CHAPTER 1
INTRODUCTION TO ACCOUNTING AND BUSINESS

DISCUSSION QUESTIONS

1. Some users of accounting information include managers, employees, investors, creditors, customers, and the government.

2. The role of accounting is to provide information for managers to use in operating the business. In addition, accounting provides information to others to use in assessing the economic performance and condition of the business.

3. The corporate form allows the company to obtain large amounts of resources by issuing stock. For this reason, most companies that require large investments in property, plant, and equipment are organized as corporations.

4. No. The business entity concept limits the recording of economic data to transactions directly affecting the activities of the business. The payment of the interest of $4,500 is a personal transaction of Josh Reilly and should not be recorded by Dispatch Delivery Service.

5. The land should be recorded at its cost of $167,500 to Reliable Repair Service. This is consistent with the cost concept.

6. **a.** No. The offer of $2,000,000 and the increase in the assessed value should not be recognized in the accounting records.

b. Cash would increase by $2,125,000, land would decrease by $900,000, and owner's equity would increase by $1,225,000.

7. An account receivable is a claim against a customer for goods or services sold. An account payable is an amount owed to a creditor for goods or services purchased. Therefore, an account receivable in the records of the seller is an account payable in the records of the purchaser.

8. **(b)** The business realized net income of $91,000 ($679,000 – $588,000).

9. **(a)** The business incurred a net loss of $75,000 ($640,000 – $715,000).

10. **(a)** Net income or net loss
(b) Owner's equity at the end of the period
(c) Cash at the end of the period

PRACTICE EXERCISES

PE 1–1A

$230,000. Under the cost concept, the land should be recorded at the cost to Kountry Repair Service.

PE 1–1B

$437,500. Under the cost concept, the land should be recorded at the cost to Higgins Repair Service.

PE 1–2A

a.	**A**	**=**	**L + OE**	
	$780,000	**=**	**$150,000**	**+ OE**
	OE	**=**	**$630,000**	
b.	**A**	**=**	**L + OE**	
	+$90,000	**=**	**+$25,000**	**+ OE**
	OE	**=**	**+$65,000**	
	OE on December 31, 2016	**=**		
	$695,000	**=**	**$630,000**	**+ $65,000**

PE 1–2B

a.	**A**	**=**	**L + OE**	
	$395,000	**=**	**$97,000**	**+ OE**
	OE	**=**	**$298,000**	
b.	**A**	**=**	**L + OE**	
	–$65,000	**=**	**+$36,000**	**+ OE**
	OE	**=**	**–$101,000**	
	OE on December 31, 2016	**=**		
	$197,000	**=**	**$298,000**	**– $101,000**

PE 1–3A

**(2) Asset (Cash) decreases by $3,750;
Liability (Accounts Payable) decreases by $3,750.**

**(3) Asset (Accounts Receivable) increases by $22,400;
Revenue (Delivery Service Fees) increases by $22,400.**

**(4) Asset (Cash) increases by $11,300;
Asset (Accounts Receivable) decreases by $11,300.**

**(5) Asset (Cash) decreases by $6,000;
Asset (Gates Deeter, Drawing) increases by $6,000.**

PE 1–3B

(2) **Expense (Advertising Expense) increases by $4,850;**
Asset (Cash) decreases by $4,850.

(3) **Asset (Supplies) increases by $2,100;**
Liability (Accounts Payable) increases by $2,100.

(4) **Asset (Accounts Receivable) increases by $14,700;**
Revenue (Delivery Service Fees) increases by $14,700.

(5) **Asset (Cash) increases by $8,200;**
Asset (Accounts Receivable) decreases by $8,200.

PE 1–4A

OUSEL TRAVEL SERVICE
Income Statement
For the Year Ended November 30, 2016

Fees earned		$1,475,000
Expenses:		
Wages expense	$885,000	
Office expense	320,000	
Miscellaneous expense	28,000	
Total expenses		1,233,000
Net income		$ 242,000

PE 1–4B

SENTINEL TRAVEL SERVICE
Income Statement
For the Year Ended August 31, 2016

Fees earned		$750,000
Expenses:		
Wages expense	$450,000	
Office expense	295,000	
Miscellaneous expense	12,000	
Total expenses		757,000
Net loss		$ (7,000)

PE 1–5A

OUSEL TRAVEL SERVICE Statement of Owner's Equity For the Year Ended November 30, 2016		
Shane Ousel, capital, December 1, 2015		$666,000
Additional investment by owner during year	$ 50,000	
Net income for the year	242,000	
	$292,000	
Less withdrawals	30,000	
Increase in owner's equity		262,000
Shane Ousel, capital, November 30, 2016		$928,000

PE 1–5B

SENTINEL TRAVEL SERVICE Statement of Owner's Equity For the Year Ended August 31, 2016		
Barb Schroeder, capital, September 1, 2015		$380,000
Additional investment by owner during year	$36,000	
Net loss for the year	(7,000)	
	$29,000	
Less withdrawals	18,000	
Increase in owner's equity		11,000
Barb Schroeder, capital, August 31, 2016		$391,000

PE 1–6A

OUSEL TRAVEL SERVICE Balance Sheet November 30, 2016			
Assets		**Liabilities**	
Cash	$308,000	Accounts payable	$ 62,500
Accounts receivable	186,000		
Supplies	16,500	**Owner's Equity**	
Land	480,000	Shane Ousel, capital	928,000
		Total liabilities and	
Total assets	$990,500	owner's equity	$990,500

PE 1–6B

SENTINEL TRAVEL SERVICE Balance Sheet August 31, 2016			
Assets		**Liabilities**	
Cash	$ 45,400	Accounts payable	$ 44,600
Accounts receivable	75,500		
Supplies	4,700	**Owner's Equity**	
Land	310,000	Barb Schroeder, capital	391,000
		Total liabilities and	
Total assets	$435,600	owner's equity	$435,600

PE 1–7A

OUSEL TRAVEL SERVICE Statement of Cash Flows For the Year Ended November 30, 2016		
Cash flows from operating activities:		
Cash received from customers	$ 1,465,000	
Deduct cash payments for operating expenses	(1,230,000)	
Net cash flows from operating activities		$ 235,000
Cash flows used for investing activities:		
Cash payments for purchase of land		(150,000)
Cash flows from financing activities:		
Cash received from owner as investment	$ 50,000	
Deduct cash withdrawals by owner	(30,000)	
Net cash flows from financing activities		20,000
Net increase in cash during year		$ 105,000
Cash as of December 1, 2015		203,000
Cash as of November 30, 2016		$ 308,000

PE 1–7B

SENTINEL TRAVEL SERVICE Statement of Cash Flows For the Year Ended August 31, 2016		
Cash flows from operating activities:		
Cash received from customers	$ 734,000	
Deduct cash payments for operating expenses	(745,600)	
Net cash flows used for operating activities		$(11,600)
Cash flows used for investing activities:		
Cash payments for purchase of land		(50,000)
Cash flows from financing activities:		
Cash received from owner as investment	$ 36,000	
Deduct cash withdrawals by owner	(18,000)	
Net cash flows from financing activities		18,000
Net decrease in cash during year		$(43,600)
Cash as of September 1, 2015		89,000
Cash as of August 31, 2016		$ 45,400

PE 1–8A

a.

	Dec. 31, 2016	Dec. 31, 2015
Total liabilities	$547,800	$518,000
Total owner's equity	$415,000	$370,000
Ratio of liabilities to owner's equity	1.32*	1.40**

* $547,800 ÷ $415,000
** $518,000 ÷ $370,000

b. Decreased

PE 1–8B

a.

	Dec. 31, 2016	Dec. 31, 2015
Total liabilities	$4,085,000	$2,880,000
Total owner's equity	$4,300,000	$3,600,000
Ratio of liabilities to owner's equity	0.95*	0.80**

* $4,085,000 ÷ $4,300,000
** $2,880,000 ÷ $3,600,000

b. Increased

EXERCISES

Ex. 1–1

a.

