**Chapter F:1**

**Accounting and the Business Environment**

## Review Questions

1. What is accounting?

Accounting is the information system that measures business activities, processes the information into reports, and communicates the results to decision makers. Accounting is the language of business.

1. Briefly describe the two major fields of accounting.

Financial accounting provides information for external decision makers, such as outside investors, lenders, customers, and the federal government. Managerial accounting focuses on information for internal decision makers, such as the company’s managers and employees.

1. Describe the various types of individuals who use accounting information and how they use that information to make important decisions.

Individuals use accounting information to help them manage their money, evaluate a new job, and better decide whether they can afford to make a new purchase. Business owners use accounting information to set goals, measure progress toward those goals, and make adjustments when needed. Investors use accounting information to help them decide whether or not a company is a good investment and once they have invested, they use a company’s financial statements to analyze how their investment is performing. Creditors use accounting information to decide whether to lend money to a business and to evaluate a company’s ability to make the loan payments. Taxing authorities use accounting information to calculate the amount of income tax that a company has to pay.

1. What are various certifications available for accountants? Briefly explain each certification.

Certified Public Accountants (CPAs) are licensed professional accountants who serve the general public. They work for public accounting firms, businesses, government, or educational institutions. A Chartered Global Management Accountant (CGMA) is an accountant who has advanced knowledge in finance, operations, strategy, and management. Certified Management Accountants (CMAs) specialize in accounting and financial management knowledge. They work for a single company. Certified Financial Planners (CFPs) work with individuals to help them budget, plan for retirement, save for education, and manage their finances.

1. What is the role of the Financial Accounting Standards Board (FASB)?

The FASB oversees the creation and governance of accounting standards. They work with governmental regulatory agencies, congressionally created groups, and private groups.

1. Explain the purpose of Generally Accepted Accounting Principles (GAAP), including the organization currently responsible for the creation and governance of these standards in the United States.

The guidelines for accounting information are called GAAP. It is the main U.S. accounting rule book and is currently created and governed by the FASB. Investors and lenders must have information that is relevant and has faithful representation in order to make decisions and GAAP provides the framework for this financial reporting.

1. Describe the similarities and differences among the four different types of business entities discussed in the chapter.

A sole proprietorship has a single owner, terminates upon the owner’s death or choice, the owner has personal liability for the business’s debts, and it is not a separate tax entity. A partnership has two or more owners, terminates at partner’s choice or death, the partners have personal liability, and it is not a separate tax entity. A corporation is a separate legal entity, has one or more owners, has indefinite life, the stockholders are not personally liable for the business’s debts, and it is a separate tax entity. A limited-liability company has one or more members and each is only liable for his or her own actions, has an indefinite life, and is not a separate tax entity.

1. A business purchases an acre of land for $5,000. The current market value is $5,550, and the land was assessed for property tax purposes at $5,250. What value should the land be recorded at, and which accounting principle supports your answer?

The land should be recorded at $5,000. The cost principle states that assets should be recorded at their historical cost.

1. What does the going concern assumption mean for a business?

The going concern assumption assumes that the entity will remain in business for the foreseeable future and long enough to use existing resources for their intended purpose.

1. Which concept states that accounting information should be complete, neutral, and free from material error?

The faithful representation concept states that accounting information should be complete, neutral, and free from material error.

1. Financial statements in the United States are reported in U.S. dollars. What assumption supports this statement?

The monetary unit assumption states that items on the financial statements should be measured in terms of a monetary unit.

1. Explain the role of the International Accounting Standards Board (IASB) in relation to International Financial Reporting Standards (IFRS).

The IASB is the organization that develops and creates IFRS which are a set of global accounting standards that would be used around the world.

1. What is the accounting equation? Briefly explain each of the three parts.

Assets = Liabilities + Equity. Assets are economic resources that are expected to benefit the business in the future. They are things of value that a business owns or has control of. Liabilities are debts that are owed to creditors. They are one source of claims against assets. Equity is the other source of claims against assets. Equity is the stockholders’ claims against assets and is the amount of assets that is left over after the company has paid its liabilities. It represents the net worth of the corporation.

1. How does retained earnings increase? What are the two ways that retained earnings decreases?

Retained earnings increases with revenues. Retained earnings decreases with expenses and dividends.

1. How is net income calculated? Define *revenues* and *expenses*.

Revenues – Expenses = Net Income. Revenues are earnings resulting from delivering goods or services to customers. Expenses are the cost of selling goods or service.

1. What are the steps used when analyzing a business transaction?

Step 1: Identify the accounts and the account type. Step 2: Decide if each account increases or decreases. Step 3: Determine if the accounting equation is in balance.

1. List the financial statements discussed in the chapter and briefly describe each statement.

Income Statement – Shows the difference between an entity’s revenues and expenses and reports the net income or net loss for a specific period.

Statement of Retained Earnings – Shows the changes in retained earnings for a specific period including net income (loss) and dividends. For public companies, the statement of retained earnings is often included in a statement of stockholders’ equity.

Balance Sheet – Shows the assets, liabilities, and stockholders’ equity of the business as of a specific date.

Statement of Cash Flows – Shows a business’s cash receipts and cash payments for a specific period.

**18.** What is the calculation for ROA? Explain what ROA measures.

Return on Assets = Net income / Average total assets. ROA measures how profitably a company uses its assets.

## Short Exercises

**S-F:1-1**

**Identifying users of accounting information**

For each user of accounting information, identify if the user would use financial accounting or managerial accounting.

**a.** investor

**b.** banker

**c.** IRS

**d.** manager of the business

**e.** controller

**f.** stockholder

**g.** human resources director

**h.** creditor

|  |  |
| --- | --- |
| a. FA | e. MA |
| b. FA | f. FA |
| c. FA | g. MA |
| d. MA | h. FA |

**S-F:1-2**

**Determining organizations that govern accounting**

Suppose you are starting a business, Wholly Shirts, to imprint logos on T-shirts. In organizing the business and setting up its accounting records, you take your information to a CPA to prepare financial statements for the bank. Name the organization that governs the majority of the guidelines that the CPA will use to prepare financial statements for Wholly Shirts. What are those guidelines called?

The Financial Accounting Standards Board governs the majority of guidelines, called Generally Accepted Accounting Principles (GAAP), that the CPA will use to prepare financial statements for Wholly Shirts.

**S-F:1-3**

**Identifying types of business organizations**

Diana Rahat, the owner, plans on opening Diana Rahat Floral Designs. The owner is considering the various types of business organizations and wishes to organize the business with unlimited life and wants the owner of the business to not be held personally liable for the business’ debts. Additionally, Rahat wants the business to be a separate taxable entity. Which type of business organization will meet Rahat’s needs best?

Rahat’s needs will best be met by organizing a corporation since a corporation has an unlimited life and is a separate tax entity. In addition, the owners (stockholders) have limited liability. Rahat could also consider a limited liability company (LLC) as an option. An LLC meets two of the three criteria. It has an unlimited life and limited liability for the owner. However, an LLC is not a separate tax entity.

**S-F:1-4**

**Identifying types of business organizations**

You would like to start a cellular telephone equipment service business. You are considering organizing the business as a sole proprietorship. Identify the advantages and disadvantages of owning a sole proprietorship.

Advantages:

1. Easy to organize.
2. Unification of ownership and management.
3. Less government regulation.

4. Owner has more control over business.

Disadvantages:

1. The owner pays taxes on the entity’s earnings since it is not a separate tax entity.
2. No continuous life or transferability of ownership.
3. Unlimited liability of owner for business’s debts.

**S-F:1-5**

**Applying accounting assumptions and principles**

Swaran Frei is the proprietor of a property management company, Apartment Exchange, near the campus of Pensacola State College. The business has cash of $8,000 and furniture that cost $9,000 and has a fair value of $13,000. The business debts include accounts payable of $6,000. Frei has a personal home valued at $400,000 and a personal bank account with a balance of $1,200. Consider the accounting principles and assumptions discussed in the chapter, and identify the principle or assumption that best matches the situation:

**a.** Frei’s personal assets are not recorded on the Apartment Exchange’s balance sheet.

**b.** Apartment Exchange records furniture at its cost of $9,000, not its fair value of $13,000.

**c.** Apartment Exchange reports its financial statements in U.S. dollars.

**d.** Frei expects Apartment Exchange to remain in operation for the foreseeable future.

a**.** The economic entity assumption

b. The cost principle.

c. The monetary unit assumption.

d. The going concern assumption.

**S-F:1-6**

**Using the accounting equation**

Bennett Handyman Services has total assets of $12,500 and total liabilities of $8,240.

**Requirements**

**1.** Use the accounting equation to solve for equity.

**2.** If assets increase by $3,200 and equity decrease by $1,890 during the next year, what would be the amount of total liabilities for Bennett Handyman Services?

**Requirement 1**

|  |
| --- |
| Bennett Handyman Services has equity of $4,260. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity |
| $12,500 | = | $8,240 | + | ? |
| $12,500 | = | $8,240 | + | **$4,260** |

**Requirement 2**

|  |
| --- |
| Bennett Handyman Services has liabilities of $13,330. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity |
| $12,500 + $3,200 | = | ? | + | $4,260 – $1,890 |
| $15,700 | = | **$13,330** | + | $2,370 |

**S-F:1-7**

**Using the accounting equation**

Hilda’s Overhead Doors reports the following financial information:

|  |  |
| --- | --- |
| Assets | $ 45,800 |
| Liabilities | 15,230 |
| Common Stock | 28,700 |
| Dividends | 7,000 |
| Revenues | 10,890 |
| Expenses | ? |

**Requirements**

**1.** Use the accounting equation to solve for the missing information.

**2.** Did Hilda’s Overhead Doors report net income or net loss?

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ASSETS | = | LIABILITIES | + | EQUITY | | | | | | |
|  |  |  |  | Contributed Capital | + | Retained Earnings | | | | |
|  |  |  | + | Common Stock | – | Dividends | + | Revenues | – | Expenses |
| $45,800  $45,800 | =  = | $15,230  $15,230 | +  + | $28,700  $28,700 | –  – | $7,000  $7,000 | +  + | $10,890  $10,890 | –  – | **?**  **$2,020** |

**Requirement 2**

|  |
| --- |
| Hilda’sOverhead Doors reported net income of $8,870.  Net Income = Revenues − Expenses  Net Income = $10,890 − $2,202  Net Income = $8,870 |

**S-F:1-8**

**Identifying accounts**

a. Accounts Payable

b. Cash

c. Common Stock

d. Accounts Receivable

e. Rent Expense

f. Service Revenue

g. Supplies

h. Dividends

i. Land

j. Salaries Expense

Identify each account as Asset, Liability, or Equity.

|  |  |
| --- | --- |
| a. L | f. E |
| b. A | g. A |
| c. E | h. E |
| d. A | i. A |
| e. E | j. E |

**S-F:1-9**

**Using the accounting equation to analyze transactions**

Large City Kennel earns service revenue by caring for the pets of customers. Large City Kennel is organized as a corporation. During the past month, Large City Kennel has the following transactions:

a. Received $520 cash for service revenue earned.

b. Paid $325 cash for salaries expense.

c. Received a $1,000 contribution in exchange for common stock.

d. Earned $640 for service revenue, but the customer has not paid Large City Kennel yet.

e. Received utility bill of $85, which will be paid next month.

f. Cash dividends of $100 were paid to stockholders.

Indicate the effects of the business transactions on the accounting equation for Large City Kennel. Transaction (a) is answered as a guide. Use the following accounts: Cash, Accounts Receivable, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Utilities Expense.

*a. Increase asset (Cash); Increase equity (Service Revenue)*

1. Increase asset (Cash); Increase equity (Service Revenue)
2. Decrease asset (Cash); Decrease equity (Salaries Expense)
3. Increase asset (Cash); Increase Equity (Common Stock)
4. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
5. Increase liability (Accounts Payable); Decrease equity (Utility Expense)
6. Decrease asset (Cash); Decrease equity (Dividends)

**S-F:1-10**

**Using the accounting equation to analyze transactions**

Mireya’s Inflatables earns service revenue by providing party planning services and inflatable playscapes. Mireya’s Inflatables is organized as a corporation. During the past month, Mireya’s Inflatables had the following transactions:

**a.** Received contributions of $10,000 in exchange for common stock.

**b.** Purchased equipment for $5,000 on account.

**c.** Paid $400 for supplies.

**d.** Earned and received $2,500 cash for service revenue.

**e.** Paid $400 for wages to employees.

**f.** Cash dividends of $1,000 were paid to stockholders.

**g.** Earned $1,000 for services provided. Customer has not yet paid.

**h.** Paid $1,000 for rent.

**i.** Received a bill for $250 for the monthly utilities. The bill has not yet been paid.

Indicate the effects of the business transactions on the accounting equation for Mireya’s Inflatables. Transaction (a) is answered as a guide. Use the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Stock, Dividends, Service Revenue, Wages Expense, Rent Expense, and Utilities Expense.

*a. Increase asset (Cash); Increase equity (Common Stock)*

1. Increase asset (Cash); Increase equity (Common Stock)
2. **Increase asset (Equipment); Increase liability (Accounts Payable)**
3. Increase asset (Supplies); Decrease asset (Cash)
4. Increase asset (Cash); Increase equity (Service Revenue)
5. Decrease asset (Cash); Decrease equity (Wages Expense)
6. Decrease asset (Cash); Decrease equity (Dividends)
7. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
8. Decrease asset (Cash); Decrease equity (Rent Expense)
9. Increase liability (Accounts Payable); Decrease equity (Utilities Expense)

**S-F:1-11**

**Identifying accounts on the financial statements**

Consider the following accounts:

**a.** Accounts Payable

**b.** Cash

**c.** Common Stock

**d.** Accounts Receivable

**e.** Rent Expense

**f.** Service Revenue

**g.** Supplies

**h.** Dividends

**i.** Land

**j.** Salaries Expense

Identify the financial statement (or statements) that each account would appear on. Use I for Income Statement, RE for Statement of Retained Earnings, B for Balance Sheet, and C for Statement of Cash Flows.

