Chapter 1
Accounting and the Business Environment

Review Questions

1. 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.

2. 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.

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 GAAP provides the framework for this financial reporting.

7. 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.

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

9. 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.

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

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

12. 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.

13. 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.

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

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

16. 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.

17. 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.
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. 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

Chloe'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. Chloe could also consider a limited liability company (LLC) as an option. A LLC meets two of the three criteria. It has an unlimited life and limited liability for the owner. However, a LLC is not a separate tax entity.

S1-4

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.

S1-5

a. The economic entity assumption
b. The cost principle.
c. The monetary unit assumption.
d. The going concern assumption.

S1-6
Requirement 1

Thompson Handyman Services has equity of $9,350.

Assets	=	Liabilities	+	Equity
$18,400	=	$9,050	+	?
$18,400	=	$9,050	+	**$9,350**

Requirement 2

Thompson Handyman Services has liabilities of $17,200.

Assets	=	Liabilities	+	Equity
$18,400 + $4,300	=	?	+	$9,350 – $3,850
$22,700	=	**$17,200**	+	$5,500

S1-7
Requirement 1

ASSETS	=	LIABILITIES	+	EQUITY						
				Contributed Capital	+	Retained Earnings				
			+	Common Stock	–	Dividends	+	Revenues	–	Expenses
$45,800	=	$17,220	+	$27,460	–	$6,500	+	$8,850	–	**?**
$45,800	=	$17,220	+	$27,460	–	$6,500	+	$8,850	–	**$1,230**

Requirement 2

Roland's Overhead Doors reported net income of $7,620. Net Income = Revenues ($8,850) – Expenses ($1,230)

S1-8

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

S1-9

a. Increase asset (Cash); Increase equity (Service Revenue)
b. Decrease asset (Cash); Decrease equity (Salaries Expense)
c. Increase asset (Cash); Increase Equity (Common Stock)
d. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
e. Increase liability (Accounts Payable); Decrease equity (Utility Expense)
f. Decrease asset (Cash); Decrease equity (Dividends)

S1-10

a. Increase asset (Cash); Increase equity (Common Stock)
b. Increase asset (Equipment); Increase liability (Accounts Payable)
c. Increase asset (Office Supplies); Decrease asset (Cash)
d. Increase asset (Cash); Increase equity (Service Revenue)
e. Decrease asset (Cash); Decrease equity (Wages Expense)
f. Decrease asset (Cash); Decrease equity (Dividends)
g. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
h. Decrease asset (Cash); Decrease equity (Rent Expense)
i. Increase liability (Accounts Payable); Decrease equity (Utilities Expense)

S1-11

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

S1-12

CENTERPIECE ARRANGEMENTS
Income Statement
Year Ended December 31, 2018

Revenue:		
Service Revenue		$ 70,000
Expenses:		
Salaries Expense	$ 46,000	
Rent Expense	16,000	
Insurance Expense	4,500	
Utilities Expense	1,400	
Total Expenses		67,900
Net Income		$ 2,100

S1-13

CENTERPIECE ARRANGEMENTS Statement of Retained Earnings Year Ended December 31, 2018	
Retained Earnings, January 1, 2018	$ 5,100
Net income for the year	2,100
	7,200
Dividends	(4,800)
Retained Earnings, December 31, 2018	$ 2,400

S1-14

CENTERPIECE ARRANGEMENTS Balance Sheet December 31, 2018			
Assets		Liabilities	
Cash	$ 7,200	Accounts Payable	$ 17,600
Accounts Receivable	8,000		
Office Supplies	1,700	Stockholders' Equity	
Equipment	12,100	Common Stock	9,000
		Retained Earnings	2,400
		Total Stockholders' Equity	11,400
Total Assets	$ 29,000	Total Liabilities and Stockholders' Equity	$ 29,000

S1-15

POLK STREET HOMES Statement of Cash Flows Month Ended July 31, 2018		
Cash flows from operating activities:		
Receipts:		
Collections from customers		$ 25,000
Payments:		
To employees	$ (1,500)	
To suppliers	(2,500)	(4,000)
Net cash provided by operating activities		21,000
Cash flows from investing activities:		
Purchase of equipment	(25,000)	
Net cash used by investing activities		(25,000)
Cash flows from financing activities:		
Issued common stock	13,000	
Payment of cash dividend	(4,000)	
Net cash provided by financing activities		9,000
Net increase in cash		5,000
Cash balance, July 1, 2018		14,000
Cash balance, July 31, 2018		$ 19,000

S1-16

Return on assets	=	Net income / Average total assets
	=	$50,880 / (($362,000 + $486,000) / 2)
	=	$50,880 / $424,000
	=	12%

Exercises

E1-17

a. E	e. E
b. I	f. I
c. E	g. I
d. E	h. E

E1-18

1. d	6. f
2. e	7. b
3. g	8. c
4. a	9. j
5. i	10. h

E1-19

1. e	7. d
2. a	8. c
3. i	9. g
4. f	10. h
5. j	11. k
6. b	

E1-20

	Assets	Liabilities	Equity
Hair Styles	**$ 72,000**	$ 36,000	$ 36,000
Style Cuts	90,000	**42,000**	48,000
Your Basket	101,000	68,000	**33,000**

E1-21

	a.	b.	c.
Stockholders' equity, May 31, 2018 ($122,000 – $66,000)	$ 56,000	$ 56,000	$ 56,000
Issuance of common stock	10,000	0	12,500
Net income for the month	**77,000**	**90,000**	**104,500**
	143,000	146,000	173,000
Dividends	0	(3,000)	(30,000)
Stockholders' equity, June 30, 2018 ($287,000 – $144,000)	$ 143,000	$ 143,000	$ 143,000

E1-22
Requirement 1

	Assets	=	Liabilities	+	Equity
Beginning of 2018	$19,000	=	$14,000	+	?
	$19,000	=	$14,000	+	**$5,000**
End of 2018	$12,000	=	$9,000	+	?
	$12,000	=	$9,000	+	**$3,000**

Stockholders' equity decreased in 2018 by $2,000 ($5,000 – $3,000).