1.	**manufacturing**	**6.**	**manufacturing**	**11.**	**service**
2.	**manufacturing**	**7.**	**service**	**12.**	**service**
3.	**manufacturing**	**8.**	**service**	**13.**	**manufacturing**
4.	**service**	**9.**	**manufacturing**	**14.**	**service**
5.	**merchandise**	**10.**	**merchandise**	**15.**	**merchandise**

b. The accounting equation is relevant to all companies. It serves as the basis of the accounting information system.

Ex. 1–2

As in many ethics issues, there is no one right answer. Oftentimes, disclosing only what is legally required may not be enough. In this case, it would be best for the company's chief executive officer to disclose both reports to the county representatives. In doing so, the chief executive officer could point out any flaws or deficiencies in the fired researcher's report.

Ex. 1–3

a.

1.	**M**	**5.**	**O**	**9.**	**X**
2.	**L**	**6.**	**O**	**10.**	**O**
3.	**O**	**7.**	**X**		
4.	**M**	**8.**	**L**		

b. A business transaction is an economic event or condition that directly changes an entity's financial condition or results of operations.

Ex. 1–4

Green Mountain Coffee Roasters' owners' equity: \$3,616 – \$1,345 = \$2,271
Starbucks' owners' equity: \$8,219 – \$3,110 = \$5,109

Ex. 1–5

Dollar Tree's owners' equity: \$2,329 – \$984 = \$1,345
Target's owners' equity: \$46,630 – \$30,809 = \$15,821

Ex. 1–6

a. **$1,271,000 ($376,000 + $895,000)**
b. **$520,000 ($1,375,000 – $855,000)**
c. **$652,500 ($863,500 – $211,000)**

Ex. 1–7

a. **$540,000 ($720,000 – $180,000)**
b. **$606,500 ($540,000 + $96,500 – $30,000)**
c. **$357,000 ($540,000 – $168,000 – $15,000)**
d. **$733,000 ($540,000 + $175,000 + $18,000)**
e. **Net income: $120,000 ($880,000 – $220,000 – $540,000)**

Ex. 1–8

a. **(2) liability**
b. **(1) asset**
c. **(3) owner's equity (revenue)**
d. **(1) asset**
e. **(1) asset**
f. **(3) owner's equity (expense)**

Ex. 1–9

a. **Increases assets and increases owner's equity.**
b. **Decreases assets and decreases owner's equity.**
c. **Increases assets and decreases assets.**
d. **Increases assets and increases liabilities.**
e. **Increases assets and increases owner's equity.**

Ex. 1–10

a. **(1) Total assets increased $183,000 ($298,000 – $115,000).**
   (2) No change in liabilities.
   (3) Owner's equity increased $183,000.

b. **(1) Total assets decreased $80,000.**
   (2) Total liabilities decreased $80,000.
   (3) No change in owner's equity.

c. **No, it is false that a transaction always affects at least two elements (Assets, Liabilities, or Owner's Equity) of the accounting equation. Some transactions affect only one element of the accounting equation. For example, purchasing supplies for cash only affects assets.**

Ex. 1–11

1. (b) decrease
2. (a) increase
3. (b) decrease
4. (a) increase

Ex. 1–12

1.	c	6.	c
2.	a	7.	d
3.	e	8.	a
4.	e	9.	e
5.	c	10.	e

Ex. 1–13

a. (1) Provided catering services for cash, $71,800.
   (2) Purchase of land for cash, $15,000.
   (3) Payment of cash for expenses, $47,500.
   (4) Purchase of supplies on account, $1,100.
   (5) Withdrawal of cash by owner, $5,000.
   (6) Payment of cash to creditors, $4,000.
   (7) Recognition of cost of supplies used, $1,500.

b. $300 ($40,300 – $40,000)
c. $17,800 (–$5,000 + $71,800 – $49,000)
d. $22,800 ($71,800 – $49,000)
e. $17,800 ($22,800 – $5,000)

Ex. 1–14

No. It would be incorrect to say that the business had incurred a net loss of $8,000. The excess of the withdrawals over the net income for the period is a decrease in the amount of owner's equity in the business.

Ex. 1–15

Jupiter

Owner's equity at end of year ($844,000 – $320,000)	$524,000
Deduct owner's equity at beginning of year ($550,000 – $215,000)	335,000
Net income (increase in owner's equity)	$189,000

Mars

Increase in owner's equity (as determined for Jupiter)	$189,000
Add withdrawals	36,000
Net income	$225,000

Saturn

Increase in owner's equity (as determined for Jupiter)	$189,000
Deduct additional investment	60,000
Net income	$129,000

Venus

Increase in owner's equity (as determined for Jupiter)	$189,000
Deduct additional investment	60,000
	$129,000
Add withdrawals	36,000
Net income	$165,000

Ex. 1–16

Balance sheet items: 1, 2, 4, 5, 6, 10

Ex. 1–17

Income statement items: 3, 7, 8, 9

Ex. 1–18

a.

UDDER PRODUCTS COMPANY Statement of Owner's Equity For the Month Ended April 30, 2016		
Mark Kominksy, capital, April 1, 2016		$384,500
Net income for November	$166,000	
Less withdrawals	25,000	
Increase in owner's equity		141,000
Mark Kominksy, capital, April 30, 2016		$525,500

b. The statement of owner's equity is prepared before the April 30, 2016, balance sheet because Mark Kominksy, Capital as of April 30, 2016, is needed for the balance sheet.

Ex. 1–19

DAIRY SERVICES Income Statement For the Month Ended August 31, 2016		
Fees earned		$783,000
Expenses:		
Wages expense	$550,000	
Rent expense	35,000	
Supplies expense	8,500	
Miscellaneous expense	11,400	
Total expenses		604,900
Net income		$178,100

Ex. 1–20

In each case, solve for a single unknown, using the following equation:

Owner's Equity (beginning) + Investments – Withdrawals + Revenues – Expenses = Owner's Equity (ending)

Freeman

Owner's equity at end of year ($1,260,000 – $330,000)		$930,000
Owner's equity at beginning of year ($900,000 – $360,000)		540,000
Increase in owner's equity		$390,000
Deduct increase due to net income ($570,000 – $240,000)		330,000
		$ 60,000
Add withdrawals		75,000
Additional investment in the business	(a)	$135,000

Heyward

Owner's equity at end of year ($675,000 – $220,000)		$455,000
Owner's equity at beginning of year ($490,000 – $260,000)		230,000
Increase in owner's equity		$225,000
Add withdrawals		32,000
		$257,000
Deduct additional investment		150,000
Increase due to net income		$107,000
Add expenses		128,000
Revenue	(b)	$235,000

Jones

Owner's equity at end of year ($100,000 – $80,000)		$ 20,000
Owner's equity at beginning of year ($115,000 – $81,000)		34,000
Decrease in owner's equity		$(14,000)
Deduct decrease due to net loss ($115,000 – $122,500)		7,500
		$(21,500)
Deduct additional investment		10,000
Withdrawals from the business	(c)	$(31,500)

Ramirez

Owner's equity at end of year ($270,000 – $136,000)		$134,000
Add decrease due to net loss ($115,000 – $128,000)		13,000
		$147,000
Add withdrawals		39,000
Owner's equity at beginning of year		$186,000
Deduct additional investment		55,000
		$131,000
Add liabilities at beginning of year		120,000
Assets at beginning of year	(d)	$251,000

Ex. 1–21

a.