***Use the following information to answer Short Exercises S-F:1-12 through S-F:1-15.***

Boardwalk Web Design has just completed operations for the year ended December 31, 2025. This is the third year of operations for the company. The following data have been assembled for the business:

|  |  |  |  |
| --- | --- | --- | --- |
| Insurance Expense | $  4,000 | Salaries Expense | $ 42,000 |
| Service Revenue | 74,000 | Accounts Payable | 6,800 |
| Utilities Expense | 1,100 | Supplies | 2,100 |
| Rent Expense | 13,000 | Dividends | 3,900 |
| Common Stock | 6,000 | Accounts Receivable | 5,500 |
| Cash | 4,700 | Equipment | 15,000 |
| Retained Earnings, January 1, 2025 | 4,500 |  |  |

|  |  |
| --- | --- |
| a. B | f. I |
| b. B, C | g. B |
| c. B | h. RE |
| d. B | i. B |
| e. I | j. I |

**S-F:1-12**

**Preparing the income statement**

Prepare the income statement of Boardwalk Web Design for the year ended December 31, 2025.

|  |  |  |
| --- | --- | --- |
| **BOARDWALK WEB DESIGN** | | |
| **Income Statement** | | |
| **Year Ended December 31, 2025** | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 74,000 |
| Expenses: |  |  |
| Salaries Expense | $ 42,000 |  |
| Rent Expense | 13,000 |  |
| Insurance Expense | 4,000 |  |
| Utilities Expense | 1,100 |  |
| Total Expenses |  | 60,100 |
| Net Income |  | **$ 13,900** |
|  |  |  |

**S-F:1-13**

**Preparing the statement of retained earnings**

Prepare the statement of retained earnings of Boardwalk Web Design for the year ended December 31, 2025.

|  |  |
| --- | --- |
| **BOARDWALK WEB DESIGN** | |
| **Statement of Retained Earnings** | |
| **Year Ended December 31, 2025** | |
| Retained Earnings, January 1, 2025 | $ 4,500 |
| Net income for the year | 13,900 |
|  | 18,400 |
| Dividends | (3,900) |
| Retained Earnings, December 31, 2025 | **$ 14,500** |
|  |  |

**S-F:1-14**

**Preparing the statement of stockholders’ equity**

Prepare the statement of stockholders’ equity of Boardwalk Web Design for the year ended December 31, 2025. No common stock was issued during 2025.

|  |  |  |  |
| --- | --- | --- | --- |
| **BOARDWALK WEB DESIGN** | | | |
| **Statement of Stockholders’ Equity** | | | |
| **Year Ended December 31, 2025** | | | |
|  |  |  |  |
|  | Contributed Capital | Retained Earnings | Total Stockholders’ Equity |
|  | Common Stock |
| Balance, January 1, 2025 | $ 6,000 | $ 4,500 | $ 10,500 |
| Issuance of common stock |  |  | 0 |
| Net income for the year |  | 13,900 | 13,900 |
| Less: Dividends |  | (3,900) | (3,900) |
| Balance, December 31, 2025 | **$ 6,000** | **$ 14,500** | **$ 20,500** |
|  |  |  |  |

**S-F:1-15**

**Preparing the balance sheet**

Prepare the balance sheet of Boardwalk Web Design as of December 31, 2025.

|  |  |  |  |
| --- | --- | --- | --- |
| **BOARDWALK WEB DESIGN** | | | |
| **Balance Sheet** | | | |
| **December 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 4,700 | Accounts Payable | $ 6,800 |
| Accounts Receivable | 5,500 |  |  |
| Supplies | 2,100 | Stockholders’ Equity | |
| Equipment | 15,000 | Common Stock | 6,000 |
|  |  | Retained Earnings | 14,500 |
|  |  | Total Stockholders’ Equity | 20,500 |
| Total Assets | **$ 27,300** | Total Liabilities and Stockholders’ Equity | **$ 27,300** |
|  |  |  |  |

**S-F:1-16**

**Preparing the statement of cash flows**

Gage Street Homes had the following cash transactions for the month ended July 31, 2025.

|  |  |
| --- | --- |
| Cash receipts: |  |
| Collections from customers | $ 20,000 |
| Issued common stock | 8,000 |
| Cash payments: |  |
| Rent | 3,000 |
| Utilities | 1,500 |
| Salaries | 2,100 |
| Purchase of equipment | 10,750 |
| Payment of cash dividends | 5,250 |
| Cash balance, July 1, 2025 | 12,500 |
| Cash balance, July 31, 2025 | 17,900 |

Prepare the statement of cash flows for Gage Street Homes for the month ended July 31, 2025.

|  |  |  |
| --- | --- | --- |
| **GAGE STREET HOMES** | | |
| **Statement of Cash Flows** | | |
| **Month Ended July 31, 2025** | | |
|  |  |  |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | $ 20,000 |
| Payments: |  |  |
| To employees | $ (2,100) |  |
| To suppliers ($3,000 + $1,500) | (4,500) | (6,600) |
| Net cash provided by operating activities |  | 13,400 |
| Cash flows from investing activities: |  |  |
| Purchase of equipment | (10,750) |  |
| Net cash used by investing activities |  | (10,750) |
| Cash flows from financing activities: |  |  |
| Issued common stock | 8,000 |  |
| Payment of cash dividend | (5,250) |  |
| Net cash provided by financing activities |  | 2,750 |
| Net increase in cash |  | 5,400 |
| Cash balance, July 1, 2025 |  | 12,500 |
| Cash balance, July 31, 2025 |  | **$ 17,900** |
|  |  |  |

**S-F:1-17**

**Calculating ROA**

Annett Irrigation Company had net income for the month of October of $30,000. Assets as of the beginning and end of the month totaled $355,000, and $345,000, respectively. Calculate Annett Irrigation Company’s ROA for the month of October. Round percentage to two decimal places.

|  |  |  |
| --- | --- | --- |
| Return on assets | = | Net income / Average total assets |
|  | = | $30,000 / (($355,000 + $345,000) / 2) |
|  | = | $30,000 / $350,000 |
|  | = | 8.57% |

## Exercises

**E-F:1-18**

**Identifying users of accounting information**

For each of the users of accounting information, identify whether the user is an external decision maker (E) or an internal decision maker (I):

**a**. customer

**b.** company manager

**c.** Internal Revenue Service

**d.** lender

**e.** investor

**f.** controller

**g.** cost accountant

**h.** SEC

|  |  |
| --- | --- |
| 1. E | 1. E |
| 1. I | 1. I |
| 1. E | 1. I |
| 1. E | 1. E |

**E-F:1-19**

**Using accounting vocabulary**

Consider the following accounting terms and definitions and match each term to the definition:

|  |  |
| --- | --- |
| 1. Sole proprietorship   2. Faithful representation   3. Partnership   4. IFRS   5. Corporation   6. Audit   7. Cost principle   8. FASB   9. Creditors  10. SEC | a. Set of global accounting guidelines, formulated by the IASB  b. Holds that fair value should not be used over actual costs  c. Stands for Financial Accounting Standards Board  d. Owner is referred to as a proprietor  e. Asserts that accounting information should be complete, neutral, and free from material error  f. An examination of a company’s financial statements and records  g. Has two or more owners (called partners)  h. U.S. governmental agency that oversees the U.S. financial markets  i. Type of entity that is designed to limit personal liability exposure of owners to the entity’s debts  j. Person or business lending money |

|  |  |
| --- | --- |
| 1. d | 1. f |
| 1. e | 1. b |
| 1. g | 1. c |
| 1. a | 1. j |
| 1. i | 1. h |

**E-F:1-20**

**Using accounting vocabulary**

Consider the following accounting terms and definitions and match each term to the definition:

|  |  |
| --- | --- |
| 1. Accounting equation   2. Asset   3. Balance sheet   4. Expense   5. Income statement   6. Liability   7. Net income   8. Net loss   9. Revenue  10. Statement of cash flows  11. Statement of retained earnings | a. An economic resource that is expected to be of benefit in the future  b. Debts that are owed to creditors  c. Excess of total expenses over total revenues  d. Excess of total revenues over total expenses  e. The basic tool of accounting, stated as  f. Decreases in equity that occur in the course of selling goods or services  g. Increases in equity that occur in the course of selling goods or services  h. Reports on a business’ cash receipts and cash payments during a period  i. Reports on an entity’s assets, liabilities, and stockholders’ equity as of a specific date  j. Reports on an entity’s revenues, expenses, and net income or loss for the period  k. Reports how the company’s retained earnings balance changed from the beginning to the end of the period |

|  |  |
| --- | --- |
| 1. e | 1. d |
| 1. a | 1. c |
| 1. i | 1. g |
| 1. f | 1. h |
| 1. j | 1. k |
| 1. b |  |

**E-F:1-21**

**Using the accounting equation**

Compute the missing amount in the accounting equation for each entity from the financial information presented:

|  | Assets | Liabilities | Equity |
| --- | --- | --- | --- |
| Corner Grocery | $   ? | $ 24,000 | $ 50,000 |
| Everything Hair | 75,000 | ? | 32,000 |
| Zippy Gas | 100,000 | 53,000 | ? |

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets | Liabilities | Equity |
| Corner Grocery | **$ 74,000** | $ 24,000 | $ 50,000 |
| Everything Hair | 75,000 | **43,000** | 32,000 |
| Zippy Gas | 100,000 | 53,000 | **47,000** |

**E-F:1-22**

**Using the accounting equation**

Zion Builders’ balance sheet data at May 31, 2025, and June 30, 2025, follow:

|  | May 31, 2025 | June 30, 2025 |
| --- | --- | --- |
| Total Assets | $ 177,000 | $ 213,000 |
| Total Liabilities | 122,000 | 144,000 |

For each of the following situations that occurred in June 2025 with regard to common stock and dividends of a corporation, compute the amount of net income or net loss during June 2025.

**a.** The company issued $6,000 of common stock and paid no dividends.

**b.** The company issued no common stock. It paid cash dividends of $10,000.

**c.** The company issued $18,000 of common stock and paid cash dividends of $20,000.

|  |  |  |  |
| --- | --- | --- | --- |
|  | a. | b. | c. |
| Stockholders’ equity, May 31, 2025  ($177,000 – $122,000) | $ 55,000 | $ 55,000 | $ 55,000 |
| Issuance of common stock | 6,000 | 0 | 18,000 |
| Net income for the month | **8,000** | **24,000** | **16,000** |
|  | 69,000 | 79,000 | 89,000 |
| Dividends | 0 | (10,000) | (20,000) |
| Stockholders’ equity, June 30, 2025  ($213,000 – $144,000) | $ 69,000 | $ 69,000 | $ 69,000 |
|  |  |  |  |

**E-F:1-23**

**Using the accounting equation**

Collision Auto Shop started 2025 with total assets of $19,000 and total liabilities of $9,000. At the end of 2025, Collision Auto Shop’s total assets stood at $27,000 and total liabilities were $13,000.

**Requirements**

**1.** Did the stockholders’ equity of Collision Auto Shop increase or decrease during 2025? By how much?

**2.** Identify the four possible reasons that stockholders’ equity can change.

**Requirement 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Beginning of 2025 | $19,000 | = | $9,000 | + | ? |
|  | $19,000 | = | $9,000 | + | **$10,000** |
|  |  |  |  |  |  |
| End of 2025 | $27,000 | = | $13,000 | + | ? |
|  | $27,000 | = | $13,000 | + | **$14,000** |

|  |
| --- |
| Stockholders’ equity increased in 2025 by $4,000 ($14,000 – $10,000). |

**Requirement 2**

a. Increase through issuance of common stock.

b. Increase through net income.

c. Decrease through dividend payment.

d. Decrease through net loss.

**E-F:1-24**

**Using the accounting equation**

During 2025, Bigfoot Spa reported revenue of $21,000. Total expenses for the year were $14,000. Bigfoot Spa ended the year with total assets of $30,000, and it owed debts totaling $14,000. At year-end 2024, the business reported total assets of $23,000 and total liabilities of $14,000.

Requirements

**1.** Compute Bigfoot Spa’s net income for 2025.

**2.** Did Bigfoot Spa’s stockholders’ equity increase or decrease during 2025? By how much?

**Requirement 1**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Revenues | – | Expenses | = | Net Income |
| $21,000 | – | $14,000 | = | **$7,000** |

**Requirement 2**

|  |
| --- |
| Bigfoot Spa’s equity increased by $7,000 ($16,000 − $9,000) or the amount of the net income. |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Beginning of 2025 | $23,000 | = | $14,000 | + | ? |
|  | $23,000 | = | $14,000 | + | $9,000 |
|  |  |  |  |  |  |
| Ending of 2025 | $30,000 | = | $14,000 | + | ? |
|  | $30,000 | = | $14,000 | + | $16,000 |

**E-F:1-25**

**Using the accounting equation**

The records of Sylvia Company show the following at December 31, 2025:

| Assets & Liabilities: |  | Equity: |  |
| --- | --- | --- | --- |
| Beginning: |  | Common Stock | $ 10,000 |
| Assets | $ 45,000 | Dividends | 19,000 |
| Liabilities | 29,000 | Revenues | 242,000 |
| Ending: |  | Expenses | ? |
| Assets | $ 55,000 | Retained Earnings, January 1, 2025 | 6,000 |
| Liabilities | 38,000 |  |  |

**Requirements**

1. Compute the missing amount for Sylvia Company. You will need to determine Retained Earnings, December 31, 2025, and total stockholders’ equity, December 31, 2025.

2. Did Sylvia Company earn a net income or suffer a net loss for the year? Compute the amount.

**Requirement 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | − | Liabilities | = | Equity |
| Beginning of 2025 | $45,000 | − | $29,000 | = | $16,000 |
| Ending of 2025 | $55,000 | − | $38,000 | = | $17,000 |

Retained Earnings:

|  |  |
| --- | --- |
| Retained Earnings, Jan. 1, 2025 | $ 6,000 |
| Plus: Revenues | 242,000 |
| Less: Expenses | **(222,000)** |
| Less: Dividends | (19,000) |
| Retained Earnings, Dec. 31, 2025 | $ 7,000 |
| Stockholders’ Equity: |  |
| Common Stock | $ 10,000 |
| Retained Earnings | 7,000 |
| Total Stockholders’ Equity | $ 17,000 |
|  |  |

**Requirement 2**

|  |
| --- |
| Sylvia Company earned net income of $20,000. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Revenue | − | Expenses | = | Net Income (Loss) |
| $242,000 | − | $222,000 | = | $20,000 |

**E-F:1-26**

**Using the accounting equation to analyze business transactions**

As the manager of a Mama Bodhi’s restaurant, you must deal with a variety of business transactions. Give an example of a transaction that has each of the following effects on the accounting equation:

**a.** Increase one asset and decrease another asset.

**b.** Decrease an asset and decrease equity.

**c.** Decrease an asset and decrease a liability.

**d.** Increase an asset and increase equity.

**e.** Increase an asset and increase a liability.

Student responses will vary. Examples include:

1. Cash purchase of supplies.
2. Cash dividends paid to stockholders.
3. Paid cash on accounts payable.
4. Received cash for services provided.
5. Borrowed cash from the bank.

**E-F:1-27**

**Using the accounting equation to analyze business transactions**

Indicate the effects of the following business transactions on the accounting equation of Premiere Online Video store. Use the following accounts: Cash, Accounts Receivable, Supplies, Office Furniture, Accounts Payable, Common Stock, Dividends, Rental Revenue, and Rent Expense. Transaction (a) is answered as a guide.

a. Received cash of $10,000 from issuance of common stock.

*Answer: Increase asset (Cash); Increase equity (Common Stock)*

**b.** Earned video rental revenue on account, $1,800.

**c.** Purchased office furniture on account, $400.

**d.** Received cash on account, $600.

**e.** Paid cash on account, $100.

**f.** Rented videos and received cash of $300.

**g.** Paid monthly office rent of $2,500.

**h.** Paid $200 cash to purchase supplies.

a. Increase asset (Cash); Increase equity (Common Stock)

b. Increase asset (Accounts Receivable); Increase equity (Rental Revenue)

c. Increase asset (Office Furniture); Increase liability (Accounts Payable)

d. Increase asset (Cash); Decrease asset (Accounts Receivable)

e. Decrease asset (Cash); Decrease liability (Accounts Payable)

f. Increase asset (Cash); Increase equity (Rental Revenue)

g. Decrease asset (Cash); Decrease equity (Rent Expense)

h. Decrease asset (Cash); Increase asset (Supplies).

**E-F:1-28**

**Using the accounting equation to analyze business transactions**

Indicate the effects of the following business transactions on the accounting equation for Yummy Snack Foods, a supplier of snack foods. Transaction (a) is answered as a guide.

