**Chapter 1**

**Accounting and the Business Environment**

## Review Questions

1. The accounting equation measures the resources of a business (what the business owns or has control of ) and the claims to those resources (what the business owes to creditors and to the owner). The accounting equation is made up of three parts—assets, liabilities, and equity—and shows how these three parts are related. Assets appear on the left side of the equation, and the liabilities and equity appear on the right side.
2. Financial accounting provides information for external decision makers, such as outside investors, lenders, customers, and the federal government. These external decision makers use the information provided to make decision like whether to invest in the business, and whether the business is profitable.
3. 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.
4. Certified Public Accountants (CPAs) are licensed professional accountants who serve the general public. They work for public accounting firms, businesses, government, or educational institutions. To be certified they must meet educational and/or experience requirements and pass an exam. Certified Management Accountants (CMAs) specialize in accounting and financial management knowledge. They work for a single company.
5. The FASB oversees the creation and governance of accounting standards. They work with governmental regulatory agencies, congressionally created groups, and private groups.
6. 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 the GAAP provides the framework for this financial reporting.

1. 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. The land should be recorded at $5,000. The cost principle states that assets should be recorded at their historical cost.
2. 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.
3. The faithful representation concept states that accounting information should be complete, neutral, and free from material error.
4. The monetary unit assumption states that items on the financial statements should be measured in terms of a monetary unit.
5. 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.
6. 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 owner’s claim 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 company.

1. The statement of cash flows is divided into three distinct sections: operating, investing, and financing. Operating activities involve cash receipts for services provided and cash payments for expenses paid. Investing activities include the purchase and sale of land and equipment for cash. The third section, financing activities, includes cash contributions by the owner and withdrawals of cash by the owner.
2. The income statement summarizes an entity’s revenues and expenses and reports the net income or net loss for a specific period. The balance sheet, on the other hand, reports on the assets, liabilities, and owner’s equity of the business as of a specific date

1. 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. The statement of owner’s equity shows the changes in the owner’s capital account for a specific period. The owner’s capital account increases by owner’s contributions and net income and decreases by owner’s withdrawals and net losses.

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

## Short Exercises

**S1-1**

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

**S1-2**

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.

**S1-3**

There are 3 basic forms of businesses that they brothers can choose from : sole proprietorship, partnership, or corporation. Since there are 2 of them, a proprietorship would be out of the question. These forms have implications for legal liability, taxation, continuity, number of owners, and legal status as follows:

Proprietorship Partnership Corporation

Business entity yes yes yes

Legal entity no no yes

Limited liability no no yes

Unlimited life no no yes

Business taxed no no yes

One owner allowed yes no yes

The advantages of a partnership :

Generally partnerships are easy to establish and since there is more than one owner, there is a bigger pool of resources (financial or otherwise) at the busjness’ disposal.

Disadvantages of a partnership :

Both the brothers are vulnerable to unlimited liability for anything to do with the business, whether caused by one or the other and may even lose the business as well as their personal assets. The business shall automatically cease upon the death of either one of them, although partners are allowed to independently make commitments without the other’s approval.

All this only applies if there is no partnership agreement stipulating otherwise. A limited partnership is also possible in cases where there is a need to limit the extent of liability to one party. It is recommended that they should consider starting a general partnership with a tailor-made Partnership Agreement spelling out each brother’s responsibility, authority, commitment and liability as well as operational and strategic roles.

**S1-4**

This would simplify the burden of the brothers in owning and running their own business. There will be no direct liability, but there will also be no authority in the business. Ah Soh will simply be their boss and may be able to over-rule their decisions although she may not have any expertise in web design. Ah Lee and Ah Beng will be employees with a salary and any other formal benefits. They will have to live up to the procedures, policies and rules made by their sister. On the other hand, they would not have to cough up the capital or be directly responsible for the business’ success.

The decision depends entirely on the brothers’ priorities. Do they want to be entrepreneurs or do they want to hone their craft? If they aren’t concerned about the money part of this, then they might want to be employed instead of striking out on their own

**S1-5**

|  |
| --- |
| a Cost Principle |
| b. Business Entity Principle |
| c. Going Concern Principle. |
| d. Monetary Unit Principle |

**S1-6**

**Requirement 1**

Total Assets = Total Liabilities + Total Equity = $74,000 + $23,500 = $ 97,500

**Requirement 2**

Total Equity = Beginning Capital + Profit(Loss) – Withdrawals

 $23,000 - $10,000 = $13,000 ----🡪 PROFIT

**S1-7**

**Requirement 1**

Total Assets = Total Liabilities + Total Equity

 Total Equity = 76,000 – 33,800 =42,200

**Requirement 2**

Profit = Revenue – Expenses = 32,560 – 22,430 = 10,130

 Additional investment or withdrawals = Total Equity – (beginning capital + profit)

 = 42,200 – (28,000 + 10,130)

 = 4,070 -----------🡪 Additional Investment

**S1-8**

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

**S1-9**

|  |
| --- |
| 1. Increase asset (Cash); Increase equity (Service Revenue)
 |
| 1. IndicDDecrease asset (Cash); Decrease equity (Salaries Expense)
 |
| 1. Increase asset (Cash); Increase Equity (Martin, Capital)
 |
| 1. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
 |
| 1. Increase liability (Accounts Payable); Decrease equity (Utility Expense)
 |
| 1. Decrease asset (Cash); Decrease equity (Martin, Withdrawals)ccccc
 |

**S1-10**

|  |
| --- |
| 1. Increase asset (Cash); Increase equity (Gonzalez, Capital)
 |
| 1. **Increase asset (Equipment); Increase liability (Accounts Payable)**
 |
| 1. Increase asset (Office Supplies); Decrease asset (Cash)
 |
| 1. Increase asset (Cash); Increase equity (Service Revenue)
 |
| 1. Decrease asset (Cash); Decrease equity (Wages Expense)
 |
| 1. Decrease asset (Cash); Decrease equity (Gonzalez, Withdrawals)
 |
| 1. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
 |
| 1. Decrease asset (Cash); Decrease equity (Rent Expense)
 |
| 1. Increase liability (Accounts Payable); Decrease equity (Utilities Expense)
 |

**S1-11**

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

**S1-12**

|  |
| --- |
| ELEGANT ARRANGEMENTS  |
| Income Statement |
| Year Ended December 31, 2014 |
|  |  |  |
| 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 |
|  |  |  |

**S1-13**

|  |
| --- |
| ELEGANT ARRANGEMENTS  |
| Statement of Owner’s Equity |
| Year Ended December 31, 2014 |
|  |  |
| Rose, Capital, January 1, 2014 | $ 10,500 |
| Owner contribution |  0  |
| Net income for the year | 13,900 |
|  | 24,400 |
| Owner withdrawals | (3,900) |
| Rose, Capital, December 31, 2014 |  $ 20,500 |
|  |  |

