**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.

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

1. Equity increases with owner’s contributions and revenue. Equity decreases with expenses and owner’s withdrawals.
2. Revenues – Expenses = Net Income. Revenues are earnings resulting from delivering goods or services to customers. Expenses are the cost of selling goods or service.

1. 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. 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 Owner’s Equity – Shows the changes in the owner’s capital account for a specific period including owner contributions, net income (loss) and owner’s withdrawals.

Balance Sheet – Shows the assets, liabilities, and owner’s 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. |
| 1. Unification of ownership and management. |
| 1. Less government regulation. |
| 4. Owner has more control over business. |
| Disadvantages: |
| 1. The owner pays taxes since it is not a separate tax entity. |
| 1. No continuous life or transferability of ownership. |
| 1. 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**

Kenmore Handyman Services has equity of $7,720.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity |
| $16,400 | = | $8,680 | + | ? |
| $16,400 | = | $8,680 | + | **$7,720** |

**Requirement 2**

Kenmore Handyman Services has liabilities of $14,760.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity |
| $16,400 + $3,500 | = | ? | + | $7,720 – $2,580 |
| $19,900 | = | **$14,760** | + | $5,140 |

**S1-7**

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity | | | | | | |
|  |  |  | + | Josh, Capital | – | Josh, Withdrawal | + | Revenues | – | Expenses |
| $42,600  $42,600 | =  = | $17,220  $17,220 | +  + | $26,240  $26,240 | –  – | $8,500  $8,500 | +  + | $12,080  $12,080 | –  – | **?**  **$4,440** |

**Requirement 2**

Josh’sOverhead Doors reported net income of $7,640. Net Income = Revenues ($12,080) – Expenses ($4,440)

**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. Decrease asset (Cash); Decrease equity (Salaries Expense) |
| 1. Increase asset (Cash); Increase Equity (Maxdale, 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 (Maxdale, Withdrawal) |

**S1-10**

|  |
| --- |
| 1. Increase asset (Cash); Increase equity (Gibson, 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 (Gibson, Withdrawal) |
| 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 and B | h. OE |
| d. B | i. B |
| e. I | j. I |

**S1-12**

|  |  |  |
| --- | --- | --- |
| DECORATING ARRANGEMENTS | | |
| Income Statement | | |
| Year Ended December 31, 2016 | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 80,000 |
| Expenses: |  |  |
| Salaries Expense | $ 37,000 |  |
| Rent Expense | 11,000 |  |
| Insurance Expense | 2,000 |  |
| Utilities Expense | 500 |  |
| Total Expenses |  | 50,500 |
| Net Income |  | $ 29,500 |
|  |  |  |

**S1-13**

|  |  |
| --- | --- |
| DECORATING ARRANGEMENTS | |
| Statement of Owner’s Equity | |
| Year Ended December 31, 2016 | |
| Richards, Capital, January 1, 2016 | $ 13,300 |
| Owner contribution | 0 |
| Net income for the year | 29,500 |
|  | 42,800 |
| Owner withdrawal | (4,500) |
| Richards, Capital, December 31, 2016 | $ 38,300 |
|  |  |

**S1-14**

|  |  |  |  |
| --- | --- | --- | --- |
| DECORATING ARRANGEMENTS | | | |
| Balance Sheet | | | |
| December 31, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 7,000 | Accounts Payable | $ 4,300 |
| Accounts Receivable | 7,500 |  |  |
| Office Supplies | 1,500 | Owner’s Equity | |
| Equipment | 26,600 | Richards, Capital | 38,300 |
| Total Assets | $ 42,600 | Total Liabilities and Owner’s Equity | $ 42,600 |
|  |  |  |  |

**S1-15**

</title>

|  |  |  |
| --- | --- | --- |
| PUSHING DAISIES HOMES | | |
| Statement of Cash Flows | | |
| Month Ended July 31, 2016 | | |
|  |  |  |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | $ 24,000 |
| Payments: |  |  |
| For rent | $ (3,000) |  |
| For salaries | (1,600) |  |
| For utilities | (900) | (5,500) |
| Net cash provided by operating activities |  | 18,500 |
| Cash flows from investing activities: |  |  |
| Purchase of equipment | (18,000) |  |
| Net cash used by investing activities |  | (18,000) |
| Cash flows from financing activities: |  |  |
| Owner contribution | 12,000 |  |
| Owner withdrawal | (3,500) |  |
| Net cash provided by financing activities |  | 8,500 |
| Net increase in cash |  | 9,000 |
| Cash balance, July 1, 2016 |  | 11,000 |
| Cash balance, July 31, 2016 |  | $ 20,000 |
|  |  |  |

**S1-16**

|  |  |  |
| --- | --- | --- |
| Return on assets | = | Net income / Average total assets |
|  | = | $74,000 / (($350,000 + $390,000) / 2) |
|  | = | $74,000 / $370,000 |
|  | = | 20% |

## Exercises

**E1-17**

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

**E1-18**

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

**E1-19**

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

**E1-20**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets | Liabilities | Equity |
| Newton Gas | **$ 144,000** | $ 64,000 | $ 80,000 |
| Vegas Video Rentals | 65,000 | **40,000** | 25,000 |
| Cline’s Grocery | 200,000 | 43,000 | **157,000** |

**E1-21**

|  |  |  |  |
| --- | --- | --- | --- |
|  | a. | b. | c. |
| Owner’s equity, May 31, 2016 ($188,000 – $122,000) | $ 66,000 | $ 66,000 | $ 66,000 |
| Owner contribution | 7,500 | 0 | 20,000 |
| Net income for the month | **82,500** | **103,000** | **88,000** |
|  | 156,000 | 169,000 | 174,000 |
| Owner withdrawal | 0 | (13,000) | (18,000) |
| Owner’s equity, June 30, 2016 ($244,000 – $88,000) | $ 156,000 | $ 156,000 | $ 156,000 |
|  |  |  |  |

**E1-22**

**Requirement 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Beginning of 2016 | $24,000 | = | $5,000 | + | ? |
|  | $24,000 | = | $5,000 | + | **$19,000** |
|  |  |  |  |  |  |
| End of 2016 | $18,000 | = | $1,000 | + | ? |
|  | $18,000 | = | $1,000 | + | **$17,000** |

Owner’s equity decreased in 2016 by $2,000 ($17,000 – $19,000).

