

# CHAPTER 1

## Accounting in Action

### ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>Problems</u>
1. Identify the activities and users associated with accounting.	1, 2, 3, 4, 5		1	1, 2	
2. Explain the building blocks of accounting: ethics, principles, and assumptions.	6, 7, 8, 9, 10		2	3	
3. State the accounting equation, and define its components.	11, 12, 13, 22	1, 2, 3, 4, 5, 6	3	5	1
4. Analyze the effects of business transactions on the accounting equation.	14, 15, 16, 18	7, 8, 9	4	6, 7, 8	1, 2, 4, 5
5. Describe the four financial statements and how they are prepared.	17, 19, 20, 21	10, 11	5	9, 10, 11, 12, 13, 14, 15, 16, 17, 18	2, 3, 4, 5

## ASSIGNMENT CHARACTERISTICS TABLE

<b>Problem Number</b>	<b>Description</b>	<b>Difficulty Level</b>	<b>Time Allotted (min.)</b>
1	Analyze transactions and compute net income.	Moderate	40–50
2	Analyze transactions and prepare income statement, owner's equity statement, and statement of financial position.	Moderate	50–60
3	Prepare income statement, owner's equity statement, and statement of financial position.	Moderate	50–60
4	Analyze transactions and prepare financial statements.	Moderate	40–50
5	Determine financial statement amounts and prepare owner's equity statement.	Moderate	40–50

**WEYGANDT ACCOUNTING PRINCIPLES IFRS 1E**  
**CHAPTER 1**  
**ACCOUNTING IN ACTION**

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
BE1	3	AP	Simple	2–4
BE2	3	AP	Simple	3–5
BE3	3	AP	Moderate	4–6
BE4	3	AP	Moderate	4–6
BE5	3	C	Simple	2–4
BE6	3	C	Simple	2–4
BE7	4	C	Simple	2–4
BE8	4	C	Simple	2–4
BE9	4	C	Simple	1–2
BE10	5	AP	Simple	3–5
BE11	5	C	Simple	2–4
DI1	1	K	Simple	2–4
DI2	2	K	Simple	2–4
DI3	3	AP	Simple	6–8
DI4	4	AP	Moderate	8–10
DI5	5	AP	Moderate	10–12
EX1	1	C	Moderate	5–7
EX2	1	C	Simple	6–8
EX3	2	C	Moderate	6–8
EX4	2	C	Moderate	6–8
EX5	3	C	Simple	4–6
EX6	4	C	Simple	6–8
EX7	4	C	Simple	4–6
EX8	4	AP	Moderate	12–15
EX9	5	AP	Simple	12–15
EX10	5	AP	Moderate	8–10
EX11	5	AP	Moderate	6–8
EX12	5	AP	Simple	8–10
EX13	5	AN	Simple	8–10
EX14	5	AP	Simple	10–12
EX15	5	AP	Simple	6–8
EX16	5	AP	Moderate	6–8
EX17	5	AP	Moderate	6–8
EX18	5	C	Simple	2–4

## ACCOUNTING IN ACTION (Continued)

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
P1	3, 4	AP	Moderate	40–50
P2	4, 5	AP	Moderate	50–60
P3	5	AP	Moderate	50–60
P4	4, 5	AP	Moderate	40–50
P5	4, 5	AP	Moderate	40–50
CT1	5	AN	Simple	10–15
CT2	5	AN	Simple	10–15
CT3	6	C	Simple	15–20
CT4	4	AN	Moderate	15–20
CT5	5	E	Simple	12–15
CT6	2	E	Simple	10–12
CT7	–	C	Simple	10–15

**Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems**

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Identify the activities and users associated with accounting.	DI1-1	Q1-1 Q1-2 Q1-3 Q1-4	Q1-5 E1-1 E1-2			
2. Explain the building blocks of accounting: ethics, principles, and assumptions.	Q1-7 Q1-8 Q1-9 Q1-10 DI1-2	Q1-6 E1-3 E1-4				
3. State the accounting equation, and define its components.	Q1-22	Q1-11 Q1-12 Q1-13 BE1-5	BE1-6 E1-5	BE1-1 BE1-2 BE1-3 BE1-4	DI1-3 P1-1	
4. Analyze the effects of business transactions on the accounting equation.		Q1-14 Q1-15 Q1-16 Q1-18 BE1-7	BE1-8 BE1-9 E1-6 E1-7	DI1-4 E1-8 P1-1 P1-2	P1-4 P1-5	
5. Describe the four financial statements and how they are prepared.		Q1-17 Q1-19 BE1-11 E1-18		Q1-20 Q1-21 BE1-10 DI1-5 E1-9 E1-10 E1-11 E1-12	E1-14 E1-15 E1-16 E1-17 P1-2 P1-3 P1-4 P1-5	E1-13
Expand Your Critical Thinking		Real-World Focus Considering People, Planet, and Profit		Financial Reporting Comparative Analysis		Comparative Analysis Decision-Making Across the Organization Communication Activity All About You

## ANSWERS TO QUESTIONS

1. Yes, this is correct. Virtually every organization and person in our society uses accounting information. Businesses, investors, creditors, government agencies, and not-for-profit organizations must use accounting information to operate effectively.
2. Accounting is the process of identifying, recording, and communicating the economic events of an organization to interested users of the information. The first step of the accounting process is therefore to identify economic events that are relevant to a particular business. Once identified and measured, the events are recorded to provide a history of the financial activities of the organization. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner. The information is communicated through the preparation and distribution of accounting reports, the most common of which are called financial statements. A vital element in the communication process is the accountant's ability and responsibility to analyze and interpret the reported information.
3.
  - (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.
  - (b) To assist management, managerial accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.
4.
  - (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell ownership shares of a company.
  - (b) Creditors use accounting information to evaluate the risks of granting credit or lending money.
5. No, this is incorrect. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.
6. Benton Travel Agency should report the land at €90,000 on its December 31, 2020 statement of financial position. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use cost. Only in situations where assets are actively traded do companies apply the fair value principle. An important concept that accountants follow is the historical cost principle.
7. The monetary unit assumption requires that only transaction data that can be expressed in terms of money be included in the accounting records. This assumption enables accounting to quantify (measure) economic events.
8. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.
9. The three basic forms of business organizations are: (1) proprietorship, (2) partnership, and (3) corporation.