**S1-14**

|  |
| --- |
| ELEGANT ARRANGEMENTS  |
| Balance Sheet |
| December 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 4,700 | Accounts Payable | $ 6,800  |
| Accounts Receivable | 5,500 |   |   |
| Office Supplies | 2,100 | Owner’s Equity |
| Equipment | 15,000 | Rose, Capital | 20,500 |
| Total Assets | $ 27,300 | Total Liabilities and Owner’s Equity | $ 27,300 |
|  |  |  |  |

**S1-15**

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| --- |
| MAIN STREET HOMES  |
| Statement of Cash Flows |
| Month Ended July 31, 2014 |
|  |  |  |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | $ 20,000 |
| Payments: |  |  |
|  For rent | $ (3,000) |  |
|  For salaries  | (2,100) |  |
|  For utilities | (1,500) | (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: |  |  |
| Owner contribution |  8,000  |  |
| Owner withdrawals | (5,250) |  |
|  Net cash provided by financing activities |  | 2,750 |
| Net increase in cash |  | 5,400 |
| Cash balance, July 1, 2014 |  | 12,500 |
| Cash balance, July 31, 2014 |  | $ 17,900 |
|  |  |  |

**S1-16**

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

## Exercises

**E1-17**

|  |  |
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| 1. E
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**E1-18**

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**E1-19**

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**E1-20**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets | Liabilities | Equity |
| New Rock Gas | **$ 74,000** | $ 24,000 | $ 50,000 |
| DJ Video Rentals |  75,000 |  **43,000** |  32,000 |
| Corner Grocery | 100,000 |  53,000 |  **47,000** |

**E1-21**

|  |  |  |  |
| --- | --- | --- | --- |
|  | a. | b. | c. |
|  |  |  |  |
| Owner’s equity, May 31, 2014 ($177,000 – $122,000) | $ 55,000 | $ 55,000 | $ 55,000  |
| Owner contribution | 6,000 | 0  | 18,000 |
| Net income for the month | **8,000** | **24,000** | **16,000** |
|  | 69,000 | 79,000 | 89,000 |
| Owner withdrawals | 0 | (10,000) | (20,000) |
| Owner’s equity, June 30, 2014 ($213,000 – $144,000) | $ 69,000 | $ 69,000 | $ 69,000 |
|  |  |  |  |

**E1-22**

**Requirement 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Beginning of 2014 | $19,000 | = | $9,000 | + | ? |
|  | $19,000 | = | $9,000 | + | **$10,000** |
|  |  |  |  |  |  |
| End of 2014 | $27,000 | = | $13,000 | + | ? |
|  | $27,000 | = | $13,000 | + | **$14,000** |

Owner’s equity increased in 2014 by $4,000 ($14,000 – $10,000).

**Requirement 2**

|  |
| --- |
| a. Increase through owner contributions. |
| b. Increase through net income. |
| c. Decrease through owner withdrawals. |
| d. Decrease through net loss. |

**E1-23**

**Requirement 1**

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

**Requirement 2**

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Beginning of 2014 | $23,000 | = | $14,000 | + | ? |
|  | $23,000 | = | $14,000 | + | $9,000 |
|  |  |  |  |  |  |
| Ending of 2014 | $30,000 | = | $14,000 | + | ? |
|  | $30,000 | = | $14,000 | + | $16,000 |

**E1-24**

**Requirement 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | − | Liabilities | = | Equity |
| Beginning of 2014 | $45,000 | − | $29,000 | = | $16,000 |
| Ending of 2014 | $55,000 | − | $38,000 | = | $17,000 |

|  |  |
| --- | --- |
| Owner’s equity: |  |
|  |  |
| Capital, Beginning balance | $ 16,000 |
| Plus: Contribution by the owner |  0 |
| Plus: Revenues  |  242,000 |
| Less: Expenses |  **(222,000)** |
| Less: Owner withdrawals | (19,000) |
| Capital, Ending balance | $ 17,000  |
|  |  |

**Requirement 2**

Felix Company earned net income of $20,000.

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

**E1-25**

Student responses will vary. Examples include:

|  |
| --- |
| 1. Cash purchase of office supplies.
 |
| 1. Owner withdrew cash from the business.
 |
| 1. Paid cash on accounts payable.
 |
| 1. Received cash for services provided.
 |
| 1. Borrowed cash from the bank.
 |

**E1-26**

|  |
| --- |
| a. Increase asset (Cash); Increase equity (Viviani, Capital) |
| 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 (Office Rent Expense) |
| h. Decrease asset (Cash); Increase asset (Office Supplies). |

**E1-27**

|  |
| --- |
| a. Increase asset (Cash); Increase equity (Shane, Capital) |
| 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 (Shane, Withdrawals) |
| j. Increase liability (Accounts Payable); Decrease equity (Utility Expense) |

**E1-28**

Transaction Descriptions:

|  |  |
| --- | --- |
| 1. | Contribution of cash by the owner |
| 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 expense |

**E1-29**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Date | Cash | + | Medical Supplies | + | Land | = | Accounts Payable | + | Smith, Capital | – | Smith, Withdrawal | + | 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 | –2,600 |  |            |  |  | = |  |  |             |  |  |  |  |  | –1,600 |  | –900 |  | –100 |
| Bal. | $ 6,400 | + | $1,800 | + | $46,000 | = | $1,800 | + | $55,000 |  |  |  |  | – | $1,600 | – | $900 | – | $100 |
| 31 | +8,000 |  |            |  |  | = |  |  |             |  |  |  | +8,000 |  |             |  |             |  |             |
| Bal. | $14,400 | + | $1,800 | + | $46,000 | = | $1,800 | + | $55,000 |  |  | + | $8,000 | – | $1,600 | – | $900 | – | $100 |
| 31 | –1,100 |  |             |  |           | = | –1,100 |  |             |  |  |  |             |  |             |  |             |  |             |
| Bal. | $13,300 | + | $1,800 | + | $46,000 | = | $ 700 | + | $55,000 |  |  | + | $8,000 | – | $1,600 | – | $900 | – | $100 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**E1-30**

**Requirement 1**

1. Income statement
2. Statement of owner’s equity
3. Balance sheet
4. Statement of cash flows

**Requirement 2**

Yes, the financial statements should be prepared in the order listed above in Requirement 1.

**Requirement 3**

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 owner’s equity:

1. The header includes the name of the business, the title of the statement, and the time period. A statement of owner’s equity always represents a period of time, for example, a month or a year.
2. The beginning capital is listed first and will always be the ending capital from the previous time period.
3. The owner’s contribution and net income are added to the beginning capital.
4. The owner’s withdrawals are subtracted from capital. 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 owner’s equity is taken directly from the statement of owner’s equity.
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 contributions by the owner and owner withdrawals of cash.
6. The ending cash balance must match the cash balance on the balance sheet.