**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 |
| $40,000 | – | $35,000 | = | **$5,000** |

**Requirement 2**

Peaceful River Spa’s owner’s equity increased by $5,000 ($14,000 - $9,000) or the amount of the net income.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Beginning of 2016 | $18,000 | = | $9,000 | + | ? |
|  | $18,000 | = | $9,000 | + | $9,000 |
|  |  |  |  |  |  |
| Ending of 2016 | $23,000 | = | $9,000 | + | ? |
|  | $23,000 | = | $9,000 | + | $14,000 |

**E1-24**

**Requirement 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | − | Liabilities | = | Equity |
| Beginning of 2016 | $64,000 | − | $44,000 | = | $20,000 |
| Ending of 2016 | $54,000 | − | $39,000 | = | $15,000 |

Owner’s Equity:

|  |  |
| --- | --- |
| Capital, Jan. 1, 2016 | $ 20,000 |
| Plus: Contributions by the owner | 0 |
| Plus: Revenues | 257,000 |
| Less: Expenses | **(258,000)** |
| Less: Owner withdrawals | (4,000) |
| Capital, Dec. 31, 2016 | $ 15,000 |

**Requirement 2**

Meehan Company suffered (or reported) a net loss of ($1,000).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Revenue | − | Expenses | = | Net Income (Loss) |
| $257,000 | − | $258,000 | = | ($1,000) |

**E1-25**

Student responses will vary. Examples include:

|  |
| --- |
| 1. Cash purchase of office supplies. |
| 1. Cash withdrawals by owner. |
| 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 (Vivian, 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 (Sam, 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 (Sam, Withdrawals) |
| j. Increase liability (Accounts Payable); Decrease equity (Utility Expense) |

**E1-28**

Transaction Descriptions:

|  |  |
| --- | --- |
| 1. | Cash contribution by 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 | + | Stamford, Capital | – | Stamford, Withdrawals | + | Service Revenue | – | | Salaries Expense | | – | | Rent Expense | | – | | Utilities Expense | |
| July 6 | +65,000 |  |  |  |  |  |  |  | +65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $65,000 |  |  |  |  | = |  | + | $65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 9 | –52,000 |  |  |  | +52,000 | = |  |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $13,000 |  |  | + | $52,000 | = |  | + | $65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 12 |  | + | +1,600 |  |  | = | +1,600 |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $13,000 | + | $1,600 | + | $52,000 | = | $1,600 | + | $65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 15 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $13,000 | + | $1,600 | + | $52,000 | = | $1,600 | + | $65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 20 | –3,150 |  |  |  |  | = |  |  |  |  |  |  |  |  | –1,500 | |  | | –1,300 | |  | | –350 | |
| Bal. | $ 9,850 | + | $1,600 | + | $52,000 | = | $1,600 | + | $65,000 |  |  |  |  | – | $1,500 | | – | | $1,300 | | – | | $350 | |
| 31 | +8,000 |  |  |  |  | = |  |  |  |  |  |  | +8,000 |  |  | |  | |  | |  | |  | |
| Bal. | $17,850 | + | $1,600 | + | $52,000 | = | $1,600 | + | $65,000 |  |  | + | $8,000 | – | $1,500 | | – | | $1,300 | | – | | $350 | |
| 31 | –800 |  |  |  |  | = | –800 |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal. | $17,050 | + | $1,600 | + | $52,000 | = | $ 800 | + | $65,000 |  |  | + | $8,000 | – | $1,500 | | – | | $1,300 | | – | | $350 | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  | |  | |

**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.

**E1-30, cont.**

**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 contributions and net income is 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**

|  |  |  |
| --- | --- | --- |
| WILFORD TOWING SERVICE | | |
| Income Statement | | |
| Month Ended June 30, 2016 | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 13,000 |
| Expenses: |  |  |
| Salaries Expense | $ 1,900 |  |
| Rent Expense | 800 |  |
| Total Expenses |  | 2,700 |
| Net Income |  | $ 10,300 |
|  |  |  |

**Requirement 2**

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

**E1-32**

**Requirement 1**

|  |  |
| --- | --- |
| WILFORD TOWING SERVICE | |
| Statement of Owner’s Equity | |
| Month Ended June 30, 2016 | |
|  |  |
| Wilford, Capital, June 1, 2016 | $ 7,700 |
| Owner contribution | 0 |
| Net income for the month | 10,300 |
|  | 18,000 |
| Owner withdrawal | (2,000) |
| Wilford, Capital, June 30, 2016 | $ 16,000 |
|  |  |

**Requirement 2**

The statement of owner’s equity reports the changes in capital during a time period. The statement of owner’s equity reports a business’s owner contributions, net income or net loss and owner withdrawals.

**E1-33**

**Requirement 1**

|  |  |  |  |
| --- | --- | --- | --- |
| WILFORD TOWING SERVICE | | | |
| Balance Sheet | | | |
| June 30, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 1,900 | Accounts Payable | $ 6,000 |
| Accounts Receivable | 8,200 | Notes Payable | 6,900 |
| Office Supplies | 1,300 | Total Liabilities | 12,900 |
| Equipment | 17,500 | Owner’s Equity | |
|  |  | Wilford, Capital | 16,000 |
| Total Assets | $ 28,900 | Total Liabilities and Owner’s Equity | $ 28,900 |
|  |  |  |  |
|  |  |  |  |

**Requirement 2**

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

**E1-34**

|  |  |  |
| --- | --- | --- |
| DROUGHT DESIGN STUDIO | | |
| Income Statement | | |
| Year Ended December 31, 2016 | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 159,200 |
| Expenses: |  |  |
| Salaries Expense | $ 62,000 |  |
| Rent Expense | 22,000 |  |
| Utilities Expense | 6,500 |  |
| Miscellaneous Expense | 4,000 |  |
| Property Tax Expense | 1,200 |  |
| Total Expenses |  | 95,700 |
| Net Income |  | $ 63,500 |
|  |  |  |

**E1-35**

|  |  |
| --- | --- |
| DROUGHT DESIGN STUDIO | |
| Statement of Owner’s Equity | |
| Year Ended December 31, 2016 | |
|  |  |
| Gates, Capital, January 1, 2016 | $ 31,000 |
| Owner contribution | 20,000 |
| Net income for the year | 63,500 |
|  | 114,500 |
| Owner withdrawal | (55,000) |
| Gates, Capital, December 31, 2016 | $ 59,500 |
|  |  |

**E1-36**

|  |  |  |  |
| --- | --- | --- | --- |
| DROUGHT DESIGN STUDIO | | | |
| Balance Sheet | | | |
| December 31, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 3,100 | Accounts Payable | $ 3,700 |
| Accounts Receivable | 10,200 | Notes Payable | 9,800 |
| Office Supplies | 4,500 | Total Liabilities | 13,500 |
| Office Furniture | 55,200 | Owner’s Equity | |
|  |  | Gates, Capital | 59,500 |
| Total Assets | $ 73,000 | Total Liabilities and Owner’s Equity | $ 73,000 |
|  |  |  |  |
|  |  |  |  |

**E1-37**

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

**E1-38**

|  |  |  |
| --- | --- | --- |
| BEAN TOWN FOOD EQUIPMENT COMPANY | | |
| Statement of Cash Flows | | |
| Month Ended February 29, 2016 | | |
|  |  |  |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | $ 8,000 |
| Payments: |  |  |
| For rent | $ (1,800) |  |
| For salaries | (1,500) |  |
| For utilities | (500) | (3,800) |
| Net cash provided by operating activities |  | 4,200 |
| Cash flows from investing activities: |  |  |
| Purchase of land | (18,000) |  |
| Net cash used by investing activities |  | (18,000) |
| Cash flows from financing activities: |  |  |
| Owner contribution | 7,500 |  |
| Owner withdrawal | (3,000) |  |
| Net cash provided by financing activities |  | 4,500 |
| Net decrease in cash |  | (9,300) |
| Cash balance, February 1, 2016 |  | 16,400 |
| Cash balance, February 29, 2016 |  | $ 7,100 |
|  |  |  |