## Questions Chapter 1 (Continued)

10. One of the advantages Neha Singh would enjoy is that ownership of a corporation is represented by transferable shares. This would allow Neha to raise money easily by selling a part of her ownership in the company. Another advantage is that because holders of the shares (shareholders) enjoy limited liability; they are not personally liable for the debts of the corporate entity. Also, because ownership can be transferred without dissolving the corporation, the corporation enjoys an unlimited life.
11. The basic accounting equation is  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ .
12. (a) Assets are resources owned by a business. Liabilities are claims against assets. Put more simply, liabilities are existing debts and obligations. Owner's equity is the ownership claim on total assets.  
(b) Owner's equity is affected by owner's investments, drawings, revenues, and expenses.
13. The liabilities are: (b) Accounts payable and (g) Salaries and wages payable.
14. Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the Equipment account which is offset by a decrease in the Cash account is a specific example.
15. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic accounting equation.  
(a) The death of the owner of the company is not a business transaction as it does not affect the basic accounting equation.  
(b) Supplies purchased on account is a business transaction as it affects the basic accounting equation.  
(c) An employee being fired is not a business transaction as it does not affect the basic accounting equation.  
(d) A withdrawal of cash from the business is a business transaction as it affects the basic accounting equation.
16. (a) Decrease assets and decrease owner's equity.  
(b) Increase assets and decrease assets.  
(c) Increase assets and increase owner's equity.  
(d) Decrease assets and decrease liabilities.
17. (a) Income statement. (d) Statement of financial position.  
(b) Statement of financial position. (e) Statement of financial position and owner's equity statement.  
(c) Income statement. (f) Statement of financial position.
18. No, this treatment is not proper. While the transaction does involve a receipt of cash, it does not represent revenues. Revenues are the gross increase in owner's equity resulting from business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by the owner in the business.

**Questions Chapter 1 (Continued)**

**19.** Yes. Net income does appear on the income statement—it is the result of subtracting expenses from revenues. In addition, net income appears in the owner’s equity statement—it is shown as an addition to the beginning-of-period capital. Indirectly, the net income of a company is also included in the statement of financial position. It is included in the capital account which appears in the owner’s equity section of the statement of financial position.

<b>20.</b> (a)	Ending capital balance .....	£189,000
	Beginning capital balance .....	<u>186,000</u>
	Net income.....	<u>£ 3,000</u>

(b)	Ending capital balance .....	£189,000
	Beginning capital balance .....	<u>186,000</u>
		3,000
	Deduct: Investment .....	<u>13,000</u>
	Net loss.....	<u>£ 10,000</u>

<b>21.</b> (a)	Total revenues (£20,000 + £70,000) .....	£90,000
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(b)	Total expenses (£26,000 + £40,000).....	£66,000
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(c)	Total revenues .....	£90,000
	Total expenses.....	<u>66,000</u>
	Net income.....	<u>£24,000</u>

**22.** TSMC’s accounting equation at December 31, 2016 was NT\$1,886,455,302 = NT\$496,404,176 + NT\$1,390,051,126.



# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 1.1

- (a)  $¥90,000 - ¥50,000 = ¥40,000$  (Owner's Equity).  
 (b)  $¥44,000 + ¥70,000 = ¥114,000$  (Assets).  
 (c)  $¥94,000 - ¥53,000 = ¥41,000$  (Liabilities).

## BRIEF EXERCISE 1.2

- (a)  $£120,000 + £230,000 = £350,000$  (Total assets).  
 (b)  $£190,000 - £89,000 = £101,000$  (Total liabilities).  
 (c)  $£900,000 - 0.5(£900,000) = £450,000$  (Owner's equity).

## BRIEF EXERCISE 1.3

- (a)  $(€800,000 + €150,000) - (€300,000 - €60,000) = €710,000$   
 (Owner's equity).  
 (b)  $(€300,000 + €100,000) + (€800,000 - €300,000 - €70,000) = €830,000$   
 (Assets).  
 (c)  $(€800,000 - €80,000) - (€800,000 - €300,000 + €120,000) = €100,000$   
 (Liabilities).

## BRIEF EXERCISE 1.4

		Owner's Equity								
Assets	=	Liabilities	+	Owner's Capital	-	Owner's Drawings	+	Revenues	-	Expenses
(a) X	=	INR90,000	+	INR150,000	-	INR40,000	+	INR450,000	-	INR340,000
X	=	INR90,000	+	INR220,000						
X	=	<u>INR310,000</u>								
(b) INR57,000	=	X	+	INR35,000	-	INR7,000	+	INR52,000	-	INR35,000
INR57,000	=	X	+	INR45,000						
X	=	<u>INR12,000</u>								(INR57,000 - INR45,000)
(c) INR660,000	=	(INR660,000 x 2/3)	+	X (Owner's equity)						
INR660,000	=	INR440,000	+	X						
X	=	<u>INR220,000</u>								

### BRIEF EXERCISE 1.5

<u>A</u>	(a) Accounts receivable	<u>A</u>	(d) Supplies
<u>L</u>	(b) Salaries and wages payable	<u>OE</u>	(e) Owner's capital
<u>A</u>	(c) Equipment	<u>L</u>	(f) Notes payable

### BRIEF EXERCISE 1.6

<u>E</u>	(a) Advertising expense	<u>D</u>	(e) Owner's drawings
<u>R</u>	(b) Service revenue	<u>R</u>	(f) Rent revenue
<u>E</u>	(c) Insurance expense	<u>E</u>	(g) Utilities expense
<u>E</u>	(d) Salaries and wages expense		

### BRIEF EXERCISE 1.7

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	+	+	NE
(b)	+	NE	+
(c)	-	NE	-

### BRIEF EXERCISE 1.8

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	+	NE	+
(b)	-	NE	-
(c)	NE	NE	NE

### BRIEF EXERCISE 1.9

<u>R</u>	(a) Received cash for services performed
<u>NOE</u>	(b) Paid cash to purchase equipment
<u>E</u>	(c) Paid employee salaries

## BRIEF EXERCISE 1.10

**GRANDE LTD.**  
**Statement of Financial Position**  
**December 31, 2020**

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<b>Assets</b>	
Accounts receivable .....	£ 62,500
Cash .....	<u>49,000</u>
<b>Total assets</b> .....	<b><u>£111,500</u></b>

  

<b>Owner's Equity and Liabilities</b>	
<b>Owner's equity</b>	
Owner's capital .....	£ 21,500
<b>Liabilities</b>	
Accounts payable .....	<u>90,000</u>
<b>Total owner's equity and liabilities</b> .....	<b><u>£111,500</u></b>

## BRIEF EXERCISE 1.11

<u>SFP</u>	(a) Notes payable
<u>IS</u>	(b) Advertising expense
<u>OE, SFP</u>	(c) Owner's capital
<u>SFP</u>	(d) Cash
<u>IS</u>	(e) Service revenue

## SOLUTIONS FOR DO IT! EXERCISES

### DO IT! 1.1

1. False. The three steps in the accounting process are identification, recording, and communication.
2. True.
3. False. Financial accounting provides reports to help investors and creditors evaluate a company.
4. True.
5. True.