**a.** Yummy Snack Foods received cash from issuance of common stock to stockholders.

*Answer: Increase asset (Cash); Increase equity (Common Stock)*

**b.** Cash purchase of land for a building site.

**c.** Paid cash on accounts payable.

**d.** Purchased equipment; signed a note payable.

**e.** Performed service for a customer on account.

**f.** Employees worked for the week but will be paid next Tuesday.

**g.** Received cash from a customer on accounts receivable.

**h.** Borrowed money from the bank.

**i.** Cash dividends paid to stockholders.

**j.** Incurred utilities expense on account.

a. Increase asset (Cash); Increase equity (Common Stock)

b. Increase asset (Land); Decrease asset (Cash)

c. Decrease asset (Cash); Decrease liability (Accounts Payable)

d. Increase asset (Equipment); Increase liability (Notes Payable)

e. Increase asset (Accounts Receivable); Increase equity (Service Revenue)

f. Increase liability (Salaries Payable); Decrease equity (Salaries Expense)

g. Increase asset (Cash); Decrease asset (Accounts Receivable)

h. Increase asset (Cash); Increase liability (Notes Payable)

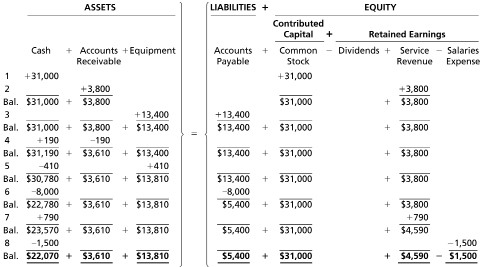
i. Decrease asset (Cash); Decrease equity (Dividends)

j. Increase liability (Accounts Payable); Decrease equity (Utility Expense)

**E-F:1-29**

**Using the accounting equation to analyze business transactions**

The analysis of the first eight transactions of Rapid Accounting Service follows. Describe each transaction.



Transaction Descriptions:

1. Issuance of common stock to stockholders

2. Earned revenue on account

3. Purchased equipment on account

4. Collected cash on account

5. Cash purchase of equipment

6. Paid cash on account

7. Earned revenue and received cash

8. Paid cash for salaries

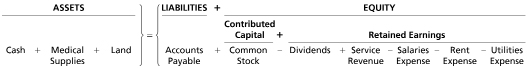
**E-F:1-30**

**Using the accounting equation to analyze business transactions**

Józefina Floros opened a medical practice. During July, the first month of operation, the business, titled J. Floros, MD, experienced the following events:

|  |  |
| --- | --- |
| Jul. 6 | Received a contribution of $55,000 from Floros and opened a bank account in the name of J. Floros, MD. The corporation issued common stock to Floros. |
| 9 | Paid $46,000 cash for land. |
| 12 | Purchased medical supplies for $1,800 on account. |
| 15 | Officially opened for business. |
| 20 | Paid cash expenses: employees’ salaries, $1,600; office rent, $1,900; utilities, $100. |
| 31 | Earned service revenue for the month, $8,000, receiving cash. |
| 31 | Paid $1,100 on account. |

Analyze the effects of these events on the accounting equation of the medical practice of J. Floros, MD, using the following format:



|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  | Contributed Capital | + | Retained Earnings | | | | | | | | | | | | | | |
| Date | Cash | + | Medical Supplies | + | Land | = | Accounts Payable | + | Common  Stock | – | Dividends | + | Service Revenue | – | | Salaries Expense | | – | | Rent Expense | | – | | Utilities Expense | |
| July 6 | +55,000 |  |  |  |  |  |  |  | +55,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $55,000 |  |  |  |  | = |  | + | $55,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 9 | –46,000 |  |  |  | +46,000 | = |  |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $ 9,000 |  |  | + | $46,000 | = |  | + | $55,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 12 |  | + | +1,800 |  |  | = | +1,800 |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $ 9,000 | + | $1,800 | + | $46,000 | = | $1,800 | + | $55,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 15 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $ 9,000 | + | $1,800 | + | $46,000 | = | $1,800 | + | $55,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 20 | –3,600 |  |  |  |  | = |  |  |  |  |  |  |  |  | –1,600 | |  | | –1,900 | |  | | –100 | |
| Bal. | $ 5,400 | + | $1,800 | + | $46,000 | = | $1,800 | + | $55,000 |  |  |  |  | – | $1,600 | | – | | $1,900 | | – | | $100 | |
| 31 | +8,000 |  |  |  |  | = |  |  |  |  |  |  | +8,000 |  |  | |  | |  | |  | |  | |
| Bal. | $13,400 | + | $1,800 | + | $46,000 | = | $1,800 | + | $55,000 |  |  | + | $8,000 | – | $1,600 | | – | | $1,900 | | – | | $100 | |
| 31 | –1,100 |  |  |  |  | = | –1,100 |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $12,300 | + | $1,800 | + | $46,000 | = | $ 700 | + | $55,000 |  |  | + | $8,000 | – | $1,600 | | – | | $1,900 | | – | | $100 | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |

**E-F:1-31**

**Preparing the financial statements**

Alfred Hansen publishes an online travel blog. In need of cash, the business applies for a loan with National Bank. The bank requires borrowers to submit an income statement, statement of retained earnings, balance sheet, and statement of cash flows. With little knowledge of accounting, Alfred Hansen, a stockholder, does not know how to proceed.

**Requirements**

**1.** Is there a specific order in which the financial statements must be prepared?

**2.** Explain how to prepare each statement.

***Use the following information to answer Exercises E-F:1-32 through E-F:1-35.***

The account balances of Strong Arms Coaching at June 30, 2025, follow:

|  |  |  |  |
| --- | --- | --- | --- |
| Equipment | $ 13,600 | Service Revenue | $ 12,200 |
| Supplies | 900 | Accounts Receivable | 6,200 |
| Notes Payable | 6,900 | Accounts Payable | 3,000 |
| Rent Expense | 1,550 | Retained Earnings, June 1, 2025 | 950 |
| Cash | 1,900 | Salaries Expense | 1,900 |
| Dividends | 1,000 | Common Stock | 4,000 |

**Requirement 1**

Yes, the financial statements should be prepared in the following order:

1. Income statement
2. Statement of retained earnings (or statement of stockholders’ equity)
3. Balance sheet
4. Statement of cash flows

**Requirement 2**

Income Statement:

1. The header includes the name of the business, the title of the statement, and the time period. An income statement always represents a period of time, for example, a month or a year.
2. The revenue accounts are always listed first and then subtotaled if necessary.
3. Each expense account is listed separately from largest to smallest and then subtotaled if necessary.
4. Net income is calculated as total revenues minus total expenses.

Statement of Retained Earnings:

1. The header includes the name of the business, the title of the statement, and the time period. A statement of retained earnings always represents a period of time, for example, a month or a year.
2. The beginning retained earnings is listed first and will always be the ending retained earnings from the previous time period.
3. The net income is added to the beginning retained earnings.
4. The dividends are subtracted from retained earnings. If there had been a net loss, this would also be subtracted.

Balance Sheet:

1. The header includes the name of the business and the title of the statement but the date is different. The balance sheet shows the date as a specific date and not a period of time.
2. Each asset account is listed separately and then totaled. Cash is always listed first.
3. Liabilities are listed separately and then totaled. Liabilities that are to be paid first are listed first.
4. The stockholders’ equity section includes common stock and ending retained earnings from the statement of retained earnings.
5. The balance sheet must always balance: Assets = Liabilities + Equity.

Statement of Cash Flows:

1. The header includes the name of the business, the title of the statement, and the time period. A statement of cash flows always represents a period of time, for example, a month or a year.
2. Each dollar amount is calculated by evaluating the cash column on the transaction detail.
3. Operating activities involve cash receipts for services provided and cash payments for expenses paid.
4. Investing activities include the purchase and sale of land and equipment for cash.
5. Financing activities include cash from the issuance of common stock and payment of cash dividends.
6. The ending cash balance must match the cash balance on the balance sheet.

**E-F:1-32**

**Preparing the income statement**

**Requirements**

Net Income $8,750

**1.** Prepare the income statement for Strong Arms Coaching for the month ending June 30, 2025.

**2.** What does the income statement report?

**Requirement 1**

|  |  |  |
| --- | --- | --- |
| **STRONG ARMS COACHING** | | |
| **Income Statement** | | |
| **Month Ended June 30, 2025** | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 12,200 |
| Expenses: |  |  |
| Salaries Expense | $ 1,900 |  |
| Rent Expense | 1,550 |  |
| Total Expenses |  | 3,450 |
| Net Income |  | **$ 8,750** |
|  |  |  |

**Requirement 2**

|  |
| --- |
| The income statement reports revenues and expenses for a period of time. |

**E-F:1-33**

**Preparing the statement of retained earnings**

Ending Retained Earnings $8,700

**Requirements**

**1.** Prepare the statement of retained earnings for Strong Arms Coaching for the month ending June 30, 2025.

**2.** What does the statement of retained earnings report?

**Requirement 1**

|  |  |
| --- | --- |
| **STRONG ARMS COACHING** | |
| **Statement of Retained Earnings** | |
| **Month Ended June 30, 2025** | |
|  |  |
| Retained Earnings, June 1, 2025 | $ 950 |
| Net income for the month | 8,750 |
|  | 9,700 |
| Dividends | (1,000) |
| Retained Earnings, June 30, 2025 | **$ 8,700** |
|  |  |

**Requirement 2**

|  |
| --- |
| The statement of retained earnings reports the changes in retained earnings for a corporation during a time period. The statement of retained earnings reports a corporation’s net income or net loss and dividends declared. |

**E-F:1-34**

**Preparing the statement of stockholders’ equity**

Ending Total Stockholders’ Equity $12,700

**Requirements**

**1.** Prepare the statement of stockholders’ equity for Strong Arms Coaching for the month ending June 30, 2025. No common stock was issued during the month.

**2.** What does the statement of stockholders’ equity report?

**Requirement 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **STRONG ARMS COACHING** | | | |
| **Statement of Stockholders’ Equity** | | | |
| **Month Ended June 30, 2025** | | | |
|  |  |  |  |
|  | Contributed Capital | Retained Earnings | Total Stockholders’ Equity |
|  | Common Stock |
| Balance, June 1, 2025 | $ 4,000 | $ 950 | $ 4,950 |
| Issuance of common stock |  |  | 0 |
| Net income for the month |  | 8,750 | 8,750 |
| Less: Dividends |  | (1,000) | (1,000) |
| Balance, June 30, 2025 | **$ 4,000** | **$ 8,700** | **$ 12,700** |
|  |  |  |  |

**Requirement 2**

|  |
| --- |
| The statement of stockholders’ equity reports the changes in equity of the business for a specific period of time. It shows both the change in contributed capital (common stock) and retained earnings. |

**E-F:1-35**

**Preparing the balance sheet**

Total Assets $22,600

**Requirements**

**1.** Prepare the balance sheet for Strong Arms Coaching as of June 30, 2025.

**2.** What does the balance sheet report?

*Use the following information to answer Exercises E-F:1-36 through E-F:1-38.*

The assets, liabilities, and equities of Rapid Design Studio have the following balances at December 31, 2025. The Retained Earnings was $33,300 at the beginning of the year. At year end, Common Stock was $15,000 and Dividends were $54,400.

|  |  |  |  |
| --- | --- | --- | --- |
| Notes Payable | $ 10,900 | Office Furniture | $ 49,000 |
| Rent Expense | 23,000 | Utilities Expense | 6,900 |
| Cash | 3,600 | Accounts Payable | 3,200 |
| Supplies | 4,500 | Service Revenue | 158,300 |
| Salaries Expense | 65,000 | Accounts Receivable | 8,600 |
| Property Tax Expense | 1,500 | Miscellaneous Expense | 4,200 |

**Requirement 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **STRONG ARMS COACHING** | | | |
| **Balance Sheet** | | | |
| **June 30, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 1,900 | Accounts Payable | $ 3,000 |
| Accounts Receivable | 6,200 | Notes Payable | 6,900 |
| Supplies | 900 | Total Liabilities | 9,900 |
| Equipment | 13,600 | Stockholders’ Equity | |
|  |  | Common Stock | 4,000 |
|  |  | Retained Earnings | 8,700 |
|  |  | Total Stockholders’ Equity | 12,700 |
| Total Assets | **$ 22,600** | Total Liabilities and Stockholders’  Equity | **$ 22,600** |
|  |  |  |  |
|  |  |  |  |

**Requirement 2**

|  |
| --- |
| The balance sheet reports an entity’s assets, liabilities, and stockholders’ equity as of a specific date. |

**E-F:1-36**

Preparing the income statement

Net Income $57,700

Prepare the income statement for Rapid Design Studio for the year ending December 31, 2025.

|  |  |  |
| --- | --- | --- |
| **RAPID DESIGN STUDIO** | | |
| **Income Statement** | | |
| **Year Ended December 31, 2025** | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 158,300 |
| Expenses: |  |  |
| Salaries Expense | $ 65,000 |  |
| Rent Expense | 23,000 |  |
| Utilities Expense | 6,900 |  |
| Miscellaneous Expense | 4,200 |  |
| Property Tax Expense | 1,500 |  |
| Total Expenses |  | 100,600 |
| Net Income |  | **$ 57,700** |
|  |  |  |

**E-F:1-37**

Preparing the statement of retained earnings

Ending Retained Earnings $36,600

Prepare the statement of retained earnings for Rapid Design Studio for the year ending December 31, 2025.

|  |  |
| --- | --- |
| **RAPID DESIGN STUDIO** | |
| **Statement of Retained Earnings** | |
| **Year Ended December 31, 2025** | |
|  |  |
| Retained Earnings, January 1, 2025 | $ 33,300 |
| Net income for the year | 57,700 |
|  | 91,000 |
| Dividends | (54,400) |
| Retained Earnings, December 31, 2025 | **$ 36,600** |
|  |  |

**E-F:1-38**

Preparing the balance sheet

Total Assets $65,700

Prepare the balance sheet for Rapid Design Studio as of December 31, 2025.

|  |  |  |  |
| --- | --- | --- | --- |
| **RAPID DESIGN STUDIO** | | | |
| **Balance Sheet** | | | |
| **December 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 3,600 | Accounts Payable | $ 3,200 |
| Accounts Receivable | 8,600 | Notes Payable | 10,900 |
| Supplies | 4,500 | Total Liabilities | 14,100 |
| Office Furniture | 49,000 | Stockholders’ Equity | |
|  |  | Common Stock | 15,000 |
|  |  | Retained Earnings | 36,600 |
|  |  | Total Stockholders’ Equity | 51,600 |
| Total Assets | **$ 65,700** | Total Liabilities and Stockholders’  Equity | **$ 65,700** |
|  |  |  |  |
|  |  |  |  |

**E-F:1-39**

Preparing the statement of cash flows

For each transaction, identify the appropriate section on the statement of cash flows to report the transaction. Choose from: Cash flows from operating activities (O), Cash flows from investing activities (I), Cash flows from financing activities (F), or Is not reported on the statement of cash flows (X). If reported on the statement, decide whether the transaction should be shown as a positive cash flow  or a negative cash flow 

**a.** The business received cash from the issuance of common stock.

**b.** Paid cash on accounts payable for supplies purchased.

**c.** Performed services for a customer on account.

**d.** Cash dividends were paid to stockholders.

**e.** Received cash from a customer for services performed.

**f.** Purchased equipment with cash.

**g.** Paid rent for the month.

**h.** Purchased land; signed a note payable.

**i.** Paid employees wages for the week.

**j.** Incurred utility expense on account.

|  |  |
| --- | --- |
| a. F + | f. I – |
| b. O – | g. O – |
| c. X | h. X |
| d. F – | i. O – |
| e. O + | j. X |

**E-F:1-40**

Preparing the statement of cash flows

Decrease in cash $5,050

Early Morning Company had the following transactions for the month ending January 31, 2025. Early Morning Company’s cash balance on January 1, 2025, was $13,750.

|  |  |
| --- | --- |
| Jan. 1 | Common stock was issued to stockholders for $10,000 cash. |
| 7 | Purchased equipment for $2,600 on account. |
| 14 | Paid $15,000 cash for land. |
| 17 | Paid cash expenses: employees’ salaries, $800; office rent, $1,000; utilities, $250. |
| 23 | Paid cash dividends of $2,000. |
| 26 | Earned service revenue for the month, $4,000, receiving cash. |

Prepare the statement of cash flows of Early Morning Company for the month ended January 31, 2025.

|  |  |  |
| --- | --- | --- |
| **EARLY MORNING COMPANY** | | |
| **Statement of Cash Flows** | | |
| **Month Ended January 31, 2025** | | |
|  |  |  |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | $ 4,000 |
| Payments: |  |  |
| To employees | $ (800) |  |
| To suppliers ($1,000 + $250) | (1,250) | (2,050) |
| Net cash provided by operating activities |  | 1,950 |
| Cash flows from investing activities: |  |  |
| Purchase of land | (15,000) |  |
| Net cash used by investing activities |  | (15,000) |
| Cash flows from financing activities: |  |  |
| Issuance of common stock | 10,000 |  |
| Payment of cash dividends | (2,000) |  |
| Net cash provided by financing activities |  | 8,000 |
| Net decrease in cash |  | (5,050) |
| Cash balance, January 1, 2025 |  | 13,750 |
| Cash balance, January 31, 2025 |  | **$ 8,700** |
|  |  |  |

**E-F:1-41**

Calculating return on assets

Adile Services had net income for the year of $35,000. In addition, the balance sheet reports the following balances:

|  | Jan. 1, 2025 | Dec. 31, 2025 |
| --- | --- | --- |
| Notes Payable | $ 50,000 | $ 71,500 |
| Cash | 35,000 | 55,000 |
| Office Furniture | 28,000 | 50,000 |
| Building | 150,000 | 150,000 |
| Accounts Payable | 10,000 | 8,500 |
| Total Stockholders’ Equity | 180,000 | 240,000 |
| Accounts Receivable | 2,600 | 18,800 |
| Equipment | 20,000 | 45,000 |
| Supplies | 4,400 | 1,200 |

Calculate the return on assets for Adile Services for the year ending December 31, 2025.