**E1-39**

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

Beginning total assets = $39,000 + $20,000 + $155,000 + $1,600 + $22,000 + $4,200 = $241,800

Ending total assets = $20,200 + $38,000 + $155,000 + $18,400 + $46,000 + $600 = $278,200

Average total assets = ($241,800 + $278,200) / 2 = $260,000

ROA = Net income / Average total assets

ROA = $18,200 / $260,000 = 0.07 = 7%

***Problems (Group A)***

**P1-40A**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | | | = | Liabilities | + | Equity | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Land | = | Accounts Payable | + | Mansion, Capital | – | Mansion, Withdrawals | + | Service Revenue | – | Rent Expense | – | Advertising Expense |
| Bal. | $2,400 | + | $2,600 |  |  | + | $15,000 | = | $3,000 | + | $14,400 |  |  |  | + $2,600 |  |  |  |  |
| (a) | +8,000 |  |  |  |  |  |  |  |  |  | +8,000 |  |  |  |  |  |  |  |  |
| Bal. | $10,400 | + | $2,600 |  |  | + | $15,000 | = | $3,000 | + | $22,400 |  |  |  | $2,600 |  |  |  |  |
| (b) | +1,300 |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,300 |  |  |  |  |
| Bal. | $11,700 | + | $2,600 |  |  | + | $15,000 | = | $3,000 | + | $22,400 |  |  |  | $3,900 |  |  |  |  |
| (c) | –3,000 |  |  |  |  |  |  |  | –3,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $8,700 | + | $2,600 |  |  | + | $15,000 | = | $0 | + | $22,400 |  |  | + | $3,900 |  |  |  |  |
| (d) |  |  |  |  | +400 |  |  |  | +400 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $8,700 | + | $2,600 | + | $400 | + | $15,000 | = | $400 | + | $22,400 |  |  | + | $3,900 |  |  |  |  |
| (e) | +2,200 |  | –2,200 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $10,900 | + | $400 | + | $400 | + | $15,000 | = | $400 | + | $22,400 |  |  | + | $3,900 |  |  |  |  |
| (f) | –1,800 |  |  |  |  |  |  |  |  |  |  |  | –1,800 |  |  |  |  |  |  |
| Bal. | $9,100 | + | $400 | + | $400 | + | $15,000 | = | $400 | + | $22,400 | – | $1,800 | + | $3,900 |  |  |  |  |
| (g) |  |  | +6,500 |  |  |  |  |  |  |  |  |  |  |  | +6,500 |  |  |  |  |
| Bal. | $9,100 | + | $6,900 | + | $400 | + | $15,000 | = | $400 | + | $22,400 | – | $1,800 | + | $10,400 |  |  |  |  |
| (h) | –1,750 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,400 |  | –350 |
| Bal. | $7,350 | + | $6,900 | + | $400 | + | $15,000 | = | $400 | + | $22,400 | – | $1,800 | + | $10,400 | – | $1,400 | – | $350 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-41A, cont.**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | = | Liabilities | + | Equity | | | | | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | = | Accounts Payable | + | Turnbull, Capital | – | Turnbull, Withdrawals | + | Service Revenue | – | Rent Expense | – | Utilities Expense | – | Salaries Expense | – | Advertising Expense |
|
| 1 | +21,000 |  |  |  |  |  |  |  | +21,000 |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 | +2,400 |  |  |  |  |  |  |  |  |  |  |  | +2,400 |  |  |  |  |  |  |  |  |
| Bal. | $23,400 |  |  |  |  | = |  | + | $21,000 |  |  | + | $2,400 |  |  |  |  |  |  |  |  |
| 5 | –350 |  |  |  | +350 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $23,050 |  |  | + | $350 | = |  | + | $21,000 |  |  | + | $2,400 |  |  |  |  |  |  |  |  |
| 9 |  |  | +1,500 |  |  |  |  |  |  |  |  |  | +1,500 |  |  |  |  |  |  |  |  |
| Bal. | $23,050 | + | $1,500 | + | $350 | = |  | + | $21,000 |  |  | + | $3,900 |  |  |  |  |  |  |  |  |
| 10 |  |  |  |  |  |  | +100 |  |  |  |  |  |  |  |  |  | –100 |  |  |  |  |
| Bal. | $23,050 | + | $1,500 | + | $350 | = | $100 | + | $21,000 |  |  | + | $3,900 |  |  | – | $100 |  |  |  |  |
| 15 | –300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –300 |
| Bal. | $22,750 | + | $1,500 | + | $350 | = | $100 | + | $21,000 |  |  | + | $3,900 |  |  | – | $100 |  |  | – | $300 |
| 20 | –100 |  |  |  |  |  | –100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $22,650 | + | $1,500 | + | $350 | = | $ 0 | + | $21,000 |  |  | + | $3,900 |  |  | – | $100 |  |  | – | $300 |
| 25 | +1,500 |  | –1,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $24,150 | + | $ 0 | + | $350 | = |  | + | $21,000 |  |  | + | $3,900 |  |  | – | $100 |  |  | – | $300 |
| 28 | –2,800 |  |  |  |  |  |  |  |  |  |  |  |  |  | –2,800 |  |  |  |  |  |  |
| Bal. | $21,350 |  |  | + | $350 | = |  | + | $21,000 |  |  | + | $3,900 | – | $2,800 | – | $100 |  |  | – | $300 |
| 28 | –1,100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –  1,100 |  |  |
| Bal. | $20,250 |  |  | + | $350 | = |  | + | $21,000 |  |  | + | $3,900 | – | $2,800 | – | $100 | – | $1,100 | – | $300 |
| 30 | +2,800 |  |  |  |  |  |  |  |  |  |  |  | +2,800 |  |  |  |  |  |  |  |  |
| Bal. | $23,050 |  |  | + | $350 | = |  | + | $21,000 |  |  | + | $6,700 | – | $2,800 | – | $100 | – | $  1,100 | – | $300 |
| 31 | –4,500 |  |  |  |  |  |  |  |  |  | –4,500 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $18,550 | + | $ 0 | + | $350 | = | $ 0 | + | $21,000 | – | $4,500 | + | $6,700 | – | $2,800 | – | $100 | – | $  1,100 | – | $300 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-42A**

**Requirement 1**

|  |  |  |
| --- | --- | --- |
| GOLDEN CITY BARBERSHOP | | |
| Income Statement | | |
| Year Ended December 31, 2016 | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 195,000 |
| Expenses: |  |  |
| Salaries Expense | $ 61,000 |  |
| Advertising Expense | 13,000 |  |
| Rent Expense | 11,000 |  |
| Interest Expense | 7,000 |  |
| Property Tax Expense | 2,700 |  |
| Insurance Expense | 2,500 |  |
| Total Expenses |  | 97,200 |
| Net Income |  | $ 97,800 |
|  |  |  |

**Requirement 2**

|  |  |
| --- | --- |
| GOLDEN CITY BARBERSHOP | |
| Statement of Owner’s Equity | |
| Year Ended December 31, 2016 | |
|  |  |
| Wilson, Capital, December 31, 2015 | $ 49,000 |
| Owner contribution | 25,000 |
| Net income for the year | 97,800 |
|  | 171,800 |
| Owner withdrawal | (32,000) |
| Wilson, Capital, December 31, 2016 | $ 139,800 |
|  |  |