**E1-31**

**Requirement 1**

|  |
| --- |
| WILSON TOWING SERVICE  |
| Income Statement |
| Month Ended June 30, 2014 |
|  |  |  |
| Revenue: |  |  |
|  Service Revenue |  |  $ 11,200 |
| Expenses: |  |  |
|  Salaries Expense | $ 1,900 |  |
|  Rent Expense | 550 |  |
| Total Expenses |  | 2,450  |
| Net Income |   | $ 8,750 |
|  |  |  |

**Requirement 2**

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

**E1-32**

**Requirement 1**

|  |
| --- |
| WILSON TOWING SERVICE  |
| Statement of Owner’s Equity |
| Month Ended June 30, 2014 |
|  |  |
| Wilson, Capital, June 1, 2014 | $ 2,950 |
| Owner contribution | 2,000 |
| Net income for the month  | 8,750 |
|  | 13,700 |
| Owner withdrawals | (1,000) |
| Wilson, Capital, June 30, 2014 | $ 12,700 |
|  |  |

**Requirement 2**

The statement of owner’s equity reports the changes in capital for a business entity during a time period.

**E1-33**

**Requirement 1**

|  |
| --- |
| WILSON TOWING SERVICE |
| Balance Sheet |
| June 30, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 1,900 | Accounts Payable | $ 3,000  |
| Accounts Receivable | 6,200 | Notes Payable | 6,900  |
| Office Supplies | 900 | Total Liabilities | 9,900 |
| Equipment | 13,600 | Owner’s Equity |
|  |  | Wilson, Capital | 12,700 |
| Total Assets | $ 22,600 | Total Liabilities and Owner’s Equity | $ 22,600 |
|  |  |   |  |
|  |  |  |  |

**Requirement 2**

The Balance Sheet reports on an entity’s assets, liabilities, and owner’s equity as of a specific date.

**E1-34**

|  |
| --- |
| DAVIS DESIGN STUDIO |
| Income Statement |
| Year Ended December 31, 2014 |
|  |  |  |
| 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 |
|   |  |  |

**E1-35**

|  |
| --- |
| DAVIS DESIGN STUDIO |
| Statement of Owner’s Equity |
| Year Ended December 31, 2014 |
|  |  |
| Davis, Capital, January 1, 2014 | $ 33,300 |
| Owner contribution | 15,000  |
| Net income for the year  | 57,700 |
|  | 106,000 |
| Owner withdrawals | (54,400) |
| Davis, Capital, December 31, 2014 | $ 51,600 |
|  |  |

**E1-36**

|  |
| --- |
| DAVIS DESIGN STUDIO |
| Balance Sheet |
| December 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 3,600 | Accounts Payable | $ 3,200  |
| Accounts Receivable | 8,600 | Notes Payable | 10,900  |
| Office Supplies | 4,500 | Total Liabilities | 14,100 |
| Office Furniture | 49,000 | Owner’s Equity |
|  |  | Davis, Capital | 51,600 |
| Total Assets | $ 65,700 | Total Liabilities and Owner’s Equity | $ 65,700 |
|  |  |   |  |
|  |  |  |  |

**E1-37**

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

**E1-38**

|  |
| --- |
| JAVA FOOD EQUIPMENT COMPANY  |
| Statement of Cash Flows |
| Month Ended February 28, 2014 |
|  |  |  |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
|  Collections from customers |  | $ 4,000 |
| Payments: |  |  |
|  For rent | $ (1,000) |  |
|  For salaries  | (800) |  |
|  For utilities | (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: |  |  |
|  Owner contributions |  10,000 |  |
|  Owner withdrawals | (2,000) |  |
|  Net cash provided by financing activities |  | 8,000 |
| Net decrease in cash |  |  (5,050) |
| Cash balance, February 1, 2014 |  | 13,750 |
| Cash balance, February 28, 2014 |  | $ 8,700 |
|  |  |  |

**E1-39**

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

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%

***Problems (Group A)***

**P1-40A**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Land | = | Accounts Payable | + | Crone, Capital | – | Crone, Withdrawals | + | Service Revenue | – | Rent Expense | – | Advertising Expense |
| Bal. |  $2,300  | + | $3,000  |  |  | + | $14,000  | = | $8,000  | + | $11,300  |  |  |  |  |  |  |  |  |
| (a) | +13,000  |  |   |  |  |  |   |  |  |  | +13,000  |  |  |  |  |  |  |  |  |
| Bal. | $15,300  | + | $3,000  |  |  | + | $14,000  | = | $8,000  | + | $24,300  |  |  |  |  |  |  |  |  |
| (b) |  +900  |  |  |  |  |  |  |  |   |  |  |  |  |  | +900  |  |  |  |  |
| Bal. | $16,200  | + | $3,000  |  |  | + | $14,000  | = | $8,000  | + | $24,300  |  |  |  | $900  |  |  |  |  |
| (c) |  –8,000 |  |  |  |  |  |  |  | –8,000 |  |   |  |  |  |  |  |  |  |  |
| Bal. | $8,200  | + | $3,000  |  |  | + | $14,000  | = | $0  | + | $24,300 |  |  | + | $900  |  |  |  |  |
| (d) |  |  |  |  | +600  |  |  |  | +600  |  |   |  |  |  |   |  |  |  |  |
| Bal. | $8,200  | + | $3,000  | + | $600  | + | $14,000  | = | $600  | + | $24,300  |  |  | + | $900  |  |  |  |  |
| (e) | +2,300  |  | –2,300 |  |   |  |   |  |  |  |   |  |  |  |  |  |  |  |  |
| Bal. |  $10,500  | + | $700 | + | $600  | + | $14,000  | = | $600  | + | $24,300  |  |  | + | $900  |  |  |  |  |
| (f) | –1,600 |  |  |  |  |  |   |  |  |  |   |  | –1,600 |  |  |  |  |  |  |
| Bal. | $8,900  | + |  $700 | + | $600  | + | $14,000  | = | $600  | + | $24,300  | – | $1,600 | + | $900  |  |  |  |  |
| (g) |   |  | +5,500  |  |   |  |  |  |   |  |   |  |   |  | +5,500  |  |  |  |  |
| Bal. | $8,900  | + | $6,200  | + | $600  | + | $14,000  | = | $600  | + | $24,300  | – | $1,600 | + | $6,400  |  |  |  |  |
| (h) |  –1,800 |  |  |  |  |  |   |  |   |  |  |  |   |  |  |  | –1,200  |  | –600 |
| Bal. | $7,100 | + | $6,200 | + | $600 | + | $14,000 | = | $600 | + | $24,300 | – | $1,600 | + | $6,400 | – | $1,200 | – | $600 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-41A**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
|  | Cash | + | Accounts Receivable | + | Office Supplies | = | Accounts Payable | + | Turner, Capital | – | Turner, Withdrawals | + | Service Revenue | – | Rent Expense | – | Utilities Expense | – | Salaries 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 | –2,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | –2,000 |  |   |  |  |  |   |
| Bal. | $23,675  |  |  | + | $200  | = |  | + | $21,000  |  |  | + | $5,500  | – | $2,000 | – | $300 |  |  | – | $325 |
| 28 | –1,250 |  |  |  |   |  |  |  |   |  |  |  |  |  |   |  |  |  | –1,250 |  |  |
| Bal. | $22,425  |  |  | + | $200  | = |  | + | $21,000  |  |  | + | $5,500  | – | $2,000 | – | $300 | – | $1,250 | – | $325 |
| 30 |  +1,800  |  |  |  |  |  |  |  |   |  |  |  | +1,800  |  |  |  |  |  |  |  |  |
| Bal. | $24,225  |  |  | + | $200  | = |  | + | $21,000  |  |  | + | $7,300  | – | $2,000 | – | $300 | – | $1,250 | – | $325 |
| 31 | –5,000 |  |  |  |   |  |   |  |  |  | –5,000 |  |   |  |  |  |  |  |  |  |  |
| Bal. | $19,225  | + | $ 0  | + | $200  | = | $ 0 | + | $21,000  | – | $5,000 | + | $7,300  | – | $2,000 | – | $300 | – | $1,250 | – | $325 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-42A**

