Last revised: October 26, 2012

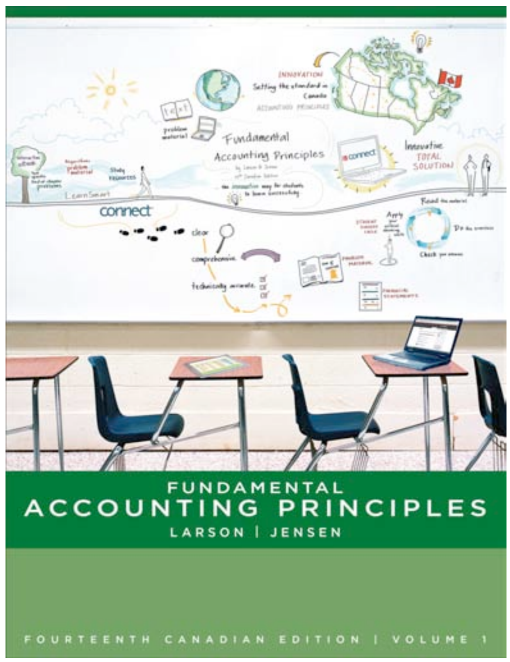
SOLUTIONS MANUAL

to accompany

Fundamental Accounting Principles

14th Canadian Edition

by Larson/Jensen



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Chapter 1 Accounting in Business

Chapter Opening Vignette Critical Thinking Challenge Questions*

1. **What questions might Jake need the answers to in order to get a loan from a bank?**

   How many employees does he need to hire to provide services to clients? Does Jake pay his employees a salary or a wage? How much does he pay them? Does he have the cash in the bank to pay his employees? Does he have rental equipment? Does he have a vehicle? Does he have insurance? Is the building rented or purchased? If he rents a building, did he make rental payments in advance or does he pay monthly? If the building was purchased, did he pay cash or does he owe money on it? If he owes money, does he pay interest? If he owns a building, how much does he pay on property taxes and utilities? If he owns a building, how much does he pay for repairs and maintenance? What about buying and paying for supplies? Does he advertise? If so, how much does he pay? How much is the business actually earning? Do customers pay in advance or do they pay per session? Do customers pay cash or on account? What is the amount of income tax he has to pay? Are there any outstanding loans? If so, what is the balance outstanding, the term, the payments, and the interest rate? There are many other questions that could be asked.

2. **Who else might require accounting information from Jake's business?**

   Other stakeholders that might require accounting information from Jake's business include Canada Revenue Agency (CRA), employees, and potential investors.

***The Chapter 1 Critical Thinking Challenge questions are asked at the beginning of this chapter. Students are reminded at the conclusion of the chapter to refer to the Critical Thinking Challenge questions at the beginning of the chapter. The solutions to the Critical Thinking Challenge questions are available here in the Solutions Manual and accessible to students at Connect.**

Concept Review Questions

1. **Jake identifies accounting knowledge as the key to success in business.**
2. **Businesses offering products include Danier Leather, Bauer, NIKE, and Reebok which produce apparel; Dell, Hewlett-Packard, and Apple which produce computer equipment; and Tilley, Levis, and GAP which produce clothing. Service business examples include: WestJet Airlines which provides airline services; Sympatico, AOL Canada, and CompuServe provide information communication services; and Tilden, Hertz, and Budget which provide vehicle rental services.**
3. **Business organizations can be organized in one of three forms: sole proprietorship, partnership, or corporation. These forms have implications for legal liability, taxation, continuity, number of owners, and legal status as follows:**

	Sole Proprietorship	Partnership	Corporation
Legal entity	no	no	yes
Limited liability	no	no	yes
Unlimited life	no	no	yes
Business income taxed	no	no	yes
One owner allowed	yes	no	yes

4. **The equity section of the balance sheet reports a Virgil Klimb, Capital account. The presence of the owner's capital account indicates that Vertically Inclined has been organized as a sole proprietorship.**
5. **The two organizations for which accounting information is available in Appendix 1 at the end of the book are WestJet Airlines and Danier Leather.**
6. **Hospitals, colleges, prisons, and bus lines are examples of organizations that can be formed as profit-oriented businesses, government units, or nonprofit establishments.**
7. **Individuals responsible for marketing activities are likely interested in information such as sales volume, advertising costs, promotion costs, salaries of sales personnel, and sales commissions.**
8. **External users and their uses of accounting information include: (a) lenders for measuring the return of loans; (b) shareholders for assessing the acquisition of shares; (c) members of the board of directors for overseeing management; and (d) potential employees for judging employment opportunities. Other users are auditors, consultants, regulators, unions, suppliers, and appraisers. Internal users and their uses of accounting information include: (a) management for overseeing performance, financial position, and cash flow; and (b) current employees for generating special purpose reports to assist management.**
9. **The internal role of accounting is to serve the organization's internal operating functions by providing useful information in completing their tasks more effectively and efficiently. By providing this information, accounting helps the organization reach its overall goals.**
10. **Managerial accounting tasks performed by both private and government accountants include general accounting, cost accounting, budgeting, auditing, and management consulting.**
11. **Management consulting services offered by public accounting professionals include designing and installing accounting systems, establishing internal controls, advice**

on budgeting, guidance in information technology, and constructing employee benefit plans.

12. **In addition to preparing tax returns, tax accountants help companies plan future transactions to minimize the amount of tax to be paid.**
13. **The independent auditor for Danier Leather is PricewaterhouseCoopers LLP.**
14. **The purpose of accounting is to provide decision makers with information helping them make better decisions. Examples include information for people making investments, loans and similar decisions.**
15. **Accounting professionals deal with a variety of information about their employers and clients that is not generally available to the public. Ethical issues arise concerning the possibility that accounting professionals might personally benefit by using confidential information. There is also the possibility that their employers and clients might be harmed if certain information is not kept confidential.**
16. **An income statement user must know what time period is covered to judge whether the company's performance is satisfactory. For example, a statement user would not be able to assess whether the amounts of revenue and net income are satisfactory without knowing whether they were earned over a week, a month, or a year.**
17. **The revenue recognition principle provides guidance that managers and auditors need for knowing when to recognize revenue. For example, if revenue is recognized too early, the income statement reports income earlier than it should and the business looks more profitable than it really is. On the other hand, if the revenue is not recognized on time, the income statement shows lower amounts of revenue and net income than it should and the business looks less profitable than it really is. Basically, this principle requires revenue to be recognized when it is earned and can be measured reliably. The amount of revenue should equal the value of the assets received from the customers.**
18. **The four financial statements are: the income statement, the balance sheet, the statement of changes in equity, and the statement of cash flows.**
19. **An income statement reports on the business's performance during the period. It shows whether the business earned a net income (or net loss). The statement does not simply report the amount of net income or loss but lists the types and amounts of the revenues and expenses.**
20. **A revenue is an inflow of assets received in exchange for goods or services provided to customers as part of the major or central operations of the business. A revenue also may occur as a decrease in liabilities as when a service or product is delivered having been paid for in advance.**
21. **A business's equity is increased by investments into the business made by the owner and by net income. It is decreased by withdrawals made by the owner and by a net loss, which is the excess of expenses over revenues.**
22. **The balance sheet reports on the financial position of a business at a specific point in time. It is often called the statement of financial position. It provides information that helps users understand a company's financial status. The balance sheet lists the types and dollar amounts of assets, liabilities, and equity of the business.**

23. (a) Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. (b) Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. (c) Equity is the residual interest in the assets of an entity that remains after deducting its liabilities. (d) The term "net assets" means the same thing as equity, which is also determined as assets less liabilities.

QUICK STUDY

Quick Study 1-1

There are a variety of questions and this list is certainly not exhaustive:

1. **How much was spent on advertising last year? And/or how much is projected to be spent this year?**
2. **What is the effect of advertising on sales? And/or what is the projected effect of advertising on this year's sales?**
3. **How much was spent on delivering flowers last year? And/or how much is projected to be spent this year?**
4. **How much will it cost to create a webpage and sell flowers online?**
5. **Can sales be increased by selling online? And/or what is the experience of our competitors in this regard?**
6. **When pricing flowers, how much is being charged for delivery?**
7. **Are there enough sales staff to answer phones/emails and/or are sales being lost because of insufficient staffing and/or staffing issues?**

Quick Study 1-2

a.	Accounting	Meeting with the mechanical staff to determine new machine requirements for next year.
b.	Recordkeeping	Data entry of sales orders received via the telephone.
c.	Accounting	Analyzing a sales report to determine if the discount policy is effective in getting customers to buy in multiple quantities.
d.	Recordkeeping	Listing cheques received in the mail.

Quick Study 1-3

a.	Highlands United Church	Non-business	d.	CDI College	Business
b.	Royal Alexandra Hospital	Non-business	e.	Loblaw	Business
c.	RBC	Business	f.	World Vision	Non-business

Quick Study 1-4

Accounting professionals practice in four broad fields including:	Accounting-related opportunities within each field are numerous and include:
Financial accounting	- Statement preparation - Statement analysis - Auditing - Regulatory - Consulting - Planning - Criminal investigation
Managerial accounting	- General accounting - Cost accounting - Budgeting - Internal auditing - Management advisory services
Taxation	- Preparation - Planning - Regulatory - Investigations - Consulting
Accounting-related	- Lenders - Consultants - Analysts - Traders - Managers - Directors - Underwriters - Planners - Appraisers

Quick Study 1-5
Accounting information could be used to determine if a product should be sold or if an investment should be made.