Requirement 2

a. Increase through issuance of common stock.
b. Increase through net income.
c. Decrease through dividend payment.
d. Decrease through net loss.

E1-23
Requirement 1

Revenues	–	Expenses	=	Net Income
$30,000	–	$15,000	=	**$15,000**

Requirement 2

Flowing Rivers Spa's equity increased by $15,000 ($29,000 - $14,000) or the amount of the net income.

	Assets	=	Liabilities	+	Equity
Beginning of 2018	$28,000	=	$14,000	+	?
	$28,000	=	$14,000	+	$14,000
Ending of 2018	$43,000	=	$14,000	+	?
	$43,000	=	$14,000	+	$29,000

E1-24
Requirement 1

	Assets	−	Liabilities	=	Equity
Beginning of 2018	$67,000	−	$11,000	=	$56,000
Ending of 2018	$46,000	−	$34,000	=	$12,000

Retained Earnings:

Retained Earnings, Jan. 1, 2018	$ 45,000
Plus: Revenues	205,000
Less: Expenses	**(241,000)**
Less: Dividends	(8,000)
Retained Earnings, Dec. 31, 2018	$ 1,000

Stockholders' Equity:

Common Stock	$ 11,000
Retained Earnings	1,000
Total Stockholders' Equity	$ 12,000

Requirement 2

Felix Company suffered (or reported) a net loss of ($36,000).

Revenue	−	Expenses	=	Net Income (Loss)
$205,000	−	$241,000	=	($36,000)

E1-25

Student responses will vary. Examples include:

a. Cash purchase of office supplies.
b. Cash dividends paid to stockholders.
c. Paid cash on accounts payable.
d. Received cash for services provided.
e. Borrowed cash from the bank.

E1-26

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 (Office Supplies).

E1-27

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)

E1-28

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

E1-29

	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	+68,000				+68,000					
Bal.	$68,000				$68,000					
9	–56,000		+56,000							
Bal.	$12,000		$56,000		$68,000					
12		+1,500		+1,500						
Bal.	$12,000	$1,500	$56,000	$1,500	$68,000					
15										
Bal.	$12,000	$1,500	$56,000	$1,500	$68,000					
20	–2,900							–1,300	–1,500	–100
Bal.	$ 9,100	$1,500	$56,000	$1,500	$68,000			$1,300	$1,500	$100
31	+13,000						+13,000			
Bal.	$22,100	$1,500	$56,000	$1,500	$68,000		$13,000	$1,300	$1,500	$100
31	–1,050			–1,050						
Bal.	$21,050	$1,500	$56,000	$ 450	$68,000		$13,000	$1,300	$1,500	$100

E1-30

Requirement 1

a. Income statement
b. Statement of retained earnings
c. Balance sheet
d. 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:

a. 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.
b. The revenue accounts are always listed first and then subtotaled if necessary.
c. Each expense account is listed separately from largest to smallest and then subtotaled if necessary.
d. Net income is calculated as total revenues minus total expenses.

Statement of Retained Earnings:

a. 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.
b. The beginning retained earnings is listed first and will always be the ending retained earnings from the previous time period.
c. The net income is added to the beginning retained earnings.
d. The dividends are subtracted from retained earnings. If there had been a net loss, this would also be subtracted.

Balance Sheet:

a. 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.
b. Each asset account is listed separately and then totaled. Cash is always listed first.
c. Liabilities are listed separately and then totaled. Liabilities that are to be paid first are listed first.
d. The stockholders' equity section includes common stock and ending retained earnings from the statement of retained earnings.
e. The balance sheet must always balance: Assets = Liabilities + Equity.

Statement of Cash Flows:

a. 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.
b. Each dollar amount is calculated by evaluating the cash column on the transaction detail.
c. Operating activities involve cash receipts for services provided and cash payments for expenses paid.
d. Investing activities include the purchase and sale of land and equipment for cash.
e. Financing activities include cash from the issuance of common stock and payment of cash dividends.
f. 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, 2018

Revenue:		
Service Revenue		$ 15,000
Expenses:		
Salaries Expense	$ 2,400	
Rent Expense	900	
Total Expenses		3,300
Net Income		$ 11,700

Requirement 2

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

E1-32
Requirement 1

WILSON TOWING SERVICE
Statement of Retained Earnings
Month Ended June 30, 2018

Retained Earnings, June 1, 2018	$ 3,250
Net income for the month	11,700
	14,950
Dividends	(3,500)
Retained Earnings, June 30, 2018	$ 11,450

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.