Average total assets = (Beginning total assets + ending total assets) / 2

Assets: Cash, Office Furniture, Building, Accounts Receivable, Equipment, Supplies

Beginning total assets = $35,000 + $28,000 + $150,000 + $2,600 + $20,000 + $4,400 = $240,000

Ending total assets = $55,000 + $50,000 + $150,000 + $18,800 + $45,000 + $1,200 = $320,000

Average total assets = ($240,000 + $320,000) / 2 = $280,000

ROA = Net income / Average total assets

ROA = $35,000 / $280,000 = 0.125 = 12.5%

**E-F:1-42**

Using the accounting equation for transaction analysis and calculating return on assets

Healthy Nutrition Coaching currently has a return on assets of 10%. Indicate the effects of the following business transactions on Healthy Nutrition Coaching’s return on assets. Consider each transaction independently of the others. Identify if the return on assets increases, decreases, or does not change. Explain your answer. Transaction (a) is answered as a guide.

**a.** Purchased office furniture on account, $300.

*Answer: Decreases. The increase in assets (office furniture) increases the denominator in the equation and therefore decreases the ratio.*

**b.** Earned service revenue on account, $2,800.

**c.** Paid $100 cash to purchase supplies.

**d.** Received cash of $10,000 from issuance of common stock.

**e.** Paid cash on account, $100.

**f.** Received cash on account, $400.

a. Decreases. The increase in assets (office furniture) increases the denominator in the equation and therefore decreases the ratio.

b. Increases. The increase in rental revenue increases net income in the numerator of the equation, therefore increases the ratio.

c. Does not change. The decrease in assets (cash) and increase in assets (supplies) in the denominator of the equation causes no change.

d. Decreases. The increase in assets (cash) increases the denominator in the equation and therefore decreases the ratio.

e. Increases. The decrease in assets (cash) decreases the denominator in the equation and therefore increases the ratio.

f. Does not change. The increase in assets (cash) and decrease in assets (accounts receivable) in the denominator of the equation causes no change.

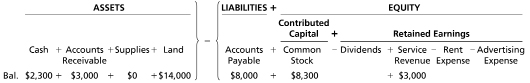
***Problems (Group A)***

**P-F:1-43A**

Using the accounting equation for transaction analysis

Cash $7,100

Brantley Shumaker opened a public relations firm called Gold Star Services on August 1, 2025. The following amounts summarize the business on August 31, 2025:



During September 2025, the business completed the following transactions:

**a.** Received contribution of $13,000 cash from Shumaker in exchange for common stock.

**b.** Performed service for a client and received cash of $900.

**c.** Paid off the beginning balance of accounts payable.

**d.** Purchased supplies from OfficeCo. on account, $600.

**e.** Collected cash from a customer on account, $2,300.

**f.** Cash dividends of $1,600 were paid to stockholders.

**g.** Consulted for a new band and billed the client for services rendered, $5,500.

**h.** Recorded the following business expenses for the month:

      Paid office rent: $1,200.

      Paid advertising: $600.

Analyze the effects of the transactions on the accounting equation of Gold Star Services using the format presented in Exhibit F:1-6.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  | Contributed  Capital | + | Retained Earnings | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Land | = | Accounts Payable | + | Common  Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Advertising Expense |
| Bal. | $2,300 | + | $3,000 |  |  | + | $14,000 | = | $8,000 | + | $8,300 |  |  | + | $3,000 |  |  |  |  |
| (a) | +13,000 |  |  |  |  |  |  |  |  |  | +13,000 |  |  |  |  |  |  |  |  |
| Bal. | $15,300 | + | $3,000 |  |  | + | $14,000 | = | $8,000 | + | $21,300 |  |  |  |  |  |  |  |  |
| (b) | +900 |  |  |  |  |  |  |  |  |  |  |  |  |  | +900 |  |  |  |  |
| Bal. | $16,200 | + | $3,000 |  |  | + | $14,000 | = | $8,000 | + | $21,300 |  |  |  | $3,900 |  |  |  |  |
| (c) | –8,000 |  |  |  |  |  |  |  | –8,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $8,200 | + | $3,000 |  |  | + | $14,000 | = | $0 | + | $21,300 |  |  | + | $3,900 |  |  |  |  |
| (d) |  |  |  |  | +600 |  |  |  | +600 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $8,200 | + | $3,000 | + | $600 | + | $14,000 | = | $600 | + | $21,300 |  |  | + | $3,900 |  |  |  |  |
| (e) | +2,300 |  | –2,300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $10,500 | + | $700 | + | $600 | + | $14,000 | = | $600 | + | $21,300 |  |  | + | $3,900 |  |  |  |  |
| (f) | –1,600 |  |  |  |  |  |  |  |  |  |  |  | –1,600 |  |  |  |  |  |  |
| Bal. | $8,900 | + | $700 | + | $600 | + | $14,000 | = | $600 | + | $21,300 | – | $1,600 | + | $3,900 |  |  |  |  |
| (g) |  |  | +5,500 |  |  |  |  |  |  |  |  |  |  |  | +5,500 |  |  |  |  |
| Bal. | $8,900 | + | $6,200 | + | $600 | + | $14,000 | = | $600 | + | $21,300 | – | $1,600 | + | $9,400 |  |  |  |  |
| (h) | –1,800 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,200 |  | –600 |
| Bal. | $7,100 | + | $6,200 | + | $600 | + | $14,000 | = | $600 | + | $21,300 | – | $1,600 | + | $9,400 | – | $1,200 | – | $600 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P-F:1-44A**

Using the accounting equation for transaction analysis

Cash $17,225

Julio Du started a new business, Quick Media Services, and completed the following transactions during December:

|  |  |
| --- | --- |
| Dec. 1 | Received $21,000 cash from Du in exchange for common stock. |
| 2 | Received $3,500 cash from customers for services performed. |
| 5 | Paid $200 cash for supplies. |
| 9 | Performed services for a customer and billed the customer for services rendered, $2,000. |
| 10 | Received $300 invoice for utilities due in two weeks. |
| 15 | Paid for advertising on social media, $325. |
| 20 | Paid utility invoice received on December 10. |
| 25 | Collected cash in full from customer billed on December 9. |
| 28 | Paid rent for the month, $4,000. |
| 28 | Paid $1,250 to assistant for wages. |
| 30 | Received $1,800 cash from customers for services performed. |
| 31 | Cash dividends of $5,000 were paid to stockholders. |

Analyze the effects of the transactions on the accounting equation of Quick Media Services using a format similar to Exhibit F:1-6. Use the following accounts: Cash, Accounts Receivable, Supplies, Accounts Payable, Common Stock, Dividends, Service Revenue, Rent Expense, Utilities Expense, Wages Expense, and Advertising Expense.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  | Contributed  Capital | + | Retained Earnings | | | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Utilities Expense | – | Wages Expense | – | Advertising Expense |
|
| 1 | +21,000 |  |  |  |  |  |  |  | +21,000 |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 | +3,500 |  |  |  |  |  |  |  |  |  |  |  | +3,500 |  |  |  |  |  |  |  |  |
| Bal. | $24,500 |  |  |  |  | = |  | + | $21,000 |  |  | + | $3,500 |  |  |  |  |  |  |  |  |
| 5 | –200 |  |  |  | +200 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $24,300 |  |  | + | $200 | = |  | + | $21,000 |  |  | + | $3,500 |  |  |  |  |  |  |  |  |
| 9 |  |  | +2,000 |  |  |  |  |  |  |  |  |  | +2,000 |  |  |  |  |  |  |  |  |
| Bal. | $24,300 | + | $2,000 | + | $200 | = |  | + | $21,000 |  |  | + | $5,500 |  |  |  |  |  |  |  |  |
| 10 |  |  |  |  |  |  | +300 |  |  |  |  |  |  |  |  |  | –300 |  |  |  |  |
| Bal. | $24,300 | + | $2,000 | + | $200 | = | $300 | + | $21,000 |  |  | + | $5,500 |  |  | – | $300 |  |  |  |  |
| 15 | –325 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –325 |
| Bal. | $23,975 | + | $2,000 | + | $200 | = | $300 | + | $21,000 |  |  | + | $5,500 |  |  | – | $300 |  |  | – | $325 |
| 20 | –300 |  |  |  |  |  | –300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $23,675 | + | $2,000 | + | $200 | = | $ 0 | + | $21,000 |  |  | + | $5,500 |  |  | – | $300 |  |  | – | $325 |
| 25 | +2,000 |  | –2,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $25,675 | + | $ 0 | + | $200 | = |  | + | $21,000 |  |  | + | $5,500 |  |  | – | $300 |  |  | – | $325 |
| 28 | –4,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | –4,000 |  |  |  |  |  |  |
| Bal. | $21,675 |  |  | + | $200 | = |  | + | $21,000 |  |  | + | $5,500 | – | $4,000 | – | $300 |  |  | – | $325 |
| 28 | –1,250 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,250 |  |  |
| Bal. | $20,425 |  |  | + | $200 | = |  | + | $21,000 |  |  | + | $5,500 | – | $4,000 | – | $300 | – | $1,250 | – | $325 |
| 30 | +1,800 |  |  |  |  |  |  |  |  |  |  |  | +1,800 |  |  |  |  |  |  |  |  |
| Bal. | $22,225 |  |  | + | $200 | = |  | + | $21,000 |  |  | + | $7,300 | – | $4,000 | – | $300 | – | $1,250 | – | $325 |
| 31 | –5,000 |  |  |  |  |  |  |  |  |  | –5,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $17,225 | + | $ 0 | + | $200 | = | $ 0 | + | $21,000 | – | $5,000 | + | $7,300 | – | $4,000 | – | $300 | – | $1,250 | – | $325 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P-F:1-45A**

Preparing financial statements

1. Net Income $86,900

Presented here are the accounts of West Company for the year ended December 31, 2025.

|  |  |  |  |
| --- | --- | --- | --- |
| Land | $ 8,000 | Common Stock | $ 28,000 |
| Notes Payable | 32,000 | Accounts Payable | 11,000 |
| Property Tax Expense | 2,600 | Accounts Receivable | 1,000 |
| Dividends | 30,000 | Advertising Expense | 15,000 |
| Rent Expense | 13,000 | Building | 145,200 |
| Salaries Expense | 65,000 | Cash | 3,000 |
| Salaries Payable | 1,300 | Equipment | 16,000 |
| Service Revenue | 192,000 | Insurance Expense | 2,500 |
| Supplies | 10,000 | Interest Expense | 7,000 |
| Retained Earnings, Dec. 31, 2024 | 54,000 |  |  |

**Requirements**

**1.** Prepare West Company’s income statement for the year ended December 31, 2025.

**2.** Prepare the statement of retained earnings for the year ended December 31, 2025.

**3.** Prepare the balance sheet as of December 31, 2025.

**Requirement 1**

|  |  |  |
| --- | --- | --- |
| **WEST COMPANY** | | |
| **Income Statement** | | |
| **Year Ended December 31, 2025** | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 192,000 |
| Expenses: |  |  |
| Salaries Expense | $ 65,000 |  |
| Advertising Expense | 15,000 |  |
| Rent Expense | 13,000 |  |
| Interest Expense | 7,000 |  |
| Property Tax Expense | 2,600 |  |
| Insurance Expense | 2,500 |  |
| Total Expenses |  | 105,100 |
| Net Income |  | **$ 86,900** |
|  |  |  |

**Requirement 2**

|  |  |
| --- | --- |
| **WEST COMPANY** | |
| **Statement of Retained Earnings** | |
| **Year Ended December 31, 2025** | |
|  |  |
| Retained Earnings, December 31, 2024 | $ 54,000 |
| Net income for the year | 86,900 |
|  | 140,900 |
| Dividends | (30,000) |
| Retained Earnings, December 31, 2025 | **$ 110,900** |
|  |  |

**P-F:1-45A, cont.**

**Requirement 3**

|  |  |  |  |
| --- | --- | --- | --- |
| **WEST COMPANY** | | | |
| **Balance Sheet** | | | |
| **December 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 3,000 | Accounts Payable | $ 11,000 |
| Accounts Receivable | 1,000 | Notes Payable | 32,000 |
| Supplies | 10,000 | Salaries Payable | 1,300 |
| Land | 8,000 | Total Liabilities | 44,300 |
| Building | 145,200 |  | |
| Equipment | 16,000 | Stockholders’ Equity | |
|  |  | Common Stock | 28,000 |
|  |  | Retained Earnings | 110,900 |
|  |  | Total Stockholders’ Equity | 138,900 |
| Total Assets | **$ 183,200** | Total Liabilities and Stockholders’  Equity | **$ 183,200** |
|  |  |  |  |

**P-F:1-46A**

**Preparing financial statements**

b. Ending Retained Earnings $47,000

Superior Photography works weddings and parties. The balance of retained earnings was $16,000 at December 31, 2024. At December 31, 2025, the business’ accounting records show these balances:

|  |  |  |  |
| --- | --- | --- | --- |
| Insurance Expense | $ 6,000 | Accounts Receivable | $ 8,000 |
| Cash | 37,000 | Notes Payable | 12,000 |
| Accounts Payable | 7,000 | Retained Earnings, Dec. 31, 2025 | ? |
| Advertising Expense | 5,000 | Salaries Expense | 25,000 |
| Service Revenue | 80,000 | Equipment | 50,000 |
| Dividends | 13,000 | Common Stock | 29,000 |

Prepare the following financial statements for Superior Photography:

**a.** Income statement for the year ended December 31, 2025.

**b.** Statement of retained earnings for the year ended December 31, 2025.

**c.** Balance sheet as of December 31, 2025.

**Part a.**

|  |  |  |
| --- | --- | --- |
| **SUPERIOR PHOTOGRAPHY** | | |
| **Income Statement** | | |
| **Year Ended December 31, 2025** | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 80,000 |
| Expenses: |  |  |
| Salaries Expense | $ 25,000 |  |
| Insurance Expense | 6,000 |  |
| Advertising Expense | 5,000 |  |
| Total Expenses |  | 36,000 |
| Net Income |  | **$ 44,000** |
|  |  |  |