Quick Study 1-6

The four elements need to be addressed as follows:

1. **Is it the Truth? No, personal dinners with a spouse are not business expenses so you are not being truthful in submitting these as part of the expense report.**
2. **Is it Fair to all concerned? No, it is not fair to the owner(s) of the business, to the other employees, or to your spouse (since they are likely not aware of the deceit).**
3. **Will it build goodwill and better friendships? It may build a good relationship with the restaurant owners where you take your spouse but it will damage goodwill between the employer and you as well as strain friendships with other employees.**
4. **Will it be beneficial to all concerned? It will benefit you, your spouse, and the restaurant owner but it will not benefit the business owner(s) and the other employees.**

Conclusion: The behaviour in the situation described appears to be unethical based on the application of the Rotary 4-Way Test.

Quick Study 1-7

a. **Business entity principle**
b. **Revenue recognition principle**
c. **Cost principle**

Quick Study 1-8

1. **Revenue Recognition**
2. **Cost**
3. **Business Entity**
4. **Going Concern**
5. **Monetary Unit**

Quick Study 1-9

Monetary Unit	**a.**	**Delco performed work for a client located in China and collected 8,450,000 RMB (Chinese currency), the equivalent of about $1,320,000 Canadian. Delco recorded it as 8,450,000.**
Revenue Recognition	**b.**	**Delco collected $180,000 from a customer on December 20, 2014 for work to be done in February 2015. The $180,000 was recorded as revenue during 2014. Delco's year end is December 31.**
Going Concern	**c.**	**Delco's December 31, 2014 balance sheet showed total assets of $840,000 and liabilities of $1,120,000. The income statement for the past 6 years has shown a trend of increasing losses.**
Cost	**d.**	**Included in Delco's assets was land and building purchased for $310,000 and reported on the balance sheet at $470,000.**
Business Entity	**e.**	**Delco's owner, Tom Del, consistently buys personal supplies and charges them to the company.**

Quick Study 1-10

1. SP
2. C
3. P
4. SP
5. C
6. C
7. P

Quick Study 1-11

a.	Equity	= $ 75,000	– $ 40,500	=	$ 34,500
b.	Liabilities	= $300,000	– $ 85,500	=	$214,500
c.	Assets	= $187,500	+ $ 95,400	=	$282,900

Quick Study 1-12

a.	Equity	= $374,700	– $252,450	=	$122,250
b.	Liabilities	= $150,900	– $126,000	=	$ 24,900
c.	Assets	= $ 37,650	+ $112,500	=	$150,150

Quick Study 1-13

a.

Allin Servicing
Income Statement
For Month Ended April 30, 2014

Revenues	$300
Expenses	125
Net income (loss)	175

Allin Servicing
Statement of Changes in Equity
For Month Ended April 30, 2014

Tim Allin, capital, April 1		$ 50
Add: Investments by owner	$ 30	
Net income	175	205
Total		$255
Less: Withdrawals by owner		15
Tim Allin, capital, April 30		$240

Allin Servicing
Balance Sheet
April 30, 2014

Assets		Liabilities	
Cash	$ 60	Accounts payable	$ 25
Equipment	205	Equity	
		Tim Allin, capital	240
Total assets	$265	Total liabilities and equity	$265

b.

Allin Servicing
Income Statement
For Month Ended May 31, 2014

Revenues	$135
Expenses	85
Net income (loss)	$ 50

Allin Servicing
Statement of Changes in Equity
For Month Ended May 31, 2014

Tim Allin, capital, May 1		$240
Add: Investments by owner	$ 60	
Net income	50	$110
Total		350
Less: Withdrawals by owner		75
Tim Allin, capital, May 31		$275

Allin Servicing
Balance Sheet
May 31, 2014

Assets		Liabilities	
Cash	$120	Accounts payable	$ 45
Equipment	200	Equity	
		Tim Allin, capital	275
Total assets	$320	Total liabilities and equity	$320

Quick Study 1-14

1. $20,000 - $15,000 = <u>$5,000</u> beginning capital on January 1, 2014
2. $5,000 + $3,000 + $8,000 - $4,000 = <u>$12,000</u> ending capital on December 31, 2014

Quick Study 1-15

The source documents include:
- c. Telephone bill
- d. Invoice from supplier
- g. Bank statement
- h. Sales invoice

Quick Study 1-16

	Assets	=	Liabilities	+	Equity
a.	Increase/Decrease				
b.	Increase		Increase		
c.	Decrease		Decrease		
d.			Increase		Decrease
e.	Decrease				Decrease

Quick Study 1-17

c	1.	Supplies	$10
a	2.	Supplies expense	22
c	3.	Accounts receivable	25
c	4.	Accounts payable	12
c	5.	Equipment	40
b	6.	Tim Roadster's withdrawals in April	35
c	7.	Notes payable	30
a	8.	Utilities expense	10
c	9.	Furniture	20
a	10.	Fees earned	70
a	11.	Rent revenue	35
a	12.	Salaries expense	45
b	13.	Tim Roadster's investments in April	60
a+b	14.	Net income*	28

***Calculated as*: 70 + 35 – 22 – 10 – 45 = 28**

Quick Study 1-18

1.	Total revenues	70 + 35 = 105
2.	Total operating expenses	22 + 10 + 45 = 77
3.	Net income	105 – 77 = 28
4.	Total assets	10 + 25 + 40 + 20 = 95
5.	Total liabilities	12 + 30 = 42
6.	Tim Roadster, capital (April 30, 2014)	60 – 35 + 28 = 53
7.	Total liabilities and equity	42 + 53 = 95

Quick Study 1-19

d	1.	Net loss	2	Income statement & Statement of changes in equity
d	2.	Rent expense	22	Income statement
b	3.	Rent payable	6	
a	4.	Accounts receivable	14	
d	5.	Joan Bennish's investments in May	30	Statement of changes in equity
d	6.	Interest revenue	2	Income statement
d	7.	Joan Bennish, capital, May 1, 2014	0	Statement of changes in equity
a	8.	Repair supplies	5	
b	9.	Notes payable	25	
d	10.	Joan Bennish's withdrawals in May	5	Statement of changes in equity
a	11.	Truck	15	
d	12.	Consulting fees earned	18	Income statement
c	13.	Joan Bennish, capital, May 31, 2014	23*	
a	14.	Cash	20	

* ***See QS1-20 for details on how this amount was calculated; this calculation was not a requirement of QS1-19.***

Quick Study 1-20

BENNISH CONSULTING
Income Statement
For Month Ended May 31, 2014

Revenues:		
Consulting fees earned	$18	
Interest revenue	2	
Total revenues		$20
Operating expenses:		
Rent expense		22
Net loss		$ 2

BENNISH CONSULTING
Statement of Changes in Equity
For Month Ended May 31, 2014

Joan Bennish, capital, May 1		$ 0
Add: Investments by owner		30
Total		$30
Less: Withdrawals by owner	$ 5	
Net loss	2	7
Joan Bennish, capital, May 31		$23

BENNISH CONSULTING
Balance Sheet
May 31, 2014

Assets		Liabilities		
Cash	$20	Rent payable	$ 6	
Accounts receivable	14	Notes payable	25	
Repair supplies	5	Total liabilities		$31
Truck	15	*Equity*		
		Joan Bennish, capital		23
Total assets	$54	Total liabilities and equity		$54

EXERCISES

Exercise 1-1 (10 minutes)

a. Corporation
b. Sole proprietorship
c. Corporation
d. Partnership
e. Sole proprietorship
f. Sole proprietorship
g. Corporation

Exercise 1-2 (5 minutes)

	I or E			*I or E*
Bank manager	E		Parent	E
Owner	I		Canada Revenue Agency	E
Toy Supplier	E		Cleaner contracted by TLC	E

Exercise 1-3 (10 minutes)

1. A
2. C
3. B
4. A
5. A
6. B
7. B
8. C

Exercise 1-4 (20 minutes) (Answers will vary.)

a.

1. Is it the Truth? No, making personal long distance calls on the company phone without paying for the charges is deceitful.
2. Is it Fair to all concerned? No, it is not fair to the owner(s) of the business or to the other employees.
3. Will it build goodwill and better friendships? It will damage goodwill and friendships between the caller and their employer and colleagues as well as with the people they are calling (since they are likely not aware of the deceit).
4. Will it be beneficial to all concerned? It will benefit the caller in the short run in terms of cost savings but these costs will reduce the profits of the business owner(s).

Conclusion: The behaviour in the situation described appears to be unethical based on the application of the Rotary 4-Way Test.

Exercise 1-4 (concluded)

b.