E1-33
Requirement 1

WILSON TOWING SERVICE Balance Sheet June 30, 2018			
Assets		**Liabilities**	
Cash	$ 1,400	Accounts Payable	$ 8,000
Accounts Receivable	9,000	Notes Payable	6,800
Office Supplies	1,000	Total Liabilities	14,800
Equipment	25,850	**Stockholders' Equity**	
		Common Stock	11,000
		Retained Earnings	11,450
		Total Stockholders' Equity	22,450
Total Assets	$ 37,250	Total Liabilities and Stockholders' Equity	$ 37,250

Requirement 2

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

E1-34

DAMON DESIGN STUDIO Income Statement Year Ended December 31, 2018		
Revenue:		
Service Revenue		$ 154,600
Expenses:		
Salaries Expense	$ 65,000	
Rent Expense	23,000	
Utilities Expense	7,200	
Miscellaneous Expense	3,800	
Property Tax Expense	2,200	
Total Expenses		101,200
Net Income		$ 53,400

E1-35

DAMON DESIGN STUDIO Statement of Retained Earnings Year Ended December 31, 2018	
Retained Earnings, January 1, 2018	$ 39,000
Net income for the year	53,400
	92,400
Dividends	(57,000)
Retained Earnings, December 31, 2018	$ 35,400

E1-36

DAMON DESIGN STUDIO Balance Sheet December 31, 2018			
Assets		Liabilities	
Cash	$ 3,200	Accounts Payable	$ 3,600
Accounts Receivable	9,300	Notes Payable	14,000
Office Supplies	5,100	Total Liabilities	17,600
Office Furniture	48,400	Stockholders' Equity	
		Common Stock	13,000
		Retained Earnings	35,400
		Total Stockholders' Equity	48,400
Total Assets	$ 66,000	Total Liabilities and Stockholders' Equity	$ 66,000

E1-37

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

E1-38

MORNING BEAN FOOD EQUIPMENT COMPANY Statement of Cash Flows Month Ended January 31, 2018		
Cash flows from operating activities:		
Receipts:		
Collections from customers		$ 8,500
Payments:		
To employees	$ (1,300)	
To suppliers	(2,050)	(3,350)
Net cash provided by operating activities		5,150
Cash flows from investing activities:		
Purchase of land	(19,000)	
Net cash used by investing activities		(19,000)
Cash flows from financing activities:		
Issuance of common stock	5,000	
Payment of cash dividends	(500)	
Net cash provided by financing activities		4,500
Net decrease in cash		(9,350)
Cash balance, January 1, 2018		11,800
Cash balance, January 31, 2018		$ 2,450

E1-39

Average total assets = (Beginning total assets + ending total assets) / 2
Beginning total assets = $34,000 + $23,000 + $160,000 + $2,200 + $24,000 + $4,800 = $248,000
Ending total assets = $134,200 + $44,000 + $160,000 + $19,800 + $42,000 + $2,000 = $402,000
Average total assets = ($248,000 + $402,000) / 2 = $325,000

ROA = Net income / Average total assets
ROA = $58,500 / $325,000 = 0.18 = 18%

Problems (Group A)

P1-40A

	ASSETS							=	LIABILITIES	+	EQUITY								
											Contributed Capital	+	Retained Earnings						
	Cash	+	Accounts Receivable	+	Office Supplies	+	Land	=	Accounts Payable	+	Common Stock	–	Dividends	+	Service Revenue	–	Rent Expense	–	Advertising Expense
Bal.	$1,900	+	$3,200			+	$15,000	=	$5,000	+	$11,900				+ $3,200				
(a)	+17,000										+17,000								
Bal.	$18,900	+	$3,200			+	$15,000	=	$5,000	+	$28,900				$3,200				
(b)	+800														+800				
Bal.	$19,700	+	$3,200			+	$15,000	=	$5,000	+	$28,900				$4,000				
(c)	–5,000								–5,000										
Bal.	$14,700	+	$3,200			+	$15,000	=	$0	+	$28,900			+	$4,000				
(d)					+1,200				+1,200										
Bal.	$14,700	+	$3,200	+	$1,200	+	$15,000	=	$1,200	+	$28,900			+	$4,000				
(e)	+2,000		–2,000																
Bal.	$16,700	+	$1,200	+	$1,200	+	$15,000	=	$1,200	+	$28,900			+	$4,000				
(f)	–1,600												–1,600						
Bal.	$15,100	+	$1,200	+	$1,200	+	$15,000	=	$1,200	+	$28,900	–	$1,600	+	$4,000				
(g)			+4,500												+4,500				
Bal.	$15,100	+	$5,700	+	$1,200	+	$15,000	=	$1,200	+	$28,900	–	$1,600	+	$8,500				
(h)	–1,500																–1,000		–500
Bal.	$13,600	+	$5,700	+	$1,200	+	$15,000	=	$1,200	+	$28,900	–	$1,600	+	$8,500	–	$1,000	–	$500

P1-41A

	ASSETS					=	LIABILITIES	+	EQUITY												
									Contributed Capital	+	Retained Earnings										
	Cash	+	Accounts Receivable	+	Office Supplies	=	Accounts Payable	+	Common Stock	–	Dividends	+	Service Revenue	–	Rent Expense	–	Utilities Expense	–	Wages Expense	–	Advertising Expense
1	+19,000								+19,000												
2	+3,800												+3,800								
Bal.	$22,800					=		+	$19,000			+	$3,800								
5	–200				+200																
Bal.	$22,600			+	$200	=		+	$19,000			+	$3,800								
9			+4,500										+4,500								
Bal.	$22,600	+	$4,500	+	$200	=		+	$19,000			+	$8,300								
10							+200										–200				
Bal.	$22,600	+	$4,500	+	$200	=	$200	+	$19,000			+	$8,300			–	$200				
15	–250																				–250
Bal.	$22,350	+	$4,500	+	$200	=	$200	+	$19,000			+	$8,300			–	$200			–	$250
20	–200						–200														
Bal.	$22,150	+	$4,500	+	$200	=	$ 0	+	$19,000			+	$8,300			–	$200			–	$250
25	+4,500		–4,500																		
Bal.	$26,650	+	$ 0	+	$200	=		+	$19,000			+	$8,300			–	$200			–	$250
28	–1,600														–1,600						
Bal.	$25,050			+	$200	=		+	$19,000			+	$8,300	–	$1,600	–	$200			–	$250
28	–1,450																		–1,450		
Bal.	$23,600			+	$200	=		+	$19,000			+	$8,300	–	$1,600	–	$200	–	$1,450	–	$250
30	+1,400												+1,400								
Bal.	$25,000			+	$200	=		+	$19,000			+	$9,700	–	$1,600	–	$200	–	$1,450	–	$250
31	–3,500										–3,500										
Bal.	$21,500	+	$ 0	+	$200	=	$ 0	+	$19,000	–	$3,500	+	$9,700	–	$1,600	–	$200	–	$1,450	–	$250