## DO IT! 1.2

1. False. IFRS are issued by the IASB.
2. False. The standards of conduct by which actions are judged as right or wrong, honest or dishonest, fair or not fair, are ethics.
3. False. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
4. True.
5. True.

## DO IT! 1.3

1. Drawings is owner's drawings (D); it decreases owner's equity.
2. Rent Revenue is revenue (R); it increases owner's equity.
3. Advertising Expense is an expense (E); it decreases owner's equity.
4. When the owner puts personal assets into the business, it is investment by owner (I); it increases owner's equity.

## DO IT! 1.4

Assets		=	Liabilities	+	Owner's Equity		
Cash	+ Accounts Receivable	=	Accounts Payable	+	Owner's Capital	- Owner's Drawings	+ Revenues - Expenses
(1)	+ R20,000						+R20,000
(2) +R20,000	- R20,000						
(3)			+ R3,200				-R3,200
(4) - R 2,500					-R2,500		

## DO IT! 1.5

(a) The total assets are HK\$49,000, comprised of Cash HK\$6,500, Accounts Receivable HK\$13,500, and Equipment HK\$29,000.

(b) Net income is HK\$20,500, computed as follows:

<b>Revenues</b>		
Service revenue.....		HK\$53,500
<b>Expenses</b>		
Salaries and wages expense .....	HK\$16,500	
Rent expense.....	10,500	
Advertising expense .....	<u>6,000</u>	
Total expenses .....		<u>33,000</u>
Net income .....		<u>HK\$20,500</u>

(c) The ending owner's equity balance of Tsui Repairs is HK\$21,000. By rewriting the accounting equation, we can compute Owner's Equity as Assets minus Liabilities, as follows:

Total assets [as computed in (a)] .....		HK\$49,000
<b>Less: Liabilities</b>		
Notes payable.....	HK\$25,000	
Accounts payable .....	<u>3,000</u>	<u>28,000</u>
Owner's equity .....		<u>HK\$21,000</u>

Note that it is not possible to determine the company's owner's equity in any other way, because the beginning balance for owner's equity is not provided.

# SOLUTIONS TO EXERCISES

## EXERCISE 1.1

- C Analyzing and interpreting information.
- R Classifying economic events.
- C Explaining uses, meaning, and limitations of data.
- R Keeping a systematic chronological diary of events.
- R Measuring events in dollars and cents.
- C Preparing accounting reports.
- C Reporting information in a standard format.
- I Selecting economic activities relevant to the company.
- R Summarizing economic events.

## EXERCISE 1.2

(a) *Internal users*

- Marketing manager
- Production supervisor
- Store manager
- Vice-president of finance

*External users*

- Customers
- Financial regulators
- Labor unions
- Suppliers
- Tax authorities

- (b)
- I Can we afford to give our employees a pay raise?
  - E Did the company earn a satisfactory income?
  - I Do we need to borrow in the near future?
  - E How does the company's profitability compare to other companies?
  - I What does it cost us to manufacture each unit produced?
  - I Which product should we emphasize?
  - E Will the company be able to pay its short-term debts?

### EXERCISE 1.3

Angela Manternach, president of Manternach Designs, instructed Carla Ruden, the head of the accounting department, to report the company's land in its accounting reports at its fair value of €170,000 instead of its cost of €100,000, in an effort to make the company appear to be a better investment. The historical cost principle requires that assets be recorded and reported at their cost, because cost is faithfully representative and can be objectively measured and verified. In this case, the historical cost principle should be used and Land reported at €100,000, not €170,000.

The stakeholders include owners and creditors of Manternach Company, potential owners and creditors, other users of Manternach's accounting reports, Angela, and Carla. All users of Manternach's accounting reports could be harmed by relying on information that may be unreliable. Angela Manternach could benefit if the company is able to attract more investors, but would be harmed if the inappropriate reporting is discovered. Similarly, Carla could benefit by pleasing her boss, but would be harmed if the inappropriate reporting is discovered.

Carla's alternatives are to report the land at €100,000 or to report it at €170,000. Reporting the land at €170,000 is not appropriate since it may mislead many people who rely on Manternach's accounting reports to make financial decisions. Carla should report the land at its cost of €100,000. She should try to convince Angela Manternach that this is the appropriate course of action, but be prepared to resign her position if Manternach insists.

### EXERCISE 1.4

1. **Incorrect.** The historical cost principle requires that assets (such as buildings) be recorded and reported at their cost.
2. **Correct.** The monetary unit assumption requires that companies include in the accounting records only transaction data that can be expressed in terms of money.
3. **Incorrect.** The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

## EXERCISE 1.5

<u>Asset</u>	<u>Liability</u>	<u>Owner's Equity</u>
Cash	Accounts payable	Owner's capital
Equipment	Notes payable	
Supplies	Salaries and wages payable	
Accounts receivable		

## EXERCISE 1.6

1. Increase in assets and increase in owner's equity.
2. Decrease in assets and decrease in owner's equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in owner's equity.
5. Decrease in assets and decrease in owner's equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in owner's equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in owner's equity.

## EXERCISE 1.7

- |        |        |
|--------|--------|
| 1. (c) | 5. (d) |
| 2. (d) | 6. (b) |
| 3. (a) | 7. (e) |
| 4. (b) | 8. (f) |

## EXERCISE 1.8

- (a)
1. Owner invested £15,000 cash in the business.
  2. Purchased equipment for £5,000, paying £2,000 in cash and the balance of £3,000 on account.
  3. Paid £750 cash for supplies.
  4. Performed £8,500 of services, receiving £4,000 cash and £4,500 on account.
  5. Paid £1,500 cash on accounts payable.



## EXERCISE 1.8 (Continued)

6. Owner withdrew £2,000 cash for personal use.
7. Paid £560 cash for rent.
8. Collected £450 cash from customers on account.
9. Paid salaries and wages of £4,800.
10. Incurred £400 of utilities expense on account.

