**
Expenses:		
Salary expense	**$78,100**	
Utilities expense	**5,800**	
Rent expense	**1,800**	
Total expenses		**85,700**
Net income		**$193,600**

Island Coffee Roasters Corporation
Statement of Retained Earnings
For the Month Ended August 31, 2025

Retained earnings, August 1, 2025	**$ -0-**
Add: Net income	**193,600**
Subtotal	**193,600**
Less: Dividends declared	**(2,700)**
Retained earnings, August 31, 2025	**$190,900**

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(15-20 min.) E 1-44B

Req. 1

Island Coffee Roasters Corporation
Balance Sheet
August 31, 2025

Assets		Liabilities	
Cash	$ 6,000	Accounts payable	$ 8,900
Office supplies	7,500	Stockholders' Equity	
Equipment	200,000	Common stock	13,700
		Retained earnings	190,900
		Total stockholders' equity	204,600
		Total liabilities and	
Total assets	$213,500	stockholders' equity	$213,500

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(15-20 min.) E 1-45B

Req. 1

Island Coffee Roasters Corporation
Statement of Cash Flows
For the Month Ended August 31, 2025

Cash flows from operating activities:		
Net income		**$193,600**
Adjustments to reconcile net income to net cash provided by operations		**1,400**
Net cash provided by operating activities		**195,000**
Cash flows from investing activities:		
Acquisition of equipment	**$(200,000)**	
Net cash used for investing activities		**(200,000)**
Cash flows from financing activities:		
Issuance (sale) of stock to owners	**$ 13,700**	
Payment of dividends	**(2,700)**	
Net cash provided by financing activities		**11,000**
Net increase in cash		**$ 6,000**
Cash balance, August 1, 2022~~5~~		**0**
Cash balance, August 31, 2022~~5~~		**$ 6,000**

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(10-20 min.) E 1-46B

TO: Owner of Island Coffee Roasters Corporation

FROM: Student Name

SUBJECT: Opinion of net income, dividends, financial position, and cash flows

---

Your first month of operations was successful. Revenues totaled $279,300 and net income was $193,600. These operating results look very strong.

The company was able to pay a $2,700 dividend, and this should make you happy with so quick a return on your investment. Your financial position looks secure, with assets of $213,500 and liabilities of only $8,900. Your stockholders' equity is $204,600.

Operating activities generated cash of $195,000, which is respectable. Operating activities are the main source of cash, which is expected for a thriving company. You ended the month with cash of $6,000. Based on the above facts, I believe you should stay in business.

Student responses may vary.

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(20-25 min.) E 1-47B

Req. 1

Brewster Company
Income Statement
For the Year Ended December 31, 2024

		(millions)
Revenue:		
Revenues		**$146**
Expenses:		
Salary expense	**$28**	
Rent expense	**23**	
Utilities expense	**19**	
Total expenses		**70**
Net income		**$76**

Req. 2

Brewster Company
Statement of Retained Earnings
Year Ended December 31, 2024

	(millions)
Retained earnings, December 31, 2023	**$ 76**
Add: Net income ($146 − $70)	**76**
Less: Dividends declared	**(15)**
Retained earnings, December 31, 2024	**$137**

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Req. 3

Brewster Company
Balance Sheet
December 31, 2024

ASSETS	***(in millions)***
Current assets:	
Cash	**$175**
Accounts receivable	**85**
Total current assets	**260**
Property and equipment	**39**
Other long-term assets	**25**
Total assets	**$324**
LIABILITIES	
Current liabilities:	
Accounts payable	**$ 56**
Total current liabilities	**56**
Long-term liabilities:	
Long-term notes payable	**33**
Total liabilities	**89**
STOCKHOLDERS' EQUITY	
Common stock	**98***
Retained earnings	**137**
Total stockholders' equity	**235**
Total liabilities and stockholders' equity	**$324**