P1-42A

Requirement 1

HOMETOWN DÉCOR COMPANY
Income Statement
Year Ended December 31, 2018

Revenue:		
Service Revenue		$ 225,000
Expenses:		
Salaries Expense	$ 67,000	
Advertising Expense	17,000	
Rent Expense	14,000	
Interest Expense	6,800	
Property Tax Expense	2,800	
Insurance Expense	1,700	
Total Expenses		109,300
Net Income		$ 115,700

Requirement 2

HOMETOWN DÉCOR COMPANY
Statement of Retained Earnings
Year Ended December 31, 2018

Retained Earnings, December 31, 2017	$ 56,000
Net income for the year	115,700
	171,700
Dividends	(36,000)
Retained Earnings, December 31, 2018	$ 135,700

P1-42A, cont.
Requirement 3

HOMETOWN DÉCOR COMPANY
Balance Sheet
December 31, 2018

Assets		Liabilities	
Cash	$ 2,800	Accounts Payable	$ 14,000
Accounts Receivable	800	Notes Payable	33,000
Office Supplies	8,000	Salaries Payable	1,300
Land	13,000	Total Liabilities	48,300
Building	170,400		
Equipment	17,000	Stockholders' Equity	
		Common Stock	28,000
		Retained Earnings	135,700
		Total Stockholders' Equity	163,700
Total Assets	$ 212,000	Total Liabilities and Stockholders' Equity	$ 212,000

P1-43A
Part a.

PICTURE PERFECT PHOTOGRAPHY
Income Statement
Year Ended December 31, 2018

Revenue:		
Service Revenue		$ 75,000
Expenses:		
Salaries Expense	$ 25,000	
Insurance Expense	6,000	
Advertising Expense	4,000	
Total Expenses		35,000
Net Income		$ 40,000

Part b.

PICTURE PERFECT PHOTOGRAPHY
Statement of Retained Earnings
Year Ended December 31, 2018

Retained Earnings, December 31, 2017	$ 16,000
Net income for the year	40,000
	56,000
Dividends	(8,000)
Retained Earnings, December 31, 2018	$ 48,000

Part c.

PICTURE PERFECT PHOTOGRAPHY
Balance Sheet
December 31, 2018

Assets		Liabilities	
Cash	$ 42,000	Accounts Payable	$ 11,000
Accounts Receivable	13,000	Notes Payable	14,000
Equipment	46,000	Total Liabilities	25,000
		Stockholders' Equity	
		Common Stock	28,000
		Retained Earnings	48,000
		Total Stockholders' Equity	76,000
Total Assets	$101,000	Total Liabilities and Stockholders' Equity	$101,000

P1-44A

OUTDOOR LIFE LANDSCAPING
Balance Sheet
November 30, 2018

Assets		Liabilities	
Cash	$ 4,600	Accounts Payable	$ 2,700
Accounts Receivable	2,000	Notes Payable	24,600
Office Supplies	600	Total Liabilities	27,300
Land	34,100	Stockholders' Equity	
Office Furniture	5,800	Common Stock	8,000
		Retained Earnings	11,800
		Total Stockholders' Equity	19,800
Total assets	$ 47,100	Total Liabilities and Stockholders' Equity	$ 47,100

P1-45A
Requirement 1

	ASSETS							=	LIABILITIES	+	EQUITY								
											Contributed Capital	+	Retained Earnings						
	Cash	+	Accounts Receivable	+	Office Supplies	+	Furniture	=	Accounts Payable	+	Common Stock	–	Dividends	+	Service Revenue	–	Rent Expense	–	Utilities Expense
5	+75,000										+75,000								
6	–300				+300														
Bal.	$74,700			+	$300			=		+	$75,000								
7							+9,500		+9,500										
Bal.	$74,700			+	$300	+	$9,500	=	$9,500	+	$75,000								
10	+4,000														+4,000				
Bal.	$78,700			+	$300	+	$9,500	=	$9,500	+	$75,000			+	$4,000				
11	–190																		–190
Bal.	$78,510			+	$300	+	$9,500	=	$9,500	+	$75,000			+	$4,000			–	$190
12			+20,000												+20,000				
Bal.	$78,510	+	$20,000	+	$300	+	$9,500	=	$9,500	+	$75,000			+	$24,000			–	$190
18	–750																–750		
Bal.	$77,760	+	$20,000	+	$300	+	$9,500	=	$9,500	+	$75,000			+	$24,000	–	$750	–	$190
25	+20,000		–20,000																
Bal.	$97,760		$ 0	+	$300	+	$9,500	=	$9,500	+	$75,000			+	$24,000	–	$750	–	$190
27	–9,500								–9,500										
Bal.	$88,260			+	$300	+	$9,500	=	$ 0	+	$75,000			+	$24,000	–	$750	–	$190
30	–3,500												–3,500						
Bal.	$84,760	+	$ 0	+	$300	+	$9,500	=	$ 0	+	$75,000	–	$3,500	+	$24,000	–	$750	–	$190

P1-45A, cont.