**P1-42A, cont.**

**Requirement 3**

|  |  |  |  |
| --- | --- | --- | --- |
| GOLDEN CITY BARBERSHOP | | | |
| Balance Sheet | | | |
| December 31, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 3,800 | Accounts Payable | $ 17,000 |
| Accounts Receivable | 900 | Notes Payable | 37,000 |
| Office Supplies | 9,000 | Salaries Payable | 900 |
| Equipment | 19,000 | Total Liabilities | 54,900 |
| Building | 157,000 |  | |
| Land | 5,000 | Owner’s Equity | |
|  |  | Wilson, Capital | 139,800 |
| Total Assets | $ 194,700 | Total Liabilities and Owner’s Equity | $ 194,700 |
|  |  |  |  |

**P1-43A**

**Part a.**

|  |  |  |
| --- | --- | --- |
| CLICK A PIX PHOTOGRAPHY | | |
| Income Statement | | |
| Year Ended December 31, 2016 | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 95,000 |
| Expenses: |  |  |
| Salaries Expense | $ 20,000 |  |
| Insurance Expense | 11,000 |  |
| Advertising Expense | 3,200 |  |
| Total Expenses |  | 34,200 |
| Net Income |  | $ 60,800 |
|  |  |  |

**Part b.**

|  |  |
| --- | --- |
| CLICK A PIX PHOTOGRAPHY | |
| Statement of Owner’s Equity | |
| Year Ended December 31, 2016 | |
|  |  |
| Adams, Capital, December 31, 2015 | $ 26,000 |
| Owner contribution | 34,000 |
| Net income for the year | 60,800 |
|  | 120,800 |
| Owner withdrawal | (10,000) |
| Adams, Capital, December 31, 2016 | $ 110,800 |
|  |  |

**P1-43A, cont.**

**Part c.**

|  |  |  |  |
| --- | --- | --- | --- |
| CLICK A PIX PHOTOGRAPHY | | | |
| Balance Sheet | | | |
| December 31, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 40,000 | Accounts Payable | $ 6,000 |
| Accounts Receivable | 12,000 | Notes Payable | 9,000 |
| Equipment | 73,800 | Total Liabilities | 15,000 |
|  |  | Owner’s Equity | |
|  |  | Adams, Capital | 110,800 |
| Total Assets | $125,800 | Total Liabilities and Owner’s Equity | $125,800 |
|  |  |  |  |
|  |  |  |  |

**P1-44A**

|  |  |  |  |
| --- | --- | --- | --- |
| LONE STAR LANDSCAPING | | | |
| Balance Sheet | | | |
| November 30, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 4,900 | Accounts Payable | $ 2,800 |
| Accounts Receivable | 2,100 | Notes Payable | 24,200 |
| Office Supplies | 300 | Total Liabilities | 27,000 |
| Office Furniture | 6,000 | Owner’s Equity | |
| Land | 33,800 | Tow, Capital | 20,100 |
| Total assets | $ 47,100 | Total Liabilities and Owner’s Equity | $ 47,100 |
|  |  |  |  |

**P1-45A**

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Furniture | = | Accounts Payable | + | Sheen, Capital | – | Sheen, Withdrawals | + | Service Revenue | – | Rent Expense | – | Utilities Expense |
| 5 | +70,000 |  |  |  |  |  |  |  |  |  | +70,000 |  |  |  |  |  |  |  |  |
| 6 | –350 |  |  |  | +350 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $69,650 |  |  | + | $350 |  |  | = |  | + | $70,000 |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  | +7,000 |  | +7,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $69,650 |  |  | + | $350 | + | $7,000 | = | $7,000 | + | $70,000 |  |  |  |  |  |  |  |  |
| 10 | +1,800 |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,800 |  |  |  |  |
| Bal. | $71,450 |  |  | + | $350 | + | $7,000 | = | $7,000 | + | $70,000 |  |  | + | $1,800 |  |  |  |  |
| 11 | –400 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –400 |
| Bal. | $71,050 |  |  | + | $350 | + | $7,000 | = | $7,000 | + | $70,000 |  |  | + | $1,800 |  |  | – | $400 |
| 12 |  |  | +11,000 |  |  |  |  |  |  |  |  |  |  |  | +11,000 |  |  |  |  |
| Bal. | $71,050 | + | $11,000 | + | $350 | + | $7,000 | = | $7,000 | + | $70,000 |  |  | + | $12,800 |  |  | – | $400 |
| 18 | –1,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,000 |  |  |
| Bal. | $70,050 | + | $11,000 | + | $350 | + | $7,000 | = | $7,000 | + | $70,000 |  |  | + | $12,800 | – | $1,000 | – | $400 |
| 25 | +11,000 |  | –11,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $81,050 |  | $ 0 | + | $350 | + | $7,000 | = | $7,000 | + | $70,000 |  |  | + | $12,800 | – | $1,000 | – | $400 |
| 27 | –7,000 |  |  |  |  |  |  |  | –7,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $74,050 |  |  | + | $350 | + | $7,000 | = | $ 0 | + | $70,000 |  |  | + | $12,800 | – | $1,000 | – | $400 |
| 29 | –4,500 |  |  |  |  |  |  |  |  |  |  |  | –4,500 |  |  |  |  |  |  |
| Bal. | $69,550 | + | $ 0 | + | $350 | + | $7,000 | = | $ 0 | + | $70,000 | – | $4,500 | + | $12,800 | – | $1,000 | – | $400 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-45A, cont.**

**Requirement 2a**

|  |  |  |
| --- | --- | --- |
| ALFONSO SHEEN, CPA | | |
| Income Statement | | |
| Month Ended February 29, 2016 | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 12,800 |
| Expenses: |  |  |
| Rent Expense | $ 1,000 |  |
| Utilities Expense | 400 |  |
| Total Expenses |  | 1,400 |
| Net Income |  | $ 11,400 |
|  |  |  |

**Requirement 2b**

|  |  |
| --- | --- |
| ALFONSO SHEEN, CPA | |
| Statement of Owner’s Equity | |
| Month Ended February 29, 2016 | |
|  |  |
| Sheen, Capital, February 1, 2016 | $ 0 |
| Owner contribution | 70,000 |
| Net income for the month | 11,400 |
|  | 81,400 |
| Owner withdrawal | (4,500) |
| Sheen, Capital, February 29, 2016 | $ 76,900 |
|  |  |

**P1-45A, cont.Requirement 2c**

|  |  |  |  |
| --- | --- | --- | --- |
| ALFONSO SHEEN, CPA | | | |
| Balance Sheet | | | |
| February 29, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 69,550 |  |  |
| Office Supplies | 350 |  |  |
| Furniture | 7,000 | Owner’s Equity | |
|  |  | Sheen, Capital | $ 76,900 |
| Total Assets | $ 76,900 | Total Liabilities and Owner’s Equity | $ 76,900 |
|  |  |  |  |