***Common stock = Total stockholders' equity ($235) – Retained earnings ($137) = $98**

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Quiz

Q1-48 a

Q1-49 a

Q1-50 d

Q1-51 b

Q1-52 b

Q1-53 a

Assets	=	Liabilities	+	Stockholders' Equity
+ $83,000	=	+ $23,000	+	+ $60,000

Q1-54 a

Q1-55 b

Q1-56 b

Q1-57 a

Q1-58 d

Q1-59 c [$260,000 − $185,000 − $81,000 − $28,000 = $(34,000)]

Q1-60 b ($300,000 + $200,000 − $55,000 = $445,000)

Q1-61 d

Q1-62 c

Q1-63 c

	Assets	=	Liabilities	+	Stockholders' Equity
Beg.	$149,000	=	$27,000*	+	$122,000
Changes			+ 69,000		
End.	$236,000*	=	$96,000*	+	$140,000

*Must solve for these amounts.

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Q1-64 b

	Assets	−	Liabilities	=	Stockholders' equity
Beg. bal.	$350,000	−	$23,000	=	$327,000
+ Net income					+ X
− Dividends					− 75,000
End. bal.	$530,000	−	$36,000	=	$494,000

$327,000 + X – $75,000 = $494,000; X = $242,000

Q1-65 d

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Problems

(30 min.) P 1-66A

Computed amounts in boxes.

	Kennedy Corp.	Caring Co.	Childress, Inc.
BALANCE SHEET		*(Millions)*	
***Beginning*:**			
Assets	$76	$30	$17
Liabilities	51	21	1
Common stock	7	7	6
Retained earnings	18	2	10
***Ending*:**			
Assets	$86	$48	$20
Liabilities	53	32	0
Common stock	7	12	8
Retained earnings	26	4	12
INCOME STATEMENT			
Revenues	$227	$165	$22
Expenses	218	157	18
Net income	$ 9	$ 8	$ 4
STATEMENT OF RETAINED EARNINGS			
Beginning RE	$18	$ 2	$ 10
+ Net income	9	8	4
− Dividends declared	(1)	(6)	(2)
= Ending RE	$26	$ 4	$ 12

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	Kennedy Corp.	Caring Co.	Childress, Inc.
		Millions	
Net income	$9 *Highest*	$8	$4
% of net income to revenues	$\frac{\$9}{\$227} = 4.0\%$	$\frac{\$8}{\$165} = 4.8\%$	$\frac{\$4}{\$22} = 18.2\%$ *Highest*

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(20-25 min.) P 1-67A

Req. 1

City News, Inc.
Balance Sheet
May 31, 2024

ASSETS		LIABILITIES	
Cash	$ 10,000	Accounts payable	$ 6,500
Accounts receivable	2,600	Note payable	50,000
Notes receivable	15,800	Total liabilities	56,500
Office supplies	700	STOCKHOLDERS'	
Land	81,000	EQUITY	
Equipment	35,600	Stockholders' equity	89,200*
		Total liabilities and	
Total assets	$145,700	stockholders' equity	$145,700

*Total assets ($145,700) − Total liabilities ($56,500) = Stockholders' equity ($89,200).

Req. 2

City News, Inc. is in *better (not worse)* financial position than the erroneous balance sheet reports. Total assets ($145,700) are $7,800 higher than originally reported ($137,900), liabilities are $14,700 lower than originally reported, and stockholders' equity is $22,500 higher than reported originally.

Req. 3

The following accounts are not reported on the balance sheet because they are expenses. These accounts are reported on the *income statement*.

Utilities expense
Advertising expense
Salary expense
Interest expense

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(20-25 min.) P 1-68A

Req. 1

Roberto Hilton Realtor, Inc.
Balance Sheet
June 30, 2025

ASSETS		LIABILITIES	
Cash	$ 55,000	Accounts payable	$ 16,000
Office supplies	8,000	Note payable	112,000
Land	165,000	Total liabilities	128,000
Furniture	30,000	STOCKHOLDERS'	
Franchise	20,000	EQUITY	
		Common stock	65,000
		Retained earnings	85,000*
		Total stockholders' equity	150,000
		Total liabilities and	
Total assets	$278,000	stockholders' equity	$278,000

*Total assets ($278,000) − Total liabilities ($128,000) − Common stock ($65,000) = Retained earnings ($85,000).

Req. 2

It appears that the business can pay its debts. Total assets exceed total liabilities.