**Part b.**

|  |  |
| --- | --- |
| **SUPERIOR PHOTOGRAPHY** | |
| **Statement of Retained Earnings** | |
| **Year Ended December 31, 2025** | |
|  |  |
| Retained Earnings, December 31, 2024 | $ 16,000 |
| Net income for the year | 44,000 |
|  | 60,000 |
| Dividends | (13,000) |
| Retained Earnings, December 31, 2025 | **$ 47,000** |
|  |  |

**Part c.**

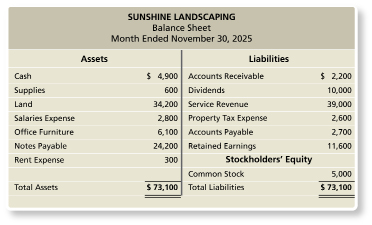
|  |  |  |  |
| --- | --- | --- | --- |
| **SUPERIOR PHOTOGRAPHY** | | | |
| **Balance Sheet** | | | |
| **December 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 37,000 | Accounts Payable | $ 7,000 |
| Accounts Receivable | 8,000 | Notes Payable | 12,000 |
| Equipment | 50,000 | Total Liabilities | 19,000 |
|  |  | Stockholders’ Equity | |
|  |  | Common Stock | 29,000 |
|  |  | Retained Earnings | 47,000 |
|  |  | Total Stockholders’ Equity | 76,000 |
| Total Assets | **$ 95,000** | Total Liabilities and Stockholders’  Equity | **$ 95,000** |
|  |  |  |  |
|  |  |  |  |

**P-F:1-47A**

Preparing financial statements

Total Assets $48,000

The bookkeeper of Sunshine Landscaping prepared the company’s balance sheet while the accountant was ill. The balance sheet, shown on the next page, contains numerous errors. In particular, the bookkeeper knew that the balance sheet should balance and therefore plugged in the retained earnings amount needed to achieve this balance. The retained earnings balance is incorrect. All other amounts are correct, but some are out of place or should not be included in this statement. Prepare a corrected balance sheet.



|  |  |  |  |
| --- | --- | --- | --- |
| **SUNSHINE LANDSCAPING** | | | |
| **Balance Sheet** | | | |
| **November 30, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 4,900 | Accounts Payable | $ 2,700 |
| Accounts Receivable | 2,200 | Notes Payable | 24,200 |
| Supplies | 600 | Total Liabilities | 26,900 |
| Land | 34,200 | Stockholders’ Equity | |
| Office Furniture | 6,100 | Common Stock | 5,000 |
|  |  | Retained Earnings | 16,100 |
|  |  | Total Stockholders’ Equity | 21,100 |
| Total Assets | **$ 48,000** | Total Liabilities and Stockholders’  Equity | **$ 48,000** |
|  |  |  |  |

**P-F:1-48A**

**Using the accounting equation for transaction analysis and preparing financial statements**

2b. Ending Retained Earnings $16,300

Ariella Pfister recently opened an accounting firm on April 1, which operates as a corporation. The name of the new entity is Ariella Pfister, CPA. Pfister experienced the following events during the organizing phase of the new business and its first month of operations in 2025:

|  |  |
| --- | --- |
| Apr. 5 | Pfister deposited $50,000 in a new business bank account titled Ariella Pfister, CPA. The business issued common stock to Pfister. |
| 6 | Paid $100 cash for supplies for new office. |
| 7 | Purchased office furniture for the office on account, $9,700. |
| 10 | Consulted with tax client and received $2,000 for services rendered. |
| 11 | Paid utilities, $200. |
| 12 | Finished tax hearings on behalf of a client and submitted a bill for accounting services, $17,000. |
| 18 | Paid office rent, $1,500. |
| 25 | Received amount due from client that was billed on April 12. |
| 27 | Paid full amount of accounts payable created on April 7. |
| 30 | Cash dividends of $1,000 were paid to the stockholder. |

**Requirements**

**1.** Analyze the effects of the events on the accounting equation of Ariella Pfister, CPA. Use a format similar to Exhibit F:1-6. Use the following accounts: Cash, Accounts Receivable, Supplies, Furniture, Accounts Payable, Common Stock, Dividends, Service Revenue, Rent Expense, and Utilities Expense.

**2.** Prepare the following financial statements:

**a.** Income statement for the month ended April 30, 2025.

**b.** Statement of retained earnings for the month ended April 30, 2025.

**c.** Balance sheet as of April 30, 2025.

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  | Contributed  Capital | + | Retained Earnings | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Furniture | = | Accounts Payable | + | Common  Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Utilities Expense |
| 5 | +50,000 |  |  |  |  |  |  |  |  |  | +50,000 |  |  |  |  |  |  |  |  |
| 6 | –100 |  |  |  | +100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $49,900 |  |  | + | $100 |  |  | = |  | + | $50,000 |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  | +9,700 |  | +9,700 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $49,900 |  |  | + | $100 | + | $9,700 | = | $9,700 | + | $50,000 |  |  |  |  |  |  |  |  |
| 10 | +2,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +2,000 |  |  |  |  |
| Bal. | $51,900 |  |  | + | $100 | + | $9,700 | = | $9,700 | + | $50,000 |  |  | + | $2,000 |  |  |  |  |
| 11 | –200 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –200 |
| Bal. | $51,700 |  |  | + | $100 | + | $9,700 | = | $9,700 | + | $50,000 |  |  | + | $2,000 |  |  | – | $200 |
| 12 |  |  | +17,000 |  |  |  |  |  |  |  |  |  |  |  | +17,000 |  |  |  |  |
| Bal. | $51,700 | + | $17,000 | + | $100 | + | $9,700 | = | $9,700 | + | $50,000 |  |  | + | $19,000 |  |  | – | $200 |
| 18 | –1,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,500 |  |  |
| Bal. | $50,200 | + | $17,000 | + | $100 | + | $9,700 | = | $9,700 | + | $50,000 |  |  | + | $19,000 | – | $1,500 | – | $200 |
| 25 | +17,000 |  | –17,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $67,200 |  | $ 0 | + | $100 | + | $9,700 | = | $9,700 | + | $50,000 |  |  | + | $19,000 | – | $1,500 | – | $200 |
| 27 | –9,700 |  |  |  |  |  |  |  | –9,700 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $57,500 |  |  | + | $100 | + | $9,700 | = | $ 0 | + | $50,000 |  |  | + | $19,000 | – | $1,500 | – | $200 |
| 30 | –1,000 |  |  |  |  |  |  |  |  |  |  |  | –1,000 |  |  |  |  |  |  |
| Bal. | $56,500 | + | $ 0 | + | $100 | + | $9,700 | = | $ 0 | + | $50,000 | – | $1,000 | + | $19,000 | – | $1,500 | – | $200 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P-F:1-48A, cont.**

**Requirement 2a**

|  |  |  |
| --- | --- | --- |
| **ARIELLA PFISTER, CPA** | | |
| **Income Statement** | | |
| **Month Ended April 30, 2025** | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 19,000 |
| Expenses: |  |  |
| Rent Expense | $ 1,500 |  |
| Utilities Expense | 200 |  |
| Total Expenses |  | 1,700 |
| Net Income |  | **$ 17,300** |
|  |  |  |

**Requirement 2b**

|  |  |
| --- | --- |
| **ARIELLA PFISTER, CPA** | |
| **Statement of Retained Earnings** | |
| **Month Ended April 30, 2025** | |
|  |  |
| Retained Earnings, April 1, 2025 | $ 0 |
| Net income for the month | 17,300 |
|  | 17,300 |
| Dividends | (1,000) |
| Retained Earnings, April 30, 2025 | **$ 16,300** |

**Requirement 2c**

|  |  |  |  |
| --- | --- | --- | --- |
| **ARIELLA PFISTER, CPA** | | | |
| **Balance Sheet** | | | |
| **April 30, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 56,500 |  |  |
| Supplies | 100 |  |  |
| Furniture | 9,700 | Stockholders’ Equity | |
|  |  | Common Stock | $ 50,000 |
|  |  | Retained Earnings | 16,300 |
|  |  | Total Stockholders’ Equity | 66,300 |
| Total Assets | **$ 66,300** | Total Liabilities and Stockholders’  Equity | **$ 66,300** |
|  |  |  |  |

**P-F:1-49A**

**Using the accounting equation for transaction analysis, preparing financial statements, and calculating return on assets**

2c. Total Assets $110,480

Bruce Bajaj recently opened a law office on March 1, which operates as a corporation. The name of the new entity is Bruce Bajaj, Attorney. Bajaj experienced the following events during the organizing phase of the new business and its first month of operation, March 2025. Some of the events were personal and did not affect the law practice. Others were business transactions and should be accounted for by the business.

|  |  |
| --- | --- |
| Mar. 1 | Bajaj sold a personal investment in Amazon.com (NASDAQ: AMZN) stock, receiving $31,000 cash. |
| 2 | Deposited the $31,000 cash from the sale of the Amazon.com stock in a personal bank account. |
| 3 | Deposited $89,000 cash in a new business bank account titled Bruce Bajaj, Attorney. The business issued common stock to Bajaj. |
| 5 | Paid $400 cash for supplies. |
| 7 | Purchased computer for the law office, agreeing to pay the account, $9,300, within three months. |
| 9 | Received $2,000 cash from customers for services rendered. |
| 15 | Received bill from The Lawyer for magazine subscription, $120. (Use Miscellaneous Expense account.) |
| 23 | Finished court hearings on behalf of a client and submitted a bill for legal services, $13,500, on account. |
| 28 | Paid bill from The Lawyer. |
| 30 | Paid utilities, $1,200. |
| 31 | Received $3,000 cash from clients billed on March 23. |
| 31 | Cash dividends of $2,000 were paid to the stockholder. |

**Requirements**

**1.** Analyze the effects of the preceding events on the accounting equation of Bruce Bajaj, Attorney. Use a format similar to Exhibit F:1-6.

**2.** Prepare the following financial statements:

**a.** Income statement for the month ended March 31, 2025.

**b.** Statement of retained earnings for the month ended March 31, 2025.

**c.** Balance sheet as of March 31, 2025.

**d.** Statement of cash flows for the month ended March 31, 2025.

**3.** Calculate Bruce Bajaj, Attorney’s return on assets. Round to the nearest whole percent.

**Requirement 1**

**B**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  | Contributed  Capital | + | Retained Earnings | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Computer | = | Accounts Payable | + | Common  Stock | − | Dividends | + | Service Revenue | – | Utilities Expense | – | Miscellaneous Expense |
| 3 | +89,000 |  |  |  |  |  |  |  |  |  | +89,000 |  |  |  |  |  |  |  |  |
| 5 | –400 |  |  |  | +400 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $88,600 |  |  | + | $400 |  |  | = |  | + | $89,000 |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  | +9,300 |  | +9,300 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $88,600 |  |  | + | $400 | + | $9,300 | = | $9,300 | + | $89,000 |  |  |  |  |  |  |  |  |
| 9 | +2,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +2,000 |  |  |  |  |
| Bal. | $90,600 |  |  | + | $400 | + | $9,300 | = | $9,300 | + | $89,000 |  |  | + | $2,000 |  |  |  |  |
| 15 |  |  |  |  |  |  |  |  | +120 |  |  |  |  |  |  |  |  |  | –120 |
| Bal. | $90,600 |  |  | + | $400 | + | $9,300 | = | $9,420 | + | $89,000 |  |  | + | $2,000 | – | $0 | – | $120 |
| 23 |  |  | +13,500 |  |  |  |  |  |  |  |  |  |  |  | +13,500 |  |  |  |  |
| Bal. | $90,600 | + | $13,500 | + | $400 | + | $9,300 | = | $9,420 | + | $89,000 |  |  | + | $15,500 | – | $0 | – | $120 |
| 28 | –120 |  |  |  |  |  |  |  | –120 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $90,480 | + | $13,500 | + | $400 | + | $9,300 | = | $9,300 | + | $89,000 |  |  | + | $15,500 | – | $0 | – | $120 |
| 30 | –1,200 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,200 |  |  |
| Bal. | $89,280 | + | $13,500 | + | $400 | + | $9,300 | = | $9,300 | + | $89,000 |  |  | + | $15,500 | – | $1,200 | – | $120 |
| 31 | +3,000 |  | –3,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $92,280 | + | $10,500 | + | $400 | + | $9,300 | = | $9,300 | + | $89,000 |  |  | + | $15,500 | – | $1,200 | – | $120 |
| 31 | –2,000 |  |  |  |  |  |  |  |  |  |  |  | –2,000 |  |  |  |  |  |  |
| Bal. | $90,280 | + | $10,500 | + | $400 | + | $9,300 | = | $9,300 | + | $89,000 | – | $2,000 | + | $15,500 | – | $1,200 | – | $120 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P-F:1-49A, cont.**

**Requirement 2a**

|  |  |  |
| --- | --- | --- |
| **BRUCE BAJAJ, ATTORNEY** | | |
| **Income Statement** | | |
| **Month Ended March 31, 2025** | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 15,500 |
| Expenses: |  |  |
| Utilities Expense | $ 1,200 |  |
| Miscellaneous Expense | 120 |  |
| Total Expenses |  | 1,320 |
| Net Income |  | **$ 14,180** |
|  |  |  |

**Requirement 2b**

|  |  |
| --- | --- |
| **BRUCE BAJAJ, ATTORNEY** | |
| **Statement of Retained Earnings** | |
| **Month Ended March 31, 2025** | |
|  |  |
| Retained Earnings, March 1, 2025 | $ 0 |
| Net income for the month | 14,180 |
|  | 14,180 |
| Dividends | (2,000) |
| Retained Earnings, March 31, 2025 | **$ 12,180** |
|  |  |

**Requirement 2c**

|  |  |  |  |
| --- | --- | --- | --- |
| **BRUCE BAJAJ, ATTORNEY** | | | |
| **Balance Sheet** | | | |
| **March 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 90,280 | Accounts Payable | $ 9,300 |
| Accounts Receivable | 10,500 |  |  |
| Supplies | 400 | Stockholders’ Equity | |
| Computer | 9,300 | Common Stock | 89,000 |
|  |  | Retained Earnings | 12,180 |
|  |  | Total Stockholders’ Equity | 101,180 |
| Total Assets | **$ 110,480** | Total Liabilities and Stockholders’  Equity | **$ 110,480** |
|  |  |  |  |

**P-F:1-49A, cont.**

**Requirement 2d**

|  |  |  |
| --- | --- | --- |
| **BRUCE BAJAJ, ATTORNEY** | | |
| **Statement of Cash Flows** | | |
| **Month Ended March 31, 2025** | | |
|  |  |  |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | $ 5,000 |
| Payments: |  |  |
| To suppliers |  | (1,720) |
| Net cash provided by operating activities |  | 3,280 |
|  |  |  |
| Cash flows from investing activities: |  | 0 |
|  |  |  |
| Cash flows from financing activities |  |  |
| Issued common stock | $ 89,000 |  |
| Payment of cash dividends | (2,000) |  |
| Net cash provided by financing activities |  | 87,000 |
| Net increase in cash |  | 90,280 |
| Cash balance, March 1, 2025 |  | 0 |
| Cash balance, March 31, 2025 |  | **$ 90,280** |
|  |  |  |

**Requirement 3**

Average total assets = (Beginning total assets + ending total assets) / 2

Average total assets = ($0 + $110,480 / 2 = $55,240

ROA = Net income / Average total assets

ROA = $14,180 / $55,240 = 0.26 = 26% (rounded)

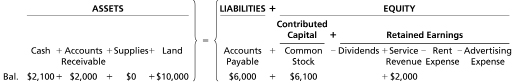
***Problems Group B***

**P-F:1-50B**

Using the accounting equation for transaction analysis

Cash $4,400

Emalee Shepsle opened a public relations firm called Rock Star on August 1, 2025. The following amounts summarize her business on August 31, 2025:



During September 2025, the business completed the following transactions:

**a.** Received contribution of $10,000 cash from Shepsle in exchange for common stock.

**b.** Performed service for a client and received cash of $1,000.

**c.** Paid off the beginning balance of accounts payable.

**d.** Purchased supplies from OfficeCo. on account, $700.

**e.** Collected cash from a customer on account, $500.

**f.** Cash dividends of $1,900 were paid to the stockholder.

**g.** Consulted for a new band and billed the client for services rendered, $5,800.

**h.** Recorded the following business expenses for the month:

Paid office rent: $900.