Requirement 2a

ALLEN SHONTON, CPA
Income Statement
Month Ended April 30, 2018

Revenue:		
Service Revenue		$ 24,000
Expenses:		
Rent Expense	$ 750	
Utilities Expense	190	
Total Expenses		940
Net Income		$ 23,060

Requirement 2b

ALLEN SHONTON, CPA
Statement of Retained Earnings
Month Ended April 30, 2018

Retained Earnings, April 1, 2018	$ 0
Net income for the month	23,060
	23,060
Dividends	(3,500)
Retained Earnings, April 30, 2018	$ 19,560

Requirement 2c

ALLEN SHONTON, CPA
Balance Sheet
April 30, 2018

Assets		Liabilities	
Cash	$ 84,760		
Office Supplies	300		
Furniture	9,500	Stockholders' Equity	
		Common Stock	$ 75,000
		Retained Earnings	19,560
		Total Stockholders' Equity	94,560
Total Assets	$ 94,560	Total Liabilities and Stockholders' Equity	$ 94,560

P1-46A
Requirement 1

	ASSETS							=	LIABILITIES	+	EQUITY								
											Contributed Capital	+	Retained Earnings						
	Cash	+	Accounts Receivable	+	Office Supplies	+	Computer	=	Accounts Payable	+	Common Stock	–	Dividends	+	Service Revenue	–	Utilities Expense	–	Miscellaneous Expense
3	+73,000										+73,000								
5	–700				+700														
Bal.	$72,300			+	$700			=		+	$73,000								
7							+5,000		+5,000										
Bal.	$72,300			+	$700	+	$5,000	=	$5,000	+	$73,000								
9	+2,800														+2,800				
Bal.	$75,100			+	$700	+	$5,000	=	$5,000	+	$73,000			+	$2,800				
15									+400										–400
Bal.	$75,100			+	$700	+	$5,000	=	$5,400	+	$73,000			+	$2,800	–		–	$400
23			+10,000												+10,000				
Bal.	$75,100	+	$10,000	+	$700	+	$5,000	=	$5,400	+	$73,000			+	$12,800	–		–	$400
28	–400								–400										
Bal.	$74,700	+	$10,000	+	$700	+	$5,000	=	$5,000	+	$73,000			+	$12,800	–		–	$400
30	–1,200																–1,200		
Bal.	$73,500	+	$10,000	+	$700	+	$5,000	=	$5,000	+	$73,000			+	$12,800	–	$1,200	–	$400
31	+3,300		–3,300																
Bal.	$76,800	+	$6,700	+	$700	+	$5,000	=	$5,000	+	$73,000			+	$12,800	–	$1,200	–	$400
31	–5,500												–5,500						
Bal.	$71,300	+	$6,700	+	$700	+	$5,000	=	$5,000	+	$73,000	–	$5,500	+	$12,800	–	$1,200	–	$400

P1-46A, cont.
Requirement 2a

ANNETTE PACHELO, ATTORNEY
Income Statement
Month Ended March 31, 2018

Revenue:		
Service Revenue		$ 12,800
Expenses:		
Utilities Expense	$ 1,200	
Miscellaneous Expense	400	
Total Expenses		1,600
Net Income		$ 11,200

Requirement 2b

ANNETTE PACHELO, ATTORNEY
Statement of Retained Earnings
Month Ended March 31, 2018

Retained Earnings, March 1, 2018	$ 0
Net income for the month	11,200
	11,200
Dividends	(5,500)
Retained Earnings, March 31, 2018	$ 5,700

Requirement 2c

ANNETTE PACHELO, ATTORNEY
Balance Sheet
March 31, 2018

Assets		Liabilities	
Cash	$ 71,300	Accounts Payable	$ 5,000
Accounts Receivable	6,700		
Office Supplies	700	Stockholders' Equity	
Computer	5,000	Common Stock	73,000
		Retained Earnings	5,700
		Total Stockholders' Equity	78,700
Total Assets	$ 83,700	Total Liabilities and Stockholders' Equity	$ 83,700

P1-46A, cont.
Requirement 2d

ANNETTE PACHELO, ATTORNEY
Statement of Cash Flows
Month Ended March 31, 2018

Cash flows from operating activities:		
Receipts:		
Collections from customers		$ 6,100
Payments:		
To suppliers		(2,300)
Net cash provided by operating activities		3,800
Cash flows from investing activities:		0
Cash flows from financing activities		
Issued common stock	$ 73,000	
Payment of cash dividends	(5,500)	
Net cash provided by financing activities		67,500
Net increase in cash		71,300
Cash balance, March 1, 2018		0
Cash balance, March 31, 2018		$ 71,300

