Financial and Managerial Accounting 5th edition Weygandt Solutions Manual

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CHAPTER 1

Accounting in Action

Learning Objectives

1. Identify the activities and users associated with accounting.
2. Explain the building blocks of accounting: ethics, principles, and assumptions.
3. State the accounting equation and define its components.
4. Analyze the effects of business transactions on the accounting equation.
5. Describe the four financial statements and how they are prepared.

*6. Explain the career opportunities in accounting.

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ANSWERS TO QUESTIONS

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

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

2. The four most common types of data analytics and the basic question each addresses are: Descriptive (What happened?), Diagnostic (Why did it happen?), Predictive (What is likely to happen?), and Prescriptive (What should we do about it?).

LO 1 BT: K Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement , IMA: Performance Measurement

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

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

4. (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.

(b) To assist management, accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

5. (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell stock.

(b) Creditors use accounting information to evaluate the risks of granting credit or lending money.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

6. False. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.

LO 1, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

7. Harper Travel Agency should report the land at $85,000 on its December 31, 2027 balance sheet. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (historical cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use historical cost. Only in situations where assets are actively traded do companies apply the fair value principle.

LO 2, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement, Analysis and Interpretation IMA: Reporting

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

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement IMA: Reporting

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

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement IMA: Reporting

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

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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

LO 2, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

12. The basic accounting equation is Assets = Liabilities + Stockholders' Equity.

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

13. (a) Assets are resources owned by a business. Liabilities are creditor claims against assets—that is, existing debts and obligations. Stockholders' equity is the ownership claim on total assets.

(b) Stockholders' equity is affected by stockholders' investments, dividends, revenues, and expenses.

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

14. The liabilities are (b) Accounts Payable and (g) Salaries and Wages Payable.

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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

LO 3, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

16. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic accounting equation.

(a) No, the death of the president of the company is not a business transaction as it does not affect the basic accounting equation.

(b) Yes, supplies purchased on account is a business transaction as it affects the basic accounting equation.

(c) No, an employee being fired is not a business transaction as it does not affect the basic accounting equation.

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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

LO 5, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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

LO 5, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

21. (a)

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

(b)

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

LO 5, BT: AN, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

22. (a) Total revenues ($30,000 + $70,000) $100,000

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

(c)

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

LO 5, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

23. Apple's accounting equation (in millions) at September 25, 2021 was $351,002 = $287,912 + $63,090

LO 3, BT: AP, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1.1

(a) 4 Investors in common stock
(b) 3 Marketing managers
(c) 2 Creditors
(d) 5 Chief Financial Officer
(e) 1 Internal Revenue Service

LO 1 BT: K Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement

BRIEF EXERCISE 1.2

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

LO 3, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.3

(a) $120,000 + $232,000 = $352,000 (Total assets).

(Liabl. + Stock. equity = Assets)

(b) $190,000 – $86,000 = $104,000 (Total liabilities).

(Assets – Stock. equity = Liabl.)

(c) $600,000 – 0.5($600,000) = $300,000 (Stockholders' equity).

[Assets – (0.5 × Assets) = Stock. equity]

LO 3, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.4

(a) ($870,000 + $150,000) – ($500,000 – $80,000) = $600,000 (Stockholders' equity).

[(Beg. assets + incr.) – (Beg. liabl. – decrease) = Stock. equity]

(b) ($500,000 + $100,000) + ($870,000 – $500,000 – $66,000) = $904,000 (Assets).

[(Beg. liabl. + incr.) + (Beg. stock. equity – decr.) = Assets

(c) ($870,000 – $80,000) – ($870,000 – $500,000 + $120,000) = $300,000 (Liabilities).

[(Beg. assets – decr.) – (Beg. stock. equity + incr.) = Liabl.]

LO 3, BT: AP, Difficulty: Easy, TOT: 5 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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BRIEF EXERCISE 1.5

					Stockholders' Equity							
					Common		Retained Earnings					
	Assets	=	Liabilities	+	Stock	+	Revenues	–	Expenses	–	Dividends	
(a)	X	=	$90,000	+	$150,000	+	$450,000	–	$320,000	–	$40,000	
	X	=	$90,000	+	$240,000							
	X	=	$330,000									
	(Assets	=	Liabl.	+	Com. stock	+	Rev.	–	Exp.	–	Div.)	
(b)	$57,000	=	X	+	$23,000	+	$50,000	–	$35,000	–	$7,000	
	$57,000	=	X	+	$31,000							
	X	=	$26,000 ($57,000 – $31,000)									
	(Liabl.	=	Assets	–	Com. stk.	–	Rev.	+	Exp.	+	Div.)	
(c)	$600,000	=	($600,000 × 2/3)	+	X (Stockholders' equity)							
	$600,000	=	$400,000	+	X							
	X	=	$200,000									
	(Stk. equity	=	Assets	–	(2/3 × Assets))							

LO 3, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.6

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

LO 3, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.7

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

LO 4, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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BRIEF EXERCISE 1.8

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

*Cash increased and accts. rec. decreased, so tot. assets unchanged.