**P1-46A**

**Requirement 1**

**B**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | | | = | Liabilities | + | Equity | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Computer | = | Accounts Payable | + | Petrillo, Capital | − | Petrillo, Withdrawals | + | Service Revenue | – | Utilities Expense | – | Miscellaneous Expense |
| 3 | +72,000 |  |  |  |  |  |  |  |  |  | +72,000 |  |  |  |  |  |  |  |  |
| 5 | –350 |  |  |  | +350 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $71,650 |  |  | + | $350 |  |  | = |  | + | $72,000 |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  | +5,500 |  | +5,500 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $71,650 |  |  | + | $350 | + | $5,500 | = | $5,500 | + | $72,000 |  |  |  |  |  |  |  |  |
| 9 | +2,500 |  |  |  |  |  |  |  |  |  |  |  |  |  | +2,500 |  |  |  |  |
| Bal. | $74,150 |  |  | + | $350 | + | $5,500 | = | $5,500 | + | $72,000 |  |  | + | $2,500 |  |  |  |  |
| 15 |  |  |  |  |  |  |  |  | +340 |  |  |  |  |  |  |  |  |  | –340 |
| Bal. | $74,150 |  |  | + | $350 | + | $5,500 | = | $5,840 | + | $72,000 |  |  | + | $2,500 | – |  | – | $340 |
| 23 |  |  | +18,000 |  |  |  |  |  |  |  |  |  |  |  | +18,000 |  |  |  |  |
| Bal. | $74,150 | + | $18,000 | + | $350 | + | $5,500 | = | $5,840 | + | $72,000 |  |  | + | $20,500 | – |  | – | $340 |
| 28 | –340 |  |  |  |  |  |  |  | –340 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $73,810 | + | $18,000 | + | $350 | + | $5,500 | = | $5,500 | + | $72,000 |  |  | + | $20,500 | – |  | – | $340 |
| 30 | –1,300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,300 |  |  |
| Bal. | $72,510 | + | $18,000 | + | $350 | + | $5,500 | = | $5,500 | + | $72,000 |  |  | + | $20,500 | – | $1,300 | – | $340 |
| 31 | +1,800 |  | –1,800 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $74,310 | + | $16,200 | + | $350 | + | $5,500 | = | $5,500 | + | $72,000 |  |  | + | $20,500 | – | $1,300 | – | $340 |
| 31 | –2,000 |  |  |  |  |  |  |  |  |  |  |  | –2,000 |  |  |  |  |  |  |
| Bal. | $72,310 | + | $16,200 | + | $350 | + | $5,500 | = | $5,500 | + | $72,000 | – | $2,000 | + | $20,500 | – | $1,300 | – | $340 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-46A, cont.**

**Requirement 2a**

|  |  |  |
| --- | --- | --- |
| ANGELA PETRILLO, ATTORNEY | | |
| Income Statement | | |
| Month Ended March 31, 2016 | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 20,500 |
| Expenses: |  |  |
| Utilities Expense | $ 1,300 |  |
| Miscellaneous Expense | 340 |  |
| Total Expenses |  | 1,640 |
| Net Income |  | $ 18,860 |
|  |  |  |

**Requirement 2b**

|  |  |
| --- | --- |
| ANGELA PETRILLO, ATTORNEY | |
| Statement of Owner’s Equity | |
| Month Ended March 31, 2016 | |
|  |  |
| Petrillo, Capital, March 1, 2016 | $ 0 |
| Owner contribution | 72,000 |
| Net income for the month | 18,860 |
|  | 90,860 |
| Owner withdrawal | (2,000) |
| Petrillo, Capital, March 31, 2016 | $ 88,860 |
|  |  |

**Requirement 2c**

|  |  |  |  |
| --- | --- | --- | --- |
| ANGELA PETRILLO, ATTORNEY | | | |
| Balance Sheet | | | |
| March 31, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 72,310 | Accounts Payable | $ 5,500 |
| Accounts Receivable | 16,200 |  |  |
| Office Supplies | 350 | Owner’s Equity | |
| Computer | 5,500 | Petrillo, Capital | 88,860 |
| Total Assets | $ 94,360 | Total Liabilities and Owner’s Equity | $ 94,360 |
|  |  |  |  |

***Problems Group B***

**P1-47B**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | | | = | Liabilities | + | Equity | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Land | = | Accounts Payable | + | Clifford, Capital | – | Clifford, Withdrawals | + | Service Revenue | – | Rent Expense | – | Advertising Expense |
| Bal. | $2,100 | + | $2,500 | + |  | + | $11,000 | = | $6,000 | + | $7,100 |  |  | + | 2,500 |  |  |  |  |
| (a) | +13,000 |  |  |  |  |  |  |  |  |  | +13,000 |  |  |  |  |  |  |  |  |
| Bal. | $15,100 | + | $2,500 |  |  | + | $11,000 | = | $6,000 | + | $20,100 |  |  | + | 2,500 |  |  |  |  |
| (b) | +1,200 |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,200 |  |  |  |  |
| Bal. | $16,300 | + | $2,500 |  |  | + | $11,000 | = | $6,000 | + | $20,100 |  |  | + | $3,700 |  |  |  |  |
| (c) | –6,000 |  |  |  |  |  |  |  | –6,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $10,300 | + | $2,500 |  |  | + | $11,000 | = | $0 | + | $20,100 |  |  | + | $3,700 |  |  |  |  |
| (d) |  |  |  |  | +1,000 |  |  |  | +1,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $10,300 | + | $2,500 | + | $1,000 | + | $11,000 | = | $1,000 | + | $20,100 |  |  | + | $3,700 |  |  |  |  |
| (e) | +1,500 |  | –1,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $11,800 | + | $1,000 | + | $1,000 | + | $11,000 | = | $1,000 | + | $20,100 |  |  | + | $3,700 |  |  |  |  |
| (f) | –1,900 |  |  |  |  |  |  |  |  |  |  |  | –1,900 |  |  |  |  |  |  |
| Bal. | $9,900 | + | $1,000 | + | $1,000 | + | $11,000 | = | $1,000 | + | $20,100 | – | $1,900 | + | $3,700 |  |  |  |  |
| (g) |  |  | +6,000 |  |  |  |  |  |  |  |  |  |  |  | +6,000 |  |  |  |  |
| Bal. | $9,900 | + | $7,000 | + | $1,000 | + | $11,000 | = | $1,000 | + | $20,100 | – | $1,900 | + | $9,700 |  |  |  |  |
| (h) | –1,750 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,400 |  | –350 |
| Bal. | $8,150 | + | $7,000 | + | $1,000 | + | $11,000 | = | $1,000 | + | $20,100 | – | $1,900 | + | $9,700 | – | $1,400 | – | $350 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-48B**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | = | Liabilities | + | Equity | | | | | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | = | Accounts Payable | + | Timmins, Capital | – | Timmins, Withdrawals | + | Service Revenue | – | Rent Expense | – | Utilities Expense | – | Salaries Expense | – | Advertising Expense |
|
| 1 | +20,000 |  |  |  |  |  |  |  | +20,000 |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 | +2,200 |  |  |  |  |  |  |  |  |  |  |  | +2,200 |  |  |  |  |  |  |  |  |
| Bal. | $22,200 |  |  |  |  | = |  | + | $20,000 |  |  | + | $2,200 |  |  |  |  |  |  |  |  |
| 5 | –350 |  |  |  | +350 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $21,850 |  |  | + | $350 | = |  | + | $20,000 |  |  | + | $2,200 |  |  |  |  |  |  |  |  |
| 9 |  |  | +4,500 |  |  |  |  |  |  |  |  |  | +4,500 |  |  |  |  |  |  |  |  |
| Bal. | $21,850 | + | $4,500 | + | $350 | = |  | + | $20,000 |  |  | + | $6,700 |  |  |  |  |  |  |  |  |
| 10 |  |  |  |  |  |  | +100 |  |  |  |  |  |  |  |  |  | –100 |  |  |  |  |
| Bal. | $21,850 | + | $4,500 | + | $350 | = | $100 | + | $20,000 |  |  | + | $6,700 |  |  | – | $100 |  |  |  |  |
| 15 | –475 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –475 |
| Bal. | $21,375 | + | $4,500 | + | $350 | = | $100 | + | $20,000 |  |  | + | $6,700 |  |  | – | $100 |  |  | – | $475 |
| 20 | –100 |  |  |  |  |  | –100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $21,275 | + | $4,500 | + | $350 | = | $ 0 | + | $20,000 |  |  | + | $6,700 |  |  | – | $100 |  |  | – | $475 |
| 25 | +4,500 |  | –4,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $25,775 | + | $ 0 | + | $350 | = |  | + | $20,000 |  |  | + | $6,700 |  |  | – | $100 |  |  | – | $475 |
| 28 | –3,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | –3,000 |  |  |  |  |  |  |
| Bal. | $22,775 |  |  | + | $350 | = |  | + | $20,000 |  |  | + | $6,700 | – | $3,000 | – | $100 |  |  | – | $475 |
| 28 | –1,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,500 |  |  |
| Bal. | $21,275 |  |  | + | $350 | = |  | + | $20,000 |  |  | + | $6,700 | – | $3,000 | – | $100 | – | $1,500 | – | $475 |
| 30 | +2,000 |  |  |  |  |  |  |  |  |  |  |  | +2,000 |  |  |  |  |  |  |  |  |
| Bal. | $23,275 |  |  | + | $350 | = |  | + | $20,000 |  |  | + | $8,700 | – | $3,000 | – | $100 | – | $1,500 | – | $475 |
| 31 | –3,500 |  |  |  |  |  |  |  |  |  | –3,500 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $19,775 | + | $ 0 | + | $350 | = | $ 0 | + | $20,000 | – | $3,500 | + | $8,700 | – | $3,000 | – | $100 | – | $1,500 | – | $475 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-49B**