EBONY INTERIORS Balance Sheet February 29, 2016			
Assets		**Liabilities**	
Cash	$ 320,000	Accounts payable	$ 310,000
Accounts receivable	800,000		
Supplies	30,000	**Owner's Equity**	
		Justin Berk, capital	840,000
		Total liabilities and	
Total assets	$1,150,000	owner's equity	$1,150,000

EBONY INTERIORS Balance Sheet March 31, 2016			
Assets		**Liabilities**	
Cash	$ 380,000	Accounts payable	$ 400,000
Accounts receivable	960,000		
Supplies	35,000	**Owner's Equity**	
		Justin Berk, capital	975,000
		Total liabilities and	
Total assets	$1,375,000	owner's equity	$1,375,000

b.	Owner's equity, March 31	$975,000
	Owner's equity, February 29	840,000
	Net income	$135,000
c.	Owner's equity, March 31	$975,000
	Owner's equity, February 29	840,000
	Increase in owner's equity	$135,000
	Add withdrawal	50,000
	Net income	$185,000

Ex. 1–22

a. **Balance sheet: 1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 13**
Income statement: 5, 12, 14, 15

b. **Yes, an item can appear on more than one financial statement. For example, cash appears on both the balance sheet and statement of cash flows. However, the same item cannot appear on both the income statement and balance sheet.**

c. **Yes, the accounting equation is relevant to all companies, including Exxon Mobil Corporation.**

Ex. 1–23

1. **(a) operating activity**
2. **(a) operating activity**
3. **(b) investing activity**
4. **(c) financing activity**

Ex. 1–24

ETHOS CONSULTING GROUP **Statement of Cash Flows** **For the Year Ended May 31, 2016**		
Cash flows from operating activities:		
Cash received from customers	$637,500	
Deduct cash payments for operating expenses	475,000	
Net cash flows from operating activities		$162,500
Cash flows used for investing activities:		
Cash payments for purchase of land		(90,000)
Cash flows from financing activities:		
Cash received from owner as investment	$ 62,500	
Deduct cash withdrawals by owner	17,500	
Net cash flows from financing activities		45,000
Net decrease in cash during year		$117,500
Cash as of June 1, 2015		58,000
Cash as of May 31, 2016		$175,500

Ex. 1–25

1. **All financial statements should contain the name of the business in their heading. The statement of owner's equity is incorrectly headed as "Omar Farah" rather than We-Sell Realty. The heading of the balance sheet needs the name of the business.**
2. **The income statement and statement of owner's equity cover a period of time and should be labeled "For the Month Ended August 31, 2016."**
3. **The year in the heading for the statement of owner's equity should be 2016 rather than 2015.**
4. **The balance sheet should be labeled "August 31, 2016," rather than "For the Month Ended August 31, 2016."**
5. **In the income statement, the miscellaneous expense amount should be listed as the last expense.**
6. **In the income statement, the total expenses are incorrectly subtracted from the sales commissions, resulting in an incorrect net income amount. The correct net income should be $24,150. This also affects the statement of owner's equity and the amount of Omar Farah, Capital, that appears on the balance sheet.**
7. **In the statement of owner's equity, the additional investment should be added first to Omar Farah, capital, as of August 1, 2016. The net income should be presented next, followed by the amount of withdrawals, which is subtracted from the net income to yield a net increase in owner's equity.**
8. **Accounts payable should be listed as a liability on the balance sheet.**
9. **Accounts receivable and supplies should be listed as assets on the balance sheet.**
10. **The balance sheet assets should equal the sum of the liabilities and owner's equity.**

Ex. 1–25 (Concluded)

Corrected financial statements appear as follows:

WE-SELL REALTY Income Statement For the Month Ended August 31, 2016		
Sales commissions		$140,000
Expenses:		
Office salaries expense	$87,000	
Rent expense	18,000	
Automobile expense	7,500	
Supplies expense	1,150	
Miscellaneous expense	2,200	
Total expenses		115,850
Net income		$ 24,150

WE-SELL REALTY Statement of Owner's Equity For the Month Ended August 31, 2016		
Omar Farah, capital, August 1, 2016		$ 0
Investment on August 1, 2016	$15,000	
Net income for August	24,150	
	$39,150	
Less withdrawals during August	10,000	
Increase in owner's equity		29,150
Omar Farah, capital, August 31, 2016		$29,150

WE-SELL REALTY Balance Sheet August 31, 2016			
Assets		Liabilities	
Cash	$ 8,900	Accounts payable	$22,350
Accounts receivable	38,600		
Supplies	4,000	Owner's Equity	
		Omar Farah, capital	29,150
		Total liabilities and	
Total assets	$51,500	owner's equity	$51,500

Ex. 1–26

a. **Year 2: $17,898 ($40,518 – $22,620)**
Year 1: $18,889 ($40,125 – $21,236)

b. **Year 2: 0.79 ($17,898 ÷ $22,620)**
Year 1: 0.89 ($18,889 ÷ $21,236)

c. **The ratio of liabilities to stockholders' equity decreased from 0.89 to 0.79 indicating a slight decrease in risk for creditors from Year 1 to Year 2.**

Ex. 1–27

a. **Year 2: $16,533 ($33,559 – $17,026)**
Year 1: $18,112 ($33,699 – $15,587)

b. **Year 2: 1.03 ($17,026 ÷ $16,533)**
Year 1: 0.86 ($15,587 ÷ $18,112)

c. **The risk for creditors has increased from 0.86 in Year 1 to 1.03 in Year 2.**

d. **Lowe's ratio of liabilities to stockholders' equity is more than 1 in Year 2 (1.03) and less than 1 in Year 1 (0.86). In comparison, The Home Depot's ratio of liabilities to stockholders' equity is less than 1 for both years. Thus, the risk to creditors of Lowe's is slightly more than The Home Depot.**

PROBLEMS

Prob. 1–1A

1.

	Assets			= Liabilities +	Owner's Equity							
	Cash	+ Accts. Rec.	+ Supplies	= Accts. Payable	+ Andrea Byrd, Capital	– Andrea Byrd, Drawing	+ Fees Earned	– Rent Expense	– Salaries Expense	– Supplies Expense	– Auto Exp.	– Misc. Exp.
(a)	+ 45,000				+ 45,000							
(b)			+ 2,000	+ 2,000								
Bal.	45,000		2,000	2,000	45,000							
(c)	+ 8,500						+ 8,500					
Bal.	53,500		2,000	2,000	45,000		8,500					
(d)	– 5,000							– 5,000				
Bal.	48,500		2,000	2,000	45,000		8,500	– 5,000				
(e)	– 1,375			– 1,375								
Bal.	47,125		2,000	625	45,000		8,500	– 5,000				
(f)		+ 11,250					+ 11,250					
Bal.	47,125	11,250	2,000	625	45,000		19,750	– 5,000				
(g)	– 1,740										– 840	– 900
Bal.	45,385	11,250	2,000	625	45,000		19,750	– 5,000			– 840	– 900
(h)	– 3,600								– 3,600			
Bal.	41,785	11,250	2,000	625	45,000		19,750	– 5,000	– 3,600		– 840	– 900
(i)			– 1,450							– 1,450		
Bal.	41,785	11,250	550	625	45,000		19,750	– 5,000	– 3,600	– 1,450	– 840	– 900
(j)	– 2,000					– 2,000						
Bal.	39,785	11,250	550	625	45,000	– 2,000	19,750	– 5,000	– 3,600	– 1,450	– 840	– 900

2. Owner's equity is the right of owners to the assets of the business. These rights are increased by owner's investments and revenues and decreased by owner's withdrawals and expenses.

3. $7,960 ($19,750 – $5,000 – $3,600 – $1,450 – $840 – $900)

4. April's transactions increased Andrea Byrd's capital to $50,960 ($45,000 + $7,960 – $2,000), which is the initial capital investment of $45,000 plus April's net income of $7,960 less Andrea Byrd's withdrawals of $2,000.

Prob. 1–2A

1.

NORDIC TRAVEL AGENCY Income Statement For the Year Ended December 31, 2016		
Fees earned		$912,500
Expenses:		
Wages expense	$510,000	
Rent expense	36,000	
Utilities expense	28,500	
Supplies expense	4,100	
Miscellaneous expense	6,400	
Total expenses		585,000
Net income		$327,500

2.

NORDIC TRAVEL AGENCY Statement of Owner's Equity For the Year Ended December 31, 2016		
Ian Eisele, capital, January 1, 2016		$670,000
Net income for the year	$327,500	
Less withdrawals	42,000	
Increase in owner's equity		285,500
Ian Eisele , capital, December 31, 2016		$955,500

3.