LO 4, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.9

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

LO 4, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.10

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

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.11

ELLERBY COMPANY
Balance Sheet
December 31, 2027

Assets		
Cash		44,000
Accounts receivable		72,500
Total assets		$116,500
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable		$ 85,000
Stockholders' equity		
Common stock	$21,500	
Retained earnings	10,000	
Total stockholders' equity		31,500
Total liabilities and stockholders' equity		$116,500

(Cash + Accts. rec. = Accts. pay. + Com. stk. + Ret. earn.)

LO 5, BT: AP, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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BRIEF EXERCISE 1.12

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

LO 5, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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SOLUTIONS TO DO IT! EXERCISES

DO IT! 1.1

1. **False. The three steps in the accounting process are identification, recording, and communication.**
2. **True.**
3. **False. Managerial accounting provides internal reports to help users make decisions about their companies.**
4. **True.**
5. **True.**

LO 1, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

DO IT! 1.2

1. **False. Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.**
2. **False. The standards of conduct by which actions are judged as right or wrong, honest or dishonest, fair or not fair, are ethics.**
3. **False. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).**
4. **True.**
5. **True.**

LO 2, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

DO IT! 1.3

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

LO 3, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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DO IT! 1.4

	Assets			=	Liabilities	+	Stockholders' Equity						
			Accounts		Accounts		Common		Retained Earnings				
	Cash	+	Receivable	=	Payable	+	Stock	+	Revenues	–	Expenses	–	Dividends
(1)		+	$23,000					+	$23,000				
(2)	+$23,000	–	23,000										
(3)				+	$1,800					–	$1,800		
(4)	–5,000											–	$5,000
	$18,000	+	$0	=	$1,800	+	$0	+	$23,000	–	$1,800	–	$5,000

LO 4, BT: AP, Difficulty: Easy, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

DO IT! 1.5

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

(Cash + Accts. rec. + Equip.)

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

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

(Serv. rev. – Tot. exp.)

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DO IT! 1.5 (Continued)

(c) The ending stockholders' equity balance of Garryowen Company is $23,500. By rewriting the accounting equation, we can compute Stockholders' Equity as Assets minus Liabilities, as follows:

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

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

(Tot. assets – Tot. liabl.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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SOLUTIONS TO EXERCISES

EXERCISE 1.1

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

LO 1, BT: C, Difficulty: Easy, TOT: 5 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.2

	(a) Type of Evaluation	(b) Type of User
Investor	5	External
Marketing manager	4	Internal
Creditor	1	External
Chief financial officer	6	Internal
Internal revenue service	2	External
Labor union	3	External

LO 1 BT: C Difficulty: Easy TIME: 5 min. AACSB: None AICPA FC: Reporting IMA: Reporting

EXERCISE 1.3

(a) *Internal users*
Marketing manager
Production supervisor
Store manager
Vice-president of finance

External users
Customers
Internal Revenue Service
Labor unions
Securities and Exchange Commission
Suppliers

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EXERCISE 1.3 (Continued)

(b)

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

LO 1, BT: C, Difficulty: Easy, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.4

Sam Cresco, president of Cresco Company, instructed Sharon Gross, the head of the accounting department, to report the company's land in their accounting reports at its fair value of $170,000 instead of its cost of $100,000, in an effort to make the company appear to be a better investment. Although we have an accounting system that permits various measurement approaches, historical cost should be used whenever there are questions regarding the reliability of a market value. In this case, valuation of land is too subjective and therefore the historical cost principle should be used.

The stakeholders include stockholders and creditors of Cresco Company, potential stockholders and creditors, other users of Cresco accounting reports, Sam Cresco, and Sharon Gross. All users of Cresco's accounting reports could be harmed by relying on information which violates accounting principles. Sam Cresco could benefit if the company is able to attract more investors, but would be harmed if the fraudulent reporting is discovered. Similarly, Sharon Gross could benefit by pleasing her boss, but would be harmed if the fraudulent reporting is discovered.

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

LO 2, BT: C, Difficulty: Moderate, TOT: 7 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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EXERCISE 1.5

1. **Incorrect. The *historical cost principle* requires that assets (such as buildings) be recorded and reported at their cost.**

2. **Correct. The *monetary unit assumption* requires that companies include in the accounting records only transaction data that can be expressed in terms of money.**

3. **Incorrect. The *economic entity assumption* requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.**

LO 2, BT: C, Difficulty: Moderate, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.6

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

LO 3, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.7

1. **Increase in assets and increase in stockholders' equity.**
2. **Decrease in assets and decrease in stockholders' equity.**
3. **Increase in assets and increase in liabilities.**
4. **Increase in assets and increase in stockholders' equity.**
5. **Decrease in assets and decrease in stockholders' equity.**
6. **Increase in assets and decrease in assets.**
7. **Increase in liabilities and decrease in stockholders' equity.**
8. **Increase in assets and decrease in assets.**
9. **Increase in assets and increase in stockholders' equity.**

LO 4, BT: C, Difficulty: Easy, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.8

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

LO 4, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.9

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	Assets				=	Liabilities	+	Stockholders' Equity				
			Accounts			Accounts		Common		Retained Earnings		
	Cash	+	Receivable	+ Equipment	=	Payable	+	Stock	+	Revenues	– Expenses	
(1)	+$40,000							+$40,000				
(2)				+$30,000		+$30,000						
(3)	–4,000										–$4,000	Rent Expense
(4)			+$19,000							+$19,000		Service Revenue
(5)	+5,000									+5,000		Service Revenue
(6)	–8,000										–8,000	Utilities Expense
(7)	–30,000					–30,000						
(8)						+1,300					–1,300	Advertising Expense
(9)	+12,000		–12,000									
	$15,000	+	$7,000	+ $30,000	=	$ 1,300	+	$40,000	+	$24,000	– $13,300	
			$52,000					$52,000				