1. **Is it the Truth? It appears that the three people ahead of you entered without tickets which is deceitful. They may have fabricated a story to enter and/or the ticket-taker is part of the deceit.**
2. **Is it Fair to all concerned? It is unfair to the paying patrons of the theatre and unfair to the owner of the theatre.**
3. **Will it build goodwill and better friendships? In the long run, these types of relationships (between the ticket-taker and the three individuals admitted without tickets) are not what goodwill and true friendships are based upon. Having observed the event, your respect for the ticket-taker and the three individuals admitted without tickets will be negatively affected.**
4. **Will it be beneficial to all concerned? In the short run, it will benefit the three people who were admitted without paying and the ticket-taker, if an acquaintance, may have accrued future benefits from the three people admitted. If this transgression is discovered by the ticket-taker's supervisor, the ticket-taker will likely lose their job which is certainly not beneficial. The owner(s) of the theatre do not benefit from this event, nor do other patrons because if it is known that such things occur, ticket prices will be priced to include the cost of this kind of lost sale.**

Conclusion: The behaviour in the situation described appears to be unethical based on the application of the Rotary 4-Way Test.

c.

1. **Is it the Truth? The cashier is not being truthful by providing receipts only upon request because the cash register would be showing fewer drop-in customers than actually occur.**
2. **Is it Fair to all concerned? No, it is not fair to the paying customers (prices may go up if drop-in revenues are not what is expected) or the owner of the facility.**
3. **Will it build goodwill and better friendships? No, deceitful acts never build goodwill and do not build good friendships. Eventually, the supervisor and/or owner of the facility will recognize that drop-in revenues are lower than the actual number of drop-in customers attending the facility and the cashier will lose his/her job and perhaps face criminal charges.**
4. **Will it be beneficial to all concerned? No, it is not beneficial to the cashier (as they may lose his/her job), to the owner, or to the paying patrons.**

Conclusion: The behaviour in the situation described appears to be unethical based on the application of the Rotary 4-Way Test.

Exercise 1-5 (10 minutes)

Description

B 1. **Requires every business to be accounted for separately from its owner or owners.**

A 2. **Requires financial statement information to be based on costs incurred in transactions.**

D 3. **Requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold.**

C 4. **Requires revenue to be recorded only when the earnings process is complete**

Exercise 1-6 (10 minutes)

a) $516,000 – $492,000 = $24,000 net income

b) $165,000 – $240,000 = $75,000 net loss

c) $32,000 + 0 – 0 + x = $86,000
x = $86,000 – $32,000
x = $54,000 net income

d) $48,000 + $40,000 – 0 + x = $52,000
x = $52,000 – $48,000 – $40,000
x = –$36,000 or a $36,000 net loss

Exercise 1-7 (15 minutes)

	(a)	*(b)*	*(c)*	*(d)*	*(e)*
Answers	$ (19,750)	$46,000	$7,000	$10,250	$102,000
Proofs:					
Equity, January 1	$ 0	$ 0	$ 0	$ 0	$102,000
Owner's investments during the year	60,000	46,000	31,500	37,500	140,000
Net income (loss) for the year	15,750	30,500	(4,500)	10,250	(8,000)
Owner's withdrawals during the year	(19,750)	(27,000)	(20,000)	(15,750)	(63,000)
Equity, December 31	$56,000	$49,500	$7,000	$32,000	$171,000

Exercise 1-8 (15 minutes)

THE HIGGINS GROUP
Income Statement
For Month Ended November 30, 2014

Revenues:		
Consulting fees earned		**$22,000**
Operating expenses:		
Salaries expense	**$6,000**	
Rent expense	**2,550**	
Telephone expense	**1,680**	
Utilities expenses	**660**	
Total operating expenses		**10,890**
Net income		**$ 11,110**

Exercise 1-9 (15 minutes)

THE HIGGINS GROUP
Statement of Changes in Equity
For Month Ended November 30, 2014

Jean Higgins, capital, November 1		**$ 0**
Add: Investments by owner	**84,000**	
Net income	**11,110**	**95,110**
Total		**$95,110**
Less: Withdrawals by owner		**3,360**
Jean Higgins, capital, November 30		**$91,750**

Analysis component:

The owner, Jean Higgins, invested $84,000 of assets during the month, which caused equity to increase. Also, net income earned during the month was $11,110 also causing equity to increase during November. The total increases in equity during the month were a total of $95,110 ($84,000 + $11,110).

NOTE: Students might point out that equity decreased by a total of $3,360 in withdrawals which in combination with the total increase of $95,110 caused a net increase in equity of $91,750.

Exercise 1-10 (15 minutes)

THE HIGGINS GROUP
Balance Sheet
November 30, 2014

Assets		**Liabilities**	
Cash	$16,000	Accounts payable	$ 7,500
Accounts receivable	17,000		
Office supplies	5,000	*Equity*	
Automobiles	36,000	Jean Higgins, capital	91,750
Office equipment	25,250	Total liabilities and	
Total assets	$99,250	equity	$99,250

Analysis component:
$91,750 (or 92.44% calculated as $91,750/$99,250 × 100) of the total $99,250 assets are financed by Jean Higgins, the owner of The Higgins Group.

Exercise 1-11 (15 minutes)

WINDSOR LEARNING SERVICES
Income Statement
For Month Ended July 31, 2014

Revenues:		
Tutoring fees earned		$4,200
Textbook rental revenue		300
Total revenues		$ 4,500
Operating expenses:		
Office rent expense	$2,500	
Tutors wages expense	1,540	
Utilities expense	680	
Total operating expenses		4,720
Net loss		$ 220

Exercise 1-12 (15 minutes)

WINDSOR LEARNING SERVICES
Statement of Changes in Equity
For Month Ended July 31, 2014

Milton Windsor, capital, July 1		$ 7,400
Add: Investments by owner		1,200
Total		$ 8,600
Less: Withdrawals by owner	$ 1,000	
Net loss	220	1,220
Milton Windsor, capital, July 31		$ 7,380

Analysis component:
Withdrawals of $1,000 by the owner, Milton Windsor, caused equity to decrease during July, 2014. Also, the net loss of $220 caused equity to decrease in July. The total decrease in equity during the month of July was $1,220 (calculated as $1,000 + $220).

NOTE: Students might point out that equity increased by $1,200 of owner investments which, in combination with the total decrease of $1,220, caused a net decrease in equity of $20.

Exercise 1-13 (15 minutes)

WINDSOR LEARNING SERVICES
Balance Sheet
July 31, 2014

Assets		Liabilities	
Cash	$ 1,600	Accounts payable	$ 1,500
Accounts receivable	2,000		
Supplies	1,280	*Equity*	
Furniture	1,800	Milton Windsor, capital	7,380
Computer equipment	2,200	Total liabilities and	
Total assets	$8,880	equity	$8,880

Analysis component:
$1,500 or 16.89% (calculated as $1,500/$8,880 × 100) of the total $8,880 assets held by Windsor Learning Services are financed by debt.

Exercise 1-14 (20 minutes)

	Assets	–	*Liabilities*	=	*Equity*
Beginning of the year	$ 75,000	–	$30,000	=	$ 45,000
End of the year	$120,000	–	$46,000	=	74,000

	(a)	*(b)*	*(c)*	*(d)*
Answers	$ 29,000	$86,000	$(51,000)	$(4,000)

Proofs:

Equity, January 1	$ 45,000	$ 45,000	$ 45,000	$ 45,000
Owner's investments during the year	0	0	80,000	75,000
Net income (loss) for the year	29,000	86,000	(51,000)	(4,000)
Owner's withdrawals during the year	(0)	(57,000)	(0)	(42,000)
Equity, December 31	$74,000	$74,000	$74,000	$74,000

a. *An alternative calculation:*

$45,000 + 0 + x – 0 = $74,000; x = $29,000

b. *An alternative calculation:*

$45,000 + 0 + x - $57,000 = $74,000; x = $86,000

c. *An alternative calculation:*

$45,000 + $80,000 + x - 0 = $74,000; x = ($51,000) where the negative represents a loss.

d. *An alternative calculation:*

$45,000 + $75,000 + x - $42,000 = $74,000; x = ($4,000) where the negative represents a loss.

