

# Chapter 1

## Accounting and the Business Environment

### *Review Questions*

---

1. Accounting is the information system that measures business activities, processes the information into reports, and communicates the results to decision makers. Accounting is the language of business.
2. Financial accounting provides information for external decision makers, such as outside investors, lenders, customers, and the federal government. Managerial accounting focuses on information for internal decision makers, such as the company's managers and employees.
3. Individuals use accounting information to help them manage their money, evaluate a new job, and better decide whether they can afford to make a new purchase. Business owners use accounting information to set goals, measure progress toward those goals, and make adjustments when needed. Investors use accounting information to help them decide whether or not a company is a good investment and once they have invested, they use a company's financial statements to analyze how their investment is performing. Creditors use accounting information to decide whether to lend money to a business and to evaluate a company's ability to make the loan payments. Taxing authorities use accounting information to calculate the amount of income tax that a company has to pay.
4. Certified Public Accountants (CPAs) are licensed professional accountants who serve the general public. They work for public accounting firms, businesses, government, or educational institutions. To be certified they must meet educational and/or experience requirements and pass an exam. Certified Management Accountants (CMAs) specialize in accounting and financial management knowledge. They work for a single company.
5. The FASB oversees the creation and governance of accounting standards. They work with governmental regulatory agencies, congressionally created groups, and private groups.
6. The guidelines for accounting information are called GAAP. It is the main U.S. accounting rule book and is currently created and governed by the FASB. Investors and lenders must have information that is relevant and has faithful representation in order to make decisions and GAAP provides the framework for this financial reporting.
7. A sole proprietorship has a single owner, terminates upon the owner's death or choice, the owner has personal liability for the business's debts, and it is not a separate tax entity. A partnership has two or more owners, terminates at partner's choice or death, the partners have personal liability, and it is not a separate tax entity. A corporation is a separate legal entity, has one or more owners, has indefinite life, the stockholders are not personally liable for the business's debts, and it is a separate tax entity. A limited-liability company has one or more members and each is only liable for his or her own actions, has an indefinite life, and is not a separate tax entity.

8. The land should be recorded at \$5,000. The cost principle states that assets should be recorded at their historical cost.
9. The going concern assumption assumes that the entity will remain in business for the foreseeable future and long enough to use existing resources for their intended purpose.
10. The faithful representation concept states that accounting information should be complete, neutral, and free from material error.
11. The monetary unit assumption states that items on the financial statements should be measured in terms of a monetary unit.
12. The IASB is the organization that develops and creates IFRS which are a set of global accounting standards that would be used around the world.
13.  $\text{Assets} = \text{Liabilities} + \text{Equity}$ . 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.
14. Equity increases with owner's contributions and revenue. Equity decreases with expenses and owner's withdrawals.
15.  $\text{Revenues} - \text{Expenses} = \text{Net Income}$ . Revenues are earnings resulting from delivering goods or services to customers. Expenses are the cost of selling goods or service.
16. Step 1: Identify the accounts and the account type. Step 2: Decide if each account increases or decreases. Step 3: Determine if the accounting equation is in balance.
17. Income Statement – Shows the difference between an entity's revenues and expenses and reports the net income or net loss for a specific period.  
Statement of 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.  $\text{Return on Assets} = \text{Net income} / \text{Average total assets}$ . ROA measures how profitably a company uses its assets.

## ***Short Exercises***

---

### **S1-1**

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

### **S1-2**

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

### **S1-3**

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

### **S1-4**

Advantages:

1. Easy to organize.
2. Unification of ownership and management.
3. Less government regulation.
4. Owner has more control over business.

Disadvantages:

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

### **S1-5**

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

**S1-6****Requirement 1**

Kenmore Handyman Services has equity of \$7,720.

Assets	=	Liabilities	+	Equity
\$16,400	=	\$8,680	+	?
\$16,400	=	\$8,680	+	<b>\$7,720</b>

**Requirement 2**

Kenmore Handyman Services has liabilities of \$14,760.