**Requirement 1**

|  |
| --- |
| </inst><para>GATE CITY ANSWERING SERVICE  |
| Income Statement |
| Year Ended December 31, 2014 |
|  |  |  |
| 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**

|  |
| --- |
| GATE CITY ANSWERING SERVICE |
| Statement of Owner’s Equity |
| Year Ended December 31, 2014 |
|  |  |
|  Wayne, Capital, January 1, 2014 |  $ 54,000 |
|  Owner contribution |  28,000  |
|  Net income for the year  |  86,900 |
|  | 168,900 |
|  Owner withdrawals | (30,000) |
|  Wayne, Capital, December 31, 2014 |  $ 138,900 |
|  |  |

**Requirement 3**

|  |
| --- |
| GATE CITY ANSWERING SERVICE  |
| Balance Sheet |
| December 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 3,000 | Accounts Payable | $ 11,000  |
| Accounts Receivable | 1,000 | Notes Payable | 32,000 |
| Office Supplies | 10,000 | Salaries Payable | 1,300 |
| Equipment | 16,000 | Total Liabilities | 44,300 |
| Building | 145,200 |  |
| Land | 8,000 | Owner’s Equity |
|  |  | Wayne, Capital | 138,900 |
| Total Assets | $ 183,200 | Total Liabilities and Owner’s Equity | $ 183,200 |
|  |  |  |  |

**P1-43A**

**Part a.**

|  |
| --- |
| STUDIO PHOTOGRAPHY  |
| Income Statement |
| Year Ended December 31, 2014 |
|  |  |  |
|  Revenue: |  |  |
|  Service Revenue |  | $ 80,000 |
|  Expenses: |  |  |
|  Salaries Expense | $ 25,000 |  |
|  Insurance Expense | 8,000 |  |
|  Advertising Expense | 3,000 |  |
|  Total Expenses |   |  36,000  |
|  Net Income |  |  $ 44,000 |
|  |  |  |

**Part b.**

|  |
| --- |
| STUDIO PHOTOGRAPHY |
| Statement of Owner’s Equity |
| Year Ended December 31, 2014 |
|  |  |
| Ansel, Capital, January 1, 2014 |  $ 16,000 |
| Owner contribution |  29,000  |
| Net income for the year  |  44,000 |
|  |  89,000 |
| Owner withdrawals |  (13,000) |
| Ansel, Capital, December 31, 2014 |  $ 76,000 |
|  |  |

**Part c.**

|  |
| --- |
| STUDIO PHOTOGRAPHY |
| Balance Sheet |
| December 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 37,000 | Accounts Payable | $ 7,000  |
| Accounts Receivable |  8,000 | Notes Payable | 12,000 |
| Equipment |  50,000 | Total Liabilities | 19,000 |
|  |  | Owner’s Equity |
|  |  | Ansel, Capital | 76,000 |
| Total Assets | $ 95,000 | Total Liabilities and Owner’s Equity | $ 95,000 |
|  |  |   |  |
|  |  |  |  |

**P1-44A**

|  |
| --- |
| GREENER LANDSCAPING  |
| Balance Sheet |
| November 30, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 4,900 | Accounts Payable | $ 2,700 |
| Accounts Receivable | 2,200 | Notes Payable | 24,200 |
| Office Supplies | 600 | Total Liabilities | 26,900 |
| Office Furniture | 6,100 | Owner’s Equity |
| Land | 34,200 | Tum, Capital  | 21,100 |
| Total assets | $ 48,000 | Total Liabilities and Owner’s Equity | $ 48,000 |
|  |  |   |  |

**P1-45A**

**Requirement 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liabilities** | **+** | **Equity** |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Furniture | = | Accounts Payable | + | Shore, Capital | – | Shore, Withdrawals | + | 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 |
|  | –1,000 |  |   |  |   |  |  |  |   |  |   |  | –1,000 |  |  |  |   |  |  |
| Bal. |  $56,500  | + | $ 0  | + |  $100  | + | $9,700 | = | $ 0  | + | $50,000  | – | $1,000 | + | $19,000  | – | $1,500 | – | $200 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-45A, cont.**

**Requirement 2a**

|  |
| --- |
| ALEX SHORE, CPA  |
| Income Statement |
| Month Ended February 28, 2014 |
|  |  |  |
| Revenue: |  |  |
|  Service Revenue |  | $ 19,000 |
| Expenses: |  |  |
|  Rent Expense | $ 1,500 |  |
|  Utilities Expense | 200 |  |
|  Total Expenses |   |  1,700  |
| Net Income |   |  $ 17,300 |
|  |  |  |

**Requirement 2b**

|  |
| --- |
| ALEX SHORE, CPA |
| Statement of Owner’s Equity |
| Month Ended February 28, 2014 |
|  |  |
| Shore, Capital, February 1, 2014 | $ 0 |
| Owner contribution | 50,000 |
| Net income for the month  | 17,300 |
|  | $ 67,300 |
| Owner withdrawals | (1,000) |
| Shore, Capital, February 28, 2014 | $ 66,300 |
|  |  |

**Requirement 2c**

|  |
| --- |
| ALEX SHORE. CPA  |
| Balance Sheet |
| February 28, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 56,500 |  |   |
| Office Supplies |  100 |  |  |
| Furniture | 9,700 | Owner’s Equity |
|  |  | Shore, Capital | 66,300 |
| Total Assets | $66,300 | Total Liabilities and Owner’s Equity |  $66,300 |
|  |  |  |  |