Req. 3

Personal items not reported on the *balance sheet* of the business:

a. Personal cash ($15,000)
b. Personal account payable ($3,400)
g. Personal residence ($334,000) and mortgage payable ($182,000)

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(30-45 min.) P 1-69A

Req. 1

Oak Hill Garden Supply, Inc.
Income Statement
Year Ended December 31, 2024

Revenue		
Service revenue		**$452,600**
Expenses		
Salary expense	**$108,400**	
Rent expense	**41,200**	
Interest expense	**10,300**	
Utilities expense	**8,800**	
Property tax expense	**7,400**	
Total expenses		**176,100**
Net income		**$276,500**

Req. 2

Oak Hill Garden Supply, Inc.
Statement of Retained Earnings
Year Ended December 31, 2024

Retained earnings, December 31, 2023	**$ 364,600**
Add: Net income	**276,500**
Subtotal	**641,100**
Less: Dividends declared	**(107,000)**
Retained earnings, December 31, 2024	**$ 534,100**

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Req. 3

Oak Hill Garden Supply, Inc.
Balance Sheet
December 31, 2024

ASSETS		LIABILITIES	
Cash	$ 44,000	Accounts payable	$ 26,000
Accounts receivable	84,900	Interest payable	2,700
Supplies	6,300	Note payable	99,600
Land	25,000	Total liabilities	128,300
Building	406,000	STOCKHOLDERS'	
Equipment	110,000	EQUITY	
		Common stock	13,800
		Retained earnings	534,100
		Total stockholders' equity	547,900
		Total liabilities and	
Total assets	$676,200	stockholders' equity	$676,200

Req. 4

a. Oak Hill Garden Supply was profitable; net income was $276,500.

b. Retained earnings increased by $169,500 — from $364,600 to $534,100.

c. Stockholders' equity ($547,900) exceeds liabilities ($128,300).

The stockholders have a greater claim against Oak Hill Garden Supply's assets than do the company's creditors.

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(20 min.) P 1-70A

Req. 1

Mitchell Company
Statement of Cash Flows
Year Ended March 31, 2025

		Millions
Cash flows from operating activities:		
Net income		**$ 3,020**
Adjustments to reconcile net income to net cash provided by operating activities		**2,420**
Net cash provided by operating activities		**5,440**
Cash flows from investing activities:		
Purchases of property, plant, and equipment	**$(2,640)**	
Sales of property, plant, and equipment	**25**	
Other investing cash payments	**(195)**	
Net cash used for investing activities		**(2,810)**
Cash flows from financing activities:		
Issuance of common stock	**$ 190**	
Payment of dividends	**(265)**	
Net cash used for financing activities		**(75)**
Net increase in cash		**$ 2,555**
Cash, beginning		**220**
Cash, ending		**$ 2,775**

Req. 2

Operating activities provided the largest amount of cash. This signals financial strength because operations should be the main source of cash.

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(40-50 min.) P 1-71A

			2025		2024		
INCOME STATEMENT							
Revenues	13,920	=	$ k		$14,750		
Cost of goods sold			(11,100)		A	=	(11,680)
Other expenses			(1,300)		(1,200)		
Income before income taxes			1,520		1,870		
Income taxes (35% tax rate)	532	=	l		(655)		
Net income	988	=	$ m		$ b	=	1,215
STATEMENT OF RETAINED EARNINGS							
Beginning balance	3,825	=	$ n		$ 2,680		
Net income	988	=	o		C	=	1,215
Dividends declared			(92)		(70)		
Ending balance	4,721	=	$ p		$ d	=	3,825
BALANCE SHEET							
Assets:							
Cash	1,020	=	$ q		$ e	=	1,180
Property, plant and equipment			1,547		1,316		
Other assets	11,959	=	r		11,104		
Total assets	14,526	=	$ s		$13,600		
Liabilities:							
Current liabilities	4,815	=	$ t		$ 5,660		
Long-term debt			4,350		3,370		
Other liabilities			35		180		
Total liabilities			9,200		F	=	9,210
Stockholders' Equity:							
Common stock			$ 425		$ 425		
Retained earnings	4,721	=	u		G	=	3,825
Other stockholders' equity			180		140		
Total stockholders' equity	5,326	=	v		4,390		
Total liabilities and stockholders' equity	14,526	=	$ w		$ h	=	13,600
STATEMENT OF CASH FLOWS							
Net cash provided by operating activities	630	=	$ x		$ 875		
Net cash used for investing activities			(270)		(425)		
Net cash used for financing activities			(520)		(520)		
Increase (decrease) in cash			(160)		l	=	(70)
Cash at beginning of year	1,180	=	y		1,250		
Cash at end of year	1,020	=	$ z		$ j	=	1,180