(b) Investment.....	£15,000
Service revenue .....	8,500
Drawings .....	(2,000)
Rent expense .....	(560)
Salaries and wages expense .....	(4,800)
Utilities expense .....	(400)
Increase in owner's equity .....	<u>£15,740</u>
(c) Service revenue .....	£8,500
Rent expense .....	(560)
Salaries and wages expense .....	(4,800)
Utilities expense .....	(400)
Net income .....	<u>£2,740</u>

## EXERCISE 1.9

**KANG & CO.**  
**Income Statement**  
**For the Month Ended August 31, 2020**

<b>Revenues</b>	
Service revenue .....	£8,500
<b>Expenses</b>	
Salaries and wages expense .....	£4,800
Rent expense .....	560
Utilities expense .....	<u>400</u>
Total expenses .....	<u>5,760</u>
Net income .....	<u>£2,740</u>

**EXERCISE 1.9 (Continued)**

**KANG & CO.**  
**Owner's Equity Statement**  
**For the Month Ended August 31, 2020**

Owner's capital, August 1 .....		£ 0
Add: Investments .....	£15,000	
Net income.....	<u>2,740</u>	<u>17,740</u>
		17,740
Less: Drawings.....		<u>2,000</u>
Owner's capital, August 31 .....		<u><u>£15,740</u></u>

**KANG & CO.**  
**Statement of Financial Position**  
**August 31, 2020**

<b>Assets</b>		
Equipment.....		£ 5,000
Supplies .....		750
Accounts receivable.....		4,050
Cash .....		<u>£ 7,840</u>
Total assets .....		<u><u>£17,640</u></u>
<b>Owner's Equity and Liabilities</b>		
<b>Owner's Equity</b>		
Owner's capital .....		£15,740
<b>Liabilities</b>		
Accounts payable .....		<u>1,900</u>
Total owner's equity and liabilities .....		<u><u>£17,640</u></u>

**EXERCISE 1.10**

(a) Owner's equity—12/31/19 (₺400,000 – ₺250,000) .....		₺150,000
Owner's equity—1/1/19.....		<u>100,000</u>
Increase in owner's equity .....		50,000
Add: Drawings .....		<u>12,000</u>
Net income for 2019.....		<u><u>₺ 62,000</u></u>

## EXERCISE 1.10 (Continued)

(b) Owner's equity—12/31/20 (₺460,000 – ₺300,000) .....	₺160,000
Owner's equity—1/1/20—see (a) .....	<u>150,000</u>
Increase in owner's equity .....	10,000
Less: Additional investment .....	<u>34,000</u>
Net loss for 2020 .....	<u>₺(24,000)</u>
(c) Owner's equity—12/31/21 (₺590,000 – ₺400,000) .....	₺190,000
Owner's equity—1/1/21—see (b) .....	<u>160,000</u>
Increase in owner's equity .....	30,000
Less: Additional investment .....	<u>12,000</u>
	18,000
Add: Drawings .....	<u>25,000</u>
Net income for 2021 .....	<u>₺ 43,000</u>

## EXERCISE 1.11

(a) Total assets (beginning of year) .....	€110,000
Total liabilities (beginning of year) .....	<u>85,000</u>
Total owner's equity (beginning of year) .....	<u>€ 25,000</u>
(b) Total owner's equity (end of year) .....	€ 40,000
Total owner's equity (beginning of year) .....	<u>25,000</u>
Increase in owner's equity .....	<u>€ 15,000</u>
Total revenues .....	€220,000
Total expenses .....	<u>175,000</u>
Net income .....	<u>€ 45,000</u>
Increase in owner's equity .....	€ 15,000
Less: Net income .....	€ (45,000)
Add: Drawings .....	<u>37,000</u>
Additional investment .....	<u>€ 7,000</u>
(c) Total assets (beginning of year) .....	€129,000
Total owner's equity (beginning of year) .....	<u>80,000</u>
Total liabilities (beginning of year) .....	<u>€ 49,000</u>

**EXERCISE 1.11 (Continued)**

(d) Total owner's equity (end of year) .....		€130,000
Total owner's equity (beginning of year) .....		<u>80,000</u>
Increase in owner's equity .....		<u>€ 50,000</u>
Total revenues .....		€100,000
Total expenses .....		<u>60,000</u>
Net income .....		<u>€ 40,000</u>
Increase in owner's equity .....		€ 50,000
Less: Net income .....	€ (40,000)	
Additional investment .....	<u>(25,000)</u>	<u>(65,000)</u>
Drawings .....		<u>€ 15,000</u>

**EXERCISE 1.12**

**KAREN WEIGEL CO.**  
**Income Statement**  
**For the Year Ended December 31, 2020**

<b>Revenues</b>		
Service revenue .....		\$63,600
<b>Expenses</b>		
Salaries and wages expense.....	\$30,200	
Rent expense .....	10,400	
Utilities expense .....	3,100	
Advertising expense.....	<u>1,800</u>	
Total expenses .....		<u>45,500</u>
Net income .....		<u>\$18,100</u>

**KAREN WEIGEL CO.**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2020**

Owner's capital, January 1 .....	\$42,000
Add: Net income.....	<u>18,100</u>
	60,100
Less: Drawings.....	<u>6,000</u>
Owner's capital, December 31 .....	<u>\$54,100</u>

**EXERCISE 1.13**

**CHENG CERAMICS**  
**Statement of Financial Position**  
**December 31, 2020**

<b>Assets</b>	
Equipment.....	¥46,000
Supplies .....	8,000
Accounts receivable .....	6,500
Cash .....	<u>15,000</u>
<b>Total assets</b> .....	<b><u>¥75,500</u></b>
<b>Owner's Equity and Liabilities</b>	
<b>Owner's Equity</b>	
Owner's capital (¥67,500 – ¥13,000) .....	¥54,500
<b>Liabilities</b>	
Accounts payable .....	<u>21,000</u>
<b>Total owner's equity and liabilities</b> .....	<b><u>¥75,500</u></b>

**EXERCISE 1.14**

(a) Camping fee revenues .....	£140,000
General store revenues .....	<u>65,000</u>
<b>Total revenue</b> .....	<b>205,000</b>
Expenses.....	<u>160,000</u>
<b>Net income</b> .....	<b><u>£ 45,000</u></b>

(b) style="text-align: center;">**BEAR PARK**  
**Statement of Financial Position**  
**December 31, 2020**