**P1-46A**

**Requirement 1**

**B**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Computer | = | Accounts Payable | + | Peters, Capital | − | Peters, Withdrawals | + | 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 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-46A, cont.**

**Requirement 2a**

|  |
| --- |
| ANGELA PETERS, ATTORNEY  |
| Income Statement |
| Month Ended March 31, 2014 |
|  |  |  |
| Revenue: |  |  |
|  Service Revenue |  | $ 15,500 |
| Expenses: |  |  |
|  Utilities Expense | $ 1,200 |  |
|  Miscellaneous Expense | 120 |  |
|  Total Expenses |   |  1,320  |
| Net Income |   |  $ 14,180 |
|   |  |  |

**Requirement 2b**

|  |
| --- |
| ANGELA PETERS, ATTORNEY |
| Statement of Owner’s Equity |
| Month Ended March 31, 2014 |
|  |  |
| Peters, Capital, March 1, 2014 | $ 0 |
| Owner contribution |  89,000  |
| Net income for the month |  14,180 |
|  | 103,180 |
| Owner withdrawals |  (2,000) |
| Peters, Capital, March 31, 2014 |  $ 101,180 |
|  |  |

**Requirement 2c**

|  |
| --- |
| ANGELA PETERS, ATTORNEY  |
| Balance Sheet |
| March 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 90,280 | Accounts Payable | $ 9,300 |
| Accounts Receivable |  10,500 |  |  |
| Office Supplies |  400 | Owner’s Equity |
| Computer | 9,300 | Peters, Capital |  101,180 |
| Total Assets | $ 110,480 | Total Liabilities and Owner’s Equity | $ 110,480 |
|  |  |   |   |

***Problems Group B***

**P1-47B**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Land | = | Accounts Payable | + | Collins, Capital | – | Collins, Withdrawals | + | Service Revenue | – | Rent Expense | – | Advertising Expense |
| Bal. | $2,100 | + | $2,000 | + |  | + | $10,000 | = | $6,000 | + | $8,100 |  |  |  |  |  |  |  |  |
| (a) | +10,000 |  |  |  |  |  |  |  |  |  | +10,000 |  |  |  |  |  |  |  |  |
| Bal. | $12,100 | + | $2,000 |  |  | + | $10,000 | = | $6,000 | + | $18,100 |  |  |  |  |  |  |  |  |
| (b) | +1,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,000 |  |  |  |  |
| Bal. | $13,100 | + | $2,000 |  |  | + | $10,000 | = | $6,000 | + | $18,100 |  |  | + | $1,000 |  |  |  |  |
| (c) | –6,000 |  |  |  |  |  |  |  | –6,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $7,100 | + | $2,000 |  |  | + | $10,000 | = | $0 | + | $18,100 |  |  | + | $1,000 |  |  |  |  |
| (d) |  |  |  |  | +700 |  |  |  | +700 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $7,100 | + | $2,000 | + | $700 | + | $10,000 | = | $700 | + | $18,100 |  |  | + | $1,000 |  |  |  |  |
| (e) | +500 |  | –500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $7,600 | + | $1,500 | + | $700 | + | $10,000 | = | $700 | + | $18,100 |  |  | + | $1,000 |  |  |  |  |
| (f) | –1,900 |  |  |  |  |  |  |  |  |  |  |  | –1,900 |  |  |  |  |  |  |
| Bal. | $5,700 | + | $1,500 | + | $700 | + | $10,000 | = | $700 | + | $18,100 | – | $1,900 | + | $1,000 |  |  |  |  |
| (g) |  |  | +5,800 |  |  |  |  |  |  |  |  |  |  |  | +5,800 |  |  |  |  |
| Bal. | $5,700 | + | $7,300 | + | $700 | + | $10,000 | = | $700 | + | $18,100 | – | $1,900 | + | $6,800 |  |  |  |  |
| (h) | –1,300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –900 |  | –400 |
| Bal. | $4,400 | + | $7,300 | + | $700 | + | $10,000 | = | $700 | + | $18,100 | – | $1,900 | + | $6,800 | – | $900 | – | $400 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-48B**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
|  | Cash | + | Accounts Receivable | + | Office Supplies | = | Accounts Payable | + | Taylor, Capital | – | Taylor, Withdrawals | + | Service Revenue | – | Rent Expense | – | Utilities Expense | – | Salaries 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 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-49B, cont.**

**Part a.**

|  |
| --- |
| QUICK AND EZ DELIVERY |
| Income Statement |
| Year Ended December 31, 2014 |
|  |  |  |
| Revenues: |  |  |
|  Service Revenue |  | $ 192,000 |
| Expenses: |  |  |
|  Salaries Expense | $ 69,000 |  |
|  Advertising Expense | 17,000 |  |
|  Rent Expense | 13,000 |  |
|  Interest Expense | 6,000 |  |
|  Property Tax Expense | 2,900 |  |
|  Insurance Expense | 2,000 |  |
| Total Expenses |  | 109,900 |
| Net Income |  | $ 82,100 |
|  |  |  |

**Part b.**

|  |
| --- |
| QUICK AND EZ DELIVERY |
| Statement of Owner’s Equity |
| Year Ended December 31, 2014 |
|  |  |  |
| Trott, Capital, January 1, 2014 |  | $ 51,000 |
| Owner contribution |  | 32,000 |
| Net income for the year |  | 82,100 |
|  |  | $ 165,100 |
| Owner withdrawals |  |  (32,000) |
| Trott, Capital, December 31, 2014 |  | $ 133,100 |
|  |  |  |

**Part c.**

|  |
| --- |
| QUICK AND EZ DELIVERY |
| Balance Sheet |
|  December 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 6,000 | Accounts Payable | $ 14,000 |
| Accounts Receivable | 1,700 | Notes Payable | 30,000 |
| Office Supplies | 8,000 | Salaries Payable | 500 |
| Equipment | 17,000 | Total Liabilities | $ 44,500 |
| Building | 137,900 | Owner’s Equity |
| Land | 7,000 | Trott, Capital | 133,100 |
| Total Assets | $ 177,600 | Total Liabilities and Owner’s Equity | $ 177,600 |
|  |  |  |  |

**P1-50B**

**Requirement a**

|  |
| --- |
| PHOTO GALLERY |
| Income Statement |
| Year Ended December 31, 2014 |
|  |  |  |
| Revenues: |  |  |
|  Service Revenue |  | $ 78,000 |
| Expenses: |  |  |
|  Salaries Expense | $ 21,000 |  |
|  Insurance Expense | 9,000 |  |
|  Advertising Expense | 2,000 |  |
| Total Expenses |  | 32,000 |
| Net Income |   | $ 46,000 |
|  |  |  |