Paid advertising: $400.

Analyze the effects of the transactions on the accounting equation of Rock Star using the format presented in Exhibit F:1-6.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  | Contributed  Capital | + | Retained Earnings | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Land | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Advertising Expense |
| Bal. | $2,100 | + | $2,000 | + |  | + | $10,000 | = | $6,000 | + | $6,100 |  |  |  | +2,000 |  |  |  |  |
| (a) | +10,000 |  |  |  |  |  |  |  |  |  | +10,000 |  |  |  |  |  |  |  |  |
| Bal. | $12,100 | + | $2,000 |  |  | + | $10,000 | = | $6,000 | + | $16,100 |  |  |  |  |  |  |  |  |
| (b) | +1,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,000 |  |  |  |  |
| Bal. | $13,100 | + | $2,000 |  |  | + | $10,000 | = | $6,000 | + | $16,100 |  |  | + | $3,000 |  |  |  |  |
| (c) | –6,000 |  |  |  |  |  |  |  | –6,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $7,100 | + | $2,000 |  |  | + | $10,000 | = | $0 | + | $16,100 |  |  | + | $3,000 |  |  |  |  |
| (d) |  |  |  |  | +700 |  |  |  | +700 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $7,100 | + | $2,000 | + | $700 | + | $10,000 | = | $700 | + | $16,100 |  |  | + | $3,000 |  |  |  |  |
| (e) | +500 |  | –500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $7,600 | + | $1,500 | + | $700 | + | $10,000 | = | $700 | + | $16,100 |  |  | + | $3,000 |  |  |  |  |
| (f) | –1,900 |  |  |  |  |  |  |  |  |  |  |  | –1,900 |  |  |  |  |  |  |
| Bal. | $5,700 | + | $1,500 | + | $700 | + | $10,000 | = | $700 | + | $16,100 | – | $1,900 | + | $3,000 |  |  |  |  |
| (g) |  |  | +5,800 |  |  |  |  |  |  |  |  |  |  |  | +5,800 |  |  |  |  |
| Bal. | $5,700 | + | $7,300 | + | $700 | + | $10,000 | = | $700 | + | $16,100 | – | $1,900 | + | $8,800 |  |  |  |  |
| (h) | –1,300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –900 |  | –400 |
| Bal. | $4,400 | + | $7,300 | + | $700 | + | $10,000 | = | $700 | + | $16,100 | – | $1,900 | + | $8,800 | – | $900 | – | $400 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P-F:1-51B**

Using the accounting equation for transaction analysis

Cash $34,825

Zora Merz started a new business, Rapid Media Services, and completed the following transactions during December:

|  |  |
| --- | --- |
| Dec. 1 | Received $30,000 cash from Merz in exchange for common stock. |
| 2 | Received $4,000 cash from customers for services performed. |
| 5 | Paid $100 cash for supplies. |
| 9 | Performed services for a customer and billed the customer for services rendered, $3,000. |
| 10 | Received $200 invoice for utilities due in two weeks. |
| 15 | Paid for advertising on social media, $125. |
| 20 | Paid utility invoice received on Dec. 10. |
| 25 | Collected cash in full from customer billed on Dec. 9. |
| 28 | Paid rent for the month, $1,500. |
| 28 | Paid $1,050 to assistant for wages. |
| 30 | Received $2,800 cash from customers for services performed. |
| 31 | Cash dividends of $2,000 were paid to the stockholder. |

Analyze the effects of the transactions on the accounting equation of Rapid Media Services using a format similar to Exhibit F:1-6. Use the following accounts: Cash, Accounts Receivable, Supplies, Accounts Payable, Common Stock, Dividends, Service Revenue, Rent Expense, Utilities Expense, Salaries Expense, and Advertising Expense.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | = | | LIABILITIES | | + | | EQUITY | | | | | | | | | | | | | |
|  |  |  |  |  |  | |  | |  | |  | | Contributed  Capital | + | Retained Earnings | | | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | | = | | Accounts Payable | | + | | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Utilities Expense | – | Wages Expense | – | Advertising Expense |
|
| 1 | +30,000 |  |  |  |  | |  | |  | |  | | +30,000 |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 | +4,000 |  |  |  |  | |  | |  | |  | |  |  |  |  | +4,000 |  |  |  |  |  |  |  |  |
| Bal. | $34,000 |  |  |  |  | | = | |  | | + | | $30,000 |  |  | + | $4,000 |  |  |  |  |  |  |  |  |
| 5 | –100 |  |  |  | +100 | |  | |  | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $33,900 |  |  | + | $100 | | = | |  | | + | | $30,000 |  |  | + | $4,000 |  |  |  |  |  |  |  |  |
| 9 |  |  | +3,000 |  |  | |  | |  | |  | |  |  |  |  | +3,000 |  |  |  |  |  |  |  |  |
| Bal. | $33,900 | + | $3,000 | + | $100 | | = | |  | | + | | $30,000 |  |  | + | $7,000 |  |  |  |  |  |  |  |  |
| 10 |  |  |  |  |  | |  | | +200 | |  | |  |  |  |  |  |  |  |  | –200 |  |  |  |  |
| Bal. | $33,900 | + | $3,000 | + | $100 | | = | | $200 | | + | | $30,000 |  |  | + | $7,000 |  |  | – | $200 |  |  |  |  |
| 15 | –125 |  |  |  |  | |  | |  | |  | |  |  |  |  |  |  |  |  |  |  |  |  | –125 |
| Bal. | $33,775 | + | $3,000 | + | $100 | | = | | $200 | | + | | $30,000 |  |  | + | $7,000 |  |  | – | $200 |  |  | – | $125 |
| 20 | –200 |  |  |  |  | |  | | –200 | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $33,575 | + | $3,000 | + | $100 | | = | | $ 0 | | + | | $30,000 |  |  | + | $7,000 |  |  | – | $200 |  |  | – | $125 |
| 25 | +3,000 |  | –3,000 |  |  | |  | |  | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $36,575 | + | $ 0 | + | $100 | | = | |  | | + | | $30,000 |  |  | + | $7,000 |  |  | – | $200 |  |  | – | $125 |
| 28 | –1,500 |  |  |  |  | |  | |  | |  | |  |  |  |  |  |  | –1,500 |  |  |  |  |  |  |
| Bal. | $35,075 |  |  | + | $100 | | = | |  | | + | | $30,000 |  |  | + | $7,000 | – | $1,500 | – | $200 |  |  | – | $125 |
| 28 | –1,050 |  |  |  |  | |  | |  | |  | |  |  |  |  |  |  |  |  |  |  | –1,050 |  |  |
| Bal. | $34,025 |  |  | + | $100 | | = | |  | | + | | $30,000 |  |  | + | $7,000 | – | $1,500 | – | $200 | – | $1,050 | – | $125 |
| 30 | +2,800 |  |  |  |  | |  | |  | |  | |  |  |  |  | +2,800 |  |  |  |  |  |  |  |  |
| Bal. | $36,825 |  |  | + | $100 | | = | |  | | + | | $30,000 |  |  | + | $9,800 | – | $1,500 | – | $200 | – | $1,050 | – | $125 |
| 31 | –2,000 |  |  |  |  | |  | |  | |  | |  |  | –2,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $34,825 | + | $ 0 | + | $100 | | = | | $ 0 | | + | | $30,000 | – | $2,000 | + | $9,800 | – | $1,500 | – | $200 | – | $1,050 | – | $125 |
|  |  |  |  |  |  | |  | |  | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | |  | |  | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P-F:1-52B**

Preparing financial statements

1. Net Income $81,100

Presented here are the accounts of Segura Accounting Services for the year ended December 31, 2025:

|  |  |  |  |
| --- | --- | --- | --- |
| Land | $  7,000 | Common Stock | $ 32,000 |
| Notes Payable | 30,000 | Accounts Payable | 14,000 |
| Property Tax Expense | 2,900 | Accounts Receivable | 1,700 |
| Dividends | 31,000 | Advertising Expense | 17,000 |
| Rent Expense | 14,000 | Building | 137,900 |
| Salaries Expense | 69,000 | Cash | 6,000 |
| Salaries Payable | 500 | Equipment | 17,000 |
| Service Revenue | 192,000 | Insurance Expense | 2,000 |
| Supplies | 8,000 | Interest Expense | 6,000 |
| Retained Earnings, Dec. 31, 2024 | 51,000 |  |  |

**Requirements**

**1.** Prepare Segura Accounting Services’ income statement for the year ended December 31, 2025.

**2.** Prepare the statement of retained earnings for the year ended December 31, 2025.

**3.** Prepare the balance sheet as of December 31, 2025.

**Requirement 1**

|  |  |  |
| --- | --- | --- |
| **SEGURA ACCOUNTING SERVICES** | | |
| **Income Statement** | | |
| **Year Ended December 31, 2025** | | |
|  |  |  |
| Revenues: |  |  |
| Service Revenue |  | $ 192,000 |
| Expenses: |  |  |
| Salaries Expense | $ 69,000 |  |
| Advertising Expense | 17,000 |  |
| Rent Expense | 14,000 |  |
| Interest Expense | 6,000 |  |
| Property Tax Expense | 2,900 |  |
| Insurance Expense | 2,000 |  |
| Total Expenses |  | 110,900 |
| Net Income |  | **$ 81,100** |
|  |  |  |

**Requirement 2**

|  |  |  |
| --- | --- | --- |
| **SEGURA ACCOUNTING SERVICES** | | |
| **Statement of Retained Earnings** | | |
| **Year Ended December 31, 2025** | | |
|  |  |  |
| Retained Earnings, December 31, 2024 |  | $ 51,000 |
| Net income for the year |  | 81,100 |
|  |  | 132,100 |
| Dividends |  | (31,000) |
| Retained Earnings, December 31, 2025 |  | **$ 101,100** |
|  |  |  |

**P-F:1-52B, cont.**

**Requirement 3**

|  |  |  |  |
| --- | --- | --- | --- |
| **SEGURA ACCOUNTING SERVICES** | | | |
| **Balance Sheet** | | | |
| **December 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 6,000 | Accounts Payable | $ 14,000 |
| Accounts Receivable | 1,700 | Notes Payable | 30,000 |
| Supplies | 8,000 | Salaries Payable | 500 |
| Land | 7,000 | Total Liabilities | 44,500 |
| Building | 137,900 | Stockholders’ Equity | |
| Equipment | 17,000 | Common Stock | 32,000 |
|  |  | Retained Earnings | 101,100 |
|  |  | Total Stockholders’ Equity | 133,100 |
| Total Assets | **$ 177,600** | Total Liabilities and Stockholders’  Equity | **$ 177,600** |
|  |  |  |  |

**P-F:1-53B**

Preparing financial statements

b. Ending Retained Earnings $49,000

Fabulous Photos works weddings and parties. The balance of Retained Earnings was $17,000 at December 31, 2024. At December 31, 2025, the business’ accounting records show these balances:

|  |  |  |  |
| --- | --- | --- | --- |
| Insurance Expense | $  9,000 | Accounts Receivable | $  6,000 |
| Cash | 26,000 | Notes Payable | 14,000 |
| Accounts Payable | 4,000 | Retained Earnings, Dec. 31, 2025 | ? |
| Advertising Expense | 3,000 | Salaries Expense | 21,000 |
| Service Revenue | 78,000 | Equipment | 70,000 |
| Dividends | 13,000 | Common Stock | 35,000 |

Prepare the following financial statements for Fabulous Photos:

a. Income statement for the year ended December 31, 2025.

**b.** Statement of retained earnings for the year ended December 31, 2025.

**c.** Balance sheet as of December 31, 2025.

**Requirement a**

|  |  |  |
| --- | --- | --- |
| **FABULOUS PHOTOS** | | |
| **Income Statement** | | |
| **Year Ended December 31, 2025** | | |
|  |  |  |
| Revenues: |  |  |
| Service Revenue |  | $ 78,000 |
| Expenses: |  |  |
| Salaries Expense | $ 21,000 |  |
| Insurance Expense | 9,000 |  |
| Advertising Expense | 3,000 |  |
| Total Expenses |  | 33,000 |
| Net Income |  | **$ 45,000** |
|  |  |  |

**Requirement b**

|  |  |
| --- | --- |
| **FABULOUS PHOTOS** | |
| **Statement of Retained Earnings** | |
| **Year Ended December 31, 2025** | |
|  |  |
| Retained Earnings, December 31, 2024 | $ 17,000 |
| Net income for the year | 45,000 |
|  | 62,000 |
| Dividends | (13,000) |
| Retained Earnings, December 31, 2025 | **$ 49,000** |
|  |  |

**Requirement c**

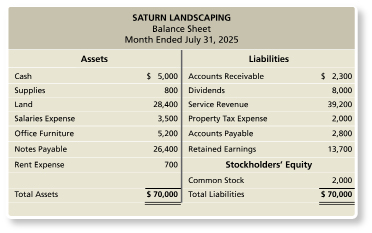
|  |  |  |  |
| --- | --- | --- | --- |
| **FABULOUS PHOTOS** | | | |
| **Balance Sheet** | | | |
| **December 31, 2025** | | | |
| Assets | | Liabilities | |
| Cash | $ 26,000 | Accounts Payable | $ 4,000 |
| Accounts Receivable | 6,000 | Notes Payable | 14,000 |
| Equipment | 70,000 | Total Liabilities | 18,000 |
|  |  | Stockholders’ Equity | |
|  |  | Common Stock | 35,000 |
|  |  | Retained Earnings | 49,000 |
|  |  | Total Stockholders’ Equity | 84,000 |
| Total Assets | **$ 102,000** | Total Liabilities And Stockholders’  Equity | **$ 102,000** |
|  |  |  |  |

**P-F:1-54B**

Preparing financial statements

Total Assets $41,700

The bookkeeper of Saturn Landscaping prepared the company’s balance sheet while the accountant was ill. The balance sheet, shown on the next page, contains numerous errors. In particular, the bookkeeper knew that the balance sheet should balance and therefore plugged in the retained earnings amount needed to achieve this balance. The retained earnings balance is incorrect. All other amounts are correct, but some are out of place or should not be included on this statement. Prepare a corrected balance sheet.



|  |  |  |  |
| --- | --- | --- | --- |
| **SATURN LANDSCAPING** | | | |
| **Balance Sheet** | | | |
| **July 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 5,000 | Accounts Payable | $ 2,800 |
| Accounts Receivable | 2,300 | Notes Payable | 26,400 |
| Supplies | 800 | Total Liabilities | 29,200 |
| Land | 28,400 |  |  |
| Office Furniture | 5,200 | Stockholders’ Equity | |
|  |  | Common Stock | 2,000 |
|  |  | Retained Earnings | 10,500 |
|  |  | Total Stockholders’ Equity | 12,500 |
| Total Assets | **$ 41,700** | Total Liabilities and Stockholders’  Equity | **$ 41,700** |
|  |  |  |  |

**P-F:1-55B**

Using the accounting equation for transaction analysis and preparing financial statements

2c. Total Assets $37,950

Darrin Yanagisawa recently opened an accounting firm on October 1, which operates as a corporation. The name of the new entity is Darrin Yanagisawa, CPA. Yanagisawa experienced the following events during the organizing phase of the new business and its first month of operations in 2025:

|  |  |
| --- | --- |
| Oct. 5 | Yanagisawa deposited $31,000 in a new business bank account titled Darrin Yanagisawa, CPA. The business issued common stock to Yanagisawa. |
| 6 | Paid $200 cash for supplies for new office. |
| 7 | Purchased office furniture for the office on account, $9,500. |
| 10 | Consulted with tax client and received $3,000 for services rendered. |
| 11 | Paid utilities, $150. |
| 12 | Finished tax hearings on behalf of a client and submitted a bill for accounting services, $14,000. |
| 18 | Paid office rent, $1,900. |
| 25 | Received amount due from client that was billed on October 12. |
| 27 | Paid full amount of Accounts Payable created on October 7. |
| 31 | Cash dividends of $8,000 were paid to the stockholder. |

**Requirements**

1. Analyze the effects of the events on the accounting equation of Darrin Yanagisawa, CPA. Use a format similar to Exhibit F:1-6. Use the following accounts: Cash, Accounts Receivable, Supplies, Furniture, Accounts Payable, Common Stock, Dividends, Service Revenue, Rent Expense, and Utilities Expense.