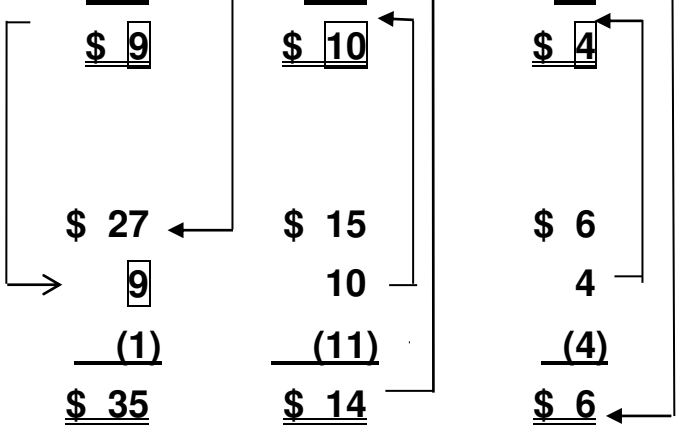
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(30 min.) P 1-72B

Computed amounts in boxes

	Babble Co.	Floralties, Inc.	Drake Co.
		Millions	
Balance Sheet			
***Beginning*:**			
Assets	$ 79	$ 35	$ 13
Liabilities	51	15	5
Common stock	1	5	2
Retained earnings	27	15	6
Ending:			
Assets	$ 88	$ 53	$ 15
Liabilities	52	27	4
Common stock	1	12	5
Retained earnings	35	14	6
INCOME STATEMENT			
Revenues	$227	$163	$ 27
Expenses	218	153	23
Net income	$ 9	$ 10	$ 4
STMT. OF RETAINED EARNINGS			
Beginning RE	$ 27	$ 15	$ 6
+ Net income	9	10	4
− Dividends declared	(1)	(11)	(4)
= Ending RE	$ 35	$ 14	$ 6



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	Babble Co.	Floralties, Inc.	Drake Co.
		Millions	
Net income	$9	$10	$4
		Highest	
% of net income to revenues.....	$\frac{\$9}{\$227} = 4.0\%$	$\frac{\$10}{\$163} = 6.1\%$	$\frac{\$4}{\$27} = 14.8\%$
			Highest

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(20-25 min.) P 1-73B

Req. 1

Parker Design, Inc.
Balance Sheet
March 31, 2024

ASSETS		LIABILITIES	
Cash	$ 8,000	Accounts payable	$ 3,500
Accounts receivable	3,900	Note payable	53,000
Notes receivable	13,000	Total liabilities	56,500
Office supplies	1,400	STOCKHOLDERS'	
Land	86,000	EQUITY	
Equipment	39,000	Stockholders' equity	94,800*
		Total liabilities and	
Total assets	$151,300	stockholders' equity	$151,300

*Total assets ($151,300) − Total liabilities ($56,500) = Stockholders' equity ($94,800).

Req. 2

Parker Design, Inc. is in a *better* financial position than the erroneous balance sheet reports. Assets are $9,800 greater and liabilities are $16,300 less than originally reported, and equity is $26,100 greater than reported originally.

Req. 3

The following accounts are not reported on the balance sheet because they are expenses. Expenses are reported on the *income statement*.