NORDIC TRAVEL AGENCY Balance Sheet December 31, 2016			
Assets		Liabilities	
Cash	$ 190,500	Accounts payable	$ 69,500
Accounts receivable	285,000		
Supplies	5,500		
Land	544,000	Owner's Equity	
		Ian Eisele, capital	955,500
		Total liabilities and	
Total assets	$1,025,000	owner's equity	$1,025,000

4. Ian Eisele, Capital of $955,500

Prob. 1–3A

1.

RELIANCE FINANCIAL SERVICES Income Statement For the Month Ended July 31, 2016		
Fees earned		$144,500
Expenses:		
Salaries expense	$55,000	
Rent expense	33,000	
Auto expense	16,000	
Supplies expense	4,500	
Miscellaneous expense	4,800	
Total expenses		113,300
Net income		$ 31,200

2.

RELIANCE FINANCIAL SERVICES Statement of Owner's Equity For the Month Ended July 31, 2016		
Seth Feye, capital, July 1, 2016		$ 0
Investment on July 1, 2016	$50,000	
Net income for July	31,200	
	$81,200	
Less withdrawals	15,000	
Increase in owner's equity		66,200
Seth Feye, capital, July 31, 2016		$66,200

3.

RELIANCE FINANCIAL SERVICES Balance Sheet July 31, 2016			
Assets		Liabilities	
Cash	$32,600	Accounts payable	$ 3,400
Accounts receivable	34,500		
Supplies	2,500	Owner's Equity	
		Seth Feye, capital	66,200
		Total liabilities and	
Total assets	$69,600	owner's equity	$69,600

Prob. 1–3A (Concluded)

4. (Optional)

RELIANCE FINANCIAL SERVICES Statement of Cash Flows For the Month Ended July 31, 2016		
Cash flows from operating activities:		
Cash received from customers	$110,000	
Deduct cash payments for expenses		
and payments to creditors*	112,400	
Net cash flows used for operating activities		$ (2,400)
Cash flows from investing activities		0
Cash flows from financing activities:		
Cash received as owner's investment	$ 50,000	
Deduct cash withdrawal by owner	15,000	
Net cash flows from financing activities		35,000
Net increase in cash and July 31, 2016, cash balance		$32,600

* $3,600 + $33,000 + $20,800 + $55,000; these amounts are taken from the cash column shown in the problem.

Prob. 1–4A

1.

	Assets		= Liabilities +	Owner's Equity							
	Cash +	Supplies =	Accts. Payable +	Pat Glenn, Capital –	Pat Glenn, Drawing +	Sales Comm. –	Salaries Exp. –	Rent Exp. –	Auto Exp. –	Supplies Exp. –	Misc. Exp.
(a)	+ 25,000			+ 25,000							
(b)		+ 1,850	+ 1,850								
Bal.	25,000	1,850	1,850	25,000							
(c)	– 1,200		– 1,200								
Bal.	23,800	1,850	650	25,000							
(d)	+ 41,500					+ 41,500					
Bal.	65,300	1,850	650	25,000		41,500					
(e)	– 3,600							– 3,600			
Bal.	61,700	1,850	650	25,000		41,500		– 3,600			
(f)	– 4,000				– 4,000						
Bal.	57,700	1,850	650	25,000	– 4,000	41,500		– 3,600			
(g)	– 4,650								– 3,050		– 1,600
Bal.	53,050	1,850	650	25,000	– 4,000	41,500		– 3,600	– 3,050		– 1,600
(h)	– 5,000						– 5,000				
Bal.	48,050	1,850	650	25,000	– 4,000	41,500	– 5,000	– 3,600	– 3,050		– 1,600
(i)		– 900								– 900	
Bal.	48,050	950	650	25,000	– 4,000	41,500	– 5,000	– 3,600	– 3,050	– 900	– 1,600

Prob. 1–4A (Concluded)

2.

HALF MOON REALTY Income Statement For the Month Ended July 31, 2016		
Sales commissions		$41,500
Expenses:		
Salaries expense	$5,000	
Rent expense	3,600	
Automobile expense	3,050	
Supplies expense	900	
Miscellaneous expense	1,600	
Total expenses		14,150
Net income		$27,350

HALF MOON REALTY Statement of Owner's Equity For the Month Ended July 31, 2016		
Pat Glenn, capital, July 1, 2016		$ 0
Investment on July 1, 2016	$25,000	
Net income for July	27,350	
	$52,350	
Less withdrawals	4,000	
Increase in owner's equity		48,350
Pat Glenn, capital, July 31, 2016		$48,350

HALF MOON REALTY Balance Sheet July 31, 2016			
Assets		Liabilities	
Cash	$48,050	Accounts payable	$ 650
Supplies	950		
		Owner's Equity	
		Pat Glenn, capital	48,350
		Total liabilities and	
Total assets	$49,000	owner's equity	$49,000

Prob. 1–5A

1.

Assets							=	Liabilities	+	Owner's Equity
Cash	+	Accounts Receivable	+	Supplies	+	Land	=	Accounts Payable	+	Joel Palk, Capital
$45,000	+	$93,000	+	$7,000	+	$75,000	=	$40,000	+	Joel Palk, Capital
						$220,000	=	$40,000	+	Joel Palk, Capital
						$180,000	=	Joel Palk, Capital		

Prob. 1–5A (Continued)

2.

	Assets				= Liabilities +	Owner's Equity	
	Cash +	Accts. Rec. +	Supplies +	Land =	Accts. Payable +	Joel Palk, Capital –	Joel Palk, Drawing
Bal.	45,000	93,000	7,000	75,000	40,000	180,000	
(a)	+ 35,000					+ 35,000	
Bal.	80,000	93,000	7,000	75,000	40,000	215,000	
(b)	– 50,000			+ 50,000			
Bal.	30,000	93,000	7,000	125,000	40,000	215,000	
(c)	+ 32,125						
Bal.	62,125	93,000	7,000	125,000	40,000	215,000	
(d)	– 6,000						
Bal.	56,125	93,000	7,000	125,000	40,000	215,000	
(e)			+ 2,500		+ 2,500		
Bal.	56,125	93,000	9,500	125,000	42,500	215,000	
(f)	– 22,800				– 22,800		
Bal.	33,325	93,000	9,500	125,000	19,700	215,000	
(g)		+ 84,750					
Bal.	33,325	177,750	9,500	125,000	19,700	215,000	
(h)					+ 29,500		
Bal.	33,325	177,750	9,500	125,000	49,200	215,000	
(i)	– 14,000						
Bal.	19,325	177,750	9,500	125,000	49,200	215,000	
(j)	+ 88,000	– 88,000					
Bal.	107,325	89,750	9,500	125,000	49,200	215,000	
(k)			– 3,600				
Bal.	107,325	89,750	5,900	125,000	49,200	215,000	
(l)	– 12,000						– 12,000
Bal.	95,325	89,750	5,900	125,000	49,200	215,000	– 12,000

Prob. 1–5A (Continued)

Owner's Equity (Continued)

	+ Dry Cleaning Revenue	– Dry Cleaning Exp.	– Wages Exp.	– Rent Exp.	– Supplies Exp.	– Truck Exp.	– Utilities Exp.	– Misc. Exp.
Bal.								
(a)								
Bal.								
(b)								
Bal.								
(c)	+ 32,125							
Bal.	32,125							
(d)				– 6,000				
Bal.	32,125			– 6,000				
(e)								
Bal.	32,125			– 6,000				
(f)								
Bal.	32,125			– 6,000				
(g)	+ 84,750							
Bal.	116,875			– 6,000				
(h)		– 29,500						
Bal.	116,875	– 29,500		– 6,000				
(i)			– 7,500			– 2,500	– 1,300	– 2,700
Bal.	116,875	– 29,500	– 7,500	– 6,000		– 2,500	– 1,300	– 2,700
(j)								
Bal.	116,875	– 29,500	– 7,500	– 6,000		– 2,500	– 1,300	– 2,700
(k)					– 3,600			
Bal.	116,875	– 29,500	– 7,500	– 6,000	– 3,600	– 2,500	– 1,300	– 2,700
(l)								
Bal.	116,875	– 29,500	– 7,500	– 6,000	– 3,600	– 2,500	– 1,300	– 2,700

Prob. 1–5A (Continued)

3.