Problems Group B

P1-47B

	ASSETS							=	LIABILITIES	+	EQUITY								
											Contributed Capital	+	Retained Earnings						
	Cash	+	Accounts Receivable	+	Office Supplies	+	Land	=	Accounts Payable	+	Common Stock	–	Dividends	+	Service Revenue	–	Rent Expense	–	Advertising Expense
Bal.	$2,600	+	$2,500	+		+	$16,000	=	$5,000	+	$13,600			+	2,500				
(a)	+14,000										+14,000								
Bal.	$16,600	+	$2,500			+	$16,000	=	$5,000	+	$27,600			+	2,500				
(b)	+1,600														+1,600				
Bal.	$18,200	+	$2,500			+	$16,000	=	$5,000	+	$27,600			+	$4,100				
(c)	–5,000								–5,000										
Bal.	$13,200	+	$2,500			+	$16,000	=	$0	+	$27,600			+	$4,100				
(d)					+1,200				+1,200										
Bal.	$13,200	+	$2,500	+	$1,200	+	$16,000	=	$1,200	+	$27,600			+	$4,100				
(e)	+2,300		–2,300																
Bal.	$15,500	+	$200	+	$1,200	+	$16,000	=	$1,200	+	$27,600			+	$4,100				
(f)	–1,500												–1,500						
Bal.	$14,000	+	$200	+	$1,200	+	$16,000	=	$1,200	+	$27,600	–	$1,500	+	$4,100				
(g)			+4,000												+4,000				
Bal.	$14,000	+	$4,200	+	$1,200	+	$16,000	=	$1,200	+	$27,600	–	$1,500	+	$8,100				
(h)	–1,350																–900		–450
Bal.	$12,650	+	$4,200	+	$1,200	+	$16,000	=	$1,200	+	$27,600	–	$1,500	+	$8,100	–	$900	–	$450

P1-48B

	ASSETS					=	LIABILITIES	+	EQUITY												
									Contributed Capital	+	Retained Earnings										
	Cash	+	Accounts Receivable	+	Office Supplies	=	Accounts Payable	+	Common Stock	–	Dividends	+	Service Revenue	–	Rent Expense	–	Utilities Expense	–	Wages Expense	–	Advertising Expense
1	+19,000								+19,000												
2	+3,800												+3,800								
Bal.	$22,800					=		+	$19,000			+	$3,800								
5	–300				+300																
Bal.	$22,500			+	$300	=		+	$19,000			+	$3,800								
9			+4,500										+4,500								
Bal.	$22,500	+	$4,500	+	$300	=		+	$19,000			+	$8,300								
10							+150										–150				
Bal.	$22,500	+	$4,500	+	$300	=	$150	+	$19,000			+	$8,300			–	$150				
15	–350																				–350
Bal.	$22,150	+	$4,500	+	$300	=	$150	+	$19,000			+	$8,300			–	$150			–	$350
20	–150						–150														
Bal.	$22,000	+	$4,500	+	$300	=	$ 0	+	$19,000			+	$8,300			–	$150			–	$350
25	+4,500		–4,500																		
Bal.	$26,500	+	$ 0	+	$300	=		+	$19,000			+	$8,300			–	$150			–	$350
28	–2,600														–2,600						
Bal.	$23,900			+	$300	=		+	$19,000			+	$8,300	–	$2,600	–	$150			–	$350
28	–1,200																		–1,200		
Bal.	$22,700			+	$300	=		+	$19,000			+	$8,300	–	$2,600	–	$150	–	$1,200	–	$350
30	+1,600												+1,600								
Bal.	$24,300			+	$300	=		+	$19,000			+	$9,900	–	$2,600	–	$150	–	$1,200	–	$350
31	–3,000										–3,000										
Bal.	$21,300	+	$ 0	+	$300	=	$ 0	+	$19,000	–	$3,000	+	$9,900	–	$2,600	–	$150	–	$1,200	–	$350

P1-49B

Requirement 1

PEMBROKE BOOKKEEPING COMPANY
Income Statement
Year Ended December 31, 2018

Revenues:		
Service Revenue		$ 192,000
Expenses:		
Salaries Expense	$ 64,000	
Advertising Expense	12,000	
Rent Expense	7,000	
Interest Expense	6,600	
Property Tax Expense	3,100	
Insurance Expense	1,700	
Total Expenses		94,400
Net Income		$ 97,600

Requirement 2

PEMBROKE BOOKKEEPING COMPANY
Statement of Retained Earnings
Year Ended December 31, 2018

Retained Earnings, December 31, 2017	$ 51,000
Net income for the year	97,600
	148,600
Dividends	(28,000)
Retained Earnings, December 31, 2018	$ 120,600

Requirement 3

PEMBROKE BOOKKEEPING COMPANY
Balance Sheet
December 31, 2018

Assets		Liabilities	
Cash	$ 2,800	Accounts Payable	$ 7,000
Accounts Receivable	1,200	Notes Payable	31,000
Office Supplies	12,000	Salaries Payable	800
Land	10,000	Total Liabilities	38,800
Building	147,400	Stockholders' Equity	
Equipment	15,000	Common Stock	29,000
		Retained Earnings	120,600
		Total Stockholders' Equity	149,600
Total Assets	$ 188,400	Total Liabilities and Stockholders' Equity	$ 188,400

P1-50B
Requirement a

PRETTY PICTURES
Income Statement
Year Ended December 31, 2018

Revenues:		
Service Revenue		$ 115,000
Expenses:		
Salaries Expense	$ 30,000	
Insurance Expense	6,000	
Advertising Expense	4,500	
Total Expenses		40,500
Net Income		$ 74,500

Requirement b

PRETTY PICTURES
Statement of Retained Earnings
Year Ended December 31, 2018

Retained Earnings, December 31, 2017	$ 20,000
Net income for the year	74,500
	94,500
Dividends	(13,000)
Retained Earnings, December 31, 2018	$ 81,500