Utilities expense
Advertising expense
Salary expense
Interest expense

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(20-25 min.) P 1-74B

Req. 1

Hudson Alvarez Realtor, Inc.
Balance Sheet
June 30, 2025

ASSETS		LIABILITIES	
Cash	$ 44,000	Accounts payable	$ 9,000
Office supplies	4,000	Note payable	102,000
Land	162,000	Total liabilities	111,000
Furniture	17,600	STOCKHOLDERS'	
Franchise	16,000	EQUITY	
		Common stock	75,000
		Retained earnings	57,600*
		Total stockholders' equity	132,600
Total assets	$243,600	Total liabilities and stockholders' equity	$243,600

*Total assets ($243,600) − Total liabilities ($111,000) − Common stock ($75,000) = Retained earnings ($57,600).

Req. 2

It appears that Hudson Alvarez's business can pay its debts. Total assets far exceed total liabilities.

Req. 3

Personal items not reported on the *balance sheet* of the business:

a. Personal cash ($17,000)
b. Personal account payable ($6,500)
g. Personal residence ($419,000) and personal mortgage ($179,000)

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(30-45 min.) P 1-75B

Req. 1

Full Moon Products, Inc.
Income Statement
Year Ended December 31, 2024

Revenue:		
Service revenue		**$451,600**
Expenses:		
Salary expense	**$108,900**	
Rent expense	**41,000**	
Interest expense	**10,000**	
Utilities expense	**8,100**	
Property tax expense	**7,300**	
Total expenses		**175,300**
Net income		**$276,300**

Req. 2

Full Moon Products, Inc.
Statement of Retained Earnings
Year Ended December 31, 2024

Retained earnings, December 31, 2023	**$364,800**
Add: Net income	**276,300**
Subtotal	**641,100**
Less: Dividends declared	**(108,000)**
Retained earnings, December 31, 2024	**$533,100**

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Req. 3

Full Moon Products, Inc.
Balance Sheet
December 31, 2024

ASSETS		LIABILITIES	
Cash	$ 46,000	Accounts payable	$ 25,000
Accounts receivable	85,000	Interest payable	2,800
Supplies	6,200	Note payable	99,200
Land	29,000	Total liabilities	127,000
Building	405,000	STOCKHOLDERS'	
Equipment	115,000	EQUITY	
		Common stock	26,100
		Retained earnings	533,100
		Total stockholders' equity	559,200
		Total liabilities and	
Total assets	$686,200	stockholders' equity	$686,200

Req. 4

a. Full Moon Products was profitable; net income was $276,300.

b. Retained earnings increased by $168,300 — from $364,800 to $533,100.

c. Total equity ($559,200) exceeds total liabilities ($127,000).

Therefore, the stockholders have a greater claim against the company's assets than do the creditors.

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(20 min.) P 1-76B

Req. 1

Tidal Wave Company
Statement of Cash Flows
Year Ended March 31, 2025

		Millions
Cash flows from operating activities:		
Net income		**$ 3,050**
Adjustments to reconcile net income to net cash provided by operating activities		**2,380**
Net cash provided by operating activities		**5,430**
Cash flows from investing activities:		
Purchases of property, plant, and equipment	**$(3,500)**	
Sales of property, plant, and equipment	**60**	
Other investing cash payments	**(200)**	
Net cash used for investing activities		**(3,640)**
Cash flows from financing activities:		
Issuance of common stock	**$ 200**	
Payment of dividends	**(360)**	
Net cash used for financing activities		**(160)**
Net increase in cash		**$1,630**
Cash, beginning		**270**
Cash, ending		**$ 1,900**

Req. 2

Operating activities provided the bulk of Tidal Wave Company's cash. This is a sign of strength because operations should be the main source of cash.

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(40-50 min.) P 1-77B

(Thousands)