D'LITE DRY CLEANERS Income Statement For the Month Ended July 31, 2016		
Dry cleaning revenue		$116,875
Expenses:		
Dry cleaning expense	$29,500	
Wages expense	7,500	
Rent expense	6,000	
Supplies expense	3,600	
Truck expense	2,500	
Utilities expense	1,300	
Miscellaneous expense	2,700	
Total expenses		53,100
Net income		$ 63,775

D'LITE DRY CLEANERS Statement of Owner's Equity For the Month Ended July 31, 2016		
Joel Palk, capital, July 1, 2016		$180,000
Additional investment during July	$35,000	
Net income for July	63,775	
	$98,775	
Less withdrawals	12,000	
Increase in owner's equity		86,775
Joel Palk, capital, July 31, 2016		$266,775

D'LITE DRY CLEANERS Balance Sheet July 31, 2016			
Assets		**Liabilities**	
Cash	$ 95,325	Accounts payable	$ 49,200
Accounts receivable	89,750		
Supplies	5,900	**Owner's Equity**	
Land	125,000	Joel Palk, capital	266,775
		Total liabilities and	
Total assets	$315,975	owner's equity	$315,975

Prob. 1–5A (Concluded)

4. (Optional)

D'LITE DRY CLEANERS
Statement of Cash Flows
For the Month Ended July 31, 2016

Cash flows from operating activities:		
Cash received from customers*	$120,125	
Deduct cash payments for expenses		
and payments to creditors**	42,800	
Net cash flows from operating activities		$ 77,325
Cash flows used for investing activities:		
Purchase of land		(50,000)
Cash flows from financing activities:		
Cash received as owner's investment	$ 35,000	
Deduct cash withdrawal by owner	12,000	
Net cash flows from financing activities		23,000
Net Increase in cash during July		$ 50,325
Cash balance, July 1, 2016		45,000
Cash balance, July 31, 2016		$ 95,325

* $32,125 + $88,000; These amounts are taken from the cash column of the spreadsheet in Part 2.

** $6,000 + $22,800 + $14,000; These amounts are taken from the cash column of the spreadsheet in Part 2.

Prob. 1–6A

a. **Fees earned, $750,000 ($275,000 + $475,000)**

b. **Supplies expense, $30,000 ($475,000 – $300,000 – $100,000 – $20,000 – $25,000)**

c. **Dakota Rowe, capital, April 1, 2016, $0; Wolverine Realty was organized on April 1, 2016.**

d. **Net income for April, $275,000 from income statement**

e. **$650,000 ($375,000 + $275,000)**

f. **Increase in owner's equity, $525,000 ($650,000 – $125,000)**

g. **Dakota Rowe, capital, April 30, 2014, $525,000**

h. **Total assets, $625,000 ($462,500 + $12,500 + $150,000)**

i. **Dakota Rowe, capital, $525,000 ($625,000 – $100,000); same as (g)**

j. **Total liabilities and owner's equity, $625,000 ($100,000 + $525,000)**

k. **Cash received from customers, $750,000 ($387,500 + $362,500); this is the same as fees earned (a) since there are no accounts receivable.**

l. **Net cash flows from operating activities, $362,500 ($750,000 – $387,500)**

m. **Cash payments for acquisition of land, ($150,000)**

n. **Cash received as owner's investment, $375,000**

o. **Cash withdrawal by owner, ($125,000)**

p. **Net cash flows from financing activities, $250,000 ($375,000 – $125,000)**

q. **Net cash flow and April 30, 2016, cash balance, $462,500 ($362,500 – $150,000 + $250,000); also the cash balance on the balance sheet.**

Prob. 1–1B

1.

	Assets			= Liabilities +	Owner's Equity							
	Cash	+ Accts. Rec.	+ Supplies	= Accts. Payable	+ Amy Austin, Capital	– Amy Austin, Drawing	+ Fees Earned	– Rent Expense	– Salaries Expense	– Supplies Expense	– Auto Exp.	– Misc. Exp.
(a)	+ 50,000				+ 50,000							
(b)			+ 4,000	+ 4,000								
Bal.	50,000		4,000	4,000	50,000							
(c)	– 2,300			– 2,300								
Bal.	47,700		4,000	1,700	50,000							
(d)	+ 13,800						+ 13,800					
Bal.	61,500		4,000	1,700	50,000		13,800					
(e)	– 5,000							– 5,000				
Bal.	56,500		4,000	1,700	50,000		13,800	– 5,000				
(f)	– 1,450										– 1,150	– 300
Bal.	55,050		4,000	1,700	50,000		13,800	– 5,000			– 1,150	– 300
(g)	– 2,500								– 2,500			
Bal.	52,550		4,000	1,700	50,000		13,800	– 5,000	– 2,500		– 1,150	– 300
(h)			– 1,300							– 1,300		
Bal.	52,550		2,700	1,700	50,000		13,800	– 5,000	– 2,500	– 1,300	– 1,150	– 300
(i)		+ 12,500					+ 12,500					
Bal.	52,550	12,500	2,700	1,700	50,000		26,300	– 5,000	– 2,500	– 1,300	– 1,150	– 300
(j)	– 3,900					– 3,900						
Bal.	48,650	12,500	2,700	1,700	50,000	– 3,900	26,300	– 5,000	– 2,500	– 1,300	– 1,150	– 300

2. Owner's equity is the right of owners to the assets of the business. These rights are increased by owner's investments and revenues and decreased by owner's withdrawals and expenses.

3. $16,050 ($26,300 – $5,000 – $2,500 – $1,300 – $1,150 – $300)

4. March's transactions increased Amy Austin's capital to $62,150 ($50,000 + $16,050 – $3,900), which is the initial investment of $50,000 plus the excess of March's net income of $16,050 over Amy Austin's withdrawals of $3,900.

Prob. 1–2B

1.

WILDERNESS TRAVEL SERVICE Income Statement For the Year Ended April 30, 2016		
Fees earned		$875,000
Expenses:		
Wages expense	$525,000	
Rent expense	75,000	
Utilities expense	38,000	
Supplies expense	12,000	
Taxes expense	10,000	
Miscellaneous expense	15,000	
Total expenses		675,000
Net income		$200,000

2.

WILDERNESS TRAVEL SERVICE Statement of Owner's Equity For the Year Ended April 30, 2016		
Harper Borg, capital, May 1, 2015		$180,000
Net income for the year	$200,000	
Less withdrawals	40,000	
Increase in owner's equity		160,000
Harper Borg, capital, April 30, 2016		$340,000

3.

WILDERNESS TRAVEL SERVICE Balance Sheet April 30, 2016			
Assets		Liabilities	
Cash	$146,000	Accounts payable	$ 25,000
Accounts receivable	210,000		
Supplies	9,000	Owner's Equity	
		Harper Borg, capital	340,000
		Total liabilities and	
Total assets	$365,000	owner's equity	$365,000

4. Net income of $200,000

Prob. 1–3B

1.

BRONCO CONSULTING Income Statement For the Month Ended August 31, 2016		
Fees earned		$125,000
Expenses:		
Salaries expense	$58,000	
Rent expense	27,000	
Auto expense	15,500	
Supplies expense	6,100	
Miscellaneous expense	7,500	
Total expenses		114,100
Net income		$ 10,900

2.

BRONCO CONSULTING Statement of Owner's Equity For the Month Ended August 31, 2016		
Jose Loder, capital, August 1, 2016		$ 0
Investment on August 1, 2016	$75,000	
Net income for August	10,900	
	$85,900	
Less withdrawals	15,000	
Increase in owner's equity		70,900
Jose Loder, capital, August 31, 2016		$70,900

3.