**2.** Prepare the following financial statements:

**a.** Income statement for the month ended October 31, 2025.

**b.** Statement of retained earnings for the month ended October 31, 2025.

c. Balance sheet as of October 31, 2025.

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  | Contributed  Capital | + | Retained Earnings | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Office Furniture | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Utilities Expense | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| 5 | +31,000 |  |  |  |  |  |  |  |  |  | +31,000 |  |  |  |  |  |  |  |  | |
| Bal. | $31,000 |  |  |  |  |  |  | = |  | + | $31,000 |  |  |  |  |  |  |  |  | |
| 6 | –200 |  |  |  | +200 |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Bal. | $30,800 |  |  | + | $200 |  |  | = |  | + | $31,000 |  |  |  |  |  |  |  |  | |
| 7 |  |  |  |  |  |  | +9,500 |  | +9,500 |  |  |  |  |  |  |  |  |  |  | |
| Bal. | $30,800 |  |  | + | $200 | + | $9,500 | = | $9,500 | + | $31,000 |  |  |  |  |  |  |  |  | |
| 10 | +3,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +3,000 |  |  |  |  | |
| Bal. | $33,800 |  |  | + | $200 | + | $9,500 | = | $9,500 | + | $31,000 |  |  | + | $3,000 |  |  |  |  | |
| 11 | –150 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –150 | |
| Bal. | $33,650 |  |  | + | $200 | + | $9,500 | = | $9,500 | + | $31,000 |  |  | + | $3,000 |  |  | – | $150 | |
| 12 |  |  | +14,000 |  |  |  |  |  |  |  |  |  |  |  | +14,000 |  |  |  |  | |
| Bal. | $33,650 | + | $14,000 | + | $200 | + | $9,500 | = | $9,500 | + | $31,000 |  |  | + | $17,000 |  |  | – | $150 | |
| 18 | –1,900 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,900 |  |  | |
| Bal. | $31,750 | + | $14,000 | + | $200 | + | $9,500 | = | $9,500 | + | $31,000 |  |  | + | $17,000 | – | $1,900 | – | $150 | |
| 25 | +14,000 |  | –14,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Bal. | $45,750 |  | $ 0 | + | $200 | + | $9,500 | = | $9,500 | + | $31,000 |  |  | + | $17,000 | – | $1,900 | – | $150 | |
| 27 | –9,500 |  |  |  |  |  |  |  | –9,500 |  |  |  |  |  |  |  |  |  |  | |
| Bal. | $36,250 |  |  | + | $200 | + | $9,500 | = | $ 0 | + | $31,000 |  |  | + | $17,000 | – | $1,900 | – | $150 | |
| 31 | –8,000 |  |  |  |  |  |  |  |  |  |  |  | –8,000 |  |  |  |  |  |  | |
| Bal. | $28,250 | + | $ 0 | + | $200 | + | $9,500 | = | $ 0 | + | $31,000 | – | $8,000 | + | $17,000 | – | $1,900 | – | $150 | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

**P-F:1-55B, cont.**

**Requirement 2a**

|  |  |  |
| --- | --- | --- |
| **DARRIN YANAGISAWA, CPA** | | |
| **Income Statement** | | |
| **Month Ended October 31, 2025** | | |
|  |  |  |
| Revenues: |  |  |
| Service Revenue |  | $ 17,000 |
| Expenses: |  |  |
| Rent Expense | $ 1,900 |  |
| Utilities Expense | 150 |  |
| Total Expenses |  | 2,050 |
| Net Income |  | **$ 14,950** |
|  |  |  |

**Requirement** **2b**

|  |  |
| --- | --- |
| **DARRIN YANAGISAWA, CPA** | |
| **Statement of Retained Earnings** | |
| **Month Ended October 31, 2025** | |
| Retained Earnings, October 1, 2025 | $ 0 |
| Net income for the month | 14,950 |
|  | 14,950 |
| Dividends | (8,000) |
| Retained Earnings, October 31, 2025 | **$ 6,950** |
|  |  |

**Requirement 2c**

|  |  |  |  |
| --- | --- | --- | --- |
| **DARRIN YANAGISAWA, CPA** | | | |
| **Balance Sheet** | | | |
| **October 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 28,250 |  |  |
| Supplies | 200 |  |  |
| Office Furniture | 9,500 | Stockholders’ Equity | |
|  |  | Common Stock | $ 31,000 |
|  |  | Retained Earnings | 6,950 |
|  |  | Total Stockholders’ Equity | 37,950 |
| Total Assets | **$ 37,950** | Total Liabilities and Stockholders’  Equity | **$ 37,950** |
|  | | | |

**P-F:1-56B**

Using the accounting equation for transaction analysis, preparing financial statements, and calculating return on assets

2c. Total Assets $131,220

Aleda Marek recently opened a law office on December 1, which operates as a corporation. The name of the new entity is Aleda Marek, Attorney. Marek experienced the following events during the organizing phase of the new business and its first month of operation, December 2025. Some of the events were personal and did not affect the law practice. Others were business transactions and should be accounted for by the business.

|  |  |
| --- | --- |
| Dec. 1 | Marek sold a personal investment in Nike, Inc. (NYSE: NKE) stock, receiving $33,000 cash. |
| 2 | Deposited the $33,000 cash from the sale of the Nike, Inc. stock in a personal bank account. |
| 3 | Deposited $109,000 cash in a new business bank account titled Aleda Marek, Attorney. The business issued common stock to Marek. |
| 5 | Paid $900 cash for supplies. |
| 7 | Purchased computer for the law office, agreeing to pay the account, $9,200, within three months. |
| 9 | Received $3,000 cash from customers for services rendered. |
| 15 | Received bill from The Lawyer for magazine subscription, $80. (Use Miscellaneous Expense account.) |
| 23 | Finished court hearings on behalf of a client and submitted a bill for legal services, $17,000, on account. |
| 28 | Paid bill from The Lawyer. |
| 30 | Paid utilities, $1,900. |
| 31 | Received $4,000 cash from clients billed on Dec. 23. |
| 31 | Cash dividends of $5,000 were paid to the stockholder. |

**Requirements**

1**.** Analyze the effects of the preceding events on the accounting equation of Aleda Marek, Attorney. Use a format similar to Exhibit F:1-6.

**2.** Prepare the following financial statements:

**a.** Income statement for the month ended December 31, 2025.

**b.** Statement of retained earnings for the month ended December 31, 2025.

**c.** Balance sheet as of December 31, 2025.

**d.** Statement of cash flows for the month ended December 31, 2025.

**3.** Calculate Aleda Marek, Attorney’s return on assets. Round to the nearest whole percent.

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  | Contributed  Capital | + | Retained Earnings | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Computer | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Utility Expense | – | Misc. Expense |
| 3 | +109,000 |  |  |  |  |  |  |  |  |  | +109,000 |  |  |  |  |  |  |  |  |
| 5 | –900 |  |  |  | +900 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $108,100 |  |  |  | $900 | + |  | = |  | + | $109,000 |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  | +9,200 |  | +9,200 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $108,100 |  |  | + | $900 | + | $9,200 | = | $9,200 | + | $109,000 |  |  |  |  |  |  |  |  |
| 9 | +3,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +3,000 |  |  |  |  |
| Bal. | $111,100 |  |  | + | $900 | + | $9,200 | = | $9,200 | + | $109,000 |  |  | + | $3,000 |  |  |  |  |
| 15 |  |  |  |  |  |  |  |  | +80 |  |  |  |  |  |  |  |  |  | –80 |
| Bal. | $111,100 |  |  | + | $900 | + | $9,200 | = | $9,280 | + | $109,000 |  |  | + | $3,000 | – |  | – | $80 |
| 23 |  |  | +17,000 |  |  |  |  |  |  |  |  |  |  |  | +17,000 |  |  |  |  |
| Bal. | $111,100 | + | $17,000 | + | $900 | + | $9,200 | = | $9,280 | + | $109,000 |  |  | + | $20,000 | – |  | – | $80 |
| 28 | –80 |  |  |  |  |  |  |  | –80 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $111,020 | + | $17,000 | + | $900 | + | $9,200 | = | $9,200 | + | $109,000 |  |  | + | $20,000 | – |  | – | $80 |
| 30 | –1,900 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,900 |  |  |
| Bal. | $109,120 | + | $17,000 | + | $900 | + | $9,200 | = | $9,200 | + | $109,000 |  |  | + | $20,000 | – | $1,900 | – | $80 |
| 31 | +4,000 |  | –4,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $113,120 | + | $13,000 | + | $900 | + | $9,200 | = | $9,200 | + | $109,000 |  |  | + | $20,000 | – | $1,900 | – | $80 |
| 31 | –5,000 |  |  |  |  |  |  |  |  |  |  |  | –5,000 |  |  |  |  |  |  |
| Bal. | $108,120 | + | $13,000 | + | $900 | + | $9,200 | = | $9,200 | + | $109,000 | – | $5,000 | + | $20,000 | – | $1,900 | – | $80 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P-F:1-56B, cont.**

**Requirement 2a**

|  |  |  |
| --- | --- | --- |
| **ALEDA MAREK, ATTORNEY** | | |
| **Income Statement** | | |
| **Month Ended December 31, 2025** | | |
|  |  |  |
| Revenues: |  |  |
| Service Revenue |  | $ 20,000 |
| Expenses: |  |  |
| Utility Expense | $ 1,900 |  |
| Miscellaneous Expense | 80 |  |
| Total Expenses |  | 1,980 |
| Net Income |  | **$ 18,020** |
|  |  |  |

**Requirement 2b**

|  |  |
| --- | --- |
| **ALEDA MAREK, ATTORNEY** | |
| **Statement of Retained Earnings** | |
| **Month Ended December 31, 2025** | |
| Retained Earnings, December 1, 2025 | $ 0 |
| Net income for the month | 18,020 |
|  | 18,020 |
| Dividends | (5,000) |
| Retained Earnings, December 31, 2025 | **$ 13,020** |
|  |  |

**Requirement 2c**

|  |  |  |  |
| --- | --- | --- | --- |
| **ALEDA MAREK, ATTORNEY** | | | |
| **Balance Sheet** | | | |
| **December 31, 2025** | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 108,120 | Accounts Payable | $ 9,200 |
| Accounts Receivable | 13,000 |  |  |
| Supplies | 900 | Stockholders’ Equity | |
| Computer | 9,200 | Common Stock | 109,000 |
|  |  | Retained Earnings | 13,020 |
|  |  | Total Stockholders’ Equity | 122,020 |
| Total Assets | **$ 131,220** | Total Liabilities and Stockholders’  Equity | **$ 131,220** |
|  |  |  |  |

**P-F:1-56B, cont.**

**Requirement 2d**

|  |  |  |
| --- | --- | --- |
| **ALEDA MAREK, ATTORNEY** | | |
| **Statement of Cash Flows** | | |
| **Month Ended December 31, 2025** | | |
|  |  |  |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | $ 7,000 |
| Payments: |  |  |
| To suppliers |  | (2,880) |
| Net cash provided by operating activities |  | 4,120 |
|  |  |  |
| Cash flows from investing activities: |  | 0 |
|  |  |  |
| Cash flows from financing activities |  |  |
| Issued common stock | $ 109,000 |  |
| Payment of cash dividends | (5,000) |  |
| Net cash provided by financing activities |  | 104,000 |
| Net increase in cash |  | 108,120 |
| Cash balance, December 1, 2025 |  | 0 |
| Cash balance, December 31, 2025 |  | **$ 108,120** |
|  |  |  |

**Requirement 3**

Average total assets = (Beginning total assets + ending total assets) / 2

Average total assets = ($0 + $131,220) / 2 = $65,610

ROA = Net income / Average total assets

ROA = $18,020 / $65,610 = 0.28 = 28% (rounded)

## Critical Thinking

## Using Technology

*Access and download the complete Using Technology problems (Using Excel and Using Data Visualizations) for this chapter online in MyLab Accounting.*

The *Using Technology* problems and solutions (Using Excel and Using Data Visualizations) are available online in MyLab Accounting.

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**Continuing Problem-F:1-1**

Continuing Problem F:1-1 is the first problem in a continuing problem that will be used throughout the chapters to reinforce the concepts learned.

Using the accounting equation for transaction analysis, preparing financial statements, and calculating return on assets (ROA)

Canyon Canoe Company is a service-based company that rents canoes for use on local lakes and rivers. Amber and Zack Wilson graduated from college about 10 years ago. They both worked for one of the “Big Four” accounting firms and became CPAs. Because they both love the outdoors, they decided to begin a new business that will combine their love of outdoor activities with their business knowledge. Amber and Zack Wilson decide that they will create a new corporation, Canyon Canoe Company, or CCC for short. The business began operations on November 1, 2025.

|  |  |
| --- | --- |
| Nov. 1 | Received $16,000 cash to begin the company and issued common stock to Amber and Zack. |
| 2 | Signed a lease for a building and paid $1,200 for the first month’s rent. |
| 3 | Purchased canoes for $4,800 on account. |
| 4 | Purchased supplies on account, $750. |
| 7 | Earned $1,400 cash for rental of canoes. |
| 13 | Paid $1,500 cash for wages. |
| 15 | Paid $50 in dividends to stockholders. |
| 16 | Received a bill for $150 for utilities. (Use separate payable account.) |
| 20 | Received a bill for $175 for cell phone expenses. (Use separate payable account.) |
| 22 | Rented canoes to Outdoor Adventure Club on account, $3,000. |
| 26 | Paid $1,000 on account related to the November 3 purchase. |
| 28 | Received $750 from Outdoor Adventure Club for canoe rental on November 22. |
| 30 | Paid $100 in dividends to stockholders. |

**Requirements**

**1.** Analyze the effects of Canyon Canoe Company’s transactions on the accounting equation. Use the format of Exhibit F:1-6 and include these headings: Cash, Accounts Receivable, Supplies, Canoes, Accounts Payable, Utilities Payable, Telephone Payable, Common Stock, Dividends, Canoe Rental Revenue, Rent Expense, Utilities Expense, Wages Expense, and Telephone Expense.