LO 4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 1.10

	Assets				=	Liabilities		+	Stockholders' Equity						
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Bonds Payable	+	Common Stock	+ Retained Earnings: Revenues	– Expenses	– Dividends			
(1)	+$100,000								+$100,000						
(2)	+45,000						+$45,000								
(3)	–60,000			+$60,000											
(4)	+16,000									+$16,000					Service Revenue
(5)			+$4,700			+$4,700									
(6)	–5,200										–$5,200				Rent Expense
(7)		+$10,000								+10,000					Service Revenue
(8)	–28,000										–$28,000				Salaries and Wages Expense
(9)	–11,000											–$11,000			
	$ 56,800	+ $10,000	+ $4,700	+ $60,000	=	$4,700	+ $45,000	+	$100,000	+ $26,000	– $33,200	– $11,000			

$131,500 $131,500

LO 4 BT: AP Difficulty: Medium TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1.11

(a)

1. Stockholders invested $20,000 cash in the business.
2. Purchased equipment for $5,000, paying $1,000 in cash and the balance of $4,000 on account.
3. Paid $750 cash for supplies.
4. Earned $9,500 in revenue, receiving $4,100 cash and $5,400 on account.
5. Paid $1,500 cash on accounts payable.
6. Paid $2,000 cash dividends to stockholders.
7. Paid $800 cash for rent.
8. Collected $450 cash from customers on account.
9. Paid salaries of $3,000.
10. Incurred $300 of utilities expense on account.

(b)

Issued common stock	$20,000
Service revenue	9,500
Dividends	(2,000)
Rent expense	(800)
Salaries and wages expense	(3,000)
Utilities expense	(300)
Increase in stockholders' equity	$23,400

(Add'l. invest. + Rev. – Tot. exp. – Div. = Change in SE)

[$20,000 + $9,500 – ($800 + $3,000 + $300) – $2,000 = $23,400]

(c)

Service revenue	$ 9,500
Rent expense	(800)
Salaries and wages expense	(3,000)
Utilities expense	(300)
Net income	$ 5,400

(Serv. rev. – Tot. exp. = Net inc.)

[$9,500 – ($800 + $3,000 + $300) = $5,400]

LO 4 BT: AP Difficulty: Medium TOT. 12 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 1.12

(a)

1. Stockholders invested $15,000 cash in the business.
2. Purchased office equipment for $5,000, paying $2,000 in cash and the balance of $3,000 on account.
3. Paid $750 cash for supplies.
4. Earned $9,400 in revenue, receiving $4,900 cash and $4,500 on account.
5. Paid $1,500 cash on accounts payable.
6. Paid $2,000 cash dividends to stockholders.
7. Paid $850 cash for rent.
8. Collected $450 cash from clients on account.
9. Paid salaries and wages of $3,900.
10. Incurred $500 of utilities expense on account.

(b)

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

(Invest. + Serv. rev. – Div. – Exp.)

(c)

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

(Serv. rev. – Tot. exp.)

LO 4,5, BT: AP, Difficulty: Moderate, TOT: 12 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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EXERCISE 1.13

FOLEY & CO.
Income Statement
For the Month Ended August 31, 2027

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

(Serv. rev. – Tot. exp.)

FOLEY & CO.
Retained Earnings Statement
For the Month Ended August 31, 2027

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

(Beg. ret. earn. + Net inc. – Div.)

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EXERCISE 1.13 (Continued)

FOLEY & CO.
Balance Sheet
August 31, 2027

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

* $15,000 - $2,000 - $750 + $4,900 -$1,500 - $2,000 - $850 + $450 - $3,900

[(Cash + Accts. rec. + Supp. + Equip.) = Accts. pay. + (Com. stk. + Ret. earn)]

LO 5, BT: AP, Difficulty: Easy, TOT: 12 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.14

(a)	Stockholders' equity—12/31/26 ($400,000 – $260,000)	$140,000
	Less: Stockholders' investment—1/1/26	100,000
	Increase in stockholders' equity from retained earnings	40,000
	Add: Dividends	15,000
	Net income for 2026	$ 55,000

(End. stk. equity – Stkhldrs.' Invest. + Div.)

(b)	Stockholders' equity—12/31/27 ($480,000 – $300,000)	$180,000
	Less: Stockholders' equity—1/1/27—see (a)	140,000
	Increase in stockholders' equity	40,000
	Less: Additional investment	50,000
	Net loss for 2027	$ (10,000)

(End. stk. equity – Beg. stk. equity – Add'l. invest.)

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EXERCISE 1.14 (Continued)

(c)	Stockholders' equity—12/31/28 ($590,000 – $400,000)	$190,000
	Less: Stockholders' equity—1/1/28—see (b)	180,000
	Increase in stockholders' equity	10,000
	Less: Additional investment	15,000
	Decrease in stockholders' equity from retained earnings	(5,000)
	Add: Dividends	30,000
	Net income for 2028	$ 25,000

(End. stk. equity – Beg. stk. equity – Add'l. invest. + Div.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 10 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.15

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

(Beg. assets – Beg. liabl.)