<b>Assets</b>	
Land.....	£115,500
Accounts Receivable.....	17,500
Cash.....	<u>23,000</u>
<b>Total assets</b> .....	<b><u>£156,000</u></b>

**EXERCISE 1.14 (Continued)**

**BEAR PARK**  
**Statement of Financial Position**  
**December 31, 2020**

Owner's Equity and Liabilities		
<b>Owner's equity</b>		
Owner's capital (£156,000 – £71,000).....		£ 85,000
<b>Liabilities</b>		
Notes payable.....	£ 60,000	
Accounts payable.....	<u>11,000</u>	
Total liabilities.....		<u>71,000</u>
Total owner's equity and liabilities .....		<u>£156,000</u>

**EXERCISE 1.15**

**SEA LEGS TOURS**  
**Income Statement**  
**For the Year Ended December 31, 2020**

<b>Revenues</b>		
Ticket revenue.....		R\$410,000
<b>Expenses</b>		
Salaries and wages expense.....	R\$142,000	
Maintenance and repairs expense.....	95,000	
Advertising expense.....	24,500	
Utilities expense .....	<u>13,000</u>	
Total expenses .....		<u>274,500</u>
Net income .....		<u>R\$135,500</u>

**EXERCISE 1.16**

**HELEN ARCHER, ATTORNEY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2020**

Owner's capital, January 1 .....	€ 36,000 (a)
Add: Net income.....	<u>119,000 (b)</u>
	155,000
Less: Drawings.....	<u>87,000</u>
Owner's capital, December 31 .....	<u>€ 68,000 (c)</u>

## EXERCISE 1.16 (Continued)

### Supporting Computations

(a) Assets, January 1, 2020 .....	€ 98,000
Liabilities, January 1, 2020.....	<u>62,000</u>
Capital, January 1, 2020 .....	<u>€ 36,000</u>
(b) Legal service revenue .....	€330,000
Total expenses.....	<u>211,000</u>
Net income .....	<u>€119,000</u>
(c) Assets, December 31, 2020.....	€168,000
Liabilities, December 31, 2020 .....	<u>100,000</u>
Capital, December 31, 2020.....	<u>€ 68,000</u>

## EXERCISE 1.17

### JAVA HERBALS Statement of Cash Flows For the Year Ended December 31, 2020

---

<b>Cash flows from operating activities</b>		
Cash receipts from revenues.....	Rp600,000	
Cash payments for expenses .....	<u>(430,000)</u>	
Net cash provided by operating activities .....		Rp170,000
<b>Cash flows investing activities</b>		
Purchase of equipment .....		(115,000)
<b>Cash flows from financing activities</b> .....		
Investment by owner .....	Rp280,000	
Drawings by owner .....	<u>(18,000)</u>	<u>262,000</u>
Net increase in cash.....		317,000
Cash at the beginning of the period .....		<u>30,000</u>
End of the period.....		<u>Rp347,000</u>

## EXERCISE 1.18

Transactions 4, 5 and 7 are operating activities.  
Transaction 3 is an investing activity.  
Transactions 1, 2 and 6 are financing activities.

(a)

MIAOLI'S TRAVEL AGENCY

Owner's Equity

	Accounts				=	Owner's Equity				
	Cash	+ Receivable	+ Supplies	+ Equipment		Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
1.	<u>+NT\$15,000</u>					<u>+NT\$15,000</u>				
	15,000				=	15,000				
2.	<u>-600</u>								<u>-NT\$600</u>	
	14,400				=	15,000			-600	
3.	<u>-3,000</u>			<u>+NT\$3,000</u>						
	11,400			+ 3,000	=	15,000			-600	
4.						<u>+NT\$700</u>			<u>-700</u>	
	11,400			+ 3,000	=	700	+ 15,000		-1,300	
5.	<u>-900</u>		<u>+NT\$900</u>							
	10,500		+ 900	+ 3,000	=	700	+ 15,000		-1,300	
6.	<u>+3,000</u>	<u>+NT\$7,000</u>						<u>+NT\$10,000</u>		
	13,500	+ 7,000	+ 900	+ 3,000	=	700	+ 15,000	10,000	-1,300	
7.	<u>-600</u>							<u>-NT\$600</u>		
	12,900	+ 7,000	+ 900	+ 3,000	=	700	+ 15,000	-600	10,000	
8.	<u>-500</u>					<u>-500</u>				
	12,400	+ 7,000	+ 900	+ 3,000	=	200	15,000	-600	10,000	
9.	<u>-2,500</u>								<u>-2,500</u>	
	9,900	+ 7,000	+ 900	+ 3,000	=	200	15,000	-600	10,000	
10.	<u>+4,000</u>	<u>- 4,000</u>								
	<u>NT \$13,900</u>	<u>NT \$3,000</u>	<u>NT \$900</u>	<u>NT \$3,000</u>	=	<u>NT \$200</u>	<u>\$15,000</u>	<u>NT\$600</u>	<u>NT\$10,000</u>	<u>NT\$3,800</u>
	NT\$20,800					NT\$20,800				

PROBLEM 1.1



**PROBLEM 1.1 (Continued)**

<b>(b) Service revenue .....</b>		<b>NT\$10,000</b>
<b>Expenses</b>		
<b>Salaries and wages .....</b>	<b>NT\$2,500</b>	
<b>Advertising .....</b>	<b>700</b>	
<b>Rent.....</b>	<b>600</b>	<b>3,800</b>
<b>Net income .....</b>		<b><u>NT\$ 6,200</u></b>

(a)