BRONCO CONSULTING Balance Sheet August 31, 2016			
Assets		Liabilities	
Cash	$38,000	Accounts payable	$ 3,000
Accounts receivable	33,000		
Supplies	2,900	Owner's Equity	
		Jose Loder, capital	70,900
		Total liabilities and	
Total assets	$73,900	owner's equity	$73,900

Prob. 1–3B (Concluded)

4. (Optional)

BRONCO CONSULTING
Statement of Cash Flows
For the Month Ended August 31, 2016

Cash flows from operating activities:		
Cash received from customers	$ 92,000	
Deduct cash payments for expenses		
and payments to creditors*	114,000	
Net cash flows used for operating activities		$(22,000)
Cash flows from investing activities		0
Cash flows from financing activities:		
Cash received as owner's investment	$ 75,000	
Deduct cash withdrawal by owner	15,000	
Net cash flows from financing activities		60,000
Net increase in cash and August 31, 2014, cash balance		$ 38,000

* $27,000 + $6,000 + $23,000 + $58,000; These amounts are taken from the cash column shown in the problem.

Prob. 1–4B

1.

	Assets		= Liabilities +	Owner's Equity							
	Cash	+ Supplies	= Accts. Payable	+ Maria Adams, Capital	– Maria Adams, Drawing	+ Sales Comm.	– Rent Exp.	– Salaries Exp.	– Auto Exp.	– Supplies Exp.	– Misc. Exp.
(a)	+ 24,000			+ 24,000							
(b)	– 3,600						– 3,600				
Bal.	20,400			24,000			– 3,600				
(c)	– 1,950								– 1,350		– 600
Bal.	18,450			24,000			– 3,600		– 1,350		– 600
(d)		+ 1,200	+ 1,200								
Bal.	18,450	1,200	1,200	24,000			– 3,600		– 1,350		– 600
(e)	+ 19,800					+ 19,800					
Bal.	38,250	1,200	1,200	24,000		19,800	– 3,600		– 1,350		– 600
(f)	– 750		– 750								
Bal.	37,500	1,200	450	24,000		19,800	– 3,600		– 1,350		– 600
(g)	– 2,500							– 2,500			
Bal.	35,000	1,200	450	24,000		19,800	– 3,600	– 2,500	– 1,350		– 600
(h)	– 3,500				– 3,500						
Bal.	31,500	1,200	450	24,000	– 3,500	19,800	– 3,600	– 2,500	– 1,350		– 600
(i)		– 900								– 900	
Bal.	31,500	300	450	24,000	– 3,500	19,800	– 3,600	– 2,500	– 1,350	– 900	– 600

Prob. 1–4B (Concluded)

2.

CUSTOM REALTY Income Statement For the Month Ended April 30, 2016		
Sales commissions		$19,800
Expenses:		
Rent expense	$3,600	
Salaries expense	2,500	
Automobile expense	1,350	
Supplies expense	900	
Miscellaneous expense	600	
Total expenses		8,950
Net income		$10,850

CUSTOM REALTY Statement of Owner's Equity For the Month Ended April 30, 2016		
Maria Adams, capital, April 1, 2016		$ 0
Investment on April 1, 2016	$24,000	
Net income for April	10,850	
	$34,850	
Less withdrawals	3,500	
Increase in owner's equity		31,350
Maria Adams, capital, April 30, 2016		$31,350

CUSTOM REALTY Balance Sheet April 30, 2016			
Assets		Liabilities	
Cash	$31,500	Accounts payable	$ 450
Supplies	300		
		Owner's Equity	
		Maria Adams, capital	31,350
		Total liabilities and	
Total assets	$31,800	owner's equity	$31,800

Prob. 1–5B

1.

Assets							=	Liabilities	+	Owner's Equity
Cash	+	Accounts Receivable	+	Supplies	+	Land	=	Accounts Payable	+	Beverly Zahn, Capital
$39,000	+	$80,000	+	$11,000	+	$50,000	=	$31,500	+	Beverly Zahn, Capital
						$180,000	=	$31,500	+	Beverly Zahn, Capital
						$148,500	=	Beverly Zahn, Capital		

Prob. 1–5B (Continued)

2.

	Assets				= Liabilities +	Owner's Equity	
	Cash +	Accts. Rec. +	Supplies +	Land =	Accts. Payable +	Beverly Zahn, Capital –	Beverly Zahn, Drawing
Bal.	39,000	80,000	11,000	50,000	31,500	148,500	
(a)	+ 21,000					+ 21,000	
Bal.	60,000	80,000	11,000	50,000	31,500	169,500	
(b)	– 35,000			+ 35,000			
Bal.	25,000	80,000	11,000	85,000	31,500	169,500	
(c)	– 4,000						
Bal.	21,000	80,000	11,000	85,000	31,500	169,500	
(d)		+ 72,000					
Bal.	21,000	152,000	11,000	85,000	31,500	169,500	
(e)	– 20,000				– 20,000		
Bal.	1,000	152,000	11,000	85,000	11,500	169,500	
(f)			+ 8,000		+ 8,000		
Bal.	1,000	152,000	19,000	85,000	19,500	169,500	
(g)	+ 38,000						
Bal.	39,000	152,000	19,000	85,000	19,500	169,500	
(h)	+ 77,000	– 77,000					
Bal.	116,000	75,000	19,000	85,000	19,500	169,500	
(i)					+ 29,450		
Bal.	116,000	75,000	19,000	85,000	48,950	169,500	
(j)	– 29,200						
Bal.	86,800	75,000	19,000	85,000	48,950	169,500	
(k)			– 7,200				
Bal.	86,800	75,000	11,800	85,000	48,950	169,500	
(l)	– 5,000						– 5,000
Bal.	81,800	75,000	11,800	85,000	48,950	169,500	– 5,000

Prob. 1–5B (Continued)

Owner's Equity (Continued)

	+ Dry Cleaning Revenue	– Dry Cleaning Exp.	– Wages Exp.	– Supplies Exp.	– Rent Exp.	– Truck Exp.	– Utilities Exp.	– Misc. Exp.
Bal.								
(a)								
Bal.								
(b)								
Bal.								
(c)					– 4,000			
Bal.					– 4,000			
(d)	+ 72,000							
Bal.	72,000				– 4,000			
(e)								
Bal.	72,000				– 4,000			
(f)								
Bal.	72,000				– 4,000			
(g)	+ 38,000							
Bal.	110,000				– 4,000			
(h)								
Bal.	110,000				– 4,000			
(i)		– 29,450						
Bal.	110,000	– 29,450			– 4,000			
(j)			– 24,000			– 2,100	– 1,800	– 1,300
Bal.	110,000	– 29,450	– 24,000		– 4,000	– 2,100	– 1,800	– 1,300
(k)				– 7,200				
Bal.	110,000	– 29,450	– 24,000	– 7,200	– 4,000	– 2,100	– 1,800	– 1,300
(l)								
Bal.	110,000	– 29,450	– 24,000	– 7,200	– 4,000	– 2,100	– 1,800	– 1,300

Prob. 1–5B (Continued)

3.

BEV'S DRY CLEANERS Income Statement For the Month Ended November 30, 2016		
Dry cleaning revenue		$110,000
Expenses:		
Dry cleaning expense	$29,450	
Wages expense	24,000	
Supplies expense	7,200	
Rent expense	4,000	
Truck expense	2,100	
Utilities expense	1,800	
Miscellaneous expense	1,300	
Total expenses		69,850
Net income		$ 40,150

BEV'S DRY CLEANERS Statement of Owner's Equity For the Month Ended November 30, 2016		
Beverly Zahn, capital, November 1, 2016		$148,500
Additional investment during November	$21,000	
Net income for November	40,150	
	$61,150	
Less withdrawals	5,000	
Increase in owner's equity		56,150
Beverly Zahn, capital, November 30, 2016		$204,650

BEV'S DRY CLEANERS Balance Sheet November 30, 2016			
Assets		Liabilities	
Cash	$ 81,800	Accounts payable	$ 48,950
Accounts receivable	75,000		
Supplies	11,800	Owner's Equity	
Land	85,000	Beverly Zahn, capital	204,650
		Total liabilities and	
Total assets	$253,600	owner's equity	$253,600

Prob. 1–5B (Concluded)

4. (Optional)

BEV'S DRY CLEANERS Statement of Cash Flows For the Month Ended Novemer 30, 2016		
Cash flows from operating activities:		
Cash received from customers*	$115,000	
Deduct cash payments for expenses		
and payments to creditors**	53,200	
Net cash flows from operating activities		$ 61,800
Cash flows used for investing activities:		
Purchase of land		(35,000)
Cash flows from financing activities:		
Cash received as owner's investment	$ 21,000	
Deduct cash withdrawal by owner	5,000	
Net cash flows from financing activities		16,000
Net increase in cash during November		$ 42,800
Cash balance, November 1, 2016		39,000
Cash balance, November 30, 2016		$ 81,800

* $38,000 + $77,000; these amounts are taken from the cash column of the spreadsheet in Part 2.