			2025		2024		
INCOME STATEMENT							
Revenues	13,800	=	$ k		$16,175		
Cost of goods sold			(11,020)		a	=	(13,115)
Other expenses			(1,250)		(1,220)		
Income before income taxes			1,530		1,840		
Income taxes (35% tax rate)	536	=	l		644		
Net income	994	=	$ m		$ b	=	1,196
STATEMENT OF RETAINED EARNINGS							
Beginning balance	3,726	=	$ n		$ 2,670		
Net income	994	=	o		c	=	1,196
Dividends declared			(98)		(140)		
Ending balance	4,622	=	$ p		$ d	=	3,726
BALANCE SHEET							
Assets:							
Cash	980	=	$ q		$ e	=	1,090
Property, plant and equipment			1,487		1,316		
Other assets	12,205	=	r		12,060		
Total assets	14,672	=	$ s		$14,466		
Liabilities:							
Current liabilities	3,955	=	$ t		$ 5,610		
Long-term debt			4,450		3,360		
Other liabilities			995		1,140		
Total liabilities			9,400		f	=	10,110
Stockholders' Equity:							
Common stock			$ 450		$ 450		
Retained earnings	4,622	=	u		g	=	3,726
Other stockholders' equity			200		180		
Total stockholders' equity	5,272	=	v		4,356		
Total liabilities and stockholders' equity	14,672	=	$ w		$ h	=	14,466
STATEMENT OF CASH FLOWS							
Net cash provided by operating activities	700	=	$ x		$ 875		
Net cash used for investing activities			(300)		(575)		
Net cash used for financing activities			(510)		(500)		
Increase (decrease) in cash			(110)		i	=	(200)
Cash at beginning of year	1,090	=	y		1,290		
Cash at end of year	980	=	$ z		$ j	=	1,090

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Serial Case

(15-20 min) C1-78

1. **The Cheesecake Factory is organized as a corporation, per the name of the business ("Incorporated").**
2. **Net income flows from the Income Statement to the Statement of Retained Earnings.**
3. **Ending retained earnings flows from the Statement of Retained Earnings to the Balance Sheet.**
4. **Ending cash and cash equivalents flows from the Statement of Cash Flows to the Balance Sheet.**
5. **The Cheesecake Factory earned net income of $43,123 (in thousands) in fiscal 2022 (year ended January 3, 2023). This income was earned from December 29, 2021 to January 3, 2023.**
6. **The Cheesecake Factory's accounting equation (in thousands) as of January 3, 2023:**

Assets	=	Liabilities	+	Shareholders' Equity
$2,775,220	=	$2,483,217*	+	$292,003

7. **Cheesecake Factory had $2,775,220 (Total Assets) to work with and owes $2,483,217* (Total Liabilities) to creditors. (Numbers in thousands)**

   ***($656,678 + 1,826,539 = $2,483,217)**

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Decision Cases

(30-40 min.) C1-79

Req. 1

Based solely on these balance sheets, Insley Sales Co. appears to be the better credit risk because:

1. **Queens Service has more assets ($150,000) than Insley Sales ($65,000), but Queens Service owes much more in liabilities ($130,000 versus $15,000 for Insley Sales). Insley Sales' stockholders' equity is far greater than that of Queens Service ($50,000 compared to $20,000). Insley Sales is not heavily in debt, but Queens Service is.**

2. **You would be better off granting the loan to Insley Sales. You should consider what will happen if the borrower cannot pay you back as planned. Queens Service has far more liabilities to pay, and it may be hard for Queens Service to come up with the money to pay you. On the other hand, Insley Sales has little debt to pay to others before paying you.**

Student responses may vary.

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(20-30 min.) C1-80

Req. 1

Flowers Unlimited, Inc. Income Statement Year Ended Dec. 31, 2024		Flowers Unlimited, Inc. Balance Sheet Dec. 31, 2024			
Revenue……	$140,000[1]	Cash……	$ 6,000	Liabilities……	$70,000[4]
Expenses……..	140,000[2]	Other assets….	90,000[3]	S/H Equity……..	26,000[5]
Net income……	$ -0-	Total assets…...	$96,000	Total liabilities and S/H equity	$96,000

[1]$100,000 + $40,000 = $140,000

[2]$80,000 + $50,000 + $10,000 = $140,000

[3]$100,000 − $50,000 + $40,000 = $90,000

[4]$60,000 + $10,000 = $70,000

[5]$96,000 − $70,000 = $26,000

Req. 2

The company's *financial position* is much *weaker* than originally reported. Assets and stockholders' equity are lower and liabilities are higher. *Results of operations* are *worse* than reported. The company did not earn any profit.