## AI FANG, ATTORNEY AT LAW

					=					Owner's Equity		
	<u>Cash</u>	<u>Accounts Receivable</u>	<u>Supplies</u>	<u>Equipment</u>		<u>Notes Payable</u>	<u>Accounts Payable</u>	<u>Owner's Capital</u>	<u>Owner's Drawings</u>	<u>Revenues</u>	<u>Expenses</u>	
Bal.	¥5,000	+ ¥1,500	+ ¥500	+ ¥6,000	=	¥4,200	+ ¥8,800					
1.	<u>+1,200</u>	<u>-1,200</u>										
	6,200	+ 300	+ 500	+ 6,000	=	4,200	+ 8,800					
2.	<u>-2,800</u>					<u>-2,800</u>						
	3,400	+ 300	+ 500	+ 6,000	=	1,400	+ 8,800					
3.	<u>+4,000</u>	<u>+3,500</u>								<u>+¥7,500</u>		
	7,400	+ 3,800	+ 500	+ 6,000	=	1,400	+ 8,800			7,500		
4.	<u>-400</u>			<u>+2,000</u>		<u>+1,600</u>						
	7,000	+ 3,800	+ 500	+ 8,000	=	3,000	+ 8,800			+ 7,500		
5.	<u>-4,100</u>										<u>-¥2,800</u>	
	2,900	+ 3,800	+ 500	+ 8,000	=	3,000	+ 8,800			+ 7,500	<u>-4,100</u>	
6.	<u>-700</u>									<u>-¥700</u>		
	2,200	+ 3,800	+ 500	+ 8,000	=	3,000	+ 8,800			-700	+ 7,500	
7.	<u>+2,000</u>					<u>+¥2,000</u>						
	4,200	+ 3,800	+ 500	+ 8,000	=	2,000	+ 3,000	+ 8,800		-700	+ 7,500	
8.							<u>+270</u>				<u>-270</u>	
	<u>¥4,200</u>	<u>+ ¥3,800</u>	<u>+ ¥500</u>	<u>+ ¥8,000</u>	=	<u>¥2,000</u>	<u>+ ¥3,270</u>	<u>+ ¥8,800</u>	<u>- ¥700</u>	<u>+ ¥7,500</u>	<u>- ¥4,370</u>	
	¥16,500					¥16,500						

PROBLEM 1.2

**PROBLEM 1.2 (Continued)**

**(b)**

**AI FANG, ATTORNEY AT LAW**  
**Income Statement**  
**For the Month Ended August 31, 2020**

---

<b>Revenues</b>		
Service revenue.....		<b>¥7,500</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>¥2,800</b>	
Rent expense.....	<b>900</b>	
Advertising expense .....	<b>400</b>	
Utilities expense.....	<u><b>270</b></u>	
Total expenses.....		<u><b>4,370</b></u>
<b>Net income .....</b>		<u><b>¥3,130</b></u>

**AI FANG, ATTORNEY AT LAW**  
**Owner's Equity Statement**  
**For the Month Ended August 31, 2020**

---

<b>Owner's capital, August 1 .....</b>	<b>¥ 8,800</b>
<b>Add: Net income.....</b>	<u><b>3,130</b></u>
	<b>11,930</b>
<b>Less: Drawings .....</b>	<u><b>700</b></u>
<b>Owner's capital, August 31 .....</b>	<u><b>¥11,230</b></u>

PROBLEM 1.2 (Continued)

**AI FANG, ATTORNEY AT LAW**  
**Statement of Financial Position**  
**August 31, 2020**

---

<b>Assets</b>		
Equipment .....		¥ 8,000
Supplies.....		500
Accounts receivable .....		3,800
Cash.....		<u>4,200</u>
<b>Total assets</b> .....		<u><b>¥16,500</b></u>
 <b>Owner's Equity and Liabilities</b>		
<b>Owner's Equity</b>		
Owner's capital.....		¥11,230
<b>Liabilities</b>		
Notes payable.....	¥ 2,000	
Accounts payable.....	<u>3,270</u>	
<b>Total liabilities</b> .....		<u><b>5,270</b></u>
<b>Total owner's equity and liabilities</b> .....		<u><b>¥16,500</b></u>

**PROBLEM 1.3**

(a)

**DIVINE DESIGNS CO.  
Income Statement  
For the Month Ended June 30, 2020**

<hr/>		
<b>Revenues</b>		
Service revenue.....		<b>\$6,500</b>
<b>Expenses</b>		
Rent expense.....	\$1,600	
Advertising expense .....	500	
Gasoline expense.....	200	
Utilities expense.....	<u>150</u>	
Total expenses.....		<u>2,450</u>
<b>Net income .....</b>		<u><b>\$4,050</b></u>

**DIVINE DESIGNS CO.  
Owner's Equity Statement  
For the Month Ended June 30, 2020**

<hr/>		
<b>Owner's capital, June 1 .....</b>		<b>\$ 0</b>
<b>Add: Investments .....</b>	<b>\$12,000</b>	
<b>Net income .....</b>	<u><b>4,050</b></u>	<u><b>16,050</b></u>
		<b>16,050</b>
<b>Less: Drawings .....</b>		<u><b>1,300</b></u>
<b>Owner's capital, June 30 .....</b>		<u><u><b>\$14,750</b></u></u>

**DIVINE DESIGNS CO.  
Statement of Financial Position  
June 30, 2020**

<hr/>		
<b>Assets</b>		
<b>Equipment.....</b>		<b>\$10,000</b>
<b>Supplies .....</b>		<b>2,000</b>
<b>Accounts receivable.....</b>		<b>2,800</b>
<b>Cash.....</b>		<u><b>10,150</b></u>
<b>Total assets .....</b>		<u><u><b>\$24,950</b></u></u>

**PROBLEM 1.3 (Continued)**

**DIVINE DESIGNS CO.**  
**Statement of Financial Position (Continued)**  
**June 30, 2020**

Owner's Equity and Liabilities		
<b>Owner's Equity</b>		
Owner's capital.....		\$14,750
<b>Liabilities</b>		
Notes payable.....	\$ 9,000	
Accounts payable.....	<u>1,200</u>	
Total liabilities.....		<u>10,200</u>
Total owner's equity and liabilities.		<u>\$24,950</u>

**(b)** **DIVINE DESIGNS CO.**  
**Income Statement**  
**For the Month Ended June 30, 2020**

Revenues		
Service revenue (\$6,500 + \$900).....		\$7,400
<b>Expenses</b>		
Rent expense.....	\$1,600	
Advertising expense.....	500	
Gasoline expense (\$200 + \$150).....	350	
Utilities expense.....	<u>150</u>	
Total expenses.....		<u>2,600</u>
Net income .....		<u>\$4,800</u>

**DIVINE DESIGNS CO.**  
**Owner's Equity Statement**  
**For the Month Ended June 30, 2020**

Owner's capital, June 1 .....		\$ 0
Add: Investments.....	\$12,000	
Net income .....	<u>4,800</u>	<u>16,800</u>
		16,800
Less: Drawings .....		<u>1,300</u>
Owner's capital, June 30 .....		<u>\$15,500</u>

PROBLEM 1.4

(a)