**Requirement 1**

|  |  |  |
| --- | --- | --- |
| TOWN AND COUNTRY REALTY | | |
| Income Statement | | |
| Year Ended December 31, 2016 | | |
|  |  |  |
| Revenues: |  |  |
| Service Revenue |  | $ 180,000 |
| Expenses: |  |  |
| Salaries Expense | $ 69,000 |  |
| Advertising Expense | 14,000 |  |
| Rent Expense | 10,000 |  |
| Interest Expense | 6,500 |  |
| Property Tax Expense | 3,400 |  |
| Insurance Expense | 2,200 |  |
| Total Expenses |  | 105,100 |
| Net Income |  | $ 74,900 |
|  |  |  |

**Requirement 2**

|  |  |  |
| --- | --- | --- |
| TOWN AND COUNTRY REALTY | | |
| Statement of Owner’s Equity | | |
| Year Ended December 31, 2016 | | |
|  |  |  |
| Taylor, Capital, December 31, 2015 |  | $ 57,000 |
| Owner contribution |  | 28,000 |
| Net income for the year |  | 74,900 |
|  |  | 159,900 |
| Owner withdrawal |  | (32,000) |
| Taylor, Capital, December 31, 2016 |  | $ 127,900 |
|  |  |  |

**P1-49B, cont.**

**Requirement 3**

|  |  |  |  |
| --- | --- | --- | --- |
| TOWN AND COUNTRY REALTY | | | |
| Balance Sheet | | | |
| December 31, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 3,800 | Accounts Payable | $ 14,000 |
| Accounts Receivable | 1,000 | Notes Payable | 36,000 |
| Office Supplies | 12,000 | Salaries Payable | 1,500 |
| Equipment | 13,000 | Total Liabilities | 51,500 |
| Building | 144,600 | Owner’s Equity | |
| Land | 5,000 | Taylor, Capital | 127,900 |
| Total Assets | $ 179,400 | Total Liabilities and Owner’s Equity | $ 179,400 |
|  |  |  |  |

**P1-50B**

**Requirement a**

|  |  |  |
| --- | --- | --- |
| PRECISION PICS | | |
| Income Statement | | |
| Year Ended December 31, 2016 | | |
|  |  |  |
| Revenues: |  |  |
| Service Revenue |  | $ 110,000 |
| Expenses: |  |  |
| Salaries Expense | $ 21,000 |  |
| Insurance Expense | 14,000 |  |
| Advertising Expense | 3,500 |  |
| Total Expenses |  | 38,500 |
| Net Income |  | $ 71,500 |
|  |  |  |

**Requirement b**

|  |  |
| --- | --- |
| PRECISION PICS | |
| Statement of Owner’s Equity | |
| Year Ended December 31, 2016 | |
|  |  |
| Lamar, Capital, December 31, 2015 | $ 26,000 |
| Owner contribution | 33,000 |
| Net income for the year | 71,500 |
|  | 130,500 |
| Owner withdrawal | (11,000) |
| Lamar, Capital, December 31, 2016 | $ 119,500 |
|  |  |

**P1-50B, cont.**

**Requirement c**

|  |  |  |  |
| --- | --- | --- | --- |
| PRECISION PICS | | | |
| Balance Sheet | | | |
| December 31, 2016 | | | |
| Assets | | Liabilities | |
| Cash | $ 38,000 | Accounts Payable | $ 13,000 |
| Accounts Receivable | 7,000 | Notes Payable | 9,000 |
| Equipment | 96,500 | Total Liabilities | 22,000 |
|  |  | Owner’s Equity | |
|  |  | Lamar, Capital | 119,500 |
| Total Assets | $ 141,500 | Total Liabilities And Owner’s Equity | $ 141,500 |
|  |  |  |  |

**P1-51B**

|  |  |  |  |
| --- | --- | --- | --- |
| BEAUTIFUL WORLD LANDSCAPING | | | |
| Balance Sheet | | | |
| July 31, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 5,500 | Accounts Payable | $ 2,400 |
| Accounts Receivable | 1,900 | Notes Payable | 24,600 |
| Office Supplies | 300 | Total Liabilities | 27,000 |
| Office Furniture | 5,600 |  |  |
| Land | 34,100 | Owner’s Equity | |
|  |  | Kielman, Capital | 20,400 |
| Total Assets | $ 47,400 | Total Liabilities and Owner’s Equity | $ 47,400 |
|  |  |  |  |