Req. 3

Based on the actual figures, I would *not* invest in Flowers Unlimited for reasons given in *Req. 2*.

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Ethical Issue

(40-50 min) C1-81

Note to instructor: student responses will vary on this problem. Keep the discussion pointed toward use of the multiple-criteria model for making good ethical decisions, pointing out elements of students' reasoning that may be faulty or incomplete. It might be useful to have a debate or role play, assigning students to different sides of the issue (for or against accepting a copy of the exam).

Req. 1

The fundamental ethical issue in this situation is whether you should accept a copy of the old exam from your friend.

Req. 2

The stakeholders are:

a. **You**
b. **Your friend**
c. **The remainder of the students in the class**
d. **The professor**
e. **The University**
f. **Your family**

(This may not be a complete list; you may think of more.)

Consequences are discussed in requirement 3.

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Req. 3

Analysis of the problem:

Economic perspective: If use of the old exam turns out to help you (it may not) you might improve your grade and allow you to retain your scholarship. This might help you and your family financially. If you use the exam to your unfair advantage, and you are reported, you and possibly your friend might receive grades of F in the class although you might otherwise have passed. This could cause adverse economic consequences to you, your friend and your families.

Legal perspective: Although it may not violate local or federal law, giving or accepting copies of old exams may violate the university's honor code, which serves the same purpose as a legal code in this case. If you use the old exam and it turns out that you violated the University's honor code, both you and your friend could be in trouble. Your family and your friend's family could also be impacted by any adverse consequences to you or her. Academic institutions establish policies against academic dishonesty because cheating hurts everyone—the student who commits the act, the other students in the class whose rights to fair treatment are violated by cheating, and the professor who must endure hours of investigating, reporting, and perhaps testifying.

Ethical perspective: Receiving questionable help from others in the face of policies that prohibit it is, at best, risky, and at worst, downright wrong. Cheating is similar to stealing, since it is stealing

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the work of another without their permission. It is usually accompanied by lying to cover it up, or at least, not revealing the truth. Cheating violates other students' rights to fair and equal treatment. It violates the instructor's rights to run a course as a "fair game" for all participants. Because the students and faculty are hurt by cheating, the university is hurt too. If cheating goes unpunished, grades are inflated, ultimately damaging the academic reputation of the institution and eroding the value of its degrees. Parents of students who are caught cheating have to endure the agony of working through the problem with their son or daughter, and perhaps the social stigma that comes from adverse publicity.

These are just some of the arguments against cheating. Of course, there is a question in this case as to whether taking the test actually violates the professor's or the university's policies.

Req. 4

It would be helpful to find out what the professor's policies are with respect to the use of fraternity and sorority test files. The university might have a blanket policy on this. (Some students might spend a little time researching this by reading the university's honor code on their web site; just reading the honor code will be an eye-opening experience for most students). Advise your students to research the use of fraternity and sorority test files on the university web site, or to

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discuss the issue with the head of the department or the chair of the university honor council.

Unfortunately, in this case, there is not much time. Researching the issue in the university's honor code takes valuable time away from studying for the exam, which, if you do, could help you raise your grade and solve the whole problem!

Probably the best solution to this problem is "when in doubt, don't." You may not do well on the test, but at least you won't have to live with the terrible consequences of being accused as a cheater. It should make you feel better in the long run that, although you may not make the highest grades in the class, at least you are not a cheater.

Req. 5

Cheating is very closely related to stealing, which is a form of fraud. When employees steal from their companies, they steal property that belongs to others. There are economic, legal, and ethical consequences to the company, the employee and their families, and customers (who ultimately have to pay for fraud through higher prices). We will study fraud in depth in Chapter 4.

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Focus on Financials: Apple Inc.