**MAGUS CONSULTING**

Date	Assets				=	Liabilities		+	Owner's Equity				
	Cash	Accounts Receivable	Supplies	Equipment	=	Notes Payable	Accounts Payable	+	Owner's Capital	-	Owner's Drawings	+ Revenues	- Expenses
May 1	€ 7,000				=			+	€7,000				
2	(900)				=								(€ 900)
3			€800		=		€ 800						(125)
5	(125)				=								(125)
9	4,000				=							€ 4,000	
12	(1,000)				=					(€1,000)			
15		€6,400			=							6,400	
17	(2,500)				=								(2,500)
20	(600)				=		(600)						
23	4,000	(4,000)			=								
26	5,000				=	€5,000							
29				€4,200	=		4,200						
30	(275)				=								(275)
	<u>€ 14,600</u>	<u>+ €2,400</u>	<u>+ €800</u>	<u>+ €4,200</u>	=	<u>€5,000</u>	<u>+ €4,400</u>	<u>+ €7,000</u>	<u>- €1,000</u>	<u>+ €10,400</u>	<u>- €3,800</u>		
	€22,000					€22,000							

**PROBLEM 1.4 (Continued)**

**(b) MAISIE CONSULTING  
Income Statement  
For the Month Ended May 31, 2020**

<b>Revenues</b>		
Service revenue (€4,000 + €6,400).....		<b>€10,400</b>
<b>Expenses</b>		
Salaries and wages expense .....	€2,500	
Rent expense .....	900	
Utilities expense .....	275	
Advertising expense .....	<u>125</u>	
Total expenses.....		<u>3,800</u>
Net income .....		<u>€6,600</u>

**(c) MAISIE CONSULTING  
Statement of Financial Position  
May 31, 2020**

<b>Assets</b>		
Equipment .....		€ 4,200
Supplies.....		800
Accounts receivable .....		2,400
Cash.....		<u>14,600</u>
Total assets .....		<u>€22,000</u>
<b>Owner's Equity and Liabilities</b>		
<b>Owner's Equity</b>		
Owner's capital.....		12,600*
<b>Liabilities</b>		
Notes payable.....	€ 5,000	
Accounts payable.....	<u>4,400</u>	
Total liabilities.....		<u>9,400</u>
Total owner's equity and liabilities..		<u>€22,000</u>

\*(€7,000 + €6,600 – €1,000)



<b>PROBLEM 1.5</b>
--------------------

(a)	Alpha Company	Beta Company	Psi Company	Omega Company
	(a) HK\$ 39,000	(d) HK\$50,000	(g) HK\$129,000	(j) HK\$60,000
	(b) 110,000	(e) 40,000	(h) 88,000	(k) 251,000
	(c) 9,000	(f) 33,000	(i) 385,000	(l) 444,000

(b) **ALPHA COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2020**

Owner's capital, January 1 .....		HK\$39,000
Add: Investment .....	HK\$ 9,000	
Net income .....	17,000	26,000
		65,000
Less: Drawings .....		15,000
Owner's capital, December 31 .....		HK\$50,000

- (c) The sequence of preparing financial statements is income statement, owner's equity statement, and statement of financial position. The interrelationship of the owner's equity statement to the other financial statements results from the fact that net income from the income statement is reported in the owner's equity statement and ending capital reported in the owner's equity statement is the amount reported for owner's equity on the statement of financial position.

- (a) TSMC's total assets at December 31, 2016 were NT\$ 1,886,455,302 and at December 31, 2015 were NT\$ 1,657,518,298 million.**
- (b) TSMC had NT\$ 541,253,833 of cash and cash equivalents at December 31, 2016.**
- (c) TSMC had accounts payable totaling NT\$ 26,062,351 on December 31, 2016 and NT\$ 18,575,286 on December 31, 2015.**
- (d) TSMC reports revenues for 2015 of NT\$ 947,938,344 and for 2016 of NT\$ 843,497,368 million.**
- (e) From 2015 to 2016, TSMC's net income increased NT\$ 27,782,069 from NT\$ 306,556,167 to NT\$ 334,338,236.**

(a)	Nestlé (in millions)	Delfi Limited (in thousands)
1. Total assets	CHF 131,901	US\$342,331
2. Accounts (trade) receivable (net)	CHF 12,411	US\$ 61,756
3. Net sales	CHF 89,469	US\$402,083
4. Net income (profit)	CHF 8,883	US\$ 26,153
(b)	Nestlé	Delfi Limited
Receivables as a percentage of total assets.	9.41%	18.04%
Net income as a percentage of sales (revenue).	9.93%	6.50%

(a) The four skill sets are: **Strong leadership, Communication skills, Tech know-how, and Business savvy.**

(b) These skill sets are useful for the following reasons:

**Strong leadership:** Being a good leader is a major plus in the business world. After all, strong leadership is critical to the success of any organization, whether it is a football team, movie production company, international accounting firm or locally owned restaurant.

**Communication skills:** In business and accounting there's demand for employees who don't just have technical skills, but strong people skills too. Speaking and listening abilities go a long way in a business career.

**Tech know-how:** Nearly every industry is computerized in some way, and computers are probably second nature to you. As a CPA, you'll need to know about existing and emerging technologies in business environments and understand how to use them effectively.

**Business savvy:** Being business savvy means mastering your creative problem-solving skills. You should know how to examine information, interpret it and find creative solutions. Innovative answers are what will get you respect in the business world – and so will responsibility, ethics and honesty.

- (a) The estimate of the £6,100 loss was based on the difference between the £25,000 invested in the driving range and the bank balance of £18,900 at March 31. This is not a valid basis for determining income because it only shows the change in cash between two points in time.
- (b) The statement of financial position at March 31 is as follows:

**CHIP-SHOT DRIVING RANGE.**  
**Statement of Financial Position**  
**March 31, 2020**

Assets	
Building .....	£ 8,000
Equipment .....	800
Cash.....	<u>18,900</u>
Total assets .....	<u><u>£27,700</u></u>
<b>Owner's Equity and Liabilities</b>	
<b>Owner's Equity</b>	
Owner's capital (£25,000 + £2,480).....	£27,480
<b>Liabilities</b>	
Accounts payable (£120 + £100) .....	<u>220</u>
Total owner's equity and liabilities .....	<u><u>£27,700</u></u>

As shown in the statement of financial position, the owner's equity at March 31 is £27,480. The estimate of £2,480 of net income is the difference between the initial investment of £25,000 and £27,480. This was not a valid basis for determining net income because changes in owner's equity between two points in time may have been caused by factors unrelated to net income. For example, there may be drawings and/or additional capital investments by the owner.