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

[(End. stk. equity – Beg. stk. equity) – (Rev. – Exp.) + Div.]

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

(Beg. assets – Beg. stk. equity)

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EXERCISE 1.15 (Continued)

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

[(End. stk. equity – Beg. stk. equity) – (Rev. – Exp.) – Add'l. invest.]

LO 5, BT: AN, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.16

First note that the retained earnings statement shows that (b) equals $27,000.

Accounts payable + Common stock + Retained earnings = Total liabilities and stockholders' equity

$5,000 + a + $27,000 = $62,000
a + $32,000 = $62,000
a = $30,000 Common stock

Beginning retained earnings + Net income – Dividends = Ending retained earnings

$12,000 + e – $5,000 = $27,000
$ 7,000 + e = $27,000
e = $20,000 Net income

From above, we know that net income (d) equals $20,000.

Revenues – Cost of goods sold – Salaries and wages expense = Net income

$85,000 – c – $10,000 = $20,000
$75,000 – c = $20,000
c = $55,000 Cost of goods sold

LO 5 BT: AN Difficulty: Hard TOT: 7 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 1.17

(c) $37,000 (given)

(d) $97,000 = ($22,000 + $38,000 + $37,000)

(b) $97,000 (See (d))

(a) $3,000 = ($97,000 – $29,000 – $65,000)

(e) $17,000 = [$53,000 – ($25,000 + $1,000 + $10,000)]

(g) $25,000 (given)

(f) $18,000 = ($37,000 + $6,000 – $25,000)

LO 5 BT: AN Difficulty: Medium TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1.18

LA GRECA CO.
Income Statement
For the Year Ended December 31, 2027

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

(Serv. rev. – Tot. exp.)

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EXERCISE 1.18 (Continued)

LA GRECA CO.
Retained Earnings Statement
For the Year Ended December 31, 2027

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

(Beg. ret. earn. + Net inc. – Div.)

LO 5, BT: AP, Difficulty: Easy, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.19

MADISON COMPANY
Balance Sheet
December 31, 2027

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

[(Cash + Accts. rec. + Supp. + Equip.) = Accts. pay. + (Com. stk. + End. ret. earn.)]

LO 5, BT: AN, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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EXERCISE 1.20

(a)

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

(Tot. rev. – Tot. exp.)

(b)

WYCO PARK
Balance Sheet
December 31, 2027

Assets		
Cash		$ 20,000
Supplies		2,500
Equipment		105,500
Total assets		$128,000
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	$60,000	
Accounts payable	11,000	
Total liabilities		$ 71,000
Stockholders' equity		
Common stock	20,000	
Retained earnings ($128,000 – $71,000 – $20,000)	37,000	
Total stockholders' equity		57,000
Total liabilities and stockholders' equity		$128,000

[(Cash + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 5, BT: AP, Difficulty: Easy, TOT: 10 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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EXERCISE 1.21

LOUISA CRUISE COMPANY
Income Statement
For the Year Ended December 31, 2027

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

(Ticket rev. – Tot. exp.)

LO 5, BT: AP, Difficulty: Easy, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.22

ALEXIS AND RYANS, ATTORNEYS AT LAW
Retained Earnings Statement
For the Year Ended December 31, 2027

Retained earnings, January 1	**$ 23,000**
Add: Net income	**129,000***
	152,000
Less: Dividends	**64,000**
Retained earnings, December 31	**$ 88,000**
***Legal service revenue**	**$340,000**
Total expenses	**211,000**
Net income	**$129,000**

[Beg. ret. earn. + (Legal serv. rev. – Tot. exp.) – Div.]

LO 5, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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EXERCISE 1.23

PAULO COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2027

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

LO 5, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.24

Transactions 4, 5, and 7 are operating activities.
Transaction 3 is an investing activity.
Transactions 1, 2, and 6 are financing activities.

LO 5, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

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PROBLEM 1.1

(a) **FREDONIA REPAIR INC.**

	Assets				=	Liabilities		+	Stockholders' Equity				
									Retained Earnings				
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Common Stock	+	Revenues	– Expenses	– Dividends		
1.	+$10,000						+$10,000						(a)
2.	-5,000			+$5,000									
3.	–400									$400			(b)
4.	–300		+$300										
5.						+$250				-250			(c)
6.	+4,700								+$4,700				(d)
7.	–700										–$700		(e)
8.	–1,000									-1,000			(f)
9.	–140									-140			(g)
10.		+$1,100							+1,100				(h)
11.	+120	120											
	$ 7,280	+ $980	+ $300	+ $5,000	=	$250	+ $10,000	+	$5,800	– $1,790	– $700		
				$13,560						$13,560			

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PROBLEM 1.1 (Continued)

Key to changes in Stockholders' Equity

(a) Issued common stock
(b) Rent expense
(c) Advertising expense
(d) Service revenue
(e) Dividends
(f) Salaries and wages expense
(g) Utilities expense
(h) Service revenue

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

(Serv. rev. – Tot. exp.)

LO 4, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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PROBLEM 1.2

LA BRAVA VETERINARY CLINIC

(a)

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

$29,800 $29,800

PROBLEM 1.2 (Continued)

(b)

LA BRAVA VETERINARY CLINIC
Income Statement
For the Month Ended September 30, 2027

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

(Serv. rev. – Tot. exp.)