Exercise 1-15 (10 minutes)

a.
If assets decreased by $15,000 during August, then
$25,000 + $15,000 = $40,000 Assets at August 1, 2014.
Therefore, Equity at August 1, 2014 = $40,000 - $10,000 = $30,000

b.
If liabilities increased by $9,000 during August, then
$10,000 + $9,000 = $19,000 Liabilities at August 31, 2014.
Therefore, Equity at August 31, 2014 = $25,000 - $19,000 = $6,000

Exercise 1-16 (15 minutes)

	Assets							Liabilities	+	Equity
	Cash	+	Accounts Receivable	+	Office Supplies	=		Accounts Payable	+	Marnie Wesson, Capital
a)	+ $25,000									+ $25,000
b)					+ $600			+ $600		
c)	+ 7,000									+ 7,000
d)*										
e)	– 4,500									– 4,500
f)			+ $1,250							+ 1,250
Totals	$27,500	+	$1,250	+	$600	=		$600	+	$28,750

$\underbrace{\qquad\qquad\qquad}_{\$29,350}$ = $\underbrace{\qquad\qquad\qquad}_{\$29,350}$

***Note: For (d), since no exchange has occurred, no entry is required.**

Exercise 1-17 (20 minutes)

	Assets							=	Liabilities	+	Equity
	Cash	+	Accounts Receivable	+	Parts Supplies	+	Equipment	=	Accounts Payable	+	Stacey Crowe, Capital
a)	+ $14,000										+ $ 14,000
b)	- 2,500										- 2,500
c)					+ $800				+ $800		
d)			+ $3,400								+ $ 3,400
e)	– $ 1,950						+ $1,950				
f)*											
g)	– $800								– $800		
h)	+ $3,400										+ $ 3,400
i)	– $2,700										– $ 2,700
Totals	$9,450	+	$3,400	+	$800	+	$1,950	=	$ 0	+	$15,600

$\underbrace{\qquad\qquad\qquad}_{\$15,600}$ = $\underbrace{\qquad\qquad\qquad}_{\$15,600}$

***Note: For (f), since no exchange has occurred, no entry is required.**

Exercise 1-18: (15 minutes)

b. **Office Supplies were purchased paying cash of $500.**
c. **Office Furniture was purchased paying cash of $8,000.**
d. **Completed work for a client on credit; $1,000.**
e. **Purchased office supplies on credit; $400.**
f. **Paid $250 to a creditor.**
g. **Collected $750 cash from a credit customer.**

Exercise 1-19 (20 minutes)

	Assets							=	Liabilities	+	Equity	Explanation of Equity Transaction
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Mailin Moon, Capital	
a)	+ $3,000						+ $2,500				+$5,500	Owner Investment
b)	+ $6,500										+$6,500	Revenue
c)					+ $600				+ $600			
d)	– $ 1,450										– $ 1,450	Sal. Expense
e)*												
f)	– $ 1,400										– $ 1,400	Rent Expense
g)			+ $4,500								+$4,500	Revenue
Totals	$6,650	+	$4,500	+	$600	+	$2,500	=	$600	+	$13,650	

$14,250 = $14,250

***Note: For (e), since no exchange has occurred, no entry is required.**

Exercise 1-20 (25 minutes)

Mailin Moon– Freelance Writing Income Statement For Month Ended March 31, 2014		
Revenues:		
Freelance writing revenue		$11,000
Operating expenses:		
Salaries expense	$ 1,450	
Rent expense	1,400	
Total operating expenses		2,850
Net income		$8,150

Mailin Moon– Freelance Writing Statement of Changes in Equity For Month Ended March 31, 2014		
Mailin Moon, capital, March 1		$ 0
Add: Investment by owner	$5,500	
Net income	8,150	13,650
Mailin Moon, capital, March 31		$13,650

Mailin Moon– Freelance Writing Balance Sheet March 31, 2014				
Assets			*Liabilities*	
Cash	$6,650		Accounts payable	$ 600
Accounts receivable	4,500			
Supplies	600			
Equipment	2,500			
			Equity	
			Mailin Moon, capital	13,650
Total assets	$14,250		Total liabilities and equity	$14,250

Analysis component:

a. **Supplies of $600 were financed by accounts payable, a liability.**
b. **Equipment of $2,500 was financed by owner investment, an equity transaction.**
c. **Cash of $6,650 and Accounts receivable of $4,500 were financed by an investment by owner of $3,000 and net income of $8,150. Net income includes the equity transactions of revenues and expenses (revenues of $11,000 less expenses of $2,850).**

Exercise 1-21 (20 minutes)

	Assets							= Liabilities	+	Equity	Explanation of Equity Transaction
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	= Accounts Payable	+	Pete Kequahtooway, Capital	
a)	+ $4,300						+$15,000			+$19,300	Owner Investment
b)					+$1,600			+$1,600			
c)					+$950			+$950			
d)*											
e)			+$550							+$550	Revenue
f)			+$600							+$600	Revenue
g)	-$200							-$200			
h)	-$250									-$250	Adv. Expense
i)	+$600		-$600								
Totals	$4,450	+	$550	+	$2,550	+	$15,000	= $2,350	+	$20,200	

$$\underbrace{\$4,450 + \$550 + \$2,550 + \$15,000}_{\$22,550} = \underbrace{\$2,350 + \$20,200}_{\$22,550}$$

***Note: For (d), since no exchange has occurred, no entry is required.**

Exercise 1-22 (25 minutes)

Pete's Yard Care Income Statement For Month Ended March 31, 2014		
Revenues:		
Yard care revenue		$1,150
Operating expenses:		
Advertising expense		250
Net income		$ 900

Pete's Yard Care Statement of Changes in Equity For Month Ended March 31, 2014		
Pete Kequahtooway, capital, March 1		$ 0
Add: Investment by owner	$19,300	
Net income	900	20,200
Pete Kequahtooway, capital, March 31		$20,200

Pete's Yard Care Balance Sheet March 31, 2014				
Assets			***Liabilities***	
Cash	$ 4,450		Accounts payable	$ 2,350
Accounts receivable	550			
Supplies	2,550			
Equipment	15,000			
			Equity	
			Pete Kequahtooway, capital	20,200
Total assets	$22,550		Total liabilities and equity	$22,550

Analysis component:

The $900 of net income does not represent cash because all of the revenues ($550 + $600 = $1,150) were on account. The $250 of advertising expense was paid in cash. The net income (loss) on an income statement represents the net income (loss) that was actually earned which is not necessarily going to agree to the net income (loss) actually received in cash. This is in accordance with the revenue recognition principle which says that revenues (and also expenses) are recorded at the time earned (or expensed in the case of expenses) regardless of whether cash has been exchanged.

Exercise 1-23 (20 minutes)

	Assets				= Liabilities +	Equity	Explanation of Equity Transaction
	Cash +	Accounts Receivable +	Supplies +	Equipment =	Accounts Payable +	Otto Ingles, Capital	
Bal.	$6,000	$1,200	$1,900	$6,500	$4,000	$11,600	
a)	+$800	-$800					
b)	-$2,500				-$2,500		
c)	+$1,100					+$1,100	Revenue
d)	-$950					-$950	Wage Exp.
e)	-$1,200					-$1,200	Rent Exp.
f)	-$600					-$600	Utilities Exp.
g)		+$1,600				+$1,600	Revenue
h)*							
Totals	$2,650 +	$2,000 +	$1,900 +	$6,500 =	$1,500 +	$11,550	

$13,050 = $13,050

***Note: For (h), since no exchange has occurred, no entry is required.**

Exercise 1-24 (25 minutes)

Otto's Wrecking Service Income Statement For Month Ended July 31, 2014		
Revenues:		
Wrecking revenue		$2,700
Operating expenses:		
Rent expense	$ 1,200	
Utilities expense	600	
Wage expense	950	
Total operating expenses		2,750
Net loss		$ 50

Otto's Wrecking Service Statement of Changes in Equity For Month Ended July 31, 2014		
Otto Ingles, capital, July 1		$ 11,600
Less: Net loss		50
Otto Ingles, capital, July 31		$ 11,550

Otto's Wrecking Service Balance Sheet July 31, 2014			
Assets		***Liabilities***	
Cash	$2,650	Accounts payable	$ 1,500
Accounts receivable	2,000		
Supplies	1,900		
Equipment	6,500		
		Equity	
		Otto Ingles, capital	11,550
Total assets	$13,050	Total liabilities and equity	$13,050

Analysis component:

$11,550 or 88.54% (calculated as $11,550/$13,050 × 100) of the assets are financed by Otto Ingles, the owner. $1,500 or 11.49% (calculated as $1,500/$13,050 × 100) of the assets are financed by debt.

PROBLEM SET "A"

Problem 1-1A (10 minutes)

Characteristic	Type of Business Organization		
	Sole Proprietorship	Partnership	Corporation
Limited liability			√
Unlimited liability	√	√	
Owners are shareholders			√
Owners are partners		√	
Taxed as a separate legal entity			√

Problem 1-2A (20 minutes)

	Year		
	2015	**2014**	**2013**
Beginning capital	**125,000[1]**	**28,000[3]**	**0**
+ Owner investment	**0**	**0**	**10,000**
+ Net income (loss)	**(5,000)**	**175,000**	**60,000[5]**
– Owner withdrawals	**0**	**78,000**	**42,000**
= Ending capital	**120,000**	**125,000[2]**	**28,000[4]**

Note: The superscripts show the order in which the answers were calculated.

Calculations:

1. **$120,000 + 5,000 = <u>$125,000</u>**
2. **<u>$125,000</u> (The beginning capital balance for one period is the ending capital balance of the previous period)**
3. **$125,000 + $78,000 - $175,000 = <u>$28,000</u>**
4. **<u>$28,000</u> (The beginning capital balance for one period is the ending capital balance of the previous period)**
5. **$28,000 + $42,000 - $10,000 = <u>$60,000</u>**

Problem 1-3A (30 minutes)

BEE-CLEAN
Income Statement
For Year Ended July 31, 2014

Revenues:		
Service revenue		$131,000
Repair revenue		2,500
Total revenues		$133,500
Operating expenses:		
Wages expense	$68,000	
Rent expense	14,000	
Supplies expense	15,900	
Utilities expense	9,800	
Interest expense	2,100	
Total operating expenses		109,800
Net income		$ 23,700

BEE-CLEAN
Statement of Changes in Equity
For Year Ended July 31, 2014

Bee Cummins, capital, August 1, 2013		$ 79,300
Add: Investments by owner	$ -0-	
Net income	23,700	23,700
Total		$ 103,000
Less: Withdrawals by owner		46,000
Bee Cummins, capital, July 31, 2014		$ 57,000

BEE-CLEAN
Balance Sheet
July 31, 2014

Assets		Liabilities	
Cash	$ 5,600	Accounts payable	$ 9,400
Accounts receivable	42,000	Notes payable	20,000
Supplies	2,400	Total liabilities	$ 29,400
Prepaid rent	4,000		
Office equipment	19,200	*Equity*	
Furniture	13,200	Bee Cummins, capital	57,000
Total assets	$86,400	Total liabilities and equity	$ 86,400

Problem 1-3A (concluded)

Analysis component:

$29,400 or 34.03% (calculated as $29,400/$86,400 × 100) of the assets are financed by debt. $57,000 or 65.97% (calculated as $57,000/$86,400 × 100) of the assets are financed by Bee Cummins, the owner.