**CT 1.4 (Continued)**

- (c) Actual net income for March can be determined by adding withdrawals to the change in equity during the month as shown below:

Equity, March 31, per statement of financial position.....	£27,480
Equity, March 1 .....	<u>(25,000)</u>
Increase in equity.....	2,480
Add: Withdrawals.....	<u>1,000</u>
Net income .....	<u>£ 3,480</u>

Alternatively, net income can be found by determining the revenues earned [described in (d) below] and subtracting expenses.

- (d) Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, £1,000; Salaries and Wages, £500; Advertising, £750; and Utilities, £120 for a total of £2,370. Revenues earned, therefore, were £5,850 (£2,370 + £3,480). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:

Beginning cash balance .....		£25,000
Less: Cash payments		
Caddy shack .....	£8,000	
Golf balls and clubs.....	800	
Rent .....	1,000	
Advertising.....	650	
Salaries and wages.....	500	
Withdrawals .....	<u>1,000</u>	<u>11,950</u>
Cash balance before revenues .....		13,050
Cash balance, March 31 .....		<u>18,900</u>
Revenues earned .....		<u>£ 5,850</u>

**To: Erin Danielle**  
**From: Student**

I have received the statement of financial position of Liverpool Ltd. as of December 31, 2020. A number of items in this statement of financial position are not properly reported. They are:

1. The statement of financial position should be dated as of a specific date, not for a period of time. Therefore, it should be dated “December 31, 2020.”
2. Cash should be reported after Supplies on the statement of financial position.
3. Accounts receivable should be shown as an asset, not a liability, and reported between Cash and Supplies on the statement of financial position.
4. Accounts payable should be shown as a liability, not an asset. The note payable is also a liability and should be reported in the liability section.
5. Liabilities and owner’s equity should be shown on the statement of financial position. Owner’s capital and Owner’s drawings are not liabilities.
6. Owner’s capital and Owner’s drawings are part of owner’s equity. The drawings account is not reported on the statement of financial position but is subtracted from Owner’s capital to determine Owner’s equity at the end of the period.

CT 1.5 (Continued)

A correct statement of financial position is as follows:

**LIVERPOOL LTD.**  
**Statement of Financial Position**  
**December 31, 2020**

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<b>Assets</b>		
Equipment.....		<b>\$25,500</b>
Supplies .....		<b>3,000</b>
Accounts receivable.....		<b>5,000</b>
Cash .....		<b><u>9,000</u></b>
<b>Total assets</b> .....		<b><u>\$42,500</u></b>
<b>Owner's Equity and Liabilities</b>		
<b>Owner's Equity</b>		
Owner's capital .....		<b>\$24,000</b>
<b>Liabilities</b>		
Notes payable .....	<b>\$10,500</b>	
Accounts payable .....	<b><u>\$ 8,000</u></b>	
<b>Total liabilities</b> .....		<b><u>18,500</u></b>
<b>Total owner's equity and liabilities</b> .....		<b><u>\$42,500</u></b>



- (a) Answers to the following will vary depending on students' opinions.
- (1) This does not represent the hiding of assets, but rather a choice as to the order of use of assets. This would seem to be ethical.
  - (2) This does not represent the hiding of assets, but rather is a change in the nature of assets. Since the expenditure was necessary, although perhaps accelerated, it would seem to be ethical.
  - (3) This represents an intentional attempt to deceive the financial aid office. It would therefore appear to be both unethical and potentially illegal.
  - (4) This is a difficult issue. By taking the leave, actual net income would be reduced. The form asks the applicant to report actual net income. However, it is potentially deceptive since you do not intend on taking unpaid absences in the future, thus future income would be higher than reported income.
- (b) Companies might want to overstate net income in order to potentially increase the stock price by improving investors' perceptions of the company. Also, a higher net income would make it easier to receive debt financing. Finally, managers would want a higher net income to increase the size of their bonuses.
- (c) Sometimes companies want to report a lower income if they are negotiating with employees. For example, professional sports teams frequently argue that they can not increase salaries because they aren't making enough money. This also occurs in negotiations with unions. For tax accounting (as opposed to the financial accounting in this course) companies frequently try to minimize the amount of reported taxable income.
- (d) Unfortunately many times people who are otherwise very ethical will make unethical decisions regarding financial reporting. They might be driven to do this because of greed. Frequently it is because their superiors have put pressure on them to take an unethical action, and they are afraid to not follow directions because they might lose their job. Also, in some instances top managers will tell subordinates that they should be a team player, and do the action because it would help the company, and therefore would help fellow employees.

The 5 aspirations of the company are related to sustaining (1) its business, (2) its brands, (3) its people, (4) its communities, and (5) the planet.

### GAAP 1.1

The International Accounting Standards Board, IASB, and the Financial Accounting Standards Board, FASB, are two key players in developing international accounting standards. The IASB releases international standards known as International Financial Reporting Standards (IFRS). The FASB releases U.S. standards, referred to as Generally Accepted Accounting Principles or GAAP.

### GAAP 1.2

Accounting standards have developed in different ways because the standard setters have responded to different user needs. In some countries, the primary users of financial statements are private investors; in others the primary users are taxing authorities or central government planners.

### GAAP 1.3

A single set of high-quality accounting standards is needed because of increases in multinational corporations, mergers and acquisitions, use of information technology, and international financial markets.

### GAAP 1.4

Currently the internal control standards applicable to Sarbanes-Oxley (SOX) apply only to large public companies listed on U.S. exchanges. If such standards were adopted by non-U.S. companies, users of statements would benefit from more uniform regulation and U.S. companies would be competing on a more “even” playing field. The disadvantage of adopting SOX would be the additional costs associated with its required internal control measures.

**GAAP 1.5****GAAP FINANCIAL REPORTING PROBLEM**

- (a) Apple's total assets at September 24, 2016 were \$321,686 million and at September 26, 2015 were \$290,345 million.
- (b) Apple had \$20,484 million of cash and cash equivalents at September 24, 2016.
- (c) Apple had accounts payable totaling \$37,294 million on September 24, 2016 and \$35,490 million on September 26, 2015.
- (d) Apple reports net sales for three consecutive years as follows:
- |      |                   |
|------|-------------------|
| 2014 | \$182,795 million |
| 2015 | \$233,715 million |
| 2016 | \$215,639 million |
- (e) From 2015 to 2016, Apple's net income decreased \$7,707 million from \$53,394 million to \$45,687 million.