LA BRAVA VETERINARY CLINIC
Retained Earnings Statement
For the Month Ended September 30, 2027

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

(Beg. ret. earn. + Net inc. – Div.)

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PROBLEM 1.2 (Continued)

LA BRAVA VETERINARY CLINIC
Balance Sheet
September 30, 2027

Assets		
Cash	$15,900	
Accounts receivable		5,200
Supplies		600
Equipment		8,100
Total assets		$29,800
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	$10,000	
Accounts payable	2,170	
Total liabilities		$12,170
Stockholders' equity		
Common stock	13,000	
Retained earnings	4,630	
Total stockholders' equity		17,630
Total liabilities and stockholders' equity		$29,800

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 50 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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PROBLEM 1.3

(a)

NIMBUS FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2027

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

(Serv. rev. – Tot. exp.)

NIMBUS FLYING SCHOOL
Retained Earnings Statement
For the Month Ended May 31, 2027

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

(Beg. ret. earn. + Net inc. – Div.)

NIMBUS FLYING SCHOOL
Balance Sheet
May 31, 2027

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

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PROBLEM 1.3 (Continued)

NIMBUS FLYING SCHOOL
Balance Sheet (Continued)
May 31, 2027

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

[(Cash + Accts. rec. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)

(b)

NIMBUS FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2027

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

(Adj. serv. rev. – Adj. tot. exp.)

NIMBUS FLYING SCHOOL
Retained Earnings Statement
For the Month Ended May 31, 2027

Retained Earnings, May 1	$ 0
Add: Net income	1,550
	1,550
Less: Dividends	500
Retained Earnings, May 31	$1,050

(Beg. ret. earn. + Net inc. – Div.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 50 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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PROBLEM 1.4

TERCEK DELIVERIES

(a)

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

$25,800 $25,800

PROBLEM 1.4 (Continued)

Key to changes in Stockholders' Equity

(a)	**Issued common stock**	**(e)**	**Gasoline expense**
(b)	**Rent expense**	**(f)**	**Service revenue**
(c)	**Service revenue**	**(g)**	**Utilities expense**
(d)	**Dividends**	**(h)**	**Salaries and wages expense**

(b)

TERCEK DELIVERIES
Income Statement
For the Month Ended June 30, 2027

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

(Serv. Rev. – Tot. exp.)

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PROBLEM 1.4 (Continued)

(c)

TERCEK DELIVERIES
Balance Sheet
June 30, 2027

Assets		
Cash		$ 8,100
Accounts receivable		3,550
Supplies		150
Equipment		14,000
Total assets		$25,800
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	$11,500	
Accounts payable	150	
Total liabilities		$11,650
Stockholders' equity		
Common stock	10,000	
Retained earnings *($0 + $4,450 – $300)	4,150	
Total stockholders' equity		14,150
Total liabilities and stockholders' equity		$25,800

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

* Beg. Ret. Earn. + Net income – Dividends = End. Ret. Earn.

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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PROBLEM 1.5

(a)

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

[(c): Beg. stk. eq. + (Rev. – Exp.) – Div. + Add'l. invest. = End. stk. eq.]; [$27,000 + ($350,000 – $335,000) – $6,000 + Add'l. invest. = $40,000]

[(f): Beg. stk. eq. + Net inc. + Add'l. invest. – Div. = End. stk. eq.]; [$60,000 + $38,000 + $15,000 – Div. = $62,000]

[(i): Beg. stk. eq. + (Rev. - Exp.) + Add'l. invest. – Div. = End. stk. eq.]; [$45,000 + (Rev. – $342,000) + $10,000 – $14,000 = $130,000]

[(l): Beg. stk. eq. + (Rev. – Exp.) + Add'l. invest. – Div. = End. stk. eq.]; [$100,000 + ($500,000 – Exp.) + $15,000 – $10,000 = $140,000]

(b)

LEONARDO COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2027

Retained earnings, January 1	$20,000
Add: Net income ($420,000 - $382,000)	38,000
	58,000
Less: Dividends	51,000
Retained earnings, December 31	$ 7,000

(Beg. ret. earn. + Net inc. – Div.)

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

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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CC1 Continuing Case: Cookie Creations Solution

(a) **Natalie has a choice between a sole proprietorship, partnership, and a corporation. A partnership is not an option since she is the sole owner of the business.**

A proprietorship is the easiest to create and operate because there are no formal procedures involved in creating the proprietorship. However, if she operates the business as a proprietorship, she will personally have unlimited liability for the debts of the business. Operating the business as a corporation would limit her liability to her investment in the business. Natalie will, in all likelihood, require the services of a lawyer to incorporate. Costs to incorporate as well as additional ongoing costs to administrate and operate the business as a corporation may be costly.

My recommendation is that Natalie choose the corporate form of business organization. If she expands the business after graduation, she can raise additional capital by issuing more stock. In addition, she limits her liability to her investment in the business. If she decides to transfer ownership to another student, she can do so without dissolving the corporation.