**P1-52B**

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | | | = | Liabilities | + | Equity | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Office Furniture | = | Accounts Payable | + | Simmon, Capital | – | Simmon, Withdrawal | + | Service Revenue | – | Rent Expense | – | Utilities Expense | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| 5 | +65,000 |  |  |  |  |  |  |  |  |  | +65,000 |  |  |  |  |  |  |  |  | |
| Bal. | $65,000 |  |  |  |  |  |  | = |  | + | $65,000 |  |  |  |  |  |  |  |  | |
| 6 | –300 |  |  |  | +300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Bal. | $64,700 |  |  | + | $300 |  |  | = |  | + | $65,000 |  |  |  |  |  |  |  |  | |
| 7 |  |  |  |  |  |  | +6,800 |  | +6,800 |  |  |  |  |  |  |  |  |  |  | |
| Bal. | $64,700 |  |  | + | $300 | + | $6,800 | = | $6,800 | + | $65,000 |  |  |  |  |  |  |  |  | |
| 10 | +3,300 |  |  |  |  |  |  |  |  |  |  |  |  |  | +3,300 |  |  |  |  | |
| Bal. | $68,000 |  |  | + | $300 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $3,300 |  |  |  |  | |
| 11 | –100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –100 | |
| Bal. | $67,900 |  |  | + | $300 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $3,300 |  |  | – | $100 | |
| 12 |  |  | +12,500 |  |  |  |  |  |  |  |  |  |  |  | +12,500 |  |  |  |  | |
| Bal. | $67,900 | + | $12,500 | + | $300 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $15,800 |  |  | – | $100 | |
| 18 | –1,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,000 |  |  | |
| Bal. | $66,900 | + | $12,500 | + | $300 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $15,800 | – | $1,000 | – | $100 | |
| 25 | +12,500 |  | –12,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Bal. | $79,400 |  | $ 0 | + | $300 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $15,800 | – | $1,000 | – | $100 | |
| 27 | –6,800 |  |  |  |  |  |  |  | –6,800 |  |  |  |  |  |  |  |  |  |  | |
| Bal. | $72,600 |  | $ 0 | + | $300 | + | $6,800 | = | $ 0 | + | $65,000 |  |  | + | $15,800 | – | $1,000 | – | $100 | |
| 29 | –3,000 |  |  |  |  |  |  |  |  |  |  |  | –3,000 |  |  |  |  |  |  | |
| Bal. | $69,600 | + | $ 0 | + | $300 | + | $6,800 | = | $ 0 | + | $65,000 | – | $3,000 | + | $15,800 | – | $1,000 | – | $100 | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

**P1-52B, cont.**

**Requirement 2a**

|  |  |  |
| --- | --- | --- |
| ANDRE SIMMON, CPA | | |
| Income Statement | | |
| Month Ended February 29, 2016 | | |
|  |  |  |
| Revenues: |  |  |
| Service Revenue |  | $ 15,800 |
| Expenses: |  |  |
| Rent Expense | $ 1,000 |  |
| Utilities Expense | 100 |  |
| Total Expenses |  | 1,100 |
| Net Income |  | $ 14,700 |
|  |  |  |

**Requirement** **2b**

|  |  |
| --- | --- |
| ANDRE SIMMON, CPA | |
| Statement of Owner’s Equity | |
| Month Ended February 29, 2016 | |
| Simmon, Capital, February 1, 2016 | $ 0 |
| Owner contribution | 65,000 |
| Net income for the month | 14,700 |
|  | 79,700 |
| Owner withdrawal | (3,000) |
| Simmon, Capital, February 29, 2016 | $ 76,700 |
|  |  |

**P1-52B, cont.**

**Requirement 2c**

|  |  |  |  |
| --- | --- | --- | --- |
| ANDRE SIMMON, CPA | | | |
| Balance Sheet | | | |
| February 29, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 69,600 |  |  |
| Office Supplies | 300 |  |  |
| Office Furniture | 6,800 | Owner’s Equity | |
|  |  | Simmon, Capital | $ 76,700 |
| Total Assets | $ 76,700 | Total Liabilities and Owner’s Equity | $ 76,700 |
|  | | | |

<listitem><inst>

**P1-53B**

**Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | | | = | Liabilities | + | Equity | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Computer | = | Accounts Payable | + | Peterson, Capital | – | Peterson, Withdrawals | + | Service Revenue | – | Utility Expense | – | Misc. Expense |
| 3 | +65,000 |  |  |  |  |  |  |  |  |  | +65,000 |  |  |  |  |  |  |  |  |
| 5 | –400 |  |  |  | +400 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $64,600 |  |  |  | $400 | + |  | = |  | + | $65,000 |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  | +6,800 |  | +6,800 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $64,600 |  |  | + | $400 | + | $6,800 | = | $6,800 | + | $65,000 |  |  |  |  |  |  |  |  |
| 9 | +2,900 |  |  |  |  |  |  |  |  |  |  |  |  |  | +2,900 |  |  |  |  |
| Bal. | $67,500 |  |  | + | $400 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $2,900 |  |  |  |  |
| 15 |  |  |  |  |  |  |  |  | +300 |  |  |  |  |  |  |  |  |  | –300 |
| Bal. | $67,500 |  |  | + | $400 | + | $6,800 | = | $7,100 | + | $65,000 |  |  | + | $2,900 | – |  | – | $300 |
| 23 |  |  | +18,000 |  |  |  |  |  |  |  |  |  |  |  | +18,000 |  |  |  |  |
| Bal. | $67,500 | + | $18,000 | + | $400 | + | $6,800 | = | $7,100 | + | $65,000 |  |  | + | $20,900 | – |  | – | $300 |
| 28 | –300 |  |  |  |  |  |  |  | –300 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $67,200 | + | $18,000 | + | $400 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $20,900 | – |  | – | $300 |
| 30 | –840 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –840 |  |  |
| Bal. | $66,360 | + | $18,000 | + | $400 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $20,900 | – | $840 | – | $300 |
| 31 | +2,800 |  | –2,800 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $69,160 | + | $15,200 | + | $400 | + | $6,800 | = | $6,800 | + | $65,000 |  |  | + | $20,900 | – | $840 | – | $300 |
| 31 | –2,500 |  |  |  |  |  |  |  |  |  |  |  | –2,500 |  |  |  |  |  |  |
| Bal. | $66,660 | + | $15,200 | + | $400 | + | $6,800 | = | $6,800 | + | $65,000 | – | $2,500 | + | $20,900 | – | $840 | – | $300 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-53B, cont.**

**Requirement 2a**

|  |  |  |
| --- | --- | --- |
| ARIANA PETERSON, ATTORNEY | | |
| Income Statement | | |
| Month Ended December 31, 2016 | | |
|  |  |  |
| Revenues: |  |  |
| Service Revenue |  | $ 20,900 |
| Expenses: |  |  |
| Utility Expense | $ 840 |  |
| Miscellaneous Expense | 300 |  |
| Total Expenses |  | 1,140 |
| Net Income |  | $ 19,760 |
|  |  |  |

**Requirement 2b**

|  |  |
| --- | --- |
| ARIANA PETERSON, ATTORNEY | |
| Statement of Owner’s Equity | |
| Month Ended December 31, 2016 | |
| Peterson, Capital, December 1, 2016 | $ 0 |
| Owner contribution | 65,000 |
| Net income for the month | 19,760 |
|  | 84,760 |
| Owner withdrawal | (2,500) |
| Peterson, Capital, December 31, 2016 | $ 82,260 |
|  |  |