** $4,000 + $20,000 + $29,200; these amounts are taken from the cash column of the spreadsheet in Part 2.

Prob. 1–6B

a. **Wages expense, $203,200 ($288,000 – $48,000 – $17,600 – $14,400 – $4,800)**

b. **Net income, $112,000 ($400,000 – $288,000)**

c. **LuAnn Martin, capital, May 1, 2016, $0; Atlas Realty was organized on May 1, 2016.**

d. **Investment on May 1, 2016, $160,000; from statement of cash flows.**

e. **Net income for May, $112,000; from (b)**

f. **$272,000 ($160,000 + $112,000)**

g. **Withdrawals, $64,000; from statement of cash flows.**

h. **Increase in owner's equity, $208,000 ($272,000 – $64,000)**

i. **LuAnn Martin, capital, May 31, 2016, $208,000**

j. **Land, $120,000; from statement of cash flows.**

k. **Total assets, $256,000 ($123,200 + $12,800 + $120,000)**

l. **LuAnn Martin, capital, $208,000**

m. **Total liabilities and owner's equity, $256,000 ($48,000 + $208,000)**

n. **Cash received from customers, $400,000; this is the same as fees earned since there are no accounts receivable.**

o. **Net cash flows from operating activities, $147,200 ($400,000 – $252,800)**

p. **Net cash flows from financing activities, $96,000 ($160,000 – $64,000)**

q. **Net cash flows and May 31, 2016, cash balance, $123,200 ($147,200 – $120,000 + $96,000); also, the cash balance on the balance sheet.**

CONTINUING PROBLEM

1.

	Assets			= Liabilities +	Owner's Equity		
	Cash +	Accts. Rec. +	Supplies =	Accts. Payable +	Peyton Smith, Capital –	Peyton Smith, Drawing +	Fees Earned
June 1	+ 4,000				+ 4,000		
June 2	+ 3,500						+ 3,500
Bal.	7,500				4,000		3,500
June 2	– 800						
Bal.	6,700				4,000		3,500
June 4			+ 350	+ 350			
Bal.	6,700		350	350	4,000		3,500
June 6	– 500						
Bal.	6,200		350	350	4,000		3,500
June 8	– 675						
Bal.	5,525		350	350	4,000		3,500
June 12	– 350						
Bal.	5,175		350	350	4,000		3,500
June 13	– 100			– 100			
Bal.	5,075		350	250	4,000		3,500
June 16	+ 300						+ 300
Bal.	5,375		350	250	4,000		3,800
June 22		+ 1,000					+ 1,000
Bal.	5,375	1,000	350	250	4,000		4,800
June 25	+ 500						+ 500
Bal.	5,875	1,000	350	250	4,000		5,300
June 29	– 240						
Bal.	5,635	1,000	350	250	4,000		5,300
June 30	+ 900						+ 900
Bal.	6,535	1,000	350	250	4,000		6,200
June 30	– 400						
Bal.	6,135	1,000	350	250	4,000		6,200
June 30	– 300						
Bal.	5,835	1,000	350	250	4,000		6,200
June 30			– 180				
Bal.	5,835	1,000	170	250	4,000		6,200
June 30	– 415						
Bal.	5,420	1,000	170	250	4,000		6,200
June 30	– 1,000						
Bal.	4,420	1,000	170	250	4,000		6,200
June 30	– 500					– 500	
Bal.	3,920	1,000	170	250	4,000	– 500	6,200

Continuing Problem (Continued)

Owner's Equity (Continued)

		– Music Exp.	– Office Rent Exp.	– Equip. Rent Exp.	– Advertising Exp.	– Wages Exp.	– Utilities Exp.	– Supplies Exp.	– Misc. Exp.
June	1								
June	2								
Bal.									
June	2		– 800						
Bal.			– 800						
June	4								
Bal.			– 800						
June	6				– 500				
Bal.			– 800		– 500				
June	8			– 675					
Bal.			– 800	– 675	– 500				
June	12	– 350							
Bal.		– 350	– 800	– 675	– 500				
June	13								
Bal.		– 350	– 800	– 675	– 500				
June	16								
Bal.		– 350	– 800	– 675	– 500				
June	22								
Bal.		– 350	– 800	– 675	– 500				
June	25								
Bal.		– 350	– 800	– 675	– 500				
June	29	– 240							
Bal.		– 590	– 800	– 675	– 500				
June	30								
Bal.		– 590	– 800	– 675	– 500				
June	30					– 400			
Bal.		– 590	– 800	– 675	– 500	– 400			
June	30						– 300		
Bal.		– 590	– 800	– 675	– 500	– 400	– 300		
June	30							– 180	
Bal.		– 590	– 800	– 675	– 500	– 400	– 300	– 180	
June	30								– 415
Bal.		– 590	– 800	– 675	– 500	– 400	– 300	– 180	– 415
June	30	– 1,000							
Bal.		– 1,590	– 800	– 675	– 500	– 400	– 300	– 180	– 415
June	30								
Bal.		– 1,590	– 800	– 675	– 500	– 400	– 300	– 180	– 415

Continuing Problem (Concluded)

2.

PS MUSIC Income Statement For the Month Ended June 30, 2016		
Fees earned:		$6,200
Expenses:		
Music expense	$1,590	
Office rent expense	800	
Equipment rent expense	675	
Advertising expense	500	
Wages expense	400	
Utilities expense	300	
Supplies expense	180	
Miscellaneous expense	415	
Total expenses		4,860
Net income		$1,340

3.

PS MUSIC Statement of Owner's Equity For the Month Ended June 30, 2016		
Peyton Smith, capital, June 1, 2016		$ 0
Investment on June 1, 2016	$4,000	
Net income for June	1,340	
	$5,340	
Less withdrawals	500	
Increase in owner's equity		4,840
Peyton Smith, capital, June 30, 2016		$4,840

4.

PS MUSIC Balance Sheet June 30, 2016			
Assets		Liabilities	
Cash	$3,920	Accounts payable	$ 250
Accounts receivable	1,000		
Supplies	170	Owner's Equity	
		Peyton Smith, capital	4,840
		Total liabilities and	
Total assets	$5,090	owner's equity	$5,090

CASES & PROJECTS

CP 1–1

1. **Acceptable professional conduct requires that Colleen Fernandez supply First Federal Bank with all the relevant financial statements necessary for the bank to make an informed decision. Therefore, Colleen should provide the complete set of financial statements. These can be supplemented with a discussion of the net loss in the past year or other data explaining why granting the loan is a good investment for the bank.**

2. a. **Owners are generally willing to provide bankers with information about the operating and financial condition of the business, such as the following:**
   - **Operating Information:**
     - **Description of business operations**
     - **Results of past operations**
     - **Preliminary results of current operations**
     - **Plans for future operations**
   - **Financial Condition:**
     - **List of assets and liabilities (balance sheet)**
     - **Estimated current values of assets**
     - **Owner's personal investment in the business**
     - **Owner's commitment to invest additional funds in the business**