(b) **Yes, Natalie will need accounting information to help her operate her business. She will need information on her cash balance on a daily or weekly basis to help her determine if she can pay her bills. She will need to know the cost of her services so she can establish her prices. She will need to know revenue and expenses so she can report her net income for corporate income tax purposes, on an annual basis. If she borrows money, she will need financial statements so lenders can assess the profitability of the business. Natalie would also find financial statements useful to better understand her business and identify any financial issues as early as possible. Monthly financial statements would be best because they are more timely, but they are also more work to prepare.**

(c) **Assets: Cash, Accounts Receivable, Supplies, Equipment**
Liabilities: Accounts Payable, Notes Payable
Stockholders' Equity: Common Stock, Retained Earnings, Dividends
Revenue: Service Revenue
Expenses: Advertising Expense, Supplies Expense, Utilities Expense

(d) **Natalie should have a separate bank account. This will make it easier to prepare financial statements for her business. The business is a separate entity from Natalie and must be accounted for separately.**

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CT 1.1 FINANCIAL REPORTING PROBLEM

(a) Apple's total assets at September 25, 2021 were $351,002 million and at September 26, 2020 were $323,888 million.

(b) Apple had $34,940 million of cash and cash equivalents at September 25, 2021.

(c) Apple had accounts payable totaling $54,763 million on September 25, 2021 and $42,296 million on September 26, 2020.

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

2019	**$260,174 million**
2020	**$274,515 million**
2021	**$365,817 million**

(e) From 2020 to 2021, Apple's net income increased $37,269 million from $57,411 million to $94,680 million.

LO 5, BT: AN, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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CT 1.2 COMPARATIVE ANALYSIS PROBLEM

(a)

(in millions)	PepsiCo	Coca-Cola
1. Total assets	$92,377	$94,354
2. Accounts receivable (net)	$ 8,680	$ 3,512
3. Net revenue (sales)	$79,474	$38,655
4. Net income	$ 7,618	$ 9,771

(b) **Coca-Cola's total assets were 2.1% greater than PepsiCo's total assets, and PepsiCo's net sales were approximately 206% greater than Coca-Cola's net operating revenues. PepsiCo's accounts receivable were 247% greater than Coca-Cola's and represent 10.9% of its net sales. Coca-Cola's accounts receivable amount to 9.1% of its net sales. Both PepsiCo's and Coca-Cola's accounts receivable are at satisfactory levels.**

Coca-Cola's net income is 28.3% greater than PepsiCo's. It appears that Coca-Cola does a much better job of controlling its costs than PepsiCo. Coca-Cola's net income is 25.3% of its operating revenues, while PepsiCo's net income is only 9.6% of its net revenue.

LO 5, BT: AN, E, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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CT 1.3 COMPARATIVE ANALYSIS PROBLEM

(a)

	(in millions)	Amazon	Walmart
1.	Total assets	$420,549	$244,860
2.	Accounts receivable (net)	$ 32,891	$ 8,280
3.	Net sales (product only)	241,787	$567,762
4.	Net income	$ 33,364	$ 13,673

(b) **Walmart's total assets were approximately 41.8% less than Amazon's total assets, but Walmart's net sales were over 235% greater than Amazon's net sales. Walmart's accounts receivable were 25.2% of Amazon's and represent 1.5% of its net sales. Amazon's accounts receivable amount to 13.6% of its net sales. Both Amazon's and Walmart's accounts receivable are at satisfactory levels.**

Amazon's net income was 2.4 times that of Walmart's. It appears that these two companies' operations are comparable in some ways, but Amazon's operations are more profitable.

LO 5, BT: AN, E, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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

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

CHIP-SHOT DRIVING RANGE COMPANY
Balance Sheet
March 31, 2027

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

As shown on the balance sheet, the stockholders' equity at March 31 is $27,450 ($27,700 – $250). The estimate of *$2,450 of net income is the difference between the initial investment of $25,000 and the total stockholders' equity of $27,450. This was not a valid basis for determining net income because changes in stockholders' equity between two points in time may have been caused by factors unrelated to net income. For example, there may be dividends and/or additional capital investments by the stockholders.

[(Cash + Bldgs. + Equip.) = Accts. pay. + (Com. stk. + Ret. earn.)]

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CT 1.4 (Continued)

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

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

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

(End. stk. equity – Beg, stk. equity + Div.)

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

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

(End. cash bal. + Tot. cash pmts. – Beg. cash bal.)

LO 5, BT: E, Difficulty: Moderate, TOT: 20 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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CT 1.5 COMMUNICATION ACTIVITY

From: Student's email address
To: Ashley's email address
Subject: Explanation of Balance Sheet Corrections

Hi Ashley:

I have received the balance sheet of New York Company as of December 31, 2027. A number of items on this balance sheet are not properly reported; a correct balance sheet is attached. Listed below is a summary of the corrections.