Problem 1-4A (60 minutes) *Part 1*

LeCLAIRE DELIVERY SERVICES
Balance Sheet
December 31, 2013

Assets		***Liabilities***	
Cash	**$ 26,250**	**Accounts payable**	**$ 3,750**
Accounts receivable	**14,250**		
Office supplies	**2,250**		
Trucks	**27,000**	***Equity***	
Office equipment	**69,000**	**Jess LeClaire, capital**	**135,000[1]**
Total assets	**$138,750**	**Total liabilities and equity**	**$138,750**

Calculations:

1. **$138,750 – $3,750 = $135,000 (calculation of unknown amount)**

Problem 1-4A *(concluded) Part 1*

LeCLAIRE DELIVERY SERVICES
Balance Sheet
December 31, 2014

Assets		Liabilities	
Cash	$ 9,375	Accounts payable	$ 18,750
Accounts receivable	11,175	Notes payable	52,500
Office supplies	1,650	Total liabilities	$ 71,250
Trucks	27,000		
Office equipment	73,500		
Land	22,500	*Equity*	
Building	90,000	Jess LeClaire, capital	163,950[2]
Total assets	$235,200	Total liabilities and equity	$235,200

Calculations:

2. $235,200 – $71,250 = $163,950

Part 2

Calculation of net income for 2014:	
Jess LeClaire, Capital December 31, 2013	$135,000
+ Owner investment	17,500
+ Net income (loss)	?
– Owner withdrawals	18,000
= Jess LeClaire, capital December 31, 2014	$163,950

OR

$135,000 + $17,500 + ? - $18,000 = $163,950; ? = $29,450

Analysis component:

Assets increased by $96,450 ($235,200 - $138,750). $67,500 of the increase in assets were financed by an increase in debt (total liabilities went from $3,750 at December 31, 2013 to $71,250 at December 31, 2014). The remaining $28,950 increase in assets ($96,450 - $67,500) resulted from equity financing (equity increased to $163,950 at December 31, 2014 from $135,000 at December 31, 2013 because of $17,500 owner investment plus $29,450 net income less $18,000 of withdrawals during 2014).

Problem 1-5A (40 minutes) *Part 1*

Company A:

(a) Equity on December 31, 2013:

Assets	$90,000
Liabilities	–38,000
Equity	$52,000

(b) Equity on December 31, 2014:

Equity, December 31, 2013	$52,000
Add: Owner investments	10,000
Less: Owner's withdrawals	5,000
Net loss	16,000
Equity, December 31, 2014	$41,000

(c) Amount of liabilities on December 31, 2014:

Assets	$96,000
Equity	–41,000
Liabilities	$55,000

Part 2

Company B:

(a) and (b)

Equity:	*Dec. 31, 2013*	*Dec. 31, 2014*
Assets	$105,000	$82,000
Liabilities	–45,000	–55,000
Equity	$60,000	$27,000

(c) Net income (loss) for 2014:

Equity, December 31, 2013	$60,000
Add: Owner investments	19,000
Net income(loss)	?
Less: Owner withdrawals	6,000
Equity, December 31, 2014	$27,000

Therefore, the net loss must have been $(46,000).

Problem 1-5A *(continued)*

Part 3

Company C:

First, calculate the beginning balance of equity:

	Dec. 31, 2013
Assets	$58,000
Liabilities	–28,000
Equity	$30,000

Next, find the ending balance of equity by completing this table:

Equity, December 31, 2013	$30,000
Add: Owner investments	15,500
Net income	18,000
Less: Owner withdrawals	7,750
Equity, December 31, 2014	$55,750

Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of the liabilities:

	Dec. 31, 2014
Liabilities	$38,000
Equity	55,750
Assets	$93,750

Part 4

Company D:

First, calculate the beginning and ending equity balances:

	Dec. 31, 2013	*Dec. 31, 2014*
Assets	$160,000	$250,000
Liabilities	–76,000	–128,000
Equity	$84,000	$ 122,000

Then, find the amount of owner investments during 2014 by completing this table:

Equity, December 31, 2013	$84,000
Add: Owner investments	?
Net income	24,000
Less: Owner withdrawals	0
Equity, December 31, 2014	$122,000

Therefore, the owner investments must have been $14,000.

Problem 1-5A *(concluded)*

Part 5

Company E:

First, calculate the balance of equity as of December 31, 2014:

Assets	$225,000
Liabilities	–150,000
Equity	$ 75,000

Next, find the beginning balance of equity by completing this table:

Equity, December 31, 2013	$?
Add: Owner investments	9,000
Net income	36,000
Less: Owner withdrawals	18,000
Equity, December 31, 2014	$75,000

Therefore, the beginning balance of equity was $48,000.

Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of the assets:

	Dec. 31, 2013
Assets	$246,000
Equity	–48,000
Liabilities	$198,000

Problem 1-6A (45 minutes) ***Parts 1 and 2***

	Assets					= Liabilities		+ Equity	
	Cash	+ Accounts Receivable	+ Office Supplies	+ Office Equipment	+ Building	= Accounts Payable	+ Notes Payable	+ George Littlechild, Capital	Explanation of Equity Transaction
(a)	+$160,000			+$20,000				+$180,000	Investment by owner
(b)	– 100,000				+$600,000		+$500,000		
(c)	– 3,000		+$3,000						
(d)				+72,000		+$72,000			
(e)*									
(f)		+$5,200						+ 5,200	Service Revenue
(g)	– 3,500							– 3,500	Advertising Expense
(h)	+ 4,000							+ 4,000	Service Revenue
(i)	– 4,000					– 4,000			
(j)	+ 2,500	– 2,500							
(k)	– 7,000							– 7,000	Wages Expense
(l)	– 3,600							– 3,600	Withdrawal by owner
Bal.	$ 45,400	+ $2,700	+ $3,000	+ $92,000	+ $600,000	= $68,000	+ $500,000	+ $175,100	

$743,100 = $743,100

***NOTE: For (e), since no exchange has occurred, no entry is required.**

Problem 1-6A *(continued)*

Part 3

Littlechild Enterprises Income Statement For Month Ended March 31, 2014		
Revenues:		
Service revenue		$9,200
Operating expenses:		
Wages expense	$7,000	
Advertising expense	3,500	
Total operating expenses		10,500
Net loss		$1,300

Littlechild Enterprises Statement of Changes in Equity For Month Ended March 31, 2014		
George Littlechild, capital, March 1		$ 0
Add: Investment by owner		180,000
Total		$180,000
Less: Withdrawal by owner	$ 3,600	
Net loss	1,300	4,900
George Littlechild, capital, March 31		$175,100

Littlechild Enterprises Balance Sheet March 31, 2014				
Assets			*Liabilities*	
Cash	$ 45,400		Accounts payable	$ 68,000
Accounts receivable	2,700		Notes payable	500,000
Office supplies	3,000		Total liabilities	$568,000
Office equipment	92,000			
Building	600,000		*Equity*	
			George Littlechild, capital	$175,100
Total assets	$743,100		Total liabilities and equity	$743,100

Analysis component:

Assets result from a combination of debt and equity financing (A = L + E). Littlechild Enterprises' total assets of $743,100 resulted from incurring $568,000 in liabilities ($68,000 in accounts payable plus $500,000 of notes payable). $568,000/$743,100 x 100 = 76.44% or 76%. The remaining 24% of the assets were financed by equity transactions (owner investment and net income or loss less withdrawals made by the owner).

*Note: For November 16, since no exchange has occurred, no entry is required.

Last revised: October 26, 2012

Problem 1-7A (60 minutes)

		Cash	*Accounts Receivable*	*Office Supplies*	*Office Equip.*	*Electrical Equip.*	*Accounts Payable*	*Larry Power, Capital*	*Explanation of Equity Transaction*
Bal.	Oct. 31	$30,000	$7,000	$1,900	$28,000	$14,000	$18,000	$62,900	
	Nov. 1	-7,200						-7,200	Rent expense
	3	+10,000						+10,000	Investment by owner
	3	-10,000				+$18,000	+ $8,000		
	5	-1,800		+1,800					
	6	+2,000						+2,000	Electrical fees earned
	8				+5,200		+5,200		
	15		+6,000					+6,000	Electrical fees earned
	*16								
	18			+1,000			+1,000		
	20	-5,200					-5,200		
	24		+4,800					+4,800	Electrical fees earned
	28	+ 6,000	-6,000						
	30	-4,400						-4,400	Salaries expense
	30	-3,600						-3,600	Utilities expense
	30	-1,400						-1,400	Withdrawal by owner
		$14,400	$11,800	$4,700	$33,200	$32,000	$27,000	$69,100	

$96,100 = $96,100

Problem 1-7A (concluded)

Analysis component:

Revenue is not recorded on November 28 because the revenue was actually earned on November 15. The revenue recognition principle requires that revenue be recorded when it was incurred (when the economic exchange occurred), on November 15. Cash is being collected on November 28 and is recorded as a reduction of the asset, accounts receivable, that was realized on November 15.