(20-30 min.) C1-82

1. **Students can emphasize a variety of points regarding Apple Inc., and its industry. For example, a discussion on the product innovation and competitive changes in technology would be appropriate. Additionally, discussing recent news articles related to Apple or its competitors would also be appropriate. Student answers will vary.**

2. **Some important information in this portion of the financials is the description of their distribution channels (third-party resellers), competitors (product innovation, market opportunities, etc.), and supply chain (shortages, component availability, outsourcing, etc). Additionally, the seasonality of Apple's business is important to note given that it has higher sales in its first quarter relative to the last three. Lastly, it may come as a surprise that Apple employs approximately 164,000 full-time employees. (Student answers will vary.)**

3. **Samsung, Google, Sony, or HP are some of Apple Inc.'s competitors. It is important to identify competitors because competitors tend to have similar business dynamics to one another, meaning that their financial statements can be compared to and benchmarked against each other. Student answers will vary.**

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4. *Net income*, because it shows the overall result of all the revenues minus all the expenses for a period. In effect, net income gives the results of operations in a single figure and shows whether the company has been profitable. Apple's net income after taxes increased from $94.7 billion in 2021 to $99.8 billion in 2022, which is favorable

5. Apple Inc.'s largest expense is cost of sales. The company has cost of sales for products and cost of sales for services. The former is the cost of the products that the company sells, such as iPhones, iPads, Apple TVs, software, and Mac desktops. The cost of sales for services pertains to the cost of services that Apple provides such as iCloud, Siri, and Maps. Another title of this account is *cost of goods sold*. In this chapter, The Walt Disney Company called this account cost of products and cost of services.

6. Total resources (total assets) at September 24, 2022…..$352,755 million

Amount owed (total liabilities) at September 24, 2022….$302,083 million

Portion of the company's assets owned by the stockholders (stockholders' equity) at September 24, 2022.....…….$50,672 million

Apple Inc.'s accounting equation *(in millions)*:

Assets
$352,755

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(continue
d) C1-82

7. At September 24, 2022, Apple Inc. had $23,646 million of cash and cash equivalents. At September 28, 2021, Apple Inc. had $34,940 million of cash and cash equivalents.

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Focus on Analysis: Under Armour, Inc.

(30 min.) C1-83

1. **Under Armour, Inc. is an athletic apparel company. Students can emphasize a variety of points regarding Under Armour, Inc. and its industry. For example, a discussion on the brand, new product development, etc. would be appropriate. Additionally, discussing recent news articles related to Under Armour or its competitors would also be appropriate. (Student answers will vary.)**

2. **Note 1 states Under Armour is a developer, marketer and distributor of branded performance apparel, footwear, and accessories. These products are sold worldwide and worn by athletes of all levels and consumers with active lifestyles.**

3. **Nike, Adidas, and Columbia Sportswear are some of Under Armour, Inc.'s competitors. It is important to identify competitors because competitors tend to have similar business dynamics to one another, meaning that their financial statements can be compared to and benchmarked against each other. (Student answers will vary.)**

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4. Under Armour, Inc.'s Accounting Equation (*in thousands*):

Assets	=	Liabilities	+	Shareholders' Equity
$4,991,3~~0~~96	=	$2,902,402	+	$2,088,904

If we express the numbers in millions:

Assets	=	Liabilities	+	Shareholders' Equity
$4,991	=	$2,902	+	$2,089

Under Armour, Inc. appears to be in solid financial condition. Total assets are significantly higher than the amount of total liabilities. This suggests that the company will have no difficulty paying its debts and will have money to expand.

5. The result of operations for 2021 was a net income of $360,060 thousand, following a year (2020) of significant losses. Because of the global impact of COVID-19 on business in 2020, this result is not unusual. 2021 was good news for Under Armour, Inc. Revenue exceeded expenses ~~for~~, and there appears to be a reversal of the company's fortunes from the previous year. The long-term trend for Under Armour has been rather unstable, though, so it is too early to tell whether the company will remain profitable.

6. According to Under Armour, Inc.'s Consolidated Statements of Stockholders' Equity, the cause of the company's increase in retained earnings during 2021 was comprehensive income of

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$360,060 thousand. (Comprehensive income is closely related to net income.)

(continued) C1-83

7. The Consolidated Balance Sheets report cash and cash equivalents as part of the company's financial position. The Consolidated Statements of Cash Flows tell why cash and cash equivalents increased or decreased. Operating activities provided $664,829 thousand, investing activities used $368,346 thousand, and financing activities used $418,737 thousand.

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Group Projects

Student responses will vary.

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