1. **The balance sheet should be dated as of a specific date, not for a period of time. Therefore, it should be dated "December 31, 2027."**

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

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

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

5. **Liabilities and stockholders' equity should be reported separately on the balance sheet. Common stock is not a liability.**

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

Student's name

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CT 1.5 (Continued)

A correct balance sheet is as follows:

NEW YORK COMPANY
Balance Sheet
December 31, 2027

Assets		
Cash		**$ 9,000**
Accounts receivable		**6,000**
Supplies		**2,000**
Equipment		**25,500**
Total assets		**$42,500**
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	**$10,500**	
Accounts payable	**8,000**	
Total liabilities		**$18,500**
Stockholders' equity		
Common stock	**22,000**	
Retained earnings	**2,000**	
Total stockholders' equity		**24,000**
Total liabilities and stockholders' equity		**$42,500**

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 5, BT: AP, E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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CT 1.6 ETHICS CASE

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

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

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

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

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

LO 2, BT: E, Difficulty: Easy, TOT: 12 min., AACSB: Ethics, AICPA FC: Reporting, AICPA PC: Professional Demeanor, IMA: Business Applications

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CT 1.7	ETHICS CASE

Students responses to each topic will vary. The responses presented below include points that should appear, in some way, to each topic.

a. Yes, companies, specifically the management, should be held accountable for the accuracy of their communications. In fact, the Sarbanes-Oxley Act, requires that the top management certify the fairness of the information contained in a company's financial statements.

b. The steps taken to ensure that a company's financial communications are accurate should include:

1. **Hire managers with the appropriate education and experience.**
2. **Install an accounting information system that will ensure that accounting transactions are recorded and reported accurately.**
3. **Assuming the company being discussed is a corporation, require the Board of Directors have oversight responsibilities of the reporting system.**
4. **Hire a CPA firm to conduct an annual audit of the information contained in the annual financial statements.**
5. **To ensure that interested outside parties receive timely information, issue periodic (quarterly) financial information.**

c. The comments presented here are based on the following web addresses: https://www.sec.gov/news/press-release/2018-226; https://www.cnbc.com/2019/03/19/tesla-and-elon-musk-lawsuits-overview.html; https://www.washingtonpost.com/technology/2020/02/13/tesla-sec/

A summary of the charges levied against Elon Musk and Tesla and the subsequent settlement include:

In 2018, the SEC claimed that Mr. Musk had intentionally tweeted misleading information about Tesla that negatively impacted the stock market. Additionally, the SEC claimed that Tesla failed to have the required disclosure requirements and procedures related to the accuracy of Mr. Musk's tweets.

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CT 1.7 (Continued)

In 2019, a settlement was reached that required that:

Mr. Musk step down as Tesla's Chairman.

Tesla would appoint two new independent directors to the board.

Tesla would create a new committee of independent directors with additional controls and procedures to oversee Mr. Musk's communications.

Both Mr. Musk and Tesla would each pay a $20 million penalty that would be used to compensate harmed investors.

In 2020, the SEC issued a subpoena for Tesla financial records due to Mr. Musk making another misleading tweet regarding Tesla's production estimates that was not approved in advance by securities experts.

d. If investors and creditors cannot rely on the accuracy of the information contained in company financial statements then capital markets would, at best, be greatly reduced, or, at worst, cease to exist. Without accurate, reliable information, investors and creditors would be unable to assess the risk of investing or lending. As a result, companies seeking cash inflows from investors/creditors to run and grow their operations, would have to rely solely on the owner(s) personal assets. The result would be to reduce the size of company operations, which would affect employment, and result in a stultifying effect on the economy.

LO 1 BT: S Difficulty: Hard TOT: 45.0 min. AACSB: Ethics AICPA FC: Reporting AICPA PC: Professional Demeanor

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CT 1.8 ALL ABOUT YOU

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

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

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

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

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

LO 2, BT: E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, Communication AICPA FC: Reporting, IMA: Reporting

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CT 1.9 ALL ABOUT YOU

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

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

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

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

LO 2, 5, BT: E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, Communication AICPA FC: Reporting, IMA: Reporting

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CT 1.10 FASB CODIFICATION ACTIVITY

No solution necessary.

LO N/A, BT: AP, Difficulty: Moderate, TOT: 15min., AACSB: Technology, AICPA FC: Measurement, IMA: Reporting

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CT 1.11 CONSIDERING EVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORTING

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

LO N/A, BT: C, Difficulty: Easy, TOT: 10 min., AACSB: Analytic, Technology, AICPA FC: Reporting, IMA: Reporting

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Chapter One

Challenge Exercise 1

Expands on: E1-7
LO: 4

Wunderkind Photography entered into the following transactions during February 2022.

1. Stockholders invested $5,000 in the business.
2. Bought photography equipment for a cash payment of $1,000.
3. Bought more photography equipment by signing a $500 note payable.
4. Performed photography services for $400 cash.
5. Performed photography services, and billed the customer $900 on account.
6. Collected $900 from the customer in transaction 5.
7. Paid for February developing and printing, $150.
8. Advertised the business in the Platteville Journal. The $100 cost will be billed to Wunderkind.
9. Paid the advertising bill from transaction 8.
10. Paid $200 for photography supplies.
11. Received $300 cash advance payment from a customer for a photography job to be performed in April.
12. Paid $250 dividend to the stockholders.

Instructions:

A. Indicate whether each transaction increases or decreases assets, liabilities, or stockholders' equity. As an example, item one would be: increase assets and increase stockholders' equity.
B. Ignoring dollar amounts, explain what transactions 4 and 5 have in common, and how they differ.
C. Ignoring dollar amounts, explain what transactions 7 and 8 have in common, and how they differ.
D. Ignoring dollar amounts, explain what transactions 4 and 11 have in common, and how they differ.