Requirement c

PRETTY PICTURES
Balance Sheet
December 31, 2018

Assets		Liabilities	
Cash	$ 42,000	Accounts Payable	$ 13,000
Accounts Receivable	5,000	Notes Payable	10,000
Equipment	85,500	Total Liabilities	23,000
		Stockholders' Equity	
		Common Stock	28,000
		Retained Earnings	81,500
		Total Stockholders' Equity	109,500
Total Assets	$ 132,500	Total Liabilities And Stockholders' Equity	$ 132,500

P1-51B

JUNIPER LANDSCAPING
Balance Sheet
July 31, 2018

Assets		Liabilities	
Cash	$ 5,300	Accounts Payable	$ 2,700
Accounts Receivable	1,800	Notes Payable	24,700
Office Supplies	800	Total Liabilities	27,400
Land	34,500		
Office Furniture	6,300	Stockholders' Equity	
		Common Stock	10,000
		Retained Earnings	11,300
		Total Stockholders' Equity	21,300
Total Assets	$ 48,700	Total Liabilities and Stockholders' Equity	$ 48,700

P1-52B

Requirement 1

	ASSETS							=	LIABILITIES	+	EQUITY									
											Contributed Capital	+	Retained Earnings							
	Cash	+	Accounts Receivable	+	Office Supplies	+	Office Furniture	=	Accounts Payable	+	Common Stock	–	Dividends	+	Service Revenue	–	Rent Expense	–	Utilities Expense
5	+45,000										+45,000								
Bal.	$45,000							=		+	$45,000								
6	–300				+300														
Bal.	$44,700			+	$300			=		+	$45,000								
7							+6,500		+6,500										
Bal.	$44,700			+	$300	+	$6,500	=	$6,500	+	$45,000								
10	+3,300														+3,300				
Bal.	$48,000			+	$300	+	$6,500	=	$6,500	+	$45,000			+	$3,300				
11	–340																		–340
Bal.	$47,660			+	$300	+	$6,500	=	$6,500	+	$45,000			+	$3,300			–	$340
12			+16,000												+16,000				
Bal.	$47,660	+	$16,000	+	$300	+	$6,500	=	$6,500	+	$45,000			+	$19,300			–	$340
18	–1,800																–1,800		
Bal.	$45,860	+	$16,000	+	$300	+	$6,500	=	$6,500	+	$45,000			+	$19,300	–	$1,800	–	$340
25	+16,000		–16,000																
Bal.	$61,860		$ 0	+	$300	+	$6,500	=	$6,500	+	$45,000			+	$19,300	–	$1,800	–	$340
27	–6,500								–6,500										
Bal.	$55,360		$ 0	+	$300	+	$6,500	=	$ 0	+	$45,000			+	$19,300	–	$1,800	–	$340
31	–3,800												–3,800						
Bal.	$51,560	+	$ 0	+	$300	+	$6,500	=	$ 0	+	$45,000	–	$3,800	+	$19,300	–	$1,800	–	$340

P1-52B, cont.
Requirement 2a

AMOS SHARP, CPA Income Statement Month Ended October 31, 2018		
Revenues:		
Service Revenue		$ 19,300
Expenses:		
Rent Expense	$ 1,800	
Utilities Expense	340	
Total Expenses		2,140
Net Income		$ 17,160

Requirement 2b

AMOS SHARP, CPA Statement of Retained Earnings Month Ended October 31, 2018	
Retained Earnings, October 1, 2018	$ 0
Net income for the month	17,160
	17,160
Dividends	(3,800)
Retained Earnings, October 31, 2018	$ 13,360

Requirement 2c

AMOS SHARP, CPA Balance Sheet October 31, 2018			
Assets		Liabilities	
Cash	$ 51,560		
Office Supplies	300		
Office Furniture	6,500	Stockholders' Equity	
		Common Stock	$ 45,000
		Retained Earnings	13,360
		Total Stockholders' Equity	58,360
Total Assets	$ 58,360	Total Liabilities and Stockholders' Equity	$ 58,360

P1-53B
Requirement 1

	ASSETS							=	LIABILITIES	+	EQUITY								
											Contributed Capital	+	Retained Earnings						
	Cash	+	Accounts Receivable	+	Office Supplies	+	Computer	=	Accounts Payable	+	Common Stock	–	Dividends	+	Service Revenue	–	Utility Expense	–	Misc. Expense
3	+89,000										+89,000								
5	–600				+600														
Bal.	$88,400				$600	+		=		+	$89,000								
7							+8,000		+8,000										
Bal.	$88,400			+	$600	+	$8,000	=	$8,000	+	$89,000								
9	+2,900														+2,900				
Bal.	$91,300			+	$600	+	$8,000	=	$8,000	+	$89,000			+	$2,900				
15									+300										–300
Bal.	$91,300			+	$600	+	$8,000	=	$8,300	+	$89,000			+	$2,900	–		–	$300
23			+8,000												+8,000				
Bal.	$91,300	+	$8,000	+	$600	+	$8,000	=	$8,300	+	$89,000			+	$10,900	–		–	$300
28	–300								–300										
Bal.	$91,000	+	$8,000	+	$600	+	$8,000	=	$8,000	+	$89,000			+	$10,900	–		–	$300
30	–900																–900		
Bal.	$90,100	+	$8,000	+	$600	+	$8,000	=	$8,000	+	$89,000			+	$10,900	–	$900	–	$300
31	+2,800		–2,800																
Bal.	$92,900	+	$5,200	+	$600	+	$8,000	=	$8,000	+	$89,000			+	$10,900	–	$900	–	$300
31	–3,000												–3,000						
Bal.	$89,900	+	$5,200	+	$600	+	$8,000	=	$8,000	+	$89,000	–	$3,000	+	$10,900	–	$900	–	$300