**2.** Prepare the income statement of Canyon Canoe Company for the month ended November 30, 2025.

**3.** Prepare the statement of retained earnings for the month ended November 30, 2025.

**4.** Prepare the balance sheet as of November 30, 2025.

**5.** Calculate the return on assets for Canyon Canoe Company for November 2025.

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | | | = | LIABILITIES | | | | | + | EQUITY | | | | | | | | | | | | |
|  |  | | | | | | |  |  |  |  |  |  |  | Contributed  Capital | + | Retained Earnings | | | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Canoes | = | Accounts Payable | + | Utilities Payable | + | Telephone Payable | + | Common Stock | – | Dividends | + | Canoe Rental Revenue | – | Rent Expense | – | Utilities Expense | – | Wages  Expense | – | Telephone  Expense |
| 1 | +16,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +16,000 |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 | –1,200 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,200 |  |  |  |  |  |  |
| Bal. | $14,800 |  |  |  |  |  |  | = |  |  |  |  |  | + | $16,000 |  |  |  |  | – | $1,200 |  |  |  |  |  |  |
| 3 |  |  |  |  |  |  | +4,800 |  | +4,800 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $14,800 |  |  |  |  | + | $4,800 | = | $4,800 |  |  |  |  | + | $16,000 |  |  |  |  | – | $1,200 |  |  |  |  |  |  |
| 4 |  |  |  |  | +750 |  |  |  | +750 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $14,800 |  |  |  | $750 | + | $4,800 | = | $5,550 |  |  |  |  | + | $16,000 |  |  |  |  | − | $1,200 |  |  |  |  |  |  |
| 7 | +1,400 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,400 |  |  |  |  |  |  |  |  |
| Bal. | $16,200 |  |  | + | $750 | + | $4,800 | = | $5,550 |  |  |  |  | + | $16,000 |  |  | + | $1,400 | – | $1,200 |  |  |  |  |  |  |
| 13 | –1,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,500 |  |  |
| Bal. | $14,700 |  |  | + | $750 | + | $4,800 | = | $5,550 |  |  |  |  | + | $16,000 |  |  | + | $1,400 | − | $1,200 |  |  | – | $1,500 |  |  |
| 15 | –50 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –50 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $14,650 |  |  | + | $750 | + | $4,800 | = | $5,550 |  |  |  |  | + | $16,000 | – | $50 | + | $1,400 | – | $1,200 |  |  | – | $1,500 |  |  |
| 16 |  |  |  |  |  |  |  |  |  |  | +150 |  |  |  |  |  |  |  |  |  |  |  | –150 |  |  |  |  |
| Bal. | $14,650 |  |  | + | $750 | + | $4,800 | = | $5,550 | + | $150 |  |  | + | $16,000 | – | $50 | + | $1,400 | – | $1,200 | – | $150 | – | $1,500 |  |  |
| 20 |  |  |  |  |  |  |  |  |  |  |  |  | +175 |  |  |  |  |  |  |  |  |  |  |  |  |  | –175 |
| Bal. | $14,650 |  |  | + | $750 | + | $4,800 | = | $5,550 | + | $150 | + | $175 | + | $16,000 | – | $50 | + | $1,400 | – | $1,200 | – | $150 | – | $1,500 | – | $175 |
| 22 |  |  | +3,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | +3,000 |  |  |  |  |  |  |  |  |
| Bal. | $14,650 | + | $3,000 | + | $750 | + | $4,800 | = | $5,550 | + | $150 | + | $175 | + | $16,000 | – | $50 | + | $4,400 | – | $1,200 | – | $150 | – | $1,500 | – | $175 |
| 26 | –1,000 |  |  |  |  |  |  |  | –1,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $13,650 | + | $3,000 | + | $750 | + | $4,800 | = | $4,550 | + | $150 | + | $175 | + | $16,000 | – | $50 | + | $4,400 | – | $1,200 | – | $150 | – | $1,500 | – | $175 |
| 28 | +750 |  | –750 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $14,400 | + | $2,250 | + | $750 | + | $4,800 | = | $4,550 | + | $150 | + | $175 | + | $16,000 | – | $50 | + | $4,400 | – | $1,200 | – | $150 | – | $1,500 | – | $175 |
| 30 | –100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –100 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $14,300 | + | $2,250 | + | $750 | + | $4,800 | = | $4,550 | + | $150 | + | $175 | + | $16,000 | – | $150 | + | $4,400 | – | $1,200 | – | $150 | – | $1,500 | – | $175 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Continuing Problem-F:1-1, cont.**

**Requirement 2**

|  |  |  |
| --- | --- | --- |
| **CANYON CANOE COMPANY** | | |
| **Income Statement** | | |
| **Month Ended November 30, 2025** | | |
|  |  |  |
| Revenue: |  |  |
| Canoe Rental Revenue |  | $ 4,400 |
| Expenses: |  |  |
| Wages Expense | $ 1,500 |  |
| Rent Expense | 1,200 |  |
| Telephone Expense | 175 |  |
| Utilities Expense | 150 |  |
| Total Expense |  | 3,025 |
| Net Income |  | **$ 1,375** |
|  |  |  |

**Requirement 3**

|  |  |
| --- | --- |
| **CANYON CANOE COMPANY** | |
| **Statement of Retained Earrings** | |
| **Month Ended November 30, 2025** | |
| Retained Earnings, November 1, 2025 | $ 0 |
| Net income for the month | 1,375 |
|  | 1,375 |
| Dividends | (150) |
| Retained Earnings, November 30, 2025 | **$ 1,225** |
|  |  |

**Continuing Problem-F:1-1, cont.**

**Requirement 4**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **CANYON CANOE COMPANY** | | | | |
| **Balance Sheet** | | | | |
| **November 30, 2025** | | | | |
|  | |  | | |
| Assets | | Liabilities | | |
| Cash | $ 14,300 | Accounts Payable | | $ 4,550 |
| Accounts Receivable | 2,250 | Utilities Payable | | 150 |
| Supplies | 750 | Telephone Payable | | 175 |
| Canoes | 4,800 | Total Liabilities | | 4,875 |
|  |  |  | | |
|  |  | Stockholders’ Equity | | |
|  |  | Common Stock | 16,000 | |
|  |  | Retained Earnings | 1,225 | |
|  |  | Total Stockholder’s Equity | 17,225 | |
| Total Assets | **$ 22,100** | Total Liabilities and Stockholders’  Equity | **$ 22,100** | |
|  |  |  |  | |

**Continuing Problem-F:1-1, cont.**

**Requirement 5**

Average total assets = ($0 + $22,100) / 2 = $11,050

Return on assets = Net income / Average total assets = $1,375 / $11,050 = 0.124 = 12.4%

**Tying It All Together Case F:1-1**

*Before you begin this assignment, review the Tying It All Together feature in the chapter.*

Starbucks Corporation (NASDAQ: SBUX) is the premier roaster, marketer, and retailer of specialty coffee in the world, operating in 84 countries. Starbucks Corporation generates revenues through company-operated stores, licensed stores, and consumer packaged goods. In fiscal year 2021, revenues from company-operated stores accounted for 85% of total revenues, while the other 15% of total revenues was earned from the company’s licensed stores and the sale of its packaged coffee and tea outside company stores. Starbucks Corporation states that its retail objective is to be the leading retailer and brand of coffee and tea by selling the finest quality coffee, tea, and related products. In addition, the company strives to provide the Starbucks Experience by exemplifying superior customer service and providing clean and well-maintained stores. Part of this experience involves providing free Internet service to customers while they are enjoying their food and beverages. Visit http://www.pearsonhighered.com/Horngren for a link to Starbucks Corporation’s annual report for the year ending October 3, 2021.

Requirements

**1.** How would the cost of Internet service be reported by Starbucks Corporation and on which financial statement?

**2.** Suppose Starbucks Corporation receives a bill from its Internet service provider but has not yet paid the bill. What would be the effect on assets, liabilities, and equity when Starbucks Corporation receives this bill?

**3.** What would be the effect on assets, liabilities, and equity when Starbucks Corporation pays its Internet service bill?

**4.** Suppose Starbucks Corporation expects that the cost of Internet service will increase by 4% in the coming year. What would be the impact on Starbucks Corporation’s net income? How might Starbucks Corporation overcome this impact?

**Requirement 1**

Starbucks Corporation would report the cost of internet service as an expense on its income statement. Most likely, the expense would be included in Store Operating Expenses.

**Requirement 2**

When Starbucks Corporation receives a bill from its internet service provider, Starbucks Corporation would record the following:

Increase Accounts Payable

Increase Store Operating Expenses

This would cause liabilities to increase and equity to decrease.

**Requirement 3**

When Starbucks Corporation pays the bill, Starbucks would record the following:

Decrease Cash

Decrease Accounts Payable

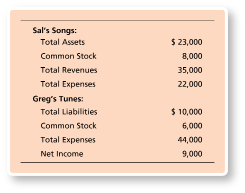
This would cause assets to decrease and liabilities to decrease.

**Requirement 4**

An increase in the cost of internet service in the coming year would cause expenses to increase. If revenue did not change, this would cause net income to decrease. Starbucks Corporation might overcome this impact by charging customers for using the internet service, thereby offsetting the increase in expenses with additional revenue. This change, though, might discourage customers from visiting Starbucks Corporation when other competitors might offer free internet service. Another alternative would be to increase the sales prices of the products sold to cover the increased cost of internet service.

**Decision Case F:1-1**

Let’s examine a case using Greg’s Tunes and Sal’s Songs. It is now the end of the first year of operations, and the stockholders want to know how well each business came out at the end of the year. Neither business kept complete accounting records, and no dividends were paid. The businesses throw together the following data at year-end:



To gain information for evaluating the businesses, the stockholders ask you several questions. For each answer, you must show your work to convince the stockholders that you know what you are talking about.

**Requirements**

**1.** Which business has more assets?

**2.** Which business owes more to creditors?

**3.** Which business has more stockholders’ equity at the end of the year?

**4.** Which business brought in more revenue?

**5.** Which business is more profitable?

**6.** Which of the foregoing questions do you think is most important for evaluating these two businesses? Why?

**7.** Which business looks better from a financial standpoint?

**Requirement 1**

Greg's Tunes has more assets.

Sal’s Songs $23,000, Greg’s Tunes $25,000 ($10,000 + $6,000 + $9,000)

**Requirement 2**

Greg's Tunes owes more to creditors.

Sal’s Songs $2,000 ($23,000 – ($8,000 + $35,000 – $22,000)), Greg’s Tunes $10,000

**Decision Case F:1-1, cont.**

**Requirement 3**

Sal’s Songs has more stockholders’ equity.

Sal’s Songs $21,000 ($8,000 + $35,000 – $22,000), Greg’s Tunes $15,000 ($6,000 + $9,000)

**Requirement 4**

Greg’s Tunes earned more revenue.

Sal’s Songs $35,000, Greg’s Tunes $53,000 ($9,000 + $44,000)

**Requirement 5**

Sal’s Songs is more profitable.

Sal’s Songs $13,000 ($35,000 – $22,000), Greg’s Tunes $9,000

**Requirement 6**

This question is opinion based. More profit is good, which means Sal’s Songs has the advantage. Greg’s Tunes also owes more to creditors which is risky. Sal’s Songs has much more equity, which minimizes risk.

**Requirement 7**

Sal’s Songs looks financially better, because Sal’s Songs earned more net income on less total revenue. Sal’s Songs also owes less to creditors and has more equity.

**Ethical Issues F:1-1**

Many companies have been affected during the COVID-19 global pandemic. In particular, **Starbucks Corporation** (NASDAQ: SBUX) noted in its annual report, “Our financial results have been and could continue to be adversely affected by the impact of COVID-19 pandemic, which has resulted in a disruption of customer routines, changes to employer “work-from-home” policies, reduced business and recreational travel, and changes in consumer behavior.” Visit **http://www.pearsonhighered.com/Horngren** for a link to Starbucks Corporation’s annual report for the year ending October 3, 2021.

**Requirements**

**1.** Suppose you are the chief financial officer (CFO) responsible for the financial statements of Starbucks Corporation. Why is it important to disclose the adverse impact COVID-19 has had on Starbucks Corporation’s business and financial results?

**2.** What are some of the negative consequences to Starbucks Corporation for not telling the truth? What are some of the negative consequences to Starbucks Corporation for telling the truth?

**Requirement 1**

The chief financial officer (CFO) of Starbucks Corporation is responsible for reporting the risks related to economic conditions. Factors such as a global pandemic can adversely impact the business and financial results. The ethical course of action for the CFO is to be open, honest and forthcoming about the risks related to economic conditions.

**Requirement 2**

Negative consequences of not telling the truth are as follows: If users of the financial statements feel they are only getting part of the truth, or that the reports are distorting the information, this will damage the credibility of the company, and damage the company’s reputation. Additionally, the company could face regulatory penalties for not disclosing risk factors in its annual report.

Negative consequences of telling the truth could include an investor choosing not to purchase stock in the company or lenders choosing not to loan money to the corporation.

**Fraud Case F:1-1**

Exeter is a building contractor on the Gulf Coast. After losing a number of big lawsuits, it was facing its first annual net loss as the end of the year approached. The owner, Hank Snow, was under intense pressure from the company’s creditors to report positive net income for the year. However, he knew that the controller, Alice Li, had arranged a short-term bank loan of $10,000 to cover a temporary shortfall of cash. He told Li to record the incoming cash as “construction revenue” instead of a loan. That would nudge the company’s income into positive territory for the year, and then, he said, the entry could be corrected in January when the loan was repaid.

**Requirements**

1**.** How would this action affect the year-end income statement? How would it affect the year-end balance sheet?

**2.** If you were one of the company’s creditors, how would this fraudulent action affect you?

**Requirement 1**

The proposed action would increase net income by increasing revenues. It would distort the balance sheet by understating liabilities and overstating equity.

**Requirement 2**

## By making the company’s financial situation look better than it actually was, the company's creditors would likely be more willing to extend credit to the company, and offer the credit at a lower interest rate.

**Financial Statement Case F1-1**

This and similar cases in later chapters focus on the financial statements of a real company: **The Coca-Cola Company and Subsidiaries** (NYSE: KO), a total beverage company whose products are sold in more than 200 countries and territories. Coca-Cola Company sells sparkling soft drinks, water, enhanced water, sports drinks, tea, coffee, and energy drinks. The business owns and markets four of the world’s top five nonalcoholic sparking soft drink brands: Coca-Cola, Diet Coke, Fanta, and Sprite. As you work each case, you will gain confidence in your ability to use the financial statements of real companies.

Visit **http://www.pearsonhighered.com/Horngren** to view a link to Coca-Cola Company’s December 31, 2021 Annual Report.

**Requirements**

1**.** How much in cash (including cash equivalents) did Coca-Cola Company have on December 31, 2021?

**2.** What were the company’s total assets at December 31, 2021? At December 31, 2020?

**3.** Write the company’s accounting equation at December 31, 2021, by filling in the dollar amounts:



**4.** Identify total sales (net operating revenues) for the year ended December 31, 2021. How much did total revenue increase or decrease from December 31, 2020, to December 31, 2021?

**5.** How much net income (net earnings) or net loss did Coca-Cola Company earn for 2021 and for 2020? Based on net income, was 2021 better or worse than 2020?

**6.** Calculate Coca-Cola Company’s return on assets for the year ending December 31, 2021. Round to one decimal place.

**7.** How did Coca-Cola Company’s return on assets compare to PepsiCo, Inc.’s return on assets?

**Requirement 1**

$9,684 (in millions)

**Requirement 2**

$94,354 (in millions) at December 31, 2021; $87,296 (in millions) at December 31, 2020

**Requirement 3**

All amounts in millions.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity |
| $94,354 | = | ($19,950 + $38,116 + $8,607 + $2,821) |  | $24,860 |
| $94,354 | = | $69,494 | + | $24,860 |

**Requirement 4**

$38,655 (in millions) for year ended December 31, 2021. This is an increase of $5,641 (in millions) from 2020. ($38,655 − $33,014)

**Requirement 5**

$9,804 (in millions) in 2021

$7,768 (in millions) in 2020

Coca-Cola Company’s net income increased by $2,036 (in millions) from 2021 ($9,804 − $7,768).

**Requirement 7**

All amounts in millions.

Average total assets = ($94,354 + $87,296) / 2 = $90,825 (rounded)

Return on assets = $9,804 / $90,825 = 0.108 = 10.8% (rounded)

**Requirement 8**

Coca-Cola Company's return on assets (10.8%) was 2.6% points higher than PepsiCo, Inc. (8.2%).