Problem 1-8A

POWER ELECTRICAL
Income Statement
For Month Ended November 30, 2014

Revenues:		
Electrical fees earned		$12,800
Operating expenses:		
Rent expense	$7,200	
Salaries expense	4,400	
Utilities expense	3,600	
Total operating expenses		15,200
Net loss		$2,400

POWER ELECTRICAL
Statement of Changes in Equity
For Month Ended November 30, 2014

Larry Power, capital, November 1		$62,900
Add: Investments by owner		10,000
Total		$72,900
Less: Withdrawals by owner	$1,400	
Net loss	2,400	3,800
Larry Power, capital, November 30		$69,100

Problem 1-8A (concluded)

POWER ELECTRICAL
Balance Sheet
November 30, 2014

Assets		*Liabilities*	
Cash	$14,400	Accounts payable	$27,000
Accounts receivable	11,800		
Office supplies	4,700		
Office equipment	33,200	*Equity*	
Electrical equipment	32,000	Larry Power, capital	69,100
Total assets	$96,100	Total liabilities and equity	$96,100

Analysis component:

Power Electrical incurred a net loss of $2,400 for the month ended November 30, 2014. Therefore, instead of helping to finance assets, the November operating activities had a negative impact on equity. Equity did increase during November but because of an additional investment by the owner. As a sole proprietor, a goal is to increase equity because of positive earnings; not through owner investment.

Problem 1-9A (25 minutes)

		Balance Sheet			*Income Statement*
		Total Assets	*Total Liab.*	*Equity*	*Net Income*
1	Owner invests cash	+		+	
2	Sell services for cash	+		+	+
3	Acquire services on credit		+	–	–
4	Pay wages with cash	–		–	–
5	Owner withdraws cash	–		–	
6	Borrow cash with note payable	+	+		
7	Sell services on credit	+		+	+
8	Buy office equipment for cash	+/–			
9	Collect receivable from (7)	+/–			
10	Buy asset with note payable	+	+		

PROBLEM SET "B"

Problem 1-1B (5 minutes)

a) WestJet Airlines Ltd. is a corporation because it has shareholders.
b) Danier Leather is a corporation because it has shareholders.

Problem 1-2B (20 minutes)

	2015	2014	2013
Beginning capital	457,000[1]	369,000[3]	0
+ Owner investment	0	0	400,000
+ Net income (loss)	366,000	192,000	(31,000)[5]
– Owner withdrawals	218,000	104,000	0
= Ending capital	605,000	457,000[2]	369,000 [4]

Note: The superscripts show the order in which the answers were calculated.

Calculations:

1. 605,000 + 218,000 – 366,000 = <u>457,000</u>
2. The beginning capital of 457,000 for 2015 is the ending capital from 2014.
3. 457,000 + 104,000 – 192,000 = <u>369,000</u>
4. The beginning capital of 369,000 for 2014 is the ending capital from 2013.
5. 369,000 – 400,000 = <u>-31,000</u>

Problem 1-3B (30 minutes)

FIREWORKS FANTASIA
Income Statement
For Year Ended December 31, 2014

Revenues:		
Fees earned		$140,000
Rent revenue		66,000
Total revenues		$206,000
Operating expenses:		
Wages expense	$92,000	
Fireworks supplies expense	77,500	
Utilities expense	25,100	
Advertising expense	9,000	
Office supplies expense	3,600	
Total operating expenses		207,200
Net loss		$ 1,200

Problem 1-3B *(concluded)*

FIREWORKS FANTASIA
Statement of Changes in Equity
For Year Ended December 31, 2014

Wes Gandalf, capital, January 1		$175,200
Add: Investments by owner		30,000
Total		$205,200
Less: Withdrawals by owner	$12,000	
Net loss	1,200	13,200
Wes Gandalf, capital, December 31		$192,000

FIREWORKS FANTASIA
Balance Sheet
December 31, 2014

Assets		Liabilities	
Cash	$ 8,000	Accounts payable	$ 58,000
Accounts receivable	14,000		
Fireworks supplies	49,000		
Office supplies	3,000		
Tools	18,000		
Building	81,000	*Equity*	
Land	63,000	Wes Gandalf, capital	192,000
Office equipment	14,000	Total liabilities and	
Total assets	$250,000	equity	$250,000

Analysis component:

$58,000 or 23.20% (calculated as $58,000/$250,000 × 100) of the assets are financed by debt. $192,000 or 76.80% (calculated as $192,000/$250,000 × 100) of the assets are financed by Wes Gandalf, the owner.

Problem 1-4B (60 minutes) *Part 1*

CARMEN CREEK GOURMET MEATS
Balance Sheet
December 31, 2013

Assets		*Liabilities*	
Cash	$ 28,000	Accounts payable	$ 10,000
Accounts receivable	50,000		
Office supplies	20,000		
Office equipment	120,000	*Equity*	
Machinery	61,000	Carmen Munch, capital	269,000[1]
Total assets	$279,000	Total liabilities and equity	$279,000

CARMEN CREEK GOURMET MEATS
Balance Sheet
December 31, 2014

Assets		*Liabilities*	
Cash	$ 20,000	Accounts payable	$ 30,000
Accounts receivable	60,000	Notes payable	520,000
Office supplies	25,000	Total liabilities	550,000
Office equipment	120,000		
Machinery	61,000		
Building	520,000	*Equity*	
Land	130,000	Carmen Munch, capital	386,000[2]
Total assets	$936,000	Total liabilities and equity	$936,000

Calculations:

1. $279,000 – $10,000 = $269,000 (calculation of unknown capital amount)
2. $936,000 – $550,000 = $386,000 (calculation of unknown capital amount)

…. continued on next page

Problem 1-4B *(concluded) Part 2*

Calculation of net income for 2014:	
Carmen Munch, Capital December 31, 2013	**$269,000**
+ Owner investment	**50,000**
+ Net income (loss)	**?**
– Owner withdrawals (12 months X $2,000)	**24,000**
= Carmen Munch, Capital December 31, 2014	**$386,000**

OR

$269,000 + $50,000 + ? - $24,000 = $386,000; ? = $91,000

Analysis component:

Assets increased by $657,000 ($936,000 - $279,000). $540,000 of the increase in assets were financed by an increase in debt (total liabilities went from $10,000 at December 31, 2013 to $550,000 at December 31, 2014). The remaining $117,000 increase in assets ($657,000 - $540,000) resulted from equity financing (equity increased to $386,000 at December 31, 2014 from $269,000 at December 31, 2013 because of $50,000 owner investment plus $91,000 net income less $24,000 of withdrawals during 2014).

Problem 1-5B (40 minutes) *Part 1*

Company V:

(a) and (b)

Calculation of equity:

	12/31/13	***12/31/14***
Assets	**$165,000**	**$192,000**
Liabilities	**–30,000**	**–26,000**
Equity	**$135,000**	**$166,000**

(c) Calculation of net income (loss) for 2014:

Equity, December 31, 2013	**$135,000**
Add: Owner investments	**60,000**
Net income (loss)	**?**
Less: Owner withdrawals	**4,500**
Equity, December 31, 2014	**$166,000**

Therefore, the net loss must have been $(24,500).

Problem 1-5B *(continued)*

Part 2

Company W:

(a) Calculation of equity at December 31, 2013:

Assets	$70,000
Liabilities	–50,000
Equity	$20,000

(b) Calculation of equity at December 31, 2014:

Equity, December 31, 2013	$20,000
Add: Owner investments	10,000
Net income	30,000
Less: Owner withdrawals	2,000
Equity, December 31, 2014	$58,000

(c) Calculation of the amount of liabilities at December 31, 2013:

Assets	$90,000
Equity	–58,000
Liabilities	$32,000

Part 3

Company X:

First, calculate the beginning and ending equity balances:

	12/31/13	*12/31/14*
Assets	$121,500	$136,500
Liabilities	–58,500	–55,500
Equity	$ 63,000	$ 81,000

Then, find the amount of owner investments during 2014 by completing this table:

Equity, December 31, 2013	$63,000
Add: Owner investments	?
Net income	16,500
Less: Owner withdrawals	0
Equity, December 31, 2014	$81,000

Therefore, the owner investments must have been $1,500.

Problem 1-5B *(continued)*

Part 4

Company Y:

First, calculate the beginning balance of equity:

	Dec. 31, 2013
Assets	**$82,500**
Liabilities	**–50,000**
Equity	**$32,500**

Next, find the ending balance of equity by completing this table:

Equity, December 31, 2013	**$32,500**
Add: Owner investments	**38,100**
Less: Owner withdrawals	**18,000**
Net loss	**46,000**
Equity, December 31, 2014	**$6,600**

Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of the liabilities:

	Dec. 31, 2014
Liabilities	**$ 72,000**
Equity	**6,600**
Assets	**$78,600**

Problem 1-5B *(concluded) Part 5*

Company Z:

First, calculate the balance of equity as of December 31, 2014:

Assets	**$160,000**
Liabilities	**–52,000**
Equity	**$108,000**

Next, find the beginning balance of equity by completing this table:

Equity, December 31, 2013	**$?**
Add: Owner investments	**40,000**
Net income	**32,000**
Less: Owner withdrawals	**6,000**
Equity, December 31, 2014	**$108,000**

Therefore, the beginning balance of equity was $42,000.

Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of the assets:

	Dec. 31, 2014
Assets	**$124,000**
Equity	**–42,000**
Liabilities	**$ 82,000**

Problem 1-6B (45 minutes) ***Parts 1 and 2***

	Assets					= Liabilities		+ Equity	
	Cash	+ Accounts Receivable	+ Office Supplies	+ Office Equipment	+ Building	= Accounts Payable	+ Notes Payable	+ Lily Coe, Capital	Explanation of Equity Transaction
(a)	+$120,000			+ $10,000				+$130,000	Investment by owner
(b)	– 50,000				+$240,000		+$190,000		
(c)	– 18,000			+ 18,000					
(d)			+$4,000	+ 6,400		+$10,400			
(e)	– 4,500							– 4,500	Advertising Expense
(f)		+$6,000						+ 6,000	Consulting Services Revenue
(g)	+ 8,000							+ 8,000	Consulting Services Revenue
(h)	– 5,500							– 5,500	Withdrawal by owner
(i)*									
(j)	+ 4,000	– 4,000							
(k)	– 6,400					– 6,400			
(l)	– 3,800							– 3,800	Wages Expense
Bal.	$43,800 +	$2,000 +	$4,000 +	$34,400 +	$240,000 =	$4,000 +	$190,000 +	$130,200	

$$\underbrace{\$43{,}800 + \$2{,}000 + \$4{,}000 + \$34{,}400 + \$240{,}000}_{\$324{,}200} = \underbrace{\$4{,}000 + \$190{,}000 + \$130{,}200}_{\$324{,}200}$$

Note: For (i), since no exchange has occurred, no entry is required.

nalysis component:

ssets result from a combination of debt and equity financing (A = L + E). Coe's total assets of $324,200 resulted om incurring $194,000 in liabilities ($4,000 in accounts payable plus $190,000 of notes payable). 194,000/$324,200 x 100 = 59.84% or 60%. The remaining 40% of the assets were financed by equity transactions wner investment and net income less withdrawals made by the owner).

Problem 1-6B *(continued)*

Part 3

Coe Consulting Income Statement For Year Ended December 31, 2014		
Revenues:		
Consulting services revenue		**$14,000**
Operating expenses:		
Wages expense	**$3,800**	
Advertising expense	**4,500**	
Total operating expenses		**8,300**
Net income		**$5,700**

Coe Consulting Statement of Changes in Equity For Year Ended December 31, 2014		
Lily Coe, capital, January 1		**$ 0**
Add: Investment by owner	**$130,000**	
Net income	**5,700**	**135,700**
Total		**$135,700**
Less: Withdrawal by owner		**5,500**
Lily Coe, capital, December 31		**$130,200**

Coe Consulting Balance Sheet December 31, 2014				
Assets			***Liabilities***	
Cash	**$ 43,800**		**Accounts payable**	**$ 4,000**
Accounts receivable	**2,000**		**Notes payable**	**190,000**
Office supplies	**4,000**		**Total liabilities**	**$194,000**
Office equipment	**34,400**			
Building	**240,000**		***Equity***	
			Lily Coe, capital	**130,200**
Total assets	**$324,200**		**Total liabilities and equity**	**$324,200**

Problem 1-7B (50 minutes)

		Assets					= Liabilities	+ Equity	
		Cash	+ Accounts Receivable	+ Office Supplies	+ Office Equip.	+ Excavat Equip.	= Accounts Payable	+ Robert Cantu, Capital	Explanation of Equity Transaction
June	30	$ 12,000 +	$4,600 +	$1,560 +	$9,600 +	$24,000 =	$6,200 +	$45,560	
July	1	+ 20,000						+ 20,000	Investment by owner
	1	– 1,000						– 1,000	Rent Expense
	1	– 3,000				+ 8,000	+ 5,000		
	6	– 1,000		+ 1,000					
	8	+ 4,400						+ 4,400	Excavating Fees Earned
	10				+ 7,600		+ 7,600		
	15		+ 4,800					+ 4,800	Excavating Fees Earned
	17			+ 3,840			+ 3,840		
	23	– 7,600					– 7,600		
	25		+ 10,000					+ 10,000	Excavating Fees Earned
	28	+ 4,800	– 4,800						
	31	– 4,500						– 4,500	Salaries Expense
	31	– 1,700						– 1,700	Utilities Expense
	31	– 2,400						– 2,400	Withdrawal by owner
Bal.		$20,000 +	$14,600 +	$6,400 +	$17,200 +	$32,000 =	$15,040 +	$75,160	

$90,200 = $90,200

Problem 1-7B (concluded)

Analysis component:
The revenue recognition principle requires that revenue be recorded when it is incurred (when the economic exchange occurred), on July 15, even though cash is not received. The payment for this transaction is collected on July 28 and is recorded as a reduction of the asset, accounts receivable, that was realized on July 15.

Problem 1-8B

CANTU EXCAVATING
Income Statement
For Month Ended July 31, 2014

Revenues:		
Excavating fees earned		$19,200
Operating expenses:		
Salaries expense	$4,500	
Rent expense	1,000	
Utilities expense	1,700	
Total operating expenses		7,200
Net income		$12,000

CANTU EXCAVATING
Statement of Changes in Equity
For Month Ended July 31, 2014

Robert Cantu, capital, June 30		$45,560
Add: Investments by owner	$20,000	
Net income	12,000	32,000
Total		$77,560
Less: Withdrawals by owner		2,400
Robert Cantu, capital, July 31		$75,160

CANTU EXCAVATING
Balance Sheet
July 31, 2014

Assets		*Liabilities*	
Cash	$20,000	Accounts payable	$15,040
Accounts receivable	14,600		
Office supplies	6,400		
Office equipment	17,200	*Equity*	
Excavating equipment	32,000	Robert Cantu, capital	75,160
Total assets	$90,200	Total liabilities and equity	$90,200

Problem 1-8B (concluded)

Analysis component:
The owner of Cantu Excavating invested $120,000 during the month ended July 31, 2014 therefore having a positive impact on equity. Equity increased during July largely because of this additional investment by the owner. As a sole proprietor, a goal is to increase equity because of positive earnings; not through owner investment.

Problem 1-9B (25 minutes)

		Balance Sheet			*Income Statement*
		Total Assets	*Total Liab.*	*Equity*	*Net Income*
1	Owner invests cash	+		+	
2	Pay wages with cash	–		–	–
3	Acquire services on credit		+	–	–
4	Buy store equipment for cash	+/–			
5	Borrow cash with note payable	+	+		
6	Sell services for cash	+		+	+
7	Sell services on credit	+		+	+
8	Pay rent with cash	–		–	–
9	Owner withdraws cash	–		–	
10	Collect receivable from (7)	+/–			

ANALYTICAL AND REVIEW PROBLEMS

A&R Problem 1-1

TASKER AUTO REPAIR SHOP
Balance Sheet
November 30, 2014

Assets		*Liabilities*	
Cash	$ 6,300	Accounts payable	$34,650
Accounts receivable	47,250	Mortgage payable	28,350
Parts and supplies	14,175	Total liabilities	$63,000
Equipment	22,050		
		Equity	
		Jack Tasker, capital	26,775
Total assets	$89,775	Total liabilities and equity	$89,775

Note to Instructors:

To reinforce students' understanding of the nature of double-entry bookkeeping and the accounting equation, it may be advantageous to use this problem to demonstrate the importance of recording transactions correctly because neither double-entry bookkeeping nor the accounting equation guarantee the correctness of information; they only prove arithmetic accuracy.

Accordingly, the best way to explain this seemingly impossible situation to beginning students in accounting is to summarize both incorrect and the correct balance sheets in detail.