P1-53B, cont.
Requirement 2a

ABBY PERRY, ATTORNEY Income Statement Month Ended December 31, 2018		
Revenues:		
Service Revenue		$ 10,900
Expenses:		
Utility Expense	$ 900	
Miscellaneous Expense	300	
Total Expenses		1,200
Net Income		$ 9,700

Requirement 2b

ABBY PERRY, ATTORNEY Statement of Retained Earnings Month Ended December 31, 2018	
Retained Earnings, December 1, 2018	$ 0
Net income for the month	9,700
	9,700
Dividends	(3,000)
Retained Earnings, December 31, 2018	$ 6,700

Requirement 2c

ABBY PERRY, ATTORNEY Balance Sheet December 31, 2018			
Assets		Liabilities	
Cash	$ 89,900	Accounts Payable	$ 8,000
Accounts Receivable	5,200		
Office Supplies	600	Stockholders' Equity	
Computer	8,000	Common Stock	89,000
		Retained Earnings	6,700
		Total Stockholders' Equity	95,700
Total Assets	$ 103,700	Total Liabilities and Stockholders' Equity	$ 103,700

P1-53B, cont.
Requirement 2d

ABBY PERRY, ATTORNEY
Statement of Cash Flows
Month Ended December 31, 2018

Cash flows from operating activities:		
Receipts:		
Collections from customers		$ 5,700
Payments:		
To suppliers		(1,800)
Net cash provided by operating activities		3,900
Cash flows from investing activities:		0
Cash flows from financing activities		
Issued common stock	$ 89,000	
Payment of cash dividends	(3,000)	
Net cash provided by financing activities		86,000
Net increase in cash		89,900
Cash balance, December 1, 2018		0
Cash balance, December 31, 2018		$ 89,900

Using Excel

P1-54

The student templates for *Using Excel* are available online in MyAccountingLab in the Multimedia Library or at http://www.pearsonhighered.com/Horngren. The solution to *Using Excel* is located in MyAccountingLab in the Instructor Resource Center or at http://www.pearsonhighered.com/Horngren.

Continuing Problem

P1-55, Requirement 1

			ASSETS					=			LIABILITIES			+							EQUITY						
															Contributed Capital	+					Retained Earnings						
	Cash	+	Accounts Receivable	+	Office 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

P1-55, cont.

Requirement 2

CANYON CANOE COMPANY
Income Statement
Month Ended November 30, 2018

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, 2018

Retained Earnings, November 1, 2018	$ 0
Net income for the month	1,375
	1,375
Dividends	(150)
Retained Earnings, November 30, 2018	$ 1,225

Requirement 4

CANYON CANOE COMPANY
Balance Sheet
November 30, 2018

Assets		Liabilities	
Cash	$ 14,300	Accounts Payable	$ 4,550
Accounts Receivable	2,250	Utilities Payable	150
Office 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

P1-55, 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%

Critical Thinking

Tying It All Together Case 1-1
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 receives a bill from its internet service provider, Starbucks 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 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 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 when other competitors might offer free internet service. Another alternative would be to increase the prices of the products sold to cover the increased cost of internet service.

Decision Case 1-1
Requirement 1

Greg's Tunes has more assets.
Sal's $23,000, Greg's $25,000 ($10,000 + $6,000 + $9,000)

Requirement 2

Greg's Tunes owes more to creditors.
Sal's $2,000 ($23,000 – ($8,000 + $35,000 – $22,000)),   Greg's $10,000

Requirement 3

Sal's Silly Songs has more stockholders' equity.
Sal's $21,000 ($8,000 + $35,000 – $22,000)   Greg's $15,000 ($6,000 + $9,000)

Requirement 4

Greg's Tunes earned more revenue.
Sal's $35,000, Greg's $53,000 ($9,000 + $44,000)

Requirement 5

Sal's Silly Songs is more profitable.
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.

Ethical Issues 1-1
Requirement 1

The chief financial officer (CFO) of Philip Morris would be torn between addressing the fact that the payments are related to illnesses caused by the company's products, or alternatively, omitting or concealing this fact. The ethical course of action for the CFO is to be open, honest and forthcoming about the reasons for the payments.

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.

Negative consequences of telling the truth include painting so bleak a picture of the effects of smoking that investors will view Philip Morris as too risky and stop buying the company's stock. Another negative consequence would be to create the impression that the company is engaged in unethical behavior by selling a product that damages people's health.

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 1-1
Requirement 1

$4,046 (in millions)

Requirement 2

$40,262 (in millions) at January 30, 2016; $41,172 (in millions) at January 31, 2015

Requirement 3

Assets	=	Liabilities	+	Equity
$40,262	=	$27,305	+	$12,957

(shown in millions)

Requirement 4

$73,785 (in millions) for year ended January 30, 2016. This is an increase of $1,167 (in millions) over fiscal year 2014. ($73,785− $72,618)

Requirement 5

$3,363 (in millions) in 2015
$(1,636) (in millions) in 2014
Target has a net loss in 2014. Therefore, 2015 was better than 2014.

Requirement 6

All amounts in millions.
Average total assets = ($41,172 + $40,262) / 2 = $40,717
Return on assets = $3,363 / $40,717 = 0.0826 = 8.3%

Requirement 7

Target Corporation's return on assets (8.3%) was significantly higher than Kohl's Corporation (4.8%).