Assets	=	Liabilities	+	Equity
\$16,400 + \$3,500	=	?	+	\$7,720 – \$2,580
\$19,900	=	<b>\$14,760</b>	+	\$5,140

**S1-7****Requirement 1**

Assets	=	Liabilities	+	Equity					
			+	Josh, Capital	–	Josh, Withdrawal	+	Revenues	– Expenses
\$42,600	=	\$17,220	+	\$26,240	–	\$8,500	+	\$12,080	– ?
\$42,600	=	\$17,220	+	\$26,240	–	\$8,500	+	\$12,080	– <b>\$4,440</b>

**Requirement 2**

Josh's Overhead 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**

- a. Increase asset (Cash); Increase equity (Service Revenue)
- b. Decrease asset (Cash); Decrease equity (Salaries Expense)
- c. Increase asset (Cash); Increase Equity (Maxdale, Capital)
- d. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
- e. Increase liability (Accounts Payable); Decrease equity (Utility Expense)
- f. Decrease asset (Cash); Decrease equity (Maxdale, Withdrawal)

**S1-10**

- a. Increase asset (Cash); Increase equity (Gibson, Capital)
- b. Increase asset (Equipment); Increase liability (Accounts Payable)
- c. Increase asset (Office Supplies); Decrease asset (Cash)
- d. Increase asset (Cash); Increase equity (Service Revenue)
- e. Decrease asset (Cash); Decrease equity (Wages Expense)
- f. Decrease asset (Cash); Decrease equity (Gibson, Withdrawal)
- g. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
- h. Decrease asset (Cash); Decrease equity (Rent Expense)
- i. Increase liability (Accounts Payable); Decrease equity (Utilities Expense)

**S1-11**

- a. B
- b. B
- c. OE and B
- d. B
- e. I
- f. I
- g. B
- h. OE
- i. B
- 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		<u>50,500</u>
Net Income		<u><u>\$ 29,500</u></u>

**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
	<u>42,800</u>
Owner withdrawal	(4,500)
Richards, Capital, December 31, 2016	<u>\$ 38,300</u>

**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	<u>26,600</u>	Richards, Capital	<u>38,300</u>
Total Assets	<u>\$ 42,600</u>	Total Liabilities and Owner's Equity	<u>\$ 42,600</u>

**S1-15**


---

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

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

### E1-18

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

### E1-19

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

### E1-20

---

	Assets	Liabilities	Equity
Newton Gas	<b>\$ 144,000</b>	\$ 64,000	\$ 80,000
Vegas Video Rentals	65,000	<b>40,000</b>	25,000
Cline's Grocery	200,000	43,000	<b>157,000</b>

---

### 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	<b>82,500</b>	<b>103,000</b>	<b>88,000</b>
	156,000	169,000	174,000
Owner withdrawal	0	(13,000)	(18,000)
Owner's equity, June 30, 2016 (\$244,000 – \$88,000)	<u>\$ 156,000</u>	<u>\$ 156,000</u>	<u>\$ 156,000</u>

---



**E1-22****Requirement 1**

	Assets	=	Liabilities	+	Equity
Beginning of 2016	\$24,000	=	\$5,000	+	?
	\$24,000	=	\$5,000	+	<b>\$19,000</b>
End of 2016	\$18,000	=	\$1,000	+	?
	\$18,000	=	\$1,000	+	<b>\$17,000</b>

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

**Requirement 2**

- Increase through owner contributions.
- Increase through net income.
- Decrease through owner withdrawals.
- Decrease through net loss.

**E1-23****Requirement 1**

Revenues	–	Expenses	=	Net Income
\$40,000	–	\$35,000	=	<b>\$5,000</b>

**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	<u>\$ 15,000</u>

**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:

- Cash purchase of office supplies.
- Cash withdrawals by owner.
- Paid cash on accounts payable.
- Received cash for services provided.
- Borrowed cash from the bank.

**E1-26**

- Increase asset (Cash); Increase equity (Vivian, Capital)
- Increase asset (Accounts Receivable); Increase equity (Rental Revenue)
- Increase asset (Office Furniture); Increase liability (Accounts Payable)
- Increase asset (Cash); Decrease asset (Accounts Receivable)
- Decrease asset (Cash); Decrease liability (Accounts Payable)
- Increase asset (Cash); Increase equity (Rental Revenue)
- Decrease asset (Cash); Decrease equity (Office Rent Expense)
- 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**

- a. Income statement
- b. Statement of owner's equity
- c. Balance sheet
- d. Statement of cash flows

**Requirement 2**

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

## **E1-30, cont.**

### **Requirement 3**

#### **Income Statement:**

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

#### **Statement of Owner's Equity:**

- a. 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.
- b. The beginning capital is listed first and will always be the ending capital from the previous time period.
- c. The owner's contributions and net income is added to the beginning capital.
- d. The owner's withdrawals are subtracted from capital. If there had been a net loss, this would also be subtracted.

