# Chapter 1
# Accounting and the Business Environment

## *Review Questions*

**1.** Accounting is the information system that measures business activities, processes the information into reports, and communicates the results to decision makers. Accounting is the language of business.

**2.** Financial accounting provides information for external decision makers, such as outside investors, lenders, customers, and the federal government. Managerial accounting focuses on information for internal decision makers, such as the company's managers and employees.

**3.** Individuals use accounting information to help them manage their money, evaluate a new job, and better decide whether they can afford to make a new purchase. Business owners use accounting information to set goals, measure progress toward those goals, and make adjustments when needed. Investors use accounting information to help them decide whether or not a company is a good investment and once they have invested, they use a company's financial statements to analyze how their investment is performing. Creditors use accounting information to decide whether to lend money to a business and to evaluate a company's ability to make the loan payments. Taxing authorities use accounting information to calculate the amount of income tax that a company has to pay.

**4.** Certified Public Accountants (CPAs) are licensed professional accountants who serve the general public. They work for public accounting firms, businesses, government, or educational institutions. To be certified they must meet educational and/or experience requirements and pass an exam. Certified Management Accountants (CMAs) specialize in accounting and financial management knowledge. They work for a single company.

**5.** The FASB oversees the creation and governance of accounting standards. They work with governmental regulatory agencies, congressionally created groups, and private groups.

**6.** The guidelines for accounting information are called GAAP. It is the main U.S. accounting rule book and is currently created and governed by the FASB. Investors and lenders must have information that is relevant and has faithful representation in order to make decisions and GAAP provides the framework for this financial reporting.

**7.** A sole proprietorship has a single owner, terminates upon the owner's death or choice, the owner has personal liability for the business's debts, and it is not a separate tax entity. A partnership has two or more owners, terminates at partner's choice or death, the partners have personal liability, and it is not a separate tax entity. A corporation is a separate legal entity, has one or more owners, has indefinite life, the stockholders are not personally liable for the business's debts, and it is a separate tax entity. A limited-liability company has one or more members and each is only liable for his or her own actions, has an indefinite life, and is not a separate tax entity.

**8.** The land should be recorded at $5,000. The cost principle states that assets should be recorded at their historical cost.

**9.** The going concern assumption assumes that the entity will remain in business for the foreseeable future and long enough to use existing resources for their intended purpose.

**10.** The faithful representation concept states that accounting information should be complete, neutral, and free from material error.

**11.** The monetary unit assumption states that items on the financial statements should be measured in terms of a monetary unit.

**12.** The IASB is the organization that develops and creates IFRS which are a set of global accounting standards that would be used around the world.

**13.** Assets = Liabilities + Equity. Assets are economic resources that are expected to benefit the business in the future. They are things of value that a business owns or has control of. Liabilities are debts that are owed to creditors. They are one source of claims against assets. Equity is the other source of claims against assets. Equity is the stockholders' claims against assets and is the amount of assets that is left over after the company has paid its liabilities. It represents the net worth of the corporation.

**14.** Retained earnings increases with revenues. Retained earnings decreases with expenses and dividends.

**15.** Revenues – Expenses = Net Income. Revenues are earnings resulting from delivering goods or services to customers. Expenses are the cost of selling goods or service.

**16.** Step 1: Identify the accounts and the account type. Step 2: Decide if each account increases or decreases. Step 3: Determine if the accounting equation is in balance.

**17.** Income Statement – Shows the difference between an entity's revenues and expenses and reports the net income or net loss for a specific period.
Statement of Retained Earnings – Shows the changes in retained earnings for a specific period including net income (loss) and dividends.
Balance Sheet – Shows the assets, liabilities, and stockholders' equity of the business as of a specific date.
Statement of Cash Flows – Shows a business's cash receipts and cash payments for a specific period.

**18.** Return on Assets = Net income / Average total assets. ROA measures how profitably a company uses its assets.

## *Short Exercises*

**S1-1**

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

**S1-2**

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

**S1-3**

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

**S1-4**

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

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

**S1-5**

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

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

Thompson Handyman Services has equity of $9,350.

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| $18,400 | = | $9,050 | + | ? |
| $18,400 | = | $9,050 | + | **$9,350** |

**Requirement 2**

Thompson Handyman Services has liabilities of $17,200.

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| $18,400 + $4,300 | = | ? | + | $9,350 – $3,850 |
| $22,700 | = | **$17,200** | + | $5,500 |

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

| ASSETS | = | LIