

# Chapter 1

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## Accounting and the Business Environment

### Short Exercises

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(5 min.) S 1-1

**Req. 1**

**Revenues** are increases in equity from delivering goods or services to customers.

**Expenses** are decreases in equity from using assets or increasing liabilities in the course of delivering goods or services to customers.

**Req. 2**

If revenues increase, equity would *increase*.

(5 min.) S 1-2

**Req. 1**

The banker is an *external* user of financial information.

**Req. 2**

The financial statement that would provide the best information to answer the banker's questions is the *balance sheet*.

(5 – 10 min.) **S 1-3**

**Req. 1**

This organization is the *Financial Accounting Standards Board*.

(5 – 10 min.) **S 1-4**

**Req. 1**

*Chloe's* needs will best be met by organizing a *corporation*.

(5 – 10 min.) **S 1-5**

**Req. 1**

**Advantages:**

1. Easy to organize.
2. Neither stockholders to notify nor are there articles of incorporation to file.
3. Unification of ownership and management.

**Disadvantages:**

1. No continuous life or transferability of ownership.
2. Unlimited liability of owner.

**Req. 1**

- a. the entity concept**
- b. the cost principle**
- c. the stable monetary unit concept**
- d. the faithful representation principle**

**Req. 2**

Michael McNamee has \$11,000 equity in the business.

|                          |          |                    |          |                       |
|--------------------------|----------|--------------------|----------|-----------------------|
| <b>Assets</b>            | <b>=</b> | <b>Liabilities</b> | <b>+</b> | <b>Owner's equity</b> |
|                          |          | <b>Accounts</b>    |          |                       |
| <b>Cash + Furniture</b>  | <b>=</b> | <b>Payable</b>     | <b>+</b> | <b>Owner's equity</b> |
| <b>\$8,000 + \$9,000</b> | <b>=</b> | <b>\$6,000</b>     | <b>+</b> | <b>\$11,000</b>       |

(5 min.) S 1-7

**Req. 1**

|     | Assets                    | = | Liabilities            | + | Owner's equity     | Type of Transaction |
|-----|---------------------------|---|------------------------|---|--------------------|---------------------|
| (a) | Cash<br>\$320             | = | (not affected)<br>\$ 0 | + | Capital<br>\$320   | Revenues            |
| (b) | Cash<br>\$(125)           | = | (not affected)<br>0    | + | Capital<br>\$(125) | Expenses            |
| (c) | Accts receivable<br>\$440 | = | (not affected)<br>0    | + | Capital<br>\$440   | Revenues            |
| (d) | (not affected)<br>0       | = | Accts payable<br>\$65  | + | Capital<br>\$(65)  | Expenses            |

(5 min.) S 1-8

**Req. 1**

| Account | Amount      |
|---------|-------------|
| Cash    | \$ (26,000) |
| Land    | \$ 26,000   |

(5 min.) S 1-9

**Req. 1**

After this transaction (the first and only for the business), cash equals \$ 0 and the total assets equal \$2,800.

**Req. 2**

The business's asset which was increased as a result of the transaction is accounts receivable.

(5 min.) S 1-10

**Req. 1**

The business did not record any revenue when it collected cash on account because the business recorded the *revenue* one month earlier, when it was *earned*.

**Req. 2**

| Assets |        |   | =                   | Liabilities | +              | Owner's Equity | Type of Transaction |                     |
|--------|--------|---|---------------------|-------------|----------------|----------------|---------------------|---------------------|
|        | Cash   | + | Accounts receivable | =           | (not affected) | +              | Martin, capital     |                     |
| (a)    | \$ 500 | + | \$ 0                | =           | \$ 0           | +              | \$ 500              | Revenues            |
| (b)    | 500    | + | (500)               | =           | 0              | +              | 0                   | No effect on equity |

(10 min.) S 1-11

**Req. 1**

| Smart Touch Learning |                 |                       |                 |
|----------------------|-----------------|-----------------------|-----------------|
| Balance Sheet        |                 |                       |                 |
| April 21, 2013       |                 |                       |                 |
| ASSETS               |                 | LIABILITIES           |                 |
| Cash                 | \$11,900        | Accounts payable      | \$ 200          |
| Accounts receivable  | 3,000           |                       |                 |
| Office supplies      | 500             | OWNER'S EQUITY        |                 |
| Land                 | 20,000          | Bright, capital       | 35,200          |
|                      |                 | Total liabilities and |                 |
| Total assets         | <u>\$35,400</u> | owner's equity        | <u>\$35,400</u> |

(10 min.) S 1-12

**Req. 1**

| <b>Elegant Arrangements</b>         |                 |                        |
|-------------------------------------|-----------------|------------------------|
| <b>Income Statement</b>             |                 |                        |
| <b>Year Ended December 31, 2012</b> |                 |                        |
| <b>Revenue:</b>                     |                 |                        |
| <b>Service revenue</b>              |                 | <b>\$74,000</b>        |
| <b>Expenses:</b>                    |                 |                        |
| <b>Salary expense</b>               | <b>\$42,000</b> |                        |
| <b>Rent expense</b>                 | <b>13,000</b>   |                        |
| <b>Insurance expense</b>            | <b>4,000</b>    |                        |
| <b>Supplies expense</b>             | <b>1,100</b>    |                        |
| <b>Total expenses</b>               |                 | <b><u>60,100</u></b>   |
| <b>Net income</b>                   |                 | <b><u>\$13,900</u></b> |

(10 min.) S 1-13

**Req. 1** The operations of Elegant Arrangements in 2012 resulted in a *good* year.  
This can be measured by the *net income of \$13,900*.

**Req. 2** Net income would be *lower by \$14,800*.

**Req. 3** Net income would be *lower by \$8,400*.

# Exercises

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(10 – 15 min.) E 1-14

**Req. 1**

1. E
2. A
3. I
4. F
5. J
6. B
7. D
8. C
9. G
10. H
11. K

(15 - 20 min.) E 1-15

**Req. 1**

The *balance sheet* is prepared by summarizing the assets, liabilities, and owner's equity of the entity at a particular date. The *assets* are the resources the business has to work with. *Liabilities* are debts owed to creditors. *Owner's equity* is the portion of the business assets owned outright by the proprietor.

The *income statement* is prepared by summarizing the revenues and the expenses of a particular entity for a period such as a month or a year. Total *revenues* minus total *expenses* equals *net income* (or *net loss*).

**Req. 2**

The *Financial Accounting Standards Board* is the self-regulating body of accountants that defines pronouncements that guide how the financial statements will be prepared.

**Req. 3**

Before lending money, the lender evaluates O'Brien's ability to make the loan payments. Lenders will use the reported net income and other information in the financial statements to predict future income of the O'Brien travel magazine. Therefore the bank requires the financial statements of the O'Brien travel magazine to make a decision about lending money to O'Brien.

**Req. 4**

Evan O'Brien is organized as a *proprietorship*.

**Req. 5**

A *corporation* would be the best option.

|                  | <u>Assets</u> | = | <u>Liabilities</u> | + | <u>Owner's equity</u> |
|------------------|---------------|---|--------------------|---|-----------------------|
| New Rock Gas     | \$ ?          |   | \$24,000           |   | \$50,000              |
| DJ Video Rentals | 75,000        |   | ?                  |   | 32,000                |
| Corner Grocery   | 100,000       |   | 53,000             |   | ?                     |

**Req. 1**

|                  |                |   |                                 |
|------------------|----------------|---|---------------------------------|
| New Rock Gas     | Assets         | = | \$24,000 + \$50,000 = \$74,000  |
| DJ Video Rentals | Liabilities    | = | \$75,000 – \$32,000 = \$43,000  |
| Corner Grocery   | Owner's equity | = | \$100,000 – \$53,000 = \$47,000 |

**Req. 2**

The main characteristics of a proprietorship are:

1. Separate legal entity
2. No continuous life and transferability of ownership
3. Unlimited liability of owner
4. Unification of ownership and management
5. No corporate taxation
6. No government regulation

**Req. 3**

The accounting concept or principle that tells us that the above three proprietorships will continue to exist in the future is the *going-concern concept*.

(5 - 10 min.) E 1-17

**Req. 1**

Under the US GAAP, the land would be reported on the balance sheet at January 3, 2012 at \$50,000. On the December 31, 2012 balance sheet, the land would be reported at \$50,000.

**Req. 2**

Under IFRS, the land would be reported on the balance sheet at January 3, 2012 at \$50,000. On the December 31, 2012 balance sheet, the land would be recorded at \$55,000.

(5 - 10 min.) E 1-18

**Req. 1**

|  | a.              | b.              | c.              |
|--|-----------------|-----------------|-----------------|
| Owner's equity, May 31, 2012<br>(\$177,000 – \$122,000)  | \$55,000        | \$55,000        | \$55,000        |
| Owner's investment                                       | 6,000           | 0               | 18,000          |
| Net income for the month                                 | <u>8,000</u>    | <u>24,000</u>   | <u>16,000</u>   |
|  | 69,000          | 79,000          | 89,000          |
| Drawings   | <u>0</u>        | <u>(10,000)</u> | <u>(20,000)</u> |
| Owner's equity, June 30, 2012<br>(\$213,000 – \$144,000) | <u>\$69,000</u> | <u>\$69,000</u> | <u>\$69,000</u> |

**(5 - 10 min.) E 1-19**

**Req. 1**

- a. Purchase of asset for cash**
  - Sale of asset for cash**
  - Collection of accounts receivable**
- b. Pay an expense**
  - Drawings**
- c. Pay an account payable**
- d. Investment by owner**
  - Revenue transaction**
- e. Purchase of asset on account**
  - Borrow money**

**Wording may vary.**

**(10 – 20 min.) E 1-20**

**Req. 1**

- a. Increase asset (Cash)**
  - Increase capital (Viviani, capital)**
- b. Increase asset (Accounts receivable)**
  - Increase capital (Viviani, capital)**
- c. Increase asset (Office furniture)**
  - Increase liability (Accounts Payable)**

**Req. 1**

- d. Increase asset (Cash)  
Decrease asset (Accounts receivable)**
- e. Decrease asset (Cash)  
Decrease liability (Accounts payable)**
- f. Increase asset (Cash)  
Decrease asset (Land)**
- g. Increase asset (Cash)  
Increase capital (Viviani, capital)**
- h. Decrease asset (Cash)  
Decrease capital (Viviani, capital)**
- i. Increase asset (Supplies)  
Decrease asset (Cash)**

## Req. 1

## Analysis of Transactions

Caren Smith, M.D.

| DATE   | ASSETS          |                    |               | = | LIABILITIES + OWNER'S EQUITY |                | TYPE OF OWNER'S EQUITY TRANSACTION |
|--------|-----------------|--------------------|---------------|---|------------------------------|----------------|------------------------------------|
|        | CASH +          | MEDICAL SUPPLIES + | LAND          | = | ACCOUNTS PAYABLE +           | SMITH, CAPITAL |                                    |
| July 6 | <u>55,000</u>   |                    |               |   |                              | <u>55,000</u>  | Owner's investment                 |
| Bal.   | 55,000          | 0                  | 0             |   | 0                            | 55,000         |                                    |
| 9      | <u>(46,000)</u> |                    | <u>46,000</u> |   |                              |                | No effect                          |
| Bal.   | 9,000           | 0                  | 46,000        |   | 0                            | 55,000         |                                    |
| 12     |                 | <u>1,800</u>       |               |   | <u>1,800</u>                 |                | No effect                          |
| Bal.   | 9,000           | 1,800              | 46,000        |   | 1,800                        | 55,000         |                                    |
| 15     |                 |                    |               |   |                              |                | No effect                          |
| Bal.   | 9,000           | 1,800              | 46,000        |   | 1,800                        | 55,000         |                                    |
| 15-31  | <u>8,000</u>    |                    |               |   |                              | <u>8,000</u>   | Service revenue                    |
| Bal.   | 17,000          | 1,800              | 46,000        |   | 1,800                        | 63,000         |                                    |
| 29     | <u>(1,600)</u>  |                    |               |   |                              | <u>(1,600)</u> | Salary expense                     |
|        | <u>(900)</u>    |                    |               |   |                              | <u>(900)</u>   | Rent expense                       |
|        | <u>(100)</u>    |                    |               |   |                              | <u>(100)</u>   | Utilities expense                  |
| Bal.   | 14,400          | 1,800              | 46,000        |   | 1,800                        | 60,400         |                                    |
| 30     |                 | <u>(700)</u>       |               |   | <u>(700)</u>                 |                | No effect                          |
| Bal.   | 14,400          | 1,100              | 46,000        |   | 1,100                        | 60,400         |                                    |
| 31     | <u>(1,100)</u>  |                    |               |   | <u>(1,100)</u>               |                | No effect                          |
| Bal.   | <u>13,300</u>   | <u>1,100</u>       | <u>46,000</u> |   | <u>0</u>                     | <u>60,400</u>  |                                    |

\$60,400
=
\$60,400  
 Total assets = Total liabilities and owner's equity

(10 - 15 min.) E 1-22

**Req. 1**

**Transaction Description**

1. Investment by the owner
2. Earned revenue on account
3. Purchased equipment on account
4. Collected cash on account
5. Cash purchase of equipment
6. Paid on account
7. Earned revenue and received cash
8. Paid cash for expenses

**Req. 2**

All-in-one Accounting Service's net income = \$3,090.

(10 min.) E 1-23

**Req. 1**

The owner's equity *increased* during the year by \$4,000.

Beginning owner's equity:  $\$19,000 - \$9,000 = \$10,000$

Ending owner's equity :  $\$27,000 - \$13,000 = \$14,000$

Change in owner's equity:  $\$14,000 - \$10,000 = \$4,000$

**Req. 2**

Owner's equity can change three ways:

- Owner's equity can *increase* through: Owner contributions and/or Net income
- Owner's equity can *decrease* through: Owner drawings

**Req. 1**

**Net income for American Express Services (AES) is  
\$7,000,000,000.**

$$\begin{array}{rcl} \text{Revenues} & - & \text{Expenses} = \text{Net Income} \\ \$21,000,000,000 & - & \$14,000,000,000 = \$7,000,000,000 \end{array}$$

**Req. 2**

**The owner's equity *increased* during the year by  
\$7,000,000,000.**

**Req.3**

**The AES's performance for 2012 is *good*, because 2012 was a  
*profitable year.***

**Req. 1**

|                  | <b>Assets</b>    | - | <b>Liabilities</b> | = | <b>Owner's equity</b> |
|------------------|------------------|---|--------------------|---|-----------------------|
| <b>Beginning</b> | <b>\$ 45,000</b> | - | <b>\$29,000</b>    | = | <b>\$16,000</b>       |
| <b>Ending</b>    | <b>\$ 55,000</b> | - | <b>\$38,000</b>    | = | <b>\$17,000</b>       |

| <b><u>Owner's equity</u></b>   |                        |
|--------------------------------|------------------------|
| <b>Beginning balance:</b>      | <b>\$ 16,000</b>       |
| <b>Investment by the owner</b> | <b>0</b>               |
| <b>Net income</b>              | <b>20,000</b>          |
|                                | <b>\$36,000</b>        |
| <b>Drawings</b>                | <b>(19,000)</b>        |
| <b>Ending balance</b>          | <b><u>\$17,000</u></b> |

**Felix earned net income of \$20,000.**

| <b>Revenue</b>    | - | <b>Net income</b> | = | <b>Expenses</b>  |
|-------------------|---|-------------------|---|------------------|
| <b>\$ 242,000</b> | - | <b>\$20,000</b>   | = | <b>\$222,000</b> |

**Req. 2**

**Felix's performance for the year was *good* because the business *earned a net income*.**

**Req. 1**

| <b><u>Effects on total assets</u></b> | <b><u>Asset account(s) affected</u></b> |
|---------------------------------------|---|
| a. Increased total assets             | Cash                                    |
| b. No effect on total assets          | Cash and land                           |
| c. Decreased total assets             | Cash                                    |
| d. Increased total assets             | Equipment                               |
| e. Increased total assets             | Accounts receivable                     |
| f. No effect on total assets          | No asset account(s) affected            |
| g. No effect on total assets          | Cash and Accounts receivable            |
| h. Increased total assets             | Cash                                    |
| i. Decreased total assets             | Cash                                    |
| j. No effect on total assets          | No asset account(s) affected            |

**Req. 1**

| <b>Wilson Towing Service</b> |                        |                       |                        |
|------------------------------|------------------------|-----------------------|------------------------|
| <b>Balance Sheet</b>         |                        |                       |                        |
| <b>June 30, 2012</b>         |                        |                       |                        |
| <b>ASSETS</b>                |                        | <b>LIABILITIES</b>    |                        |
| Cash                         | \$ 2,900               | Accounts payable      | \$ 3,000               |
| Accounts receivable          | 6,200                  | Note payable          | <u>6,900</u>           |
| Supplies                     | 900                    | Total liabilities     | 9,900                  |
| Equipment                    | 13,600                 | <b>OWNER'S EQUITY</b> |                        |
|                              |                        | Wilson, capital       | <u>13,700*</u>         |
|                              | <u>          </u>      | Total liabilities and |                        |
| <b>Total assets</b>          | <b><u>\$23,600</u></b> | <b>owner's equity</b> | <b><u>\$23,600</u></b> |

$$\begin{array}{rclcl}
 * \text{ Total assets} & - & \text{Total liabilities} & = & \text{Owner's equity} \\
 \$23,600 & - & \$9,900 & = & \$13,700
 \end{array}$$

**Req. 2** The balance sheet reports *financial position*.

**Req. 3** The *income statement*.

**Req. 1**

| <b>Davis Design Studio</b>          |                     |                         |
|-------------------------------------|---------------------|-------------------------|
| <b>Income Statement</b>             |                     |                         |
| <b>Year Ended December 31, 2012</b> |                     |                         |
| <b>Revenue:</b>                     |                     |                         |
| <b>Service revenue</b>              |                     | <b>\$158,300</b>        |
| <b>Expenses:</b>                    |                     |                         |
| <b>Salary expense</b>               | <b>\$65,000</b>     |                         |
| <b>Rent expense</b>                 | <b>23,000</b>       |                         |
| <b>Utilities expense</b>            | <b>6,900</b>        |                         |
| <b>Supplies expense</b>             | <b>4,200</b>        |                         |
| <b>Property tax expense</b>         | <b><u>1,500</u></b> |                         |
| <b>Total expenses</b>               |                     | <b><u>100,600</u></b>   |
| <b>Net income</b>                   |                     | <b><u>\$ 57,700</u></b> |

The result of operations is net income of **\$57,700**

**Req. 2**

The amount of owner drawings during the year was **\$54,400**.

# Problems

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## Group A

(15 - 20 min.) **P 1-29A**

### *Req. 1*

1. D
2. E
3. G
4. H
5. A
6. I
7. B
8. C
9. F
10. J

**Req. 1**

The proprietorship feature that limits Andrea's business taxes is called *business taxation*.

**Req. 2**

| <b>Andrea Scarlett, Realtor</b> |                  |                       |                  |
|---------------------------------|------------------|-----------------------|------------------|
| <b>Balance Sheet</b>            |                  |                       |                  |
| <b>September 30, 2012</b>       |                  |                       |                  |
| <b>ASSETS</b>                   |                  | <b>LIABILITIES</b>    |                  |
| Cash                            | \$ 9,000         | Accounts payable      | \$ 2,000         |
| Office supplies                 | 1,300            | Note payable          | 61,000           |
| Franchise                       | 23,000           | Total liabilities     | 63,000           |
| Furniture                       | 15,000           | <b>OWNER'S EQUITY</b> |                  |
| Land                            | 83,000           | Scarlett, capital     | 68,300*          |
|                                 |                  | Total liabilities and |                  |
| Total assets                    | <u>\$131,300</u> | owner's equity        | <u>\$131,300</u> |

$$\begin{array}{rclcl}
 * \text{ Total assets} & - & \text{Total liabilities} & = & \text{Total owner's equity} \\
 \$131,300 & - & \$63,000 & = & \$68,300
 \end{array}$$

**Req. 3**

Personal items not reported on the balance sheet of the business:

|                           |           |
|---------------------------|-----------|
| Personal cash             | \$5,000   |
| Personal accounts payable | \$4,000   |
| Mortgage payable          | \$80,000  |
| Residence                 | \$160,000 |

## Req. 1

## Analysis of Transactions

Alex Shore, CPA

| DATE   | ASSETS         |   |                     |   | =          | LIABILITIES + OWNER'S EQUITY |              | TYPE OF OWNER'S EQUITY TRANSACTION |                  |                  |   |                    |
|--------|----------------|---|---------------------|---|------------|------------------------------|--------------|------------------------------------|------------------|------------------|---|--------------------|
|        | CASH           | + | ACCOUNTS RECEIVABLE | + |            | SUPPLIES                     | +            |                                    | OFFICE FURNITURE | ACCOUNTS PAYABLE | + | SHORE, CAPITAL     |
| Feb 4* |                |   |                     |   |            |                              |              |                                    |                  |                  |   |                    |
| 5      | <u>50,000</u>  |   |                     |   |            |                              |              |                                    |                  | <u>50,000</u>    |   | Owner's investment |
| Bal.   | 50,000         |   | 0                   |   | 0          |                              | 0            |                                    | 0                | 50,000           |   |                    |
| 6      | <u>(100)</u>   |   |                     |   | <u>100</u> |                              |              |                                    |                  |                  |   |                    |
|        | 49,900         |   | 0                   |   | 100        |                              | 0            |                                    | 0                | 50,000           |   |                    |
| 7      |                |   |                     |   |            |                              | <u>9,700</u> |                                    | <u>9,700</u>     |                  |   |                    |
| Bal.   | 49,900         |   | 0                   |   | 100        |                              | 9,700        |                                    | 9,700            | 50,000           |   |                    |
| 10*    |                |   |                     |   |            |                              |              |                                    |                  |                  |   |                    |
| 11*    |                |   |                     |   |            |                              |              |                                    |                  |                  |   |                    |
| 12     |                |   |                     |   |            |                              |              |                                    |                  |                  |   |                    |
| Bal.   | 49,900         |   | 0                   |   | 100        |                              | 9,700        |                                    | 9,700            | 50,000           |   |                    |
| 18     |                |   | <u>17,000</u>       |   |            |                              |              |                                    |                  | <u>17,000</u>    |   | Service revenue    |
| Bal.   | 49,900         |   | 17,000              |   | 100        |                              | 9,700        |                                    | 9,700            | 67,000           |   |                    |
| 25     | <u>(1,500)</u> |   |                     |   |            |                              |              |                                    |                  | <u>(1,500)</u>   |   | Rent expense       |
| Bal.   | 48,400         |   | 17,000              |   | 100        |                              | 9,700        |                                    | 9,700            | 65,500           |   |                    |
| 28     | <u>(1,000)</u> |   |                     |   |            |                              |              |                                    |                  | <u>(1,000)</u>   |   | Owner's drawing    |
| Bal.   | <u>47,400</u>  |   | <u>17,000</u>       |   | <u>100</u> |                              | <u>9,700</u> |                                    | <u>9,700</u>     | <u>64,500</u>    |   |                    |

$$\underbrace{\hspace{15em}}_{\$74,200}$$

$$= \underbrace{\hspace{15em}}_{\$74,200}$$

\*Not a transaction of the business.

**Req. 2**

- a. Total assets = \$74,200**
- b. Total liabilities = \$ 9,700**
- c. Total owner's' equity = \$64,500**
- d. Net income for February = \$15,500**



**Req. 2**

|    |                      |   |           |
|----|----------------------|---|-----------|
| a. | Total assets         | = | \$108,600 |
| b. | Total liabilities    | = | \$ 9,300  |
| c. | Total owner's equity | = | \$ 99,300 |
| d. | Net income for March | = | \$ 12,300 |

**Req. 3**

**Angela Peter's first month of operations was *good* because the business *earned net income of \$12,300*.**

**Req. 1**

| <i>Date</i> |    | <i>Transaction Type</i> | <i>Account</i>               | <i>Increase / Decrease</i> | <i>Amount</i> |
|-------------|----|-------------------------|------------------------------|----------------------------|---------------|
| Oct.        | 4  | Owner's investment      | Cash<br>Zelinsky, capital    | Increase<br>Increase       | \$5,000       |
|             | 9  | Cash purchase           | Land<br>Cash                 | Increase<br>Decrease       | \$4,000       |
|             | 13 | Purchase on account     | Supplies<br>Accounts payable | Increase<br>Increase       | \$400         |
|             | 16 | Payment on account      | Accounts payable<br>Cash     | Decrease<br>Decrease       | \$1,500       |
|             | 19 | Collection on account   | Cash<br>Accounts receivable  | Increase<br>Decrease       | \$1,300       |
|             | 22 | Owner's investment      | Cash<br>Zelinsky, capital    | Increase<br>Increase       | \$5,000       |
|             | 25 | Payment on account      | Accounts payable<br>Cash     | Decrease<br>Decrease       | \$600         |
|             | 27 | Cash purchase           | Supplies<br>Cash             | Increase<br>Decrease       | \$800         |
|             | 30 | Owner's drawing         | Zelinsky, capital<br>Cash    | Decrease<br>Decrease       | \$5,700       |

## Req. 1

## Analysis of Transactions

## Dance Fever

| DATE | ASSETS  |                       |            |        | = | LIABILITIES      | + OWNER'S EQUITY | TYPE OF OWNER'S EQUITY TRANSACTION |
|------|---------|-----------------------|------------|--------|---|------------------|------------------|------------------------------------|
|      | CASH    | + ACCOUNTS RECEIVABLE | + SUPPLIES | + LAND | = | ACCOUNTS PAYABLE | + CRONE, CAPITAL |                                    |
| Bal. | 2,300   | 1,800                 | 0          | 14,000 | = | 8,000            | 10,100           |                                    |
| a)   | 13,000  |                       |            |        | = |                  | 13,000           | Owner's investment                 |
| Bal. | 15,300  | 1,800                 | 0          | 14,000 | = | 8,000            | 23,100           |                                    |
| b)   | 900     |                       |            |        | = |                  | 900              | Service revenue                    |
| Bal. | 16,200  | 1,800                 | 0          | 14,000 | = | 8,000            | 24,000           |                                    |
| c)   | (8,000) |                       |            |        | = | (8,000)          |                  |                                    |
| Bal. | 8,200   | 1,800                 | 0          | 14,000 | = | 0                | 24,000           |                                    |
| d)   |         |                       | 600        |        | = | 600              |                  |                                    |
| Bal. | 8,200   | 1,800                 | 600        | 14,000 | = | 600              | 24,000           |                                    |
| e)   | 700     | (700)                 |            |        | = |                  |                  |                                    |
| Bal. | 8,900   | 1,100                 | 600        | 14,000 | = | 600              | 24,000           |                                    |
| f)   | 1,600   |                       |            |        | = |                  | 1,600            | Owner's investment                 |
| Bal. | 10,500  | 1,100                 | 600        | 14,000 | = | 600              | 25,600           |                                    |
| g)   |         | 5,500                 |            |        | = |                  | 5,500            | Service revenue                    |
| Bal. | 10,500  | 6,600                 | 600        | 14,000 | = | 600              | 31,100           |                                    |
| h)-1 | (1,200) |                       |            |        | = |                  | (1,200)          | Rent expense                       |
| h)-2 | (600)   |                       |            |        | = |                  | (600)            | Advertising expense                |
| Bal. | 8,700   | 6,600                 | 600        | 14,000 | = | 600              | 29,300           |                                    |
| i)   |         |                       | (110)      |        | = | (110)            |                  |                                    |
| Bal. | 8,700   | 6,600                 | 490        | 14,000 | = | 490              | 29,300           |                                    |
| j)   | (2,000) |                       |            |        | = |                  | (2,000)          | Owner's drawings                   |
| Bal. | 6,700   | 6,600                 | 490        | 14,000 | = | 490              | 27,300           |                                    |

\$27,790

\$27,790

**Req. 1**

| <b>Gate City Answering Service</b>  |                     |                         |
|-------------------------------------|---------------------|-------------------------|
| <b>Income Statement</b>             |                     |                         |
| <b>Year Ended December 31, 2012</b> |                     |                         |
| <b>Revenue:</b>                     |                     |                         |
| <b>Service revenue</b>              |                     | <b>\$192,000</b>        |
|                                     |                     |                         |
| <b>Expenses:</b>                    |                     |                         |
| <b>Salary expense</b>               | <b>\$65,000</b>     |                         |
| <b>Advertising expense</b>          | <b>15,000</b>       |                         |
| <b>Rent expense</b>                 | <b>13,000</b>       |                         |
| <b>Interest expense</b>             | <b>7,000</b>        |                         |
| <b>Property tax expense</b>         | <b>2,600</b>        |                         |
| <b>Insurance expense</b>            | <b><u>2,500</u></b> |                         |
| <b>Total expenses</b>               |                     | <b><u>105,100</u></b>   |
| <b>Net income</b>                   |                     | <b><u>\$ 86,900</u></b> |

**Req. 2**

| <b>Gate City Answering Service</b>       |                         |
|--|-------------------------|
| <b>Statement of Owner's Equity</b>       |                         |
| <b>Year Ended December 31, 2012</b>      |                         |
| <b>Wayne, capital, December 31, 2011</b> | <b>\$54,000</b>         |
| <b>Owner investment</b>                  | <b>28,000</b>           |
| <b>Net income</b>                        | <b><u>86,900</u></b>    |
|  | <b>168,900</b>          |
| <b>Drawings</b>                          | <b><u>(30,000)</u></b>  |
| <b>Wayne, capital, December 31, 2012</b> | <b><u>\$138,900</u></b> |

**Req. 3**

| <b>Gate City Answering Service</b> |                         |                       |                         |
|------------------------------------|-------------------------|-----------------------|-------------------------|
| <b>Balance Sheet</b>               |                         |                       |                         |
| <b>December 31, 2012</b>           |                         |                       |                         |
| <b>ASSETS</b>                      |                         | <b>LIABILITIES</b>    |                         |
| Cash                               | \$ 3,000                | Accounts payable      | \$11,000                |
| Accounts receivable                | 1,000                   | Salary payable        | 1,300                   |
| Supplies                           | 10,000                  | Note payable          | <u>32,000</u>           |
| Equipment                          | 16,000                  | Total liabilities     | \$44,300                |
| Building                           | 145,200                 | <b>OWNER'S EQUITY</b> |                         |
| Land                               | 8,000                   | Wayne, capital        | <u>138,900</u>          |
|                                    | <u>          </u>       | Total liabilities and |                         |
| <b>Total assets</b>                | <b><u>\$183,200</u></b> | <b>owner's equity</b> | <b><u>\$183,200</u></b> |

**Req. 4**

- a. Result of operations: Profit of \$86,900
- b. The total economic resources were \$183,200
- c. The total amount owed was \$44,300
- d. The amount of owner's equity at the end of the year was \$138,900

**Req. 1**

a.

| <b>Studio Photography</b>           |              |                 |
|-------------------------------------|--------------|-----------------|
| <b>Income Statement</b>             |              |                 |
| <b>Year Ended December 31, 2012</b> |              |                 |
| <b>Revenue:</b>                     |              |                 |
| Service revenue                     |              | <b>\$80,000</b> |
| <b>Expenses:</b>                    |              |                 |
| Salary expense                      | \$25,000     |                 |
| Insurance expense                   | 8,000        |                 |
| Advertising expense                 | <u>3,000</u> |                 |
| Total expenses                      |              | <u>36,000</u>   |
| <b>Net income</b>                   |              | <b>\$44,000</b> |

b.

| <b>Studio Photography</b>                |                        |
|--|------------------------|
| <b>Statement of Owner's Equity</b>       |                        |
| <b>Year Ended December 31, 2012</b>      |                        |
| <b>Ansel, capital, December 31, 2011</b> | <b>\$16,000</b>        |
| <b>Owner investment</b>                  | <b>29,000</b>          |
| <b>Net income</b>                        | <u><b>44,000</b></u>   |
|  | <b>89,000</b>          |
| <b>Drawings</b>                          | <u><b>(13,000)</b></u> |
| <b>Ansel, capital, December 31, 2012</b> | <b>\$76,000</b>        |

c.

| <b>Studio Photography</b>  |                        |                              |                        |
|----------------------------|------------------------|------------------------------|------------------------|
| <b>Balance Sheet</b>       |                        |                              |                        |
| <b>December 31, 2012</b>   |                        |                              |                        |
| <b>ASSETS</b>              |                        | <b>LIABILITIES</b>           |                        |
| <b>Cash</b>                | <b>\$37,000</b>        | <b>Accounts payable</b>      | <b>\$ 7,000</b>        |
| <b>Accounts receivable</b> | <b>8,000</b>           | <b>Note payable</b>          | <u><b>12,000</b></u>   |
| <b>Equipment</b>           | <b>50,000</b>          | <b>Total liabilities</b>     | <b>19,000</b>          |
|                            |                        | <b>OWNER'S EQUITY</b>        |                        |
|                            |                        | <b>Ansel, capital</b>        | <u><b>76,000</b></u>   |
|                            |                        | <b>Total liabilities and</b> |                        |
| <b>Total assets</b>        | <u><b>\$95,000</b></u> | <b>owner's equity</b>        | <u><b>\$95,000</b></u> |

**Req. 1**

| <b>Greener Landscaping</b> |                        |                       |                         |
|----------------------------|------------------------|-----------------------|-------------------------|
| <b>Balance Sheet</b>       |                        |                       |                         |
| <b>November 30, 2012</b>   |                        |                       |                         |
| <b>ASSETS</b>              |                        | <b>LIABILITIES</b>    |                         |
| Cash                       | \$ 4,900               | Accounts payable      | \$ 2,700                |
| Accounts receivable        | 2,200                  | Note payable          | <u>24,200</u>           |
| Office supplies            | 600                    | Total liabilities     | 26,900                  |
| Office furniture           | 6,100                  |                       |                         |
| Land                       | 34,200                 | <b>OWNER'S EQUITY</b> |                         |
|                            |                        | Tum, capital          | <u>21,100*</u>          |
|                            | <u>        </u>        | Total liabilities and |                         |
| <b>Total assets</b>        | <b><u>\$48,000</u></b> | <b>owner's equity</b> | <b><u>\$ 48,000</u></b> |

$$*\$48,000 - \$26,900 = \$21,100$$

**Req. 2**

**Total assets as presented in the corrected balance sheet *decreased* from the original balance sheet because *expenses and liabilities were incorrectly classified as assets.***

# Problems

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## Group B

(15 - 20 min.) P 1-38B

### Req. 1

1. D
2. E
3. G
4. H
5. A
6. I
7. B
8. C
9. F
10. J

(20 – 25 min.) P 1-39B

### Req. 1

The proprietorship feature that limits Sandy's business taxes is called *business taxation*.

### Req.2

| Sandy White, Realtor |                         |                       |                         |
|----------------------|-------------------------|-----------------------|-------------------------|
| Balance Sheet        |                         |                       |                         |
| May 31, 2012         |                         |                       |                         |
| ASSETS               |                         | LIABILITIES           |                         |
| Cash                 | \$ 13,000               | Accounts payable      | \$ 5,000                |
| Office supplies      | 1,100                   | Note payable          | 62,000                  |
| Franchise            | 26,000                  | Total liabilities     | 67,000                  |
| Furniture            | 20,000                  | OWNER'S EQUITY        |                         |
| Land                 | 80,000                  | White, capital        | 73,100*                 |
|                      |                         | Total liabilities and |                         |
| <b>Total assets</b>  | <b><u>\$140,100</u></b> | <b>owner's equity</b> | <b><u>\$140,100</u></b> |

Req 1

(continued) P 1-39B

|   |                     |          |                          |          |                             |
|---|---------------------|----------|--------------------------|----------|-----------------------------|
| * | <b>Total assets</b> | <b>–</b> | <b>Total liabilities</b> | <b>=</b> | <b>Total owner's equity</b> |
|   | <b>\$140,100</b>    | <b>–</b> | <b>\$67,000</b>          | <b>=</b> | <b>\$73,100</b>             |

*Req. 3*

**Personal items not reported on the balance sheet of the business:**

|                                  |                  |
|----------------------------------|------------------|
| <b>Personal cash</b>             | <b>\$4,000</b>   |
| <b>Personal accounts payable</b> | <b>\$3,000</b>   |
| <b>Mortgage payable</b>          | <b>\$70,000</b>  |
| <b>Residence</b>                 | <b>\$130,000</b> |

## Req. 1

## Analysis of Transactions

Arron Woody, CPA

|        |                | ASSETS |                     |   |            | = | LIABILITIES + OWNER'S EQUITY |   |                  |   |                |                                    |
|--------|----------------|--------|---------------------|---|------------|---|------------------------------|---|------------------|---|----------------|------------------------------------|
| DATE   | CASH           | +      | ACCOUNTS RECEIVABLE | + | SUPPLIES   | + | OFFICE FURNITURE             | = | ACCOUNTS PAYABLE | + | WOODY, CAPITAL | TYPE OF OWNER'S EQUITY TRANSACTION |
| Feb 4* |                |        |                     |   |            |   |                              |   |                  |   |                |                                    |
| 5      | <u>40,000</u>  |        | <u>0</u>            |   | <u>0</u>   |   | <u>0</u>                     |   | <u>0</u>         |   | <u>40,000</u>  | Owner's investment                 |
| Bal.   | 40,000         |        | 0                   |   | 0          |   | 0                            |   | 0                |   | 40,000         |                                    |
| 6      | <u>(200)</u>   |        | <u>0</u>            |   | <u>200</u> |   | <u>0</u>                     |   | <u>0</u>         |   | <u>40,000</u>  |                                    |
| Bal.   | 39,800         |        | 0                   |   | 200        |   | 0                            |   | 0                |   | 40,000         |                                    |
| 7      |                |        | <u>0</u>            |   | <u>0</u>   |   | <u>9,500</u>                 |   | <u>9,500</u>     |   | <u>40,000</u>  |                                    |
| Bal.   | 39,800         |        | 0                   |   | 200        |   | 9,500                        |   | 9,500            |   | 40,000         |                                    |
| 10*    |                |        |                     |   |            |   |                              |   |                  |   |                |                                    |
| 11*    |                |        |                     |   |            |   |                              |   |                  |   |                |                                    |
| 12     |                |        |                     |   |            |   |                              |   |                  |   |                |                                    |
| 18     |                |        | <u>14,000</u>       |   | <u>0</u>   |   | <u>0</u>                     |   | <u>0</u>         |   | <u>14,000</u>  | Service revenue                    |
| Bal.   | 39,800         |        | 14,000              |   | 200        |   | 9,500                        |   | 9,500            |   | 54,000         |                                    |
| 25     | <u>(1,900)</u> |        | <u>0</u>            |   | <u>0</u>   |   | <u>0</u>                     |   | <u>0</u>         |   | <u>(1,900)</u> | Rent expense                       |
| Bal.   | 37,900         |        | 14,000              |   | 200        |   | 9,500                        |   | 9,500            |   | 52,100         |                                    |
| 28     | <u>(8,000)</u> |        | <u>0</u>            |   | <u>0</u>   |   | <u>0</u>                     |   | <u>0</u>         |   | <u>(8,000)</u> | Owner's drawings                   |
| Bal.   | <u>29,900</u>  |        | <u>14,000</u>       |   | <u>200</u> |   | <u>9,500</u>                 |   | <u>9,500</u>     |   | <u>44,100</u>  |                                    |

\$53,600

\$53,600

\*Not a transaction of the business.

**Req.2**

- a. Total assets = \$53,600**
- b. Total liabilities = \$ 9,500**
- c. Total owner's equity = \$44,100**
- d. Net income for February = \$12,100**

## Req. 1

## Analysis of Transactions

Aimee Griffin, Attorney

| ASSETS |                |   |                     |   | = LIABILITIES + OWNER'S EQUITY |   | TYPE OF OWNER'S EQUITY TRANSACTION |          |              |                  |                |                    |  |
|--------|----------------|---|---------------------|---|--------------------------------|---|------------------------------------|----------|--------------|------------------|----------------|--------------------|--|
| DATE   | CASH           | + | ACCOUNTS RECEIVABLE | + | SUPPLIES                       | + |                                    | COMPUTER | =            | ACCOUNTS PAYABLE | +              | GRIFFIN, CAPITAL   |  |
| Dec 1* |                |   |                     |   |                                |   |                                    |          |              |                  |                |                    |  |
| 2*     |                |   |                     |   |                                |   |                                    |          |              |                  |                |                    |  |
| 3*     |                |   |                     |   |                                |   |                                    |          |              |                  |                |                    |  |
| 5      | <u>109,000</u> |   |                     |   |                                |   |                                    |          |              |                  | <u>109,000</u> | Owner's investment |  |
| Bal.   | <u>109,000</u> |   | <u>0</u>            |   | <u>0</u>                       |   | <u>0</u>                           |          | <u>0</u>     |                  | <u>109,000</u> |                    |  |
| 7      | <u>(900)</u>   |   |                     |   | <u>900</u>                     |   |                                    |          |              |                  |                |                    |  |
| Bal.   | <u>108,100</u> |   | <u>0</u>            |   | <u>900</u>                     |   | <u>0</u>                           |          | <u>0</u>     |                  | <u>109,000</u> |                    |  |
| 9      |                |   |                     |   |                                |   | <u>9,200</u>                       |          | <u>9,200</u> |                  |                |                    |  |
| Bal.   | <u>108,100</u> |   | <u>0</u>            |   | <u>900</u>                     |   | <u>9,200</u>                       |          | <u>9,200</u> |                  | <u>109,000</u> |                    |  |
| 23     |                |   | <u>17,000</u>       |   |                                |   |                                    |          |              |                  | <u>17,000</u>  | Service revenue    |  |
| Bal.   | <u>108,100</u> |   | <u>17,000</u>       |   | <u>900</u>                     |   | <u>9,200</u>                       |          | <u>9,200</u> |                  | <u>126,000</u> |                    |  |
| 30     | <u>(1,900)</u> |   |                     |   |                                |   |                                    |          |              |                  | <u>(1,900)</u> | Utilities expense  |  |
| Bal.   | <u>106,200</u> |   | <u>17,000</u>       |   | <u>900</u>                     |   | <u>9,200</u>                       |          | <u>9,200</u> |                  | <u>124,100</u> |                    |  |
| 31     | <u>(5,000)</u> |   |                     |   |                                |   |                                    |          |              |                  | <u>(5,000)</u> | Owner's drawings   |  |
| Bal.   | <u>101,200</u> |   | <u>17,000</u>       |   | <u>900</u>                     |   | <u>9,200</u>                       |          | <u>9,200</u> |                  | <u>119,100</u> |                    |  |
|        |                |   |                     |   | \$128,300                      |   |                                    |          |              |                  |                | \$128,300          |  |

\*Not a transaction of the business.

**Req. 2**

|    |                         |   |           |
|----|-------------------------|---|-----------|
| a. | Total assets            | = | \$128,300 |
| b. | Total liabilities       | = | \$9,200   |
| c. | Total owner's equity    | = | \$119,100 |
| d. | Net income for December | = | \$15,100  |

**Req. 3**

**Aimee Griffin's first month of operations was *good* because the business *earned net income of \$15,100*.**

**Req. 1****Alterri Mechanical**

| <i>Date</i> |    | <i>Transaction Type</i> | <i>Account</i>               | <i>Increase / Decrease</i> | <i>Amount</i> |
|-------------|----|-------------------------|------------------------------|----------------------------|---------------|
| Nov.        | 4  | Owner's investment      | Cash<br>Alterri, capital     | Increase<br>Increase       | \$3,000       |
|             | 9  | Cash purchase           | Land<br>Cash                 | Increase<br>Decrease       | \$3,000       |
|             | 13 | Purchase on account     | Supplies<br>Accounts payable | Increase<br>Increase       | \$200         |
|             | 16 | Payment on account      | Accounts payable<br>Cash     | Decrease<br>Decrease       | \$1,700       |
|             | 19 | Collection on account   | Cash<br>Accounts receivable  | Increase<br>Decrease       | \$900         |
|             | 22 | Owner's investment      | Cash<br>Alterri, capital     | Increase<br>Increase       | \$8,000       |
|             | 25 | Payment on account      | Accounts payable<br>Cash     | Decrease<br>Decrease       | \$500         |
|             | 27 | Cash purchase           | Supplies<br>Cash             | Increase<br>Decrease       | \$600         |
|             | 30 | Owner's drawings        | Alterri, capital<br>Cash     | Decrease<br>Decrease       | \$5,500       |

## Req. 1

## Analysis of Transactions

Top 40

| DATE     | ASSETS  |                       |            |          | =      | LIABILITIES + OWNER'S EQUITY |                     | TYPE OF OWNER'S EQUITY TRANSACTION |
|----------|---------|-----------------------|------------|----------|--------|------------------------------|---------------------|------------------------------------|
|          | CASH    | + ACCOUNTS RECEIVABLE | + SUPPLIES | + LAND   |        | ACCOUNTS PAYABLE             | + CRONE, CAPITAL    |                                    |
| Bal.     | 2,100   | 2,000                 | 0          | 10,000   | 6,000  | 8,100                        |                     |                                    |
| a)       | 10,000  |                       |            |          |        | 10,000                       | Owner's investment  |                                    |
| Bal.     | 12,100  | 2,000                 | 0          | 10,000   | 6,000  | 18,100                       |                     |                                    |
| b)       | 1,000   |                       |            |          |        | 1,000                        | Service revenue     |                                    |
| Bal.     | 13,100  | 2,000                 | 0          | 10,000   | 6,000  | 19,100                       |                     |                                    |
| c)       | (6,000) |                       |            |          | (6000) |                              |                     |                                    |
| Bal.     | 7,100   | 2,000                 | 0          | 10,000   | 0      | 19,100                       |                     |                                    |
| d)       |         |                       | 700        |          | 700    |                              |                     |                                    |
| Bal.     | 7,100   | 2,000                 | 700        | 10,000   | 700    | 19,100                       |                     |                                    |
| e)       | 500     | (500)                 |            |          |        |                              |                     |                                    |
| Bal.     | 7,600   | 1,500                 | 700        | 10,000   | 700    | 19,100                       |                     |                                    |
| f)       | 1,900   |                       |            |          |        | 1,900                        | Owner's investment  |                                    |
| Bal.     | 9,500   | 1,500                 | 700        | 10,000   | 700    | 21,000                       |                     |                                    |
| g)       |         | 5,800                 |            |          |        | 5,800                        | Service revenue     |                                    |
| Bal.     | 9,500   | 7,300                 | 700        | 10,000   | 700    | 26,800                       |                     |                                    |
| h)-1     | (900)   |                       |            |          |        | (900)                        | Rent expense        |                                    |
| h)-2     | (400)   |                       |            |          |        | (400)                        | Advertising expense |                                    |
| Bal.     | 8,200   | 7,300                 | 700        | 10,000   | 700    | 25,500                       |                     |                                    |
| i)       |         |                       | (80)       |          | (80)   |                              |                     |                                    |
| Bal.     | 8,200   | 7,300                 | 620        | 10,000   | 620    | 25,500                       |                     |                                    |
| j)       | (2,700) |                       |            |          |        | (2,700)                      | Owner's drawings    |                                    |
| Bal.     | 5,500   | 7,300                 | 620        | 10,000   | 620    | 22,800                       |                     |                                    |
| \$23,420 |         |                       |            | \$23,420 |        |                              |                     |                                    |

**Req. 1**

| <b>Quick and EZ Delivery</b>        |                     |                         |
|-------------------------------------|---------------------|-------------------------|
| <b>Income Statement</b>             |                     |                         |
| <b>Year Ended December 31, 2012</b> |                     |                         |
| <b>Revenue:</b>                     |                     |                         |
| <b>Service revenue</b>              |                     | <b>\$192,000</b>        |
|                                     |                     |                         |
| <b>Expenses:</b>                    |                     |                         |
| <b>Salary expense</b>               | <b>\$69,000</b>     |                         |
| <b>Advertising expense</b>          | <b>17,000</b>       |                         |
| <b>Rent expense</b>                 | <b>13,000</b>       |                         |
| <b>Interest expense</b>             | <b>6,000</b>        |                         |
| <b>Property tax expense</b>         | <b>2,900</b>        |                         |
| <b>Insurance expense</b>            | <b><u>2,000</u></b> |                         |
| <b>Total expenses</b>               |                     | <b><u>109,900</u></b>   |
| <b>Net income</b>                   |                     | <b><u>\$ 82,100</u></b> |

**Req. 2**

| <b>Quick and EZ Delivery</b>             |                         |
|--|-------------------------|
| <b>Statement of Owner's Equity</b>       |                         |
| <b>Year Ended December 31, 2012</b>      |                         |
| <b>Trott, capital, December 31, 2011</b> | <b>\$51,000</b>         |
| <b>Owner investment</b>                  | <b>32,000</b>           |
| <b>Net income</b>                        | <b><u>82,100</u></b>    |
|  | <b>165,100</b>          |
| <b>Drawings</b>                          | <b><u>(32,000)</u></b>  |
| <b>Trott, capital, December 31, 2012</b> | <b><u>\$133,100</u></b> |

**Req. 3**

| <b>Quick and EZ Delivery</b> |                         |                       |                         |
|------------------------------|-------------------------|-----------------------|-------------------------|
| <b>Balance Sheet</b>         |                         |                       |                         |
| <b>December 31, 2012</b>     |                         |                       |                         |
| <b>ASSETS</b>                |                         | <b>LIABILITIES</b>    |                         |
| Cash                         | \$ 6,000                | Accounts payable      | \$14,000                |
| Accounts receivable          | 1,700                   | Salary payable        | 500                     |
| Supplies                     | 8,000                   | Note payable          | <u>30,000</u>           |
| Equipment                    | 17,000                  | Total liabilities     | 44,500                  |
| Building                     | 137,900                 |                       |                         |
| Land                         | 7,000                   | <b>OWNER'S EQUITY</b> |                         |
|                              |                         | Trott, capital        | <u>133,100</u>          |
|                              |                         | Total liabilities and |                         |
| <b>Total assets</b>          | <b><u>\$177,600</u></b> | <b>owner's equity</b> | <b><u>\$177,600</u></b> |

**Req. 4**

- b. Result of operations: Net income of \$82,100
- b. The total economic resources were \$177,600
- c. The total amount owed was \$44,500
- d. The amount of owner's equity at the end of the year was \$133,100

**Req. 1****a.**

| <b>Photo Gallery</b>                |                 |                        |
|-------------------------------------|-----------------|------------------------|
| <b>Income Statement</b>             |                 |                        |
| <b>Year Ended December 31, 2012</b> |                 |                        |
| <b>Revenue:</b>                     |                 |                        |
| Service revenue                     |                 | <b>\$78,000</b>        |
| <b>Expenses:</b>                    |                 |                        |
| Salary expense                      | <b>\$21,000</b> |                        |
| Insurance expense                   | <b>9,000</b>    |                        |
| Advertising expense                 | <b>2,000</b>    |                        |
| Total expenses                      |                 | <b><u>32,000</u></b>   |
| <b>Net income</b>                   |                 | <b><u>\$46,000</u></b> |

**b.**

| <b>Photo Gallery</b>                  |                        |
|---------------------------------------|------------------------|
| <b>Statement of Owner's Equity</b>    |                        |
| <b>Year Ended December 31, 2012</b>   |                        |
| Leibovitz, capital, December 31, 2011 | <b>\$17,000</b>        |
| Owner investment                      | <b>35,000</b>          |
| Net income                            | <b><u>46,000</u></b>   |
|                                       | <b>98,000</b>          |
| Drawings                              | <b><u>(14,000)</u></b> |
| Leibovitz, capital, December 31, 2012 | <b><u>\$84,000</u></b> |

**c.**

| <b>Photo Gallery</b>     |                         |                       |                         |
|--------------------------|-------------------------|-----------------------|-------------------------|
| <b>Balance Sheet</b>     |                         |                       |                         |
| <b>December 31, 2012</b> |                         |                       |                         |
| <b>ASSETS</b>            |                         | <b>LIABILITIES</b>    |                         |
| Cash                     | <b>\$26,000</b>         | Accounts payable      | <b>\$ 4,000</b>         |
| Accounts receivable      | <b>6,000</b>            | Note payable          | <b><u>14,000</u></b>    |
| Equipment                | <b>70,000</b>           | Total liabilities     | <b>18,000</b>           |
|                          |                         | <b>OWNER'S EQUITY</b> |                         |
|                          |                         | Leibovitz, capital,   | <b><u>84,000</u></b>    |
|                          |                         | Total liabilities and |                         |
| <b>Total assets</b>      | <b><u>\$102,000</u></b> | owner's equity        | <b><u>\$102,000</u></b> |

**Req. 1**

| <b>Outdoor Life Landscaping</b> |                        |                       |                         |
|---------------------------------|------------------------|-----------------------|-------------------------|
| <b>Balance Sheet</b>            |                        |                       |                         |
| <b>July 31, 2012</b>            |                        |                       |                         |
| <b>ASSETS</b>                   |                        | <b>LIABILITIES</b>    |                         |
| Cash                            | \$ 5,000               | Accounts payable      | \$ 2,800                |
| Accounts receivable             | 2,300                  | Note payable          | <u>26,400</u>           |
| Office supplies                 | 800                    | Total liabilities     | 29,200                  |
| Office furniture                | 5,200                  | <b>OWNER'S EQUITY</b> |                         |
| Land                            | 28,400                 | Kamp, capital         | <u>12,500*</u>          |
|                                 |                        | Total liabilities and |                         |
| <b>Total assets</b>             | <u><b>\$41,700</b></u> | <b>owner's equity</b> | <u><b>\$ 41,700</b></u> |

$$*\$41,700 - \$29,200 = \$12,500$$

**Req. 2**

**Total assets as presented in the corrected balance sheet *decreased* from the original balance sheet because *expenses and liabilities were incorrectly classified as assets.***

# Continuing Exercise

(10 - 15 min.) E 1- 47

Req. 1

## Analysis of Transactions

## Lawlor Lawn Service

| DATE  | ASSETS       |                     |                   |              | = | LIABILITIES        | +               | OWNER'S EQUITY     | TYPE OF OWNER'S EQUITY TRANSACTION |
|-------|--------------|---------------------|-------------------|--------------|---|--------------------|-----------------|--------------------|------------------------------------|
|       | CASH +       | ACCOUNTS RECEIVABLE | + LAWN SUPPLIES + | EQUIPMENT    | = | ACCOUNTS PAYABLE + | LAWLOR, CAPITAL |                    |                                    |
| May 1 | <u>1,700</u> |                     |                   |              |   |                    | <u>1,700</u>    | Owner's investment |                                    |
| Bal.  | <u>1,700</u> | 0                   | 0                 |              |   | 0                  | <u>1,700</u>    |                    |                                    |
| 3     |              |                     |                   | <u>1,440</u> |   | <u>1,440</u>       |                 |                    |                                    |
| Bal.  | <u>1,700</u> | 0                   | 0                 | <u>1,440</u> |   | <u>1,440</u>       | <u>1,700</u>    |                    |                                    |
| 5     | <u>(30)</u>  |                     |                   |              |   |                    | <u>(30)</u>     | Fuel expense       |                                    |
| Bal.  | <u>1,670</u> | 0                   | 0                 | <u>1,440</u> |   | <u>1,440</u>       | <u>1,670</u>    |                    |                                    |
| 6     |              | <u>150</u>          |                   |              |   |                    | <u>150</u>      | Service revenue    |                                    |
| Bal.  | <u>1,670</u> | <u>150</u>          | 0                 | <u>1,440</u> |   | <u>1,440</u>       | <u>1,820</u>    |                    |                                    |
| 8     | <u>(150)</u> |                     | <u>150</u>        |              |   |                    |                 |                    |                                    |
| Bal.  | <u>1,520</u> | <u>150</u>          | <u>150</u>        | <u>1,440</u> |   | <u>1,440</u>       | <u>1,820</u>    |                    |                                    |
| 17    | <u>800</u>   |                     |                   |              |   |                    | <u>800</u>      | Service revenue    |                                    |
| Bal.  | <u>2,320</u> | <u>150</u>          | <u>150</u>        | <u>1,440</u> |   | <u>1,440</u>       | <u>2,620</u>    |                    |                                    |
| 31    | <u>100</u>   | <u>(100)</u>        |                   |              |   |                    |                 |                    |                                    |
| Bal.  | <u>2,420</u> | <u>50</u>           | <u>150</u>        | <u>1,440</u> |   | <u>1,440</u>       | <u>2,620</u>    |                    |                                    |

\$4,060

\$4,060

# Continuing Problem

(20 - 25 min.) P 1- 48

Req. 1

## Analysis of Transactions

## Draper Consulting

| ASSETS |                |                       |            |              |              | = LIABILITIES + OWNER'S EQUITY |                 |                                    |
|--------|----------------|-----------------------|------------|--------------|--------------|--------------------------------|-----------------|------------------------------------|
| DATE   | CASH +         | ACCOUNTS RECEIVABLE + | SUPPLIES+  | EQUIPMENT +  | FURNITURE =  | ACCOUNTS PAYABLE +             | DRAPER, CAPITAL | TYPE OF OWNER'S EQUITY TRANSACTION |
| Dec. 2 | <u>18,000</u>  |                       |            |              |              |                                | <u>18,000</u>   | Owner's investment                 |
| Bal.   | 18,000         | 0                     | 0          | 0            | 0            | 0                              | 18,000          |                                    |
| 2      | <u>(550)</u>   |                       |            |              |              |                                | <u>(550)</u>    | Rent expense                       |
| Bal.   | 17,450         | 0                     | 0          | 0            | 0            | 0                              | 17,450          |                                    |
| 3      | <u>(1,800)</u> |                       |            | <u>1,800</u> |              |                                |                 |                                    |
| Bal.   | 15,650         | 0                     | 0          | 1,800        | 0            | 0                              | 17,450          |                                    |
| 4      |                |                       |            |              | <u>4,200</u> | <u>4,200</u>                   |                 |                                    |
| Bal.   | 15,650         | 0                     | 0          | 1,800        | 4,200        | 4,200                          | 17,450          |                                    |
| 5      |                |                       | <u>900</u> |              |              | <u>900</u>                     |                 |                                    |
| Bal.   | 15,650         | 0                     | 900        | 1,800        | 4,200        | 5,100                          | 17,450          |                                    |
| 9      |                | <u>1,500</u>          |            |              |              |                                | <u>1,500</u>    | Service revenue                    |
| Bal.   | 15,650         | 1,500                 | 900        | 1,800        | 4,200        | 5,100                          | 18,950          |                                    |
| 12     | <u>(250)</u>   |                       |            |              |              |                                | <u>(250)</u>    | Utilities expense                  |
| Bal.   | 15,400         | 1,500                 | 900        | 1,800        | 4,200        | 5,100                          | 18,700          |                                    |
| 18     | <u>1,100</u>   |                       |            |              |              |                                | <u>1,100</u>    | Service revenue                    |
| Bal.   | <u>16,500</u>  | <u>1,500</u>          | <u>900</u> | <u>1,800</u> | <u>4,200</u> | <u>5,100</u>                   | <u>19,800</u>   |                                    |

\$24,900

\$24,900

Req. 2

| <b>Draper Consulting</b>                   |                   |                       |
|--|-------------------|-----------------------|
| <b>Income Statement</b>                    |                   |                       |
| <b>Month Ended December 31, 2012</b>       |                   |                       |
| <b>Revenue:</b>                            |                   |                       |
| <b>Service revenue (\$1,500 + \$1,100)</b> |                   | <b>\$2,600</b>        |
| <b>Expenses:</b>                           |                   |                       |
| <b>Rent expense</b>                        | <b>\$550</b>      |                       |
| <b>Utilities expense</b>                   | <b><u>250</u></b> |                       |
| <b>Total expenses</b>                      |                   | <b><u>800</u></b>     |
| <b>Net income</b>                          |                   | <b><u>\$1,800</u></b> |

Req. 3

| <b>Draper Consulting</b>                    |                        |
|---|------------------------|
| <b>Statement of Owner's Equity</b>          |                        |
| <b>Month Ended December 31, 2012</b>        |                        |
| <b>Draper, capital, December 1, 2012</b>    | <b>\$ 0</b>            |
| <b>Owner investment</b>                     | <b>18,000</b>          |
| <b>Net income</b>                           | <b><u>1,800</u></b>    |
|   | <b>19,800</b>          |
| <b>Drawing</b>                              | <b><u>0</u></b>        |
| <b>Retained earnings, December 31, 2012</b> | <b><u>\$19,800</u></b> |

**Req. 4**

| <b>Draper Consulting</b> |                        |                       |                        |
|--------------------------|------------------------|-----------------------|------------------------|
| <b>Balance Sheet</b>     |                        |                       |                        |
| <b>December 31, 2012</b> |                        |                       |                        |
| <b>ASSETS</b>            |                        | <b>LIABILITIES</b>    |                        |
| Cash                     | \$ 16,500              | Accounts payable      | \$ <u>5,100</u>        |
| Accounts receivable      | 1,500                  | Total liabilities     | 5,100                  |
| Supplies                 | 900                    |                       |                        |
| Equipment                | 1,800                  | <b>OWNER'S EQUITY</b> |                        |
| Furniture                | 4,200                  | Draper, capital       | <u>19,800</u>          |
|                          |                        | Total liabilities and |                        |
| <b>Total assets</b>      | <u><b>\$24,900</b></u> | <b>owner's equity</b> | <u><b>\$24,900</b></u> |

# Practice Set: Chapter 1

(10 – 15 min.)

## Req. 1 Analysis of Transactions

## Shine King Cleaning

| DATE   | ASSETS         |              |            |                |               |              | = LIABILITIES + OWNER'S EQUITY |              |              |               |                 |
|--------|----------------|--------------|------------|----------------|---------------|--------------|--------------------------------|--------------|--------------|---------------|-----------------|
|        | CASH +         | AR +         | SUPP +     | PREPAID RENT + | PREPAID INS + | TRUCK +      | EQUIP +                        | AP +         | USR +        | N/P +         | HUDSON, CAPITAL |
| Nov. 1 | <u>35,000</u>  |              |            |                |               | <u>8,000</u> |                                |              |              |               | <u>43,000</u>   |
| Bal.   | 35,000         | 0            | 0          | 0              | 0             | 8,000        | 0                              | 0            | 0            | 0             | 43,000          |
| 2      | <u>(2,000)</u> |              |            | <u>2,000</u>   |               |              |                                |              |              |               |                 |
| Bal.   | 33,000         | 0            | 0          | 2,000          | 0             | 8,000        | 0                              | 0            | 0            | 0             | 43,000          |
| 3      | <u>(2,400)</u> |              |            |                | <u>2,400</u>  |              |                                |              |              |               |                 |
| Bal.   | 30,600         | 0            | 0          | 2,000          | 2,400         | 8,000        | 0                              | 0            | 0            | 0             | 43,000          |
| 4      |                |              | <u>270</u> |                |               |              |                                | <u>270</u>   |              |               |                 |
| Bal.   | 30,600         | 0            | 270        | 2,000          | 2,400         | 8,000        | 0                              | 270          | 0            | 0             | 43,000          |
| 5      |                |              |            |                |               |              | <u>1,000</u>                   | <u>1,000</u> |              |               |                 |
| Bal.   | 30,600         | 0            | 270        | 2,000          | 2,400         | 8,000        | 1,000                          | 1,270        | 0            | 0             | 43,000          |
| 7      | <u>(1,200)</u> |              |            |                |               |              | <u>1,200</u>                   |              |              |               |                 |
| Bal.   | 29,400         | 0            | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,270        | 0            | 0             | 43,000          |
| 9      |                | <u>3,000</u> |            |                |               |              |                                |              |              |               | <u>3,000</u>    |
| Bal.   | 29,400         | 3,000        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,270        | 0            | 0             | 46,000          |
| 10     | <u>100</u>     | <u>(100)</u> |            |                |               |              |                                |              |              |               |                 |
| Bal.   | 29,500         | 2,900        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,270        | 0            | 0             | 46,000          |
| 15     | <u>(500)</u>   |              |            |                |               |              |                                |              |              |               | <u>(500)</u>    |
| Bal.   | 29,000         | 2,900        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,270        | 0            | 0             | 45,500          |
| 16     | <u>3,600</u>   |              |            |                |               |              |                                |              | <u>3,600</u> |               |                 |
| Bal.   | 32,600         | 2,900        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,270        | 3,600        | 0             | 45,500          |
| 17     | <u>800</u>     |              |            |                |               |              |                                |              |              |               | <u>800</u>      |
| Bal.   | 33,400         | 2,900        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,270        | 3,600        | 0             | 46,300          |
| 18     |                |              |            |                |               |              |                                | <u>175</u>   |              |               | <u>(175)</u>    |
| Bal.   | 33,400         | 2,900        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,445        | 3,600        | 0             | 46,125          |
| 20     | <u>40,000</u>  |              |            |                |               |              |                                |              |              | <u>40,000</u> |                 |
| Bal.   | 73,400         | 2,900        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,445        | 3,600        | 40,000        | 46,125          |
| 21     | <u>900</u>     | <u>(900)</u> |            |                |               |              |                                |              |              |               |                 |
| Bal.   | 74,300         | 2,000        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 1,445        | 3,600        | 40,000        | 46,125          |
| 25     | <u>(500)</u>   |              |            |                |               |              |                                | <u>(500)</u> |              |               |                 |
| Bal.   | 73,800         | 2,000        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 945          | 3,600        | 40,000        | 46,125          |
| 29     | <u>(100)</u>   |              |            |                |               |              |                                |              |              |               | <u>(100)</u>    |
| Bal.   | 73,700         | 2,000        | 270        | 2,000          | 2,400         | 8,000        | 2,200                          | 945          | 3,600        | 40,000        | 46,025          |
| 30     | <u>(600)</u>   |              |            |                |               |              |                                |              |              |               | <u>(600)</u>    |
| Bal.   | <u>73,100</u>  | <u>2,000</u> | <u>270</u> | <u>2,000</u>   | <u>2,400</u>  | <u>8,000</u> | <u>2,200</u>                   | <u>945</u>   | <u>3,600</u> | <u>40,000</u> | <u>45,425</u>   |

**(continued) Practice Set**

$$\begin{array}{l} \text{Total assets} \\ \$89,970 \end{array} = \begin{array}{l} \text{Total liabilities + Owner's equity} \\ \$89,970 \end{array}$$

# Ch 1: Apply Your Knowledge

## Decision Cases

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### Decision Case 1-1

#### **Req. 1 Assets**

**Sal's \$23,000, Greg's \$25,000**

#### **Req. 2 Liabilities**

**Sal's \$2,000, Greg's \$10,000**

#### **Req. 3 Owner's equity**

**Sal's \$21,000, Greg's \$15,000**

#### **Req. 4 Revenue**

**Sal's \$35,000, Greg's \$53,000**

#### **Req. 5 Profitable (net income)**

**Sal's \$13,000, Greg's \$9,000**

(continued) **Decision Case 1-1**

**Req. 6**

**There's no single correct answer to this question. Possible answers include the following:**

- a. Which business is more profitable? A business must be profitable to survive.**
- b. Which business owes more to creditors? Big debts make a business risky.**
- c. Which business has more owner equity? More owner equity makes a business less risky.**

**Req. 7**

**Sal's Silly Songs looks better financially because:**

- a. Sal's earned more net income on less total revenue.**
- b. Sal's owes less and has more owner equity. Sal's has less risk.**

## Decision Case 1-2

### **Req. 1**

The banker would *not* congratulate the Guerreras for their net income because they have not measured net income properly. In fact, they have *no net income* at all. Their accounting errors include the following:

- 1. The amount of cash in the bank does *not* measure net income. The cash balance only shows how much cash is available for use in the business.**
- 2. Neither an investment by an owner nor a bank loan creates a revenue. A business earns revenue by providing goods or services to customers. The Tres Amigos B&B hasn't even opened, so there is no revenue yet. And a bank loan increases liabilities, not revenue.**
- 3. None of the items they list as expenses is really an expense. The house and its renovation, furniture, kitchen equipment, and computer are all assets because these items provide future benefit to the business. Expenses are costs of doing business that have no lasting, or future value. The Tres Amigos B&B hasn't had any expenses yet.**
- 4. The business will earn service revenue after it opens—from renting rooms. Expenses will result from incurring costs which have no lasting or future value.**

Req. 2

| <b>Tres Amigos Bed &amp; Breakfast</b> |                         |                       |                         |
|--|-------------------------|-----------------------|-------------------------|
| <b>Balance Sheet</b>                   |                         |                       |                         |
| <b>June 30, 2013</b>                   |                         |                       |                         |
| <b>ASSETS</b>                          |                         | <b>LIABILITIES</b>    |                         |
| Cash                                   | \$ 38,000               | Bank loan payable     | \$100,000               |
| Computer                               | 2,000                   |                       |                         |
| Kitchen equipment                      | 10,000                  | <b>OWNER'S EQUITY</b> |                         |
| Furniture                              | 20,000                  | Guerrera, capital     | 100,000                 |
| Building (\$80,000 + \$50,000)         | 130,000                 | Total liabilities and |                         |
| <b>Total assets</b>                    | <b><u>\$200,000</u></b> | <b>owner's equity</b> | <b><u>\$200,000</u></b> |

## Ethical Issue 1-1

### *Req. 1*

The fundamental ethical issue in this situation is letting the financial statements tell the truth about the company's performance and financial position. There are two specific items to address. First of all, transferring the land violates GAAP because it is a sham transaction that is not at arm's length. The second issue is that of "shaving expenses." If by "shaving" is simply meant reducing expenses, this is not a problem. If it means reclassifying expenses in an effort to boost net income, it is false and dishonest.

### *Req. 2*

The proposal to transfer assets to the company in the prior year would be a sham, and thus it would be dishonest and unethical. The proposal to "shave expenses", meaning reclassifying expenses, would violate the rules of GAAP, thus it would be dishonest and unethical.

## Ethical Issue 1-2

### *Req. 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.

### *Req. 2*

Negative consequences 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, that 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

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### *Req. 1*

The proposed action would increase net income by increasing revenues. It would distort the balance sheet by understating liabilities.

### *Req. 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 at a lower interest rate.

# Financial Statement Case 1-1

---

## **Req. 1**

**Cash balance at December 31, 2009: \$3,444M**

## **Req. 2**

**Total assets at December 31, 2009: \$13,813M**  
**December 31, 2008: \$8,314M**

## **Req. 3**

**Accounting Equation: \$13,813M = \$8,556M + \$5,257M**

## **Req. 4**

**Revenue (net sales) earned in 2008: \$19,166M**  
**Increase from 2008 to 2009: \$5,343M**

## **Req. 5**

**Net income in 2009: \$902M**  
**2008: \$645M**

**2009 was better than 2008**

# Team Projects

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## Team Project 1-1

### Suggested Answers

**Req. 1 - Factors to consider in establishing the business:**

- 1. How to organize the business—as a proprietorship, a partnership, an LLC, or a corporation (you have decided to organize as a proprietorship)**
- 2. Where to locate the business**
- 3. How much of your own time and money to commit to the business**
- 4. How to finance the business—with your own personal money, with equity investments from others, or through borrowing**
- 5. How many people to employ for the business**
- 6. How to measure the business’s success or failure; how to account for the assets, liabilities, and operations of the business**
- 7. What type of animals to board (dogs only, dogs and cats, birds, reptiles, and so on)**
- 8. Whether to sell pet foods, toys, and other supplies**
- 9. Whether to offer obedience lessons and other pet training**
- 10. How to advertise the business (newspapers, radio, posters)**

**Student answers may vary.**

(continued) Team Project 1-1

**Req. 2 (Transactions)**

1. Obtain equity financing to start the business
2. Purchase land and a building
3. Renovate the building to make it suitable for a kennel
4. Purchase pet food and other supplies that will be needed to operate a kennel
5. Advertise the business
6. Earn service revenue by keeping pets
7. Pay utility bills
8. Pay for veterinarian services needed for the animals
9. Pay the wages of an employee
10. Borrow money
11. Drawings by owner

Student answers may vary.

**Req. 3**

| <b>Quail Creek Pet Kennel</b>       |                |                        |
|-------------------------------------|----------------|------------------------|
| <b>Income Statement</b>             |                |                        |
| <b>Month Ended January 31, 20XX</b> |                |                        |
| <b>Revenue:</b>                     |                |                        |
| <b>Service revenue</b>              |                | <b>\$10,000</b>        |
| <b>Expenses:*</b>                   |                |                        |
| <b>Wage expense</b>                 | <b>\$2,000</b> |                        |
| <b>Supplies expense</b>             | <b>400</b>     |                        |
| <b>Advertising expense</b>          | <b>300</b>     |                        |
| <b>Utilities expense</b>            | <b>100</b>     | <b>2,800</b>           |
| <b>Net income</b>                   |                | <b><u>\$ 7,200</u></b> |

**\*Students may also include depreciation expense on the building.**

(continued) Team Project 1-1

Req. 3 – continued

Suggested Answers

| <b>Quail Creek Pet Kennel</b>        |                  |
|--------------------------------------|------------------|
| <b>Statement of Owner's Equity</b>   |                  |
| <b>Month Ended January 31, 20XX</b>  |                  |
| Last name, capital, January 1, 20XX  | \$ 0             |
| Owner investment                     | 30,000           |
| Net income                           | <u>7,200</u>     |
|                                      | 37,200           |
| Drawing                              | <u>(2,000)</u>   |
| Last name, capital, January 31, 20XX | <u>\$ 35,200</u> |

| <b>Quail Creek Pet Kennel</b> |                 |                                      |                 |
|-------------------------------|-----------------|--------------------------------------|-----------------|
| <b>Balance Sheet</b>          |                 |                                      |                 |
| <b>January 31, 20XX</b>       |                 |                                      |                 |
| <b>ASSETS</b>                 |                 | <b>LIABILITIES</b>                   |                 |
| Cash                          | \$ 1,500        | Accounts payable                     | \$ 1,000        |
| Supplies                      | 200             |                                      |                 |
| Land                          | 9,500           | <b>OWNER'S EQUITY</b>                |                 |
| Building                      | 25,000          |                                      |                 |
|                               |                 | Last name, capital                   | <u>35,200</u>   |
| Total assets                  | <u>\$36,200</u> | Total liabilities and owner's equity | <u>\$36,200</u> |

**Req. 4**

**Evaluate the success of the business by its**

- **Net income or net loss for the period, as reported on the income statement**
- **Financial position at the end of the period, as reported on the balance sheet**

**Specifically, you hope to earn a *net income*, and you hope to end the period with *assets* far in excess of your *liabilities*. Finally, you also need plenty of cash to continue in business.**

## Team Project 1-2

### Suggested Answers

**Req. 1 – Factors to consider in establishing the business:**

- 1. How to organize the business—as a proprietorship, a partnership, an LLC, or a corporation (assume you have decided to organize as a proprietorship)**
- 2. Where to locate the headquarters of the business**
- 3. How much of your own time and money to commit to the business**
- 4. How to finance the business—with your own personal money, with equity investment from others, or through borrowing**
- 5. How many people to employ for the business**
- 6. How to measure the business’s success or failure; how to account for the assets, liabilities, and operations of the business**
- 7. What type of music to feature. What age group or interest group to appeal to**
- 8. Whether to sell concessions (food, drinks, T-shirts, and so on) yourself or to arrange for outsiders to sell concessions at the concert**
- 9. How to advertise the business (newspapers, radio, posters)**
- 10. Whether to sponsor the concerts yourself or to arrange for corporate or charitable organizations to sponsor the concerts**

**Student answers may vary.**

## **Suggested Answers**

**Req. 2 – Items to arrange in order to promote and stage a rock concert:**

- 1. Which band (or bands) to feature at the concerts**
- 2. How much and when to pay the performers (flat rate or a percentage of gate receipts)**
- 3. Where to stage the concerts and how to pay for the site rental**
- 4. Need for city or county permits to stage a concert**
- 5. How to ensure security at the concert**
- 6. How to get people to come to the concert. How to advertise the concerts (newspapers, radio, posters, or other) and how much to pay for advertising**
- 7. How to offer concessions (buy and sell them yourself or arrange for outside concessionaires). If outsiders, how will they be compensated—keep their own revenues or share them with you**
- 8. Need for traffic control if the crowd disrupts city traffic**
- 9. Weather considerations if the concert is staged outdoors**
- 10. Timing of the concert in relation to other events in the area at the time**

**Student answers may vary.**

(continued) Team Project 1-2

Suggested Answers

Req. 3

| <b>Concert Enterprises</b>              |                     |                         |
|---|---------------------|-------------------------|
| <b>Income Statement</b>                 |                     |                         |
| <b>Three Months Ended June 30, 20XX</b> |                     |                         |
| <b>Revenues:</b>                        |                     |                         |
| Ticket sales revenue                    |                     | <b>\$300,000</b>        |
| Concession revenue                      |                     | <b><u>50,000</u></b>    |
| <b>Total revenue</b>                    |                     | <b>350,000</b>          |
| <b>Expenses:</b>                        |                     |                         |
| Band expense                            | <b>\$100,000</b>    |                         |
| Advertising expense                     | <b>50,000</b>       |                         |
| Concession expense                      | <b>20,000</b>       |                         |
| Rent expense                            | <b>15,000</b>       |                         |
| Security expense                        | <b>10,000</b>       |                         |
| Utilities expense                       | <b>3,000</b>        |                         |
| Permits expense                         | <b><u>2,000</u></b> |                         |
| <b>Total expenses</b>                   |                     | <b><u>200,000</u></b>   |
| <b>Net income</b>                       |                     | <b><u>\$150,000</u></b> |

| <b>Concert Enterprises</b>                |                         |
|---|-------------------------|
| <b>Statement of Owner's Equity</b>        |                         |
| <b>Three Months Ended June 30, 20XX</b>   |                         |
| <b>Last name, capital, March 31, 20XX</b> | <b>\$ 0</b>             |
| <b>Owner investment</b>                   | <b>1,000</b>            |
| <b>Net income</b>                         | <b><u>150,000</u></b>   |
|   | <b>151,000</b>          |
| <b>Drawings</b>                           | <b><u>(10,000)</u></b>  |
| <b>Last name, capital, June 30, 20XX</b>  | <b><u>\$141,000</u></b> |

Suggested Answers

Req. 3 - continued

| <b>Concert Enterprises</b> |                         |   |                         |
|----------------------------|-------------------------|---|-------------------------|
| <b>Balance Sheet</b>       |                         |   |                         |
| <b>June 30, 20XX</b>       |                         |   |                         |
| <b>ASSETS</b>              |                         | <b>LIABILITIES</b>                          |                         |
| Cash                       | \$136,000               | Accounts payable                            | \$ 7,000                |
| Accounts receivable        | 8,000                   |   |                         |
| Supplies                   | 4,000                   | <b>OWNER'S EQUITY</b>                       |                         |
|                            |                         | Last name, capital                          | 141,000                 |
| <b>Total assets</b>        | <b><u>\$148,000</u></b> | <b>Total liabilities and owner's equity</b> | <b><u>\$148,000</u></b> |

Student answers may vary.

Req. 4

Evaluate the success of the business by its

- Net income or net loss for the period, as reported on the income statement
- Financial position at the end of the period, as reported on the balance sheet

Specifically, you hope to earn a *net income*, and you hope to end the period with *assets* far in excess of your *liabilities*. Finally, you also need plenty of cash to continue in business

## **Communication Activity 1-1**

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**Assets = Liabilities + Equity** simply shows the resources that a business owns and the claims that others have against those resources (assets).