A&R Problem 1-2

SUSAN HUANG, LAWYER
Income Statement
For Month Ended October 31, 2014

Revenues		
Legal fees		$11,550
Operating expenses		
Salaries expense	$2,940	
Rent expense	2,100	
Supplies expense	420	
Telephone expense	210	
Total operating expenses		5,670
Net income		$ 5,880

SUSAN HUANG, LAWYER
Statement of Changes in Equity
For Month Ended October 31, 2014

Susan Huang, capital, October 1		$ 0
Add: Investment by owner	$10,500	
Net income	5,880	
Total	16,380	
Susan Huang capital, October 31		$16,380

SUSAN HUANG, LAWYER
Balance Sheet
October 31, 2014

Assets		*Liabilities*	
Cash	$ 3,780	Accounts payable	$ 1,050
Accounts receivable	2,100		
Supplies	1,050		
Law library	8,400	*Equity*	
Furniture	2,100	Susan Huang, capital	16,380
Total assets	$17,430	Total liabilities and equity	$17,430

A&R Problem 1-3

	Income Statement		Balance Sheet		
	Revenues	Expenses	Assets	Liabilities	Equity
1.	↑ $14,000		↑ $14,000		↑ $14,000
2.			↑ ↓ $5,000		
3.			↑ $25,000	↑ $25,000	
4.		↑ $500		↑ 500	↓ 500
5.			↓ 500	↓ 500	
6.			↑ 10,000		↑ 10,000
7.			↓ 5,000		↓ 5,000
8.			↓ 200		↓ 200
9.			↑ ↓ 2,000		
10.			↑ ↓ 12,000		
11.		↑ 45	↓ 45		↓ 45
12.	↑ 900		↑ 900		↑ 900

ETHICS CHALLENGE 1-1

1. **The accounting principle most relevant to this situation is the revenue recognition principle. The revenue recognition principle provides guidance on when revenue should be recognized on the income statement. The principle states that revenue should be recognized when earned. In this case, the earliest the revenue could be considered earned is when the product is shipped to customers.**

2. **If Sue is aware of the revenue recognition principle she faces a dilemma of applying GAAP, which will result in different revenue recognition than her supervisor is advocating. Sue faces a dilemma of following the guidance of her profession or following her supervisor. If Sue does not conform to her supervisor's wishes she may face the consequence of losing her job. If Sue does what her supervisor requests she may face internal anguish of doing something that she knows is not professionally correct and which may negatively affect any users of the financial statements that she is helping produce.**

3. **Students should support their decision with appropriate reasons likely echoing the discussion in 2) above.**

4. **Sue may be able to discuss the situation she is facing with someone else in the firm and find support for not following the supervisor's directive. If the intent to violate accounting principles is a commonplace occurrence in the skateboard company Sue may wish to seek employment elsewhere as the problem will likely reoccur in the future.**

23,000 23,000

FOCUS ON FINANCIAL STATEMENTS

FFS 1-1

Parts 1 and 2

June 2014

		Assets			=	Liabilities +		Equity	
		+	Accounts	+	Office	=	Accounts	+	Diane Towbell,	Explanation of
	Cash		Receivable		Equip.		Payable		Capital	Equity Transaction
June 1	+20,000				+6,000				+26,000	Owner investment
5			+3,000						+3,000	Service revenue
7	-1,500								-1,500	Rent expense
9	+1,000		-1,000							
15	-5,000								-5,000	Wages expense
17	+2,000								+2,000	Service revenue
29							+300		-300	Utilities expense
30	-1,500								-1,500	Wages expense
Totals	15,000	+	2,000	+	6,000	=	300	+	22,700	

23,800 23,800

FFS 1-1 (continued) *Parts 1 and 2*

July 2014

	Cash	+	Accounts Receivable	+	Office Equip.	=	Accounts Payable	+	Diane Towbell, Capital	Explanation of Equity Transaction
	Assets					=	*Liabilities*	+	*Equity*	
Balance June 30	15,000		2,000		6,000		300		22,700	
July 5			+3,500						+3,500	Service revenue
8	+2,000		-2,000							
9	-1,500								-1,500	Rent expense
12					+1,800		+1,800			
14	-1,000						-1,000			
15	-2,500								-2,500	Wages expense
17	+4,800								+4,800	Service revenue
25	-600						-300		-300	Utilities expense
31	-1,700								-1,700	Wages expense
31	-2,000								-2,000	Owner withdrawals
Totals	12,500	+	3,500	+	7,800	=	800	+	23,000	

FFS 1-1 *(continued)*

Part 3

GLENROSE SERVICING
Income Statement
For Month Ended June 30, 2014

Revenues:		
Service revenue		$5,000
Operating expenses:		
Wages expense	$6,500	
Rent expense	1,500	
Utilities expense	300	
Total operating expenses		8,300
Net loss		$3,300

GLENROSE SERVICING
Statement of Changes in Equity
For Month Ended June 30, 2014

Diane Towbell, capital, June 1		$ -0-
Add: Investments by owner		26,000
Total		$26,000
Less: Withdrawals by owner	$ -0-	
Net loss	3,300	3,300
Diane Towbell, capital, June 30		$22,700

GLENROSE SERVICING
Balance Sheet
June 30, 2014

Assets		Liabilities	
Cash	$15,000	Accounts payable	$ 300
Accounts receivable	2,000		
Office equipment	6,000	***Equity***	
		Diane Towbell, capital	22,700
Total assets	$23,000	Total liabilities and equity	$23,000

FFS 1-1 *(continued) Part 3*

GLENROSE SERVICING
Income Statement
For Month Ended July 31, 2014

Revenues:		
Service revenue		**$8,300**
Operating expenses:		
Wages expense	**$4,200**	
Rent expense	**1,500**	
Utilities expense	**300**	
Total operating expenses		**6,000**
Net income		**$2,300**

GLENROSE SERVICING
Statement of Changes in Equity
For Month Ended July 31, 2014

Diane Towbell, capital, July 1		**$22,700**
Add: Investments by owner	**$ -0-**	
Net income	**2,300**	**2,300**
Total		**$25,000**
Less: Withdrawals by owner		**2,000**
Diane Towbell, capital, July 31		**$23,000**

GLENROSE SERVICING
Balance Sheet
July 31, 2014

Assets		Liabilities	
Cash	**$12,500**	**Accounts payable**	**$ 800**
Accounts receivable	**3,500**		
Office equipment	**7,800**	***Equity***	
		Diane Towbell, capital	**23,000**
Total assets	**$23,800**	**Total liabilities and equity**	**$23,800**

FFS 1-1 (concluded)

Analysis component:

1. **The increase in assets of $800 from June 30, 2014 to July 31, 2014 was financed by a $500 increase in liabilities and a $300 increase in equity. The $300 increase in equity resulted from a net income of $2,300 less withdrawals of $2,000.**
2. **a. The income statement reports a company's financial performance. A company's financial performance is how a company performs or operates on a day-by-day basis: the generation of revenues and incurring of expenses that help create the revenues.**
   b. The balance sheet reports a company's financial position at a specific point in time. Financial position describes what assets, liabilities, and equity a company has on a given date. For example, Glenrose Servicing's cash balance on July 31, 2014 is $12,500 — this describes how much cash Glenrose had on July 31.
3. **Glenrose's July 31, 2014 income statement reports a net income of $2,300 which is reported on the July statement of changes in equity as one of the activities that caused equity to change during the month. The ending capital balance reported on the July statement of changes in equity is reported on the July balance sheet as the equity position on July 31, 2014.**

FFS 1-2

Part A

1. **WestJet's assets are classified into four groups on the December 31, 2011 balance sheet: current assets, property and equipment, intangible assets, and other assets.**
2. **WestJet rounds to thousands of Canadian dollars on its financial statements.**
3. **The December 31, 2011 balance sheet shows Assets of $3,473,678 thousand = Liabilities of $2,103,461 thousand + Equity of $1,370,217 thousand.**
4. **No, the personal assets belonging to the owners of WestJet are not included on WestJet's financial statements in accordance with the Business Entity Principle.**
5. **(variety of answers possible, for example, the accounts receivable manager would want to know if receivables are being collected efficiently)**

Part B

6. **a. Total assets = $76,477 thousand;**

   b. Total net assets = $76,477 thousand - $13,813 thousand = $62,664 thousand;

   c. Assets of $76,477 thousand = Liabilities of $13,813 thousand + Equity of $62,664 thousand.
7. **Data is provided on a comparative basis so decision makers can see the change from the previous year(s).**
8. **(variety of answers possible, for example, a potential creditor would be interested in knowing if Danier will have sufficient assets to cover any credit they grant)**

CRITICAL THINKING

CT 1-1

Note to instructor: Student responses will vary therefore the answer here is only suggested and not inclusive of all possibilities; it is presented in point form for brevity.

Goal(s)*:
- **Correctly state sales reports***

Problem(s):
- **Misclassification of items under GAAP**

Assumption(s)/Principle(s):
- **The report should be prepared in accordance with GAAP to protect users of the information … so that users know on what basis amounts have been recorded/reported.**

Facts:
- **as shown in the September sales report prepared by the sales person**

Conclusion(s)/Consequence(s):

— August 28 sale should be in August and not in September; consequence of current reporting is that August revenue, net income, and equity was understated and September revenue, net income, and equity are overstated

— September 10 purchase of desk is to be recorded as an asset and not expensed; consequence of current reporting is that September expenses will be overstated causing net income, assets, and equity to be understated.

— September 2–30 lunch costs should have been expensed; consequence of current reporting is that statements won't balance (it appears there are two credit entries with no debit) and that expenses are understated with net income and equity overstated.

— October 5 appears to be recorded correctly.

***This should be the goal since it is assumed that the owner(s) of the business want accurate reports. However, the salesperson might want to overstate the sales to make himself/herself look good; the marketing manager might want to overstate sales for the same reason. The goal is highly dependent on 'perspective'.**