**Requirement b**

|  |
| --- |
| PHOTO GALLERY |
| Statement of Owner’s Equity |
| Year Ended December 31, 2014 |
|  |  |
| Leibovitz, Capital, January 1, 2014 |  $ 17,000 |
| Owner contribution |  35,000 |
| Net income for the year |  46,000 |
|  |  98,000 |
| Owner withdrawals |  (14,000) |
| Leibovitz, Capital, December 31,2014 |  $ 84,000 |
|  |  |

**Requirement c**

|  |
| --- |
| PHOTO GALLERY |
| Balance Sheet |
|  December 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 26,000 |  Accounts Payable | $ 4,000 |
| Accounts Receivable |  6,000 |  Notes Payable | 14,000 |
| Equipment |  70,000 |  Total Liabilities | 18,000 |
|  |   | Owner’s Equity |
|  |   |  Leibovitz, Capital | 84,000 |
| Total Assets |  $ 102,000 |  Total Liabilities And Owner’s Equity | $ 102,000 |
|  |  |  |  |

**P1-51B**

|  |
| --- |
| OUTDOOR LIFE LANDSCAPING |
| Balance Sheet |
| July 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 5,000 |  Accounts Payable | $ 2,800 |
| Accounts Receivable |  2,300 |  Notes Payable | 26,400 |
| Office Supplies |  800 |  Total Liabilities | 29,200 |
| Office Furniture |  5,200 |  |  |
| Land | 28,400 | Owner’s Equity |
|  |   |  Kamp, Capital | 12,500 |
| Total Assets | $ 41,700 |  Total Liabilities and Owner’s Equity |  $ 41,700 |
|  |  |  |  |

**P1-52B**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Office Furniture | = | Accounts Payable | + | Woody, Capital | − | Woody, Withdrawals | + | 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 |
| 28 | –8,000 |  |  |  |   |  |  |  |  |  |  |  | –8,000 |  |  |  |  |  |  |
| Bal. | $28,250 | + |  $ 0 | + | $200 | + | $9,500 | = | $ 0 | + | $31,000 | – | $8,000 |  + | $17,000 | – | $1,900 | – | $150 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-52B, cont.**

**Requirement 2a**

|  |
| --- |
| AARON WOODY, CPA |
| Income Statement |
| Month Ended February 28, 2014 |
|  |  |  |
| Revenues: |  |  |
|  Service Revenue |  |  $ 17,000 |
| Expenses: |  |  |
|  Rent Expense | $ 1,900 |  |
|  Utilities Expense | 150 |  |
| Total Expenses |  | 2,050 |
| Net Income |  | $ 14,950 |
|  |  |  |

**Requirement** **2b**

|  |
| --- |
| AARON WOODY, CPA |
| Statement of Owner’s Equity |
| Month Ended February 28, 2014 |
|  |  |
| Woody, Capital, February 1, 2014 | $ 0 |
| Owner contribution | 31,000 |
| Net income for the month | 14,950 |
|  | $ 45,950 |
| Owner withdrawals | (8,000) |
| Woody, Capital, February 28, 2014 | $ 37,950 |
|  |  |

**Requirement 2c**

|  |
| --- |
| AARON WOODY, CPA |
| Balance Sheet |
| February 28,2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 28,250 |  |  |
| Office Supplies | 200 |  |  |
| Office Furniture | 9,500 | Owner’s Equity |
|  |  | Woody, Capital | $ 37,950 |
| Total Assets | $ 37,950 | Total Liabilities and Owner’s Equity | $ 37,950 |
|  |

<listitem><inst>

**P1-53B**

**Requirement 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Computer | = | Accounts Payable | + | Griffin, Capital | – | Griffin, Withdrawals | + | 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 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-53B, cont.**

**Requirement 2a**

|  |
| --- |
| AIMEE GRIFFIN, ATTORNEY |
| Income Statement |
| Month Ended December 31, 2014 |
|  |  |  |
| Revenues: |  |  |
|  Service Revenue |  | $ 20,000 |
| Expenses: |  |  |
|  Utility Expense | $ 1,900 |  |
|  Miscellaneous Expense | 80 |  |
| Total Expenses |  | 1,980 |
| Net Income |  | $ 18,020 |
|  |  |  |

**Requirement 2b**

|  |
| --- |
| AIMEE GRIFFIN, ATTORNEY |
| Statement of Owner’s Equity |
| Month Ended December 31, 2014 |
|  |  |
| Griffin, Capital, December 1, 2014 | $ 0 |
| Owner contribution |  109,000 |
| Net income for the month |  18,020 |
|  | $ 127,020 |
| Owner withdrawals |  (5,000) |
| Griffin, Capital, December 31, 2014 | $ 122,020 |
|  |  |

**Requirement 2c**

|  |
| --- |
| AIMEE GRIFFIN, ATTORNEY |
| Balance Sheet |
| December 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 108,120 | Accounts Payable | $ 9,200 |
| Accounts Receivable | 13,000 |  |  |
| Office Supplies | 900 | Owner’s Equity |
| Computer | 9,200 | Griffin, Capital  | 122,020 |
| Total Assets | $ 131,220 | Total Liabilities and Owner’s Equity | $ 131,220 |
|  |  |  |  |

## Continuing Problem

**P1-54 Requirement 1**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|   | Assets |   |   | = | Liabilities | + | Equity |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Equipment  | + | Furniture | = | Accounts Payable | + | UnearnedRevenue | + | Davis, Capital | – | Davis, Withdrawals | + | Service Revenue | – | Rent Expense | – | Utilities Expense |
| (1) | +18,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +18,000 |  |  |  |  |  |  |  |  |
| (2) |  –550 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –550 |  |  |
| Bal. | $17,450 |  |  |  |  |  |  |  |  | = |  |  |  | + | $18,000 |  |  |  |  | – | $550 |  |  |
| (3) |  –1,800 |  |  |  |  |  | +1,800 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $15,650 |  |  |  |  | + | $1,800 |  |  | = |  |  |  | + | $18,000 |  |  |  |  | – | $550 |  |  |
| (4) |  |  |  |  |  |  |  |  | +4,200 |  |  +4,200 |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $15,650 |  |  |  |  | + | $1,800 | + | $4,200 | = | $4,200 |  |  | + | $18,000 |  |  |  |  | − | $550 |  |  |
| (5) |  |  |  |  | +900 |  |  |  |  |  |  +900 |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $15,650 |  |  | + | $900 | + | $1,800 | + | $4,200 | = | $5,100 |  |  | + | $18,000 |  |  |  |  | – | $550 |  |  |
| (9) |  |  | +1,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,500 |  |  |  |  |
| Bal. | $15,650 | + | $1,500 | + | $900 | + | $1,800 | + | $4,200 | = | $5,100 |  |  | + | $18,000 |  |  | + | $1,500 | − | $550 |  |  |
| (12) |  –250 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –250 |
| Bal. | $15,400 | + | $1,500 | + | $900 | + | $1,800 | + | $4,200 | = | $5,100 |  |  | + | $18,000 |  |  | + | $1,500 | – | $550 | – | $250 |
| (18) |  +1,100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,100 |  |  |  |  |
| Bal. | $16,500 | + | $1,500 | + | $900 | + | $1,800 | + | $4,200 | = | $5,100 |  |  | + | $18,000 |  |  | + | $2,600 | – | $550 | – | $250 |
| (21) |  + 1,400 |  |  |  |  |  |  |  |  |  |  |  | +1,400 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $17,900 | + | $1,500 | + | $900 | + | $1,800 | + | $4,200 | = | $5,100 | + | $1,400 | + | $18,000 |  |  | + | $2,600 | – | $550 | – | $250 |
| (26) |  – 400 |  |  |  |  |  |  |  |  |  |  – 400 |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $17,500 | + | $1,500 | + | $900 | + | $1,800 | + | $4,200 | = | $4,700 | + | $1,400 | + | $18,000 |  |  | + | $2,600 | – | $550 | – | $250 |
| (28) |  + 300 |  |  –300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $17,800 | + | $1,200 | + | $900 | + | $1,800 | + | $4,200 | = | $4,700 | + | $1,400 | + | $18,000 |  |  | + | $2,600 | – | $550 | – | $250 |
| (30) |  –1,400 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,400 |  |  |  |  |  |  |
| Bal. | $16,400 | + | $1,200 | + | $900 | + | $1,800 | + | $4,200 | = | $4,700 | + | $1,400 | + | $18,000 | – | $1,400 | + | $2,600 | – | $550 | – | $250 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-54, cont.**