**Requirement 2c**

|  |  |  |  |
| --- | --- | --- | --- |
| ARIANA PETERSON, ATTORNEY | | | |
| Balance Sheet | | | |
| December 31, 2016 | | | |
|  | |  | |
| Assets | | Liabilities | |
| Cash | $ 66,660 | Accounts Payable | $ 6,800 |
| Accounts Receivable | 15,200 |  |  |
| Office Supplies | 400 | Owner’s Equity | |
| Computer | 6,800 | Peterson, Capital | 82,260 |
| Total Assets | $ 89,060 | Total Liabilities and Owner’s Equity | $ 89,060 |
|  |  |  |  |

## Continuing Problem

**P1-54 Requirement 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | | |  |  | = | Liabilities | | | + | Equity | | | | | | | | |
|  | Cash | + | Accounts Receivable | + | Office Supplies | + | Equipment | + | Furniture | = | Accounts Payable | + | Unearned  Revenue | + | Daniels, Capital | – | Daniels, Withdrawals | + | Service Revenue | – | Rent Expense | – | Utilities Expense |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 | +20,000 |  |  |  |  |  |  |  |  |  |  |  |  |  | +20,000 |  |  |  |  |  |  |  |  |
| 2 | –2,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –2,000 |  |  |
| Bal. | $18,000 |  |  |  |  |  |  |  |  | = |  |  |  | + | $20,000 |  |  |  |  | – | $2,000 |  |  |
| 3 | –3,600 |  |  |  |  |  | +3,600 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $14,400 |  |  |  |  | + | $3,600 |  |  | = |  |  |  | + | $20,000 |  |  |  |  | – | $2,000 |  |  |
| 4 |  |  |  |  |  |  |  |  | +3,000 |  | +3,000 |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $14,400 |  |  |  |  | + | $3,600 | + | $3,000 | = | $3,000 |  |  | + | $20,000 |  |  |  |  | − | $2,000 |  |  |
| 5 |  |  |  |  | +800 |  |  |  |  |  | +800 |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $14,400 |  |  | + | $800 | + | $3,600 | + | $3,000 | = | $3,800 |  |  | + | $20,000 |  |  |  |  | – | $2,000 |  |  |
| 9 |  |  | +2,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | +2,500 |  |  |  |  |
| Bal. | $14,400 | + | $2,500 | + | $800 | + | $3,600 | + | $3,000 | = | $3,800 |  |  | + | $20,000 |  |  | + | $2,500 | − | $2,000 |  |  |
| 12 | –150 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –150 |
| Bal. | $14,250 | + | $2,500 | + | $800 | + | $3,600 | + | $3,000 | = | $3,800 |  |  | + | $20,000 |  |  | + | $2,500 | – | $2,000 | – | $150 |
| 18 | +2,100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | +2,100 |  |  |  |  |
| Bal. | $16,350 | + | $2,500 | + | $800 | + | $3,600 | + | $3,000 | = | $3,800 |  |  | + | $20,000 |  |  | + | $4,600 | – | $2,000 | – | $150 |
| 21 | + 2,400 |  |  |  |  |  |  |  |  |  |  |  | +2,400 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $18,750 | + | $2,500 | + | $800 | + | $3,600 | + | $3,000 | = | $3,800 | + | $2,400 | + | $20,000 |  |  | + | $4,600 | – | $2,000 | – | $150 |
| 26 | – 200 |  |  |  |  |  |  |  |  |  | – 200 |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $18,550 | + | $2,500 | + | $800 | + | $3,600 | + | $3,000 | = | $3,600 | + | $2,400 | + | $20,000 |  |  | + | $4,600 | – | $2,000 | – | $150 |
| 28 | + 400 |  | –400 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal. | $18,950 | + | $2,100 | + | $800 | + | $3,600 | + | $3,000 | = | $3,600 | + | $2,400 | + | $20,000 |  |  | + | $4,600 | – | $2,000 | – | $150 |
| 30 | –1,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,000 |  |  |  |  |  |  |
| Bal. | $17,950 | + | $2,100 | + | $800 | + | $3,600 | + | $3,000 | = | $3,600 | + | $2,400 | + | $20,000 | – | $1,000 | + | $4,600 | – | $2,000 | – | $150 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**P1-54, cont.**

**Requirement 2**

|  |  |  |
| --- | --- | --- |
| DANIELS CONSULTING | | |
| Income Statement | | |
| Month Ended December 31, 2016 | | |
|  |  |  |
| Revenue: |  |  |
| Service Revenue |  | $ 4,600 |
| Expenses: |  |  |
| Rent Expense | $ 2,000 |  |
| Utilities Expense | 150 |  |
| Total Expense |  | 2,150 |
| Net Income |  | $ 2,450 |
|  |  |  |

**Requirement 3**

|  |  |
| --- | --- |
| DANIELS CONSULTING | |
| Statement of Owner’s Equity | |
| Month Ended December 31, 2016 | |
| Daniels, Capital, December 1, 2016 | $ 0 |
| Owner contribution | 20,000 |
| Net income for the month | 2,450 |
|  | 22,450 |
| Owner withdrawal | (1,000) |
| Daniels, Capital, December 31, 2016 | $ 21,450 |
|  |  |

**Requirement 4**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DANIELS CONSULTING | | | | |
| Balance Sheet | | | | |
| December 31, 2016 | | | | |
|  | |  | | |
| Assets | | Liabilities | | |
| Cash | $ 17,950 | Accounts Payable | | $ 3,600 |
| Accounts Receivable | 2,100 | Unearned Revenue | | 2,400 |
| Office Supplies | 800 | Total Liabilities | | 6,000 |
| Equipment | 3,600 |  | | |
| Furniture | 3,000 | Owner’s Equity | | |
|  |  | Daniels, Capital | 21,450 | |
| Total Assets | $ 27,450 | Total Liabilities and Owner’s Equity | $ 27,450 | |
|  |  |  |  | |

**P1-54, cont.**

**Requirement 5**

Average total assets = ($0 + $27,450) / 2 = $13,725

Return on assets = Net income / Average total assets = $2,450 / $13,725 = 0.179 = 17.9%

## Critical Thinking

**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 owner’s 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**

**Requirement 1**

$2,575.7 (in millions)

**Requirement 2**

$11,516.7 (in millions) at September 29, 2013; $8,219.2 (in millions) at September 30, 2012

**Requirement 3**

Assets = Liabilities + Equity

$11,516.7 = $7,034.4 + $4,482.3

(shown in millions)

**Requirement 4**

$14,892.2 (in millions) for year ended September 29, 2013

This is an increase of $1,592.7 (in millions) over 2012. ($14,892.2− $13,299.5)

**Requirement 5**

$8.3 (in millions) in 2013

$1,383.8 (in millions) in 2012

2012 was better than 2013.

**Requirement 6**

Average total assets = ($8,219.2 + $11,516.7) / 2 = $9,867.95 (rounded)

Return on assets = $8.3 / $9,867.95 = 0.0008 = 0.08%

**Requirement 7**

Starbucks Corporation's return on assets (0.08%) was significantly lower than Green Mountain Coffee Roasters, Inc. (13.1%).