#### **Balance Sheet:**

- a. The header includes the name of the business and the title of the statement but the date is different. The balance sheet shows the date as a specific date and not a period of time.
- b. Each asset account is listed separately and then totaled. Cash is always listed first.
- c. Liabilities are listed separately and then totaled. Liabilities that are to be paid first are listed first.
- d. The owner's equity is taken directly from the statement of owner's equity.
- e. The balance sheet must always balance:  $\text{Assets} = \text{Liabilities} + \text{Equity}$ .

#### **Statement of Cash Flows:**

- a. The header includes the name of the business, the title of the statement, and the time period. A statement of cash flows always represents a period of time, for example, a month or a year.
- b. Each dollar amount is calculated by evaluating the cash column on the transaction detail.
- c. Operating activities involve cash receipts for services provided and cash payments for expenses paid.
- d. Investing activities include the purchase and sale of land and equipment for cash.
- e. Financing activities include cash contributions by the owner and owner withdrawals of cash.
- f. 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		<u>2,700</u>
Net Income		<u><u>\$ 10,300</u></u>

---

**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	<u>10,300</u>
	18,000
Owner withdrawal	<u>(2,000)</u>
Wilford, Capital, June 30, 2016	<u><u>\$ 16,000</u></u>

---

**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	<u>6,900</u>
Office Supplies	1,300	Total Liabilities	12,900
Equipment	17,500	Owner's Equity	
		Wilford, Capital	<u>16,000</u>
Total Assets	<u>\$ 28,900</u>	Total Liabilities and Owner's Equity	<u>\$ 28,900</u>

---

**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	<u>1,200</u>	
Total Expenses		<u>95,700</u>
Net Income		<u>\$ 63,500</u>

---



**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
	<u>114,500</u>
Owner withdrawal	(55,000)
Gates, Capital, December 31, 2016	<u>\$ 59,500</u>

---

**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	<u>13,500</u>
Office Furniture	55,200	Owner's Equity	
		Gates, Capital	59,500
Total Assets	<u>\$ 73,000</u>	Total Liabilities and Owner's Equity	<u>\$ 73,000</u>

---

**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		<u>97,200</u>
Net Income		<u>\$ 97,800</u>

---

**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	<u>97,800</u>
	171,800
Owner withdrawal	<u>(32,000)</u>
Wilson, Capital, December 31, 2016	<u>\$ 139,800</u>

---

**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	<u>54,900</u>
Building	157,000		
Land	5,000	Owner's Equity	
		Wilson, Capital	<u>139,800</u>
Total Assets	<u>\$ 194,700</u>	Total Liabilities and Owner's Equity	<u>\$ 194,700</u>

---

**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		<u>34,200</u>
Net Income		<u><u>\$ 60,800</u></u>

---

**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	<u>60,800</u>
	120,800
Owner withdrawal	<u>(10,000)</u>
Adams, Capital, December 31, 2016	<u><u>\$ 110,800</u></u>

---

**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	<u>9,000</u>
Equipment	73,800	Total Liabilities	15,000
		Owner's Equity	
		Adams, Capital	<u>110,800</u>
Total Assets	<u>\$125,800</u>	Total Liabilities and Owner's Equity	<u>\$125,800</u>

---



---

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	<u>27,000</u>
Office Furniture	6,000	Owner's Equity	
Land	33,800	Tow, Capital	20,100
Total assets	<u>\$ 47,100</u>	Total Liabilities and Owner's Equity	<u>\$ 47,100</u>

---

**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		<u>1,400</u>
Net Income		<u><u>\$ 11,400</u></u>

---

**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	<u>11,400</u>
	81,400
Owner withdrawal	<u>(4,500)</u>
Sheen, Capital, February 29, 2016	<u><u>\$ 76,900</u></u>

---

**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	<u>\$ 76,900</u>	Total Liabilities and Owner's Equity	<u>\$ 76,900</u>

---

**P1-46A**  
**Requirement 1**

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		<u>1,640</u>
Net Income		<u><u>\$ 18,860</u></u>

---

**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	<u>18,860</u>
	90,860
Owner withdrawal	<u>(2,000)</u>
Petrillo, Capital, March 31, 2016	<u><u>\$ 88,860</u></u>

---

**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	<u>\$ 94,360</u>	Total Liabilities and Owner's Equity	<u>\$ 94,360</u>