   Owners are normally reluctant to provide the following types of information to bankers:
   - ***Proprietary Operating Information.*** **Such information, which might hurt the business if it becomes known by competitors, might include special processes used by the business or future plans to expand operations into areas that are not currently served by a competitor.**
   - ***Personal Financial Information.*** **Owners may have little choice here because banks often require owners of small businesses to pledge their personal assets as security for a business loan. Personal financial information requested by bankers often includes the owner's net worth, salary, and other income. In addition, bankers usually request information about factors that might affect the personal financial condition of the owner. For example, a pending divorce by the owner might significantly affect the owner's personal wealth.**

   b. **Bankers typically want as much information as possible about the ability of the business and the owner to repay the loan with interest. Examples of such information are described above.**

   c. **Both bankers and business owners share the common interest of the business doing well and being successful. If the business is successful, the bankers will receive their loan payments on time with interest, and the owners will increase their personal wealth.**

CP 1–2

The difference in the two bank balances, $55,000 ($80,000 – $25,000), may not be pure profit from an accounting perspective. To determine the accounting profit for the six-month period, the revenues for the period would need to be matched with the related expenses. The revenues minus the expenses would indicate whether the business generated net income (profit) or a net loss for the period. Using only the difference between the two bank account balances ignores such factors as amounts due from customers (receivables), liabilities (accounts payable) that need to be paid for wages or other operating expenses, additional investments that Dr. Cousins may have made in the business during the period, or withdrawals during the period that Dr. Cousins might have taken for personal reasons unrelated to the business.

Some businesses that have few, if any, receivables or payables may use a "cash" basis of accounting. The cash basis of accounting ignores receivables and payables because they are assumed to be insignificant in amount. However, even with the cash basis of accounting, additional investments during the period and any withdrawals during the period have to be considered in determining the net income (profit) or net loss for the period.

CP 1–3

1.

	Assets		= Liabilities +	Owner's Equity						
	Cash	+ Supplies	= Accts. Payable	+ Lisa Duncan, Capital	– Lisa Duncan, Drawing	+ Fees Earned	– Salaries Expense	– Rent Expense	– Supplies Expense	– Misc. Exp.
(a)	+ 950			+ 950						
(b)	– 300	+ 300								
Bal.	650	300		950						
(c)	– 275							– 275		
Bal.	375	300		950				– 275		
(d)	– 100		+ 150					– 250		
Bal.	275	300	150	950				– 525		
(e)	+ 1,750					+ 1,750				
Bal.	2,025	300	150	950		1,750		– 525		
(f)	+ 600					+ 600				
Bal.	2,625	300	150	950		2,350		– 525		
(g)	– 800						– 800			
Bal.	1,825	300	150	950		2,350	– 800	– 525		
(h)	– 290									– 290
Bal.	1,535	300	150	950		2,350	– 800	– 525		– 290
(i)	+ 1,300					+ 1,300				
Bal.	2,835	300	150	950		3,650	– 800	– 525		– 290
(j)		– 120							– 120	
Bal.	2,835	180	150	950		3,650	– 800	– 525	– 120	– 290
(k)	– 400				– 400					
Bal.	2,435	180	150	950	– 400	3,650	– 800	– 525	– 120	– 290

CP 1–3 (Continued)

2.

SERVE-N-VOLLEY Income Statement For the Month Ended September 30, 2016		
Fees earned:		$3,650
Expenses:		
Salaries expense	$800	
Rent expense	525	
Supplies expense	120	
Miscellaneous expense	290	
Total expenses		1,735
Net income		$1,915

3.

SERVE-N-VOLLEY Statement of Owner's Equity For the Month Ended September 30, 2016		
Lisa Duncan, capital, September 1, 2016		$ 0
Investment on September 1, 2016	$ 950	
Net income for September	1,915	
	$2,865	
Less withdrawals	400	
Increase in owner's equity		2,465
Lisa Duncan, capital, September 30, 2016		$2,465

4.

SERVE-N-VOLLEY Balance Sheet September 30, 2016			
Assets		Liabilities	
Cash	$2,435	Accounts payable	$ 150
Supplies	180		
		Owner's Equity	
		Lisa Duncan, capital	2,465
		Total liabilities and	
Total assets	$2,615	owner's equity	$2,615

CP 1–3 (Concluded)

5. a. Serve-N-Volley would provide Lisa with $715 more income per month than working as a waitress. This amount is computed as follows:

Net income of Serve-N-Volley, per month…………………………………	**$1,915**
Earnings as waitress, per month:	
30 hours per week × $10 per hour × 4 weeks…………………………	**1,200**
Difference……………………………………………………………………	**$ 715**

b. Other factors that Lisa should consider before discussing a long-term arrangement with the Phoenix Tennis Club include the following:

LIsa should consider whether the results of operations for September are indicative of what to expect each month. For example, Lisa should consider whether club members will continue to request lessons or use the ball machine during the fall months when interest in tennis may slacken. Lisa should evaluate whether the additional income of $715 per month from Serve-N-Volley is worth the risk being taken and the effort being expended.

Lisa should also consider how much her investment in Serve-N-Volley could have earned if invested elsewhere. For example, if the initial investment of $950 had been invested to earn a rate of return of 6% per year, it would have earned $4.75 in September, or $57 for the year.

Note to Instructors: **Numerous other considerations could be mentioned by students, such as the ability of Lisa to withdraw cash from Serve-N-Volley for personal use. For example, some of her investment in Serve-N-Volley will be in the form of supplies (tennis balls, etc.), which are readily convertible to cash. The objective of this case is not to mention all possible considerations but, rather, to encourage students to begin thinking about the use of accounting information in making business decisions.**

CP 1–4

Note to Instructors: **The purpose of this activity is to familiarize students with the certification requirements and their online availability. You might use this as an opportunity to discuss the advantages and disadvantages of careers in public accounting (CPA), management accounting (CMA), and internal auditing (CIA).**

The following Web sites provide students with useful information (such as starting salaries, etc.) on careers in accounting:

American Institute of Certified Public Accountants (AICPA)
www.aicpa.org/becomeacpa/faqs/pages/faqs.aspx

Institute of Certified Management Accountants (IMA)
imanet.org/ima_home.aspx

Institute of Internal Auditors (IIA)
www.theiia.org/theiia/about-the-profession/about-the-internal-audit-profession/

CP 1–5

	First Year	Second Year	Third Year
Net cash flows from operating activities	negative	positive	positive
Net cash flows from investing activities	negative	negative	negative
Net cash flows from financing activities	positive	positive	positive

Start-up companies normally experience negative net cash flows from operating activities; however, Amazon.com was able to generate positive net cash flows from operations by its second year. Start-up companies normally have negative net cash flows from investing activities as they build up their infrastructure through purchases of property, plant, and equipment. This was the case with Amazon.com for each of its first three years. Likewise, start-up companies normally have positive net cash flows from financing activities from raising capital. This is also the case for Amazon.com. Also, start-up companies normally have positive cash flows from financing activities—activities from raising capital.

CP 1–6

As can be seen from the balance sheet data in the case, Enron was financed largely by debt as compared to equity. Specifically, Enron's stockholders' equity represented only 17.5% ($11,470 ÷ $65,503) of Enron's total assets. The remainder of Enron's total assets, 82.5%, was financed by debt. When a company is financed largely by debt, it is said to be highly leveraged.

In late 2001 and early 2002, allegations arose as to possible misstatements of Enron's financial statements. These allegations revolved around the use of "special purpose entities" (partnerships) and related-party transactions. The use of special purpose entities allowed Enron to hide a significant amount of additional debt off its balance sheet. The result was that Enron's total assets were even more financed by debt than the balance sheet indicated.

After the allegations of misstatements became public, Enron's stock rapidly declined, and the company filed for bankruptcy. Subsequently, numerous lawsuits were filed against the company and its management. In addition, the Securities and Exchange Commission, the Justice Department, and Congress launched investigations into Enron. As a result, several of Enron's top executives faced criminal prosecution and were sentenced to prison.

Note to Instructors: **The role of the auditors and board of directors of Enron also might be discussed. Note, however, that these topics are not covered in Chapter 1 but in later chapters.**