**Requirement 2**

|  |
| --- |
| DAVIS CONSULTING |
| Income Statement |
| Month Ended December 31, 2014 |
|  |  |  |
| Revenue: |  |  |
|  Service Revenue |  | $ 2,600 |
| Expenses: |  |  |
|  Rent Expense | $ 550 |  |
|  Utilities Expense |  250 |  |
|  Total Expense |  | 800 |
| Net Income |  | $ 1,800 |
|  |  |  |

**Requirement 3**

|  |
| --- |
| DAVIS CONSULTING |
| Statement of Owner’s Equity |
| Month Ended December 31, 2014 |
|  |  |
| Davis, Capital, December 1, 2014 | $ 0 |
| Owner contribution | 18,000 |
| Net income for the month |  1,800 |
|  |  $ 19,800 |
| Owner withdrawals |  (1,400) |
| Davis, Capital, December 31, 2014 |  $ 18,400 |
|  |  |

**Requirement 4**

|  |
| --- |
| DAVIS CONSULTING  |
| Balance Sheet |
| December 31, 2014 |
|  |  |
| Assets | Liabilities |
| Cash | $ 16,400 | Accounts Payable | $ 4,700 |
| Accounts Receivable | 1,200 | Unearned Revenue | 1,400 |
| Office Supplies | 900 | Total Liabilities | $ 6,100 |
| Equipment | 1,800 |  |
| Furniture | 4,200 | Owner’s Equity |
|  |  | Davis, Capital |  18,400 |
| Total Assets | $ 24,500 | Total Liabilities and Owner’s Equity |  $ 24,500 |
|  |  |  |  |

**Requirement 5**

Average total assets = ($0 + $24,500) / 2 = $12,250

Return on assets = Net income / Average total assets = $1,800 / $12,250 = 0.147 = 14.7%

## Critical Thinking

**Decision Case 1-1**

**Requirement 1**

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

**Requirement 2**

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

**Requirement 3**

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

**Requirement 4**

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

**Requirement 5**

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

**Requirement 6**

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

**Requirement 7**

Sal’s looks financially better, because Sal earned more net income on less total revenue.

Sal also owes less to creditors and has more equity.

**Decision Case 1-2**

**Requirement 1**

The banker would not congratulate the Guerreras for their net income because they have not measured net income properly. In fact, they have no net income at all. Net income is revenues minus expenses, and the Guerraras do not have any revenues or expenses. The amount of cash in the bank does not measure net income, as it is the result of a loan from the bank.

**Requirement 2**

|  |
| --- |
| TRES AMIGOS BED & BREAKFAST |
| Balance Sheet |
| June 30, 2015 |
|  |  |
| Assets | Liabilities |
| Cash | $ 38,000 | Bank Loan Payable | $ 100,000 |
| Computer | 2,000 |  |  |
| Kitchen Equipment | 10,000 |  |
| Furniture | 20,000 | Owner’s Equity  |
| Building ($80,000 + $50,000) |  130,000  | Guerrera, Capital | 100,000 |
| Total Assets | $ 200,000 | Total Liabilities and Owner’s Equity | $ 200,000  |
|  |  |  |  |

**Ethical Issues 1-1**

**Req. 1**

If an auditor is in fact independent, but one or more factors suggest otherwise, this could potentially lead to the public concluding that the audit report does not represent a true and fair view. There is a clear ethical statement on conflict of interest which must be observed if an auditor wishes to continue practicing.

**Req. 2**

There are two main options. Firstly the accounts of one of the companies could be transferred to another partner within McIntosh & Co. and disclosing this to both companies. Auditing the accounts of the two firms is not of itself an ethical concern, it is the potential conflict of interest if one were to be taking on work from the other. The auditor should instruct Tartan Promotions to consult an independent advisor since he, as an auditor, is not the right person to answer that question, especially because the promotion firm is also an audit client.

**Req. 3**

The purpose of an audit is to enhance the credibility of financial statements by providing written reasonable assurance from an independent source that they present a true and fair view in accordance with an accounting standard. This objective will not be met if users of the audit report believe that the auditor may have been influenced by other parties, more specifically company managers/directors or by conflicting interests.

**Fraud Case 1-1**

**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**

**Requirement 1**

$1,148.1 (in millions)

**Requirement 2**

$7,360.4 (in millions) at October 2, 2011; $6,385.9 (in millions) at October 3, 2010

**Requirement 3**

Assets = Liabilities + Equity

$7,360.4 = $2,973.1 + $4,387.3

(shown in millions)

**Requirement 4**

$11,700.4 (in millions) for year ended October 2, 2011

This is an increase of $993 (in millions) over 2010. ($11,700.4− $10,707.4)

**Requirement 5**

$1,245.7 (in millions) in 2011

$945.6 (in millions) in 2010

2011 was better than 2010.

**Requirement 6**

Average total assets =($6,385.9+ $7,360.4) / 2 = $6,873.2 (rounded)

Return on assets = $1,245.7 / $6,873.2 = 0.181 = 18.1%

**Requirement 7**

Starbucks Corporation's return on assets (18.1%) was significantly higher than Green Mountain Coffee Roasters, Inc. (8.7%).