---

## 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		<u>105,100</u>
Net Income		<u><u>\$ 74,900</u></u>

---

**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	<u>74,900</u>
	159,900
Owner withdrawal	<u>(32,000)</u>
Taylor, Capital, December 31, 2016	<u><u>\$ 127,900</u></u>

---

**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	<u>1,500</u>
Equipment	13,000	Total Liabilities	51,500
Building	144,600	Owner's Equity	
Land	<u>5,000</u>	Taylor, Capital	<u>127,900</u>
Total Assets	<u>\$ 179,400</u>	Total Liabilities and Owner's Equity	<u>\$ 179,400</u>

---

**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		<u>38,500</u>
Net Income		<u>\$ 71,500</u>

**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	<u>71,500</u>
	130,500
Owner withdrawal	<u>(11,000)</u>
Lamar, Capital, December 31, 2016	<u>\$ 119,500</u>

**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	<u>9,000</u>
Equipment	96,500	Total Liabilities	22,000
		Owner's Equity	
		Lamar, Capital	<u>119,500</u>
Total Assets	<u>\$ 141,500</u>	Total Liabilities And Owner's Equity	<u>\$ 141,500</u>

**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	<u>24,600</u>
Office Supplies	300	Total Liabilities	27,000
Office Furniture	5,600		
Land	34,100	Owner's Equity	
		Kielman, Capital	<u>20,400</u>
Total Assets	<u>\$ 47,400</u>	Total Liabilities and Owner's Equity	<u>\$ 47,400</u>

---

**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	<u>+65,000</u>										<u>+65,000</u>								
Bal.	\$65,000							=		+	\$65,000								
6	<u>-300</u>				<u>+300</u>														
Bal.	\$64,700			+	\$300			=		+	\$65,000								
7							<u>+6,800</u>		<u>+6,800</u>										
Bal.	\$64,700			+	\$300	+	\$6,800	=	\$6,800	+	\$65,000								
10	<u>+3,300</u>														<u>+3,300</u>				
Bal.	\$68,000			+	\$300	+	\$6,800	=	\$6,800	+	\$65,000			+	\$3,300				
11	<u>-100</u>																	<u>-100</u>	
Bal.	\$67,900			+	\$300	+	\$6,800	=	\$6,800	+	\$65,000			+	\$3,300			-	\$100
12			<u>+12,500</u>												<u>+12,500</u>				
Bal.	\$67,900	+	\$12,500	+	\$300	+	\$6,800	=	\$6,800	+	\$65,000			+	\$15,800			-	\$100
18	<u>-1,000</u>																<u>-1,000</u>		
Bal.	\$66,900	+	\$12,500	+	\$300	+	\$6,800	=	\$6,800	+	\$65,000			+	\$15,800	-	\$1,000	-	\$100
25	<u>+12,500</u>		<u>-12,500</u>																
Bal.	\$79,400		\$ 0	+	\$300	+	\$6,800	=	\$6,800	+	\$65,000			+	\$15,800	-	\$1,000	-	\$100
27	<u>-6,800</u>								<u>-6,800</u>										
Bal.	\$72,600		\$ 0	+	\$300	+	\$6,800	=	\$ 0	+	\$65,000			+	\$15,800	-	\$1,000	-	\$100
29	<u>-3,000</u>												<u>-3,000</u>						
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		<u>1,100</u>
Net Income		<u>\$ 14,700</u>

---

**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	<u>14,700</u>
	79,700
Owner withdrawal	<u>(3,000)</u>
Simmon, Capital, February 29, 2016	<u>\$ 76,700</u>

---

**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	<u>\$ 76,700</u>
Total Assets	<u>\$ 76,700</u>	Total Liabilities and Owner's Equity	<u>\$ 76,700</u>

---



**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			<u>1,140</u>
Net Income			<u><u>\$ 19,760</u></u>

**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	<u>19,760</u>
	84,760
Owner withdrawal	<u>(2,500)</u>
Peterson, Capital, December 31, 2016	<u><u>\$ 82,260</u></u>

**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	<u>6,800</u>	Peterson, Capital	<u>82,260</u>
Total Assets	<u><u>\$ 89,060</u></u>	Total Liabilities and Owner's Equity	<u><u>\$ 89,060</u></u>

## 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																						
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			<u>2,150</u>
Net Income			<u><u>\$ 2,450</u></u>

**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	<u>2,450</u>
	22,450
Owner withdrawal	<u>(1,000)</u>
Daniels, Capital, December 31, 2016	<u><u>\$ 21,450</u></u>

**Requirement 4**

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

**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%).