Challenge Exercise 1 – Solution

A. 1. Increase assets and increase stockholders' equity.
2. Increase assets and decrease assets.
3. Increase assets and increase liabilities.
4. Increase assets and increase stockholders' equity.
5. Increase assets and increase stockholders' equity.
6. Increase assets and decrease assets.
7. Decrease stockholders' equity and decrease assets.
8. Decrease stockholders' equity and increase liabilities.
9. Decrease liabilities and decrease assets.
10. Increase assets and decrease assets.
11. Increase assets and increase liabilities.
12. Decrease stockholders' equity and decrease assets.

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B. In both transactions 4 and 5, stockholders' equity increases because revenue is earned. In addition, in both transactions, assets increase. Cash is the asset increasing in transaction 4, while accounts receivable is the asset increasing in transaction 5.

C. In transactions 7 and 8, stockholders' equity decreases because an expense is incurred. In transaction 7, the cash is paid at the time the expense is incurred; in transaction 8, cash will not be paid until after the expense is incurred.

D. In both transactions 4 and 11, cash is collected from customers for a revenue. In transaction 4, the cash is collected when the work was done for the customer, so the revenue is recorded and stockholders' equity is increased. In transaction 11, cash is collected before the work is done for the customer, so the firm has an increase in liabilities (they owe the photography work to the customer) instead of an increase in stockholders' equity.

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Challenge Exercise 2

Expands on: E1-10
LO: 4

The total assets and liabilities of Robot Company at January 1 and December 31, 2022 are presented here.

	January 1	December 31
Assets	$76,000	$112,000
Liabilities	26,000	28,800

Instructions:

1. Assume dividends of $10,800 were paid and no additional stock was issued during the year. Revenues were $110,000. Compute (a) net income, and (b) expenses.
2. Assume additional stock was issued for $4,800 and no dividends were paid during the year. Expenses were $42,000. Compute (a) net income, and (b) revenues.
3. Assume additional stock was issued for $62,000 and dividends of $15,600 were paid during the year. Compute net income.
4. Assume additional stock was issued for $6,000, and net income was $51,000. Compute dividends paid.

Challenge Exercise 2 – Solution

1. (a) January 1, stockholders' equity = $76,000 - $26,000 = $50,000.
   December 31, stockholders' equity = $112,000 - $28,800 = $83,200.
   The change in stockholders' equity = $83,200 - $50,000 = $33,200.
   $33,200 = Net income + investments by owners - dividends.
   $33,200 = NI + $0 - $10,800.
   NI = $44,000.
   (b) Revenues - expenses = net income.
   $110,000 - expenses = $44,000.
   Expenses = $66,000.
2. (a) January 1, stockholders' equity = $76,000 - $26,000 = $50,000.
   December 31, stockholders' equity = $112,000 - $28,800 = $83,200.
   The change in stockholders' equity = $83,200 - $50,000 = $33,200.
   $33,200 = Net income + investments by owners - dividends.
   $33,200 = NI + $4,800 - $0.
   NI = $28,400.
   (b) Revenues - expenses = net income.
   Revenues - $42,000 = $28,400.
   Revenues = $70,400.
3. January 1, stockholders' equity = $76,000 - $26,000 = $50,000.
   December 31, stockholders' equity = $112,000 - $28,800 = $83,200.
   The change in stockholders' equity = $83,200 - $50,000 = $33,200.
   $33,200 = Net income + investments by owners - dividends.
   $33,200 = NI + $62,000 - $15,600.
   NI = -$13,200. (a net loss).
4. January 1, stockholders' equity = $76,000 - $26,000 = $50,000.
   December 31, stockholders' equity = $112,000 - $28,800 = $83,200.
   The change in stockholders' equity = $83,200 - $50,000 = $33,200.

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$33,200 = Net income + investments by owners - dividends.
$33,200 = $51,000 + $6,000 - dividends.
Dividends = $23,800.

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Challenge Exercise 3

Expands on: E1-12, E1-14
LO: 5

Seattle Service had the following financial information at the end of 2022:

	1/1/22	2022	12/31/22
Accounts Payable			$15,000
Accounts Receivable			20,000
Advertising Expense		$ 1,000	
Cash			11,000
Common Stock			15,000
Dividends		9,000	
Equipment			33,000
Notes Payable			20,000
Rent Expense		3,500	
Retained Earnings	$6,000		
Salaries and Wages Expense		16,000	
Service Revenue		40,000	
Utilities Expense		2,500	

Instructions:
Prepare a 2022 income statement, 2022 statement of retained earnings, and a 12/31/22 balance sheet for Seattle Service.

Challenge Exercise 3 – Solution

Seattle Service
Income Statement
For the Year Ended December 31, 2022

Revenues		
Service revenue		$40,000
Expenses		
Salaries expense	$16,000	
Rent expense	3,500	
Utilities expense	2,500	
Advertising expense	1,000	23,000
Net income		$17,000

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Seattle Service
Retained Earnings Statement
For the Year Ended December 31, 2022

Retained earnings, 1/1/22	$ 6,000
Add: Net income	17,000
	23,000
Less: Dividends	9,000
Retained earnings, 12/31/22	$ 14,000

Seattle Service
Balance Sheet
December 31, 2022

Assets		
Cash		$11,000
Accounts receivable		20,000
Equipment		33,000
Total assets		$64,000
Liabilities		
Notes payable	$20,000	
Accounts payable	15,000	
Total liabilities		$35,000
Stockholders' Equity		
Common stock	15,000	
Retained earnings	14,000	
Total stockholders' equity		29,000
Total liabilities and stockholders' equity		$64,000

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