**Team Project 1-1**

**Requirement 1**

1. How to organize the business—as a proprietorship, a partnership, an LLC, or a corporation (you have decided to organize as a proprietorship)
2. Where to locate the business
3. How much of your own time and money to commit to the business
4. How to finance the business—with your own personal money, with equity contributions from others, or through borrowing
5. How many people to employ for the business
6. How to measure the business’s success or failure; how to account for the assets, liabilities, and operations of the business
7. What type of animals to board (dogs only, dogs and cats, birds, reptiles, and so on)
8. Whether to sell pet foods, toys, and other supplies
9. Whether to offer obedience lessons and other pet training
10. How to advertise the business (newspapers, radio, posters, online)

Student answers may vary.

**Requirement 2**

1. Obtain equity financing to start the business
2. Purchase land and building
3. Renovate the building to make it suitable for a kennel
4. Purchase pet food and other supplies that will be needed to operate the kennel
5. Advertising
6. Earn service revenue
7. Pay utility bills
8. Pay for veterinarian services
9. Pay employee wages
10. Borrow money
11. Owner withdrawals

Student answers may vary.

**Team Project 1-1, cont.**

**Requirement 3**

|  |
| --- |
| QUAIL CREEK PET KENNEL  |
| Income Statement |
| Month Ended January 31, 20XX |
|  |  |  |
| Revenue: |  |  |
|  Service Revenue |  | $ 10,000 |
| Expenses:\* |  |  |
|  Wages Expense | $ 2,000 |  |
|  Supplies Expense | 400 |  |
|  Advertising Expense | 300 |  |
|  Utilities Expense | 100 |  |
|  Total Expense |  | 2,800 |
| Net Income |  | $ 7,200 |
|  |  |  |

**\***Students may also include depreciation expense on the building.

|  |
| --- |
| QUAIL CREEK PET KENNEL  |
| Statement of Owner’s Equity |
| Month Ended January 31, 20XX |
|  |
| Last name, Capital, January 1, 20XX | $ 0 |
| Owner contribution | 30,000 |
| Net income for the month | 7,200 |
|  | 37,200 |
| Owner withdrawal | (2,000) |
| Last name, Capital, January 31, 20XX | $ 35,200 |
|  |  |

|  |
| --- |
| QUAIL CREEK PET KENNEL  |
| Balance Sheet |
| January 31, 20XX |
|  |  |
| Assets | Liabilities |
| Cash | $ 1,500 | Accounts Payable | $ 1,000 |
| Supplies | 200 |  |  |
| Building | 25,000 | Owner’s Equity |
| Land | 9,500 | Last name, Capital |   35,200  |
| Total Assets | $ 36,200 | Total Liabilities And Owner’s Equity |  $ 36,200 |
|  |  |  |  |

**Team Project 1-1, cont.**

**Requirement 4**

We evaluate the success of the business by considering its:

* Net income or net loss for the period, as reported on the income statement
* Financial position at the end of the period, as reported on the balance sheet

A profitable business that should continue is one that shows net income for the period, assets exceeding liabilities, and positive cash flow.

**Team Project 1-2**

Suggested Answers:

**Requirement 1**

1. How to organize the business—as a proprietorship, a partnership, an LLC, or a corporation (assume you have decided to organize as a proprietorship)
2. Where to locate the headquarters of the business
3. How much of your own time and money to commit to the business
4. How to finance the business—with your own personal money, with equity contributions from others, or through borrowing
5. How many people to employ for the business
6. How to measure the business’s success or failure; how to account for the assets, liabilities, and operations of the business
7. What type of music to feature; what age group or interest group to appeal to
8. Whether to sell concessions (food, drinks, T-shirts, and so on) yourself or to arrange for outsiders to sell concessions at the concert
9. How to advertise the business (newspapers, radio, posters, online)
10. Whether to sponsor the concerts yourself or to arrange for corporate or charitable organizations to sponsor the concerts

**Requirement 2**

1. Which band (or bands) to feature at the concerts
2. How much and when to pay the performers (flat rate or a percentage of gate receipts)
3. Where to stage the concerts and how to pay for the site rental
4. Need for city or county permits to stage a concert
5. How to ensure security at the concert
6. How to get people to come to the concert––how to advertise the concerts (newspapers, radio, posters, or other) and how much to pay for advertising
7. How to offer concessions (buy and sell them yourself or arrange for outside concessionaires). If outsiders, how will they be compensated—keep their own revenues or share them with you?
8. Need for traffic control if the crowd disrupts city traffic
9. Weather considerations if the concert is staged outdoors
10. Timing of the concert in relation to other events in the area at the time.

**Team Project 1-2, cont.**

**Requirement 3**

|  |
| --- |
| CONCERT ENTERPRISES  |
| Income Statement |
| Three Months Ended June 30, 20XX |
|  |  |   |
| Revenue: |  |  |
|  Ticket Sales Revenue |  | $ 300,000  |
|  Concession Revenue |  | 50,000  |
|  Total Revenue |  | $ 350,000  |
| Expenses: |  |  |
|  Band Expense | $ 100,000  |  |
|  Advertising Expense | 50,000 |  |
|  Concession Expense | 20,000 |  |
|  Rent Expense | 15,000 |  |
|  Security Expense | 10,000 |  |
|  Utilities Expense | 3,000 |  |
|  Permits Expense | 2,000 |  |
|  Total Expenses |   | 200,000 |
| Net Income |   | $ 150,000 |
|  |  |  |

|  |
| --- |
| CONCERT ENTERPRISES  |
| Statement of Owner’s Equity |
| Three Months Ended June 30, 20XX |
|  |  |
| Last name, Capital, April 1, 20XX |  $ 0 |
| Owner contribution | 1,000 |
| Net income for quarter |  150,000 |
|   |  151,000 |
| Owner withdrawal |  (10,000) |
| Last name, Capital, June 30, 20XX |  $ 141,000 |
|  |  |

**Team Project 1-2, cont.**

|  |
| --- |
| CONCERT ENTERPRISES  |
| Balance Sheet |
| June 30, 20XX |
|  |  |
| Assets | Liabilities |
| Cash | $ 136,000 | Accounts Payable | $ 7,000 |
| Accounts Receivable | 8,000 |  |  |
| Supplies | 4,000 | Owner’s Equity |
|  |                 | Last Name, Capital |   141,000  |
| Total Assets | $ 148,000 | Total Liabilities And Owner’s Equity | $ 148,000 |
|  |  |  |  |

**Requirement 4**

We evaluate the success of the business by considering its:

* Net income or net loss for the period, as reported on the income statement
* Financial position at the end of the period, as reported on the balance sheet

A profitable business that should continue is one that shows net income for the period, assets exceeding liabilities, and positive cash flow.

## Communication Activity 1-1

Assets = Liabilities + Equity simply shows the resources that a business owns and the claims that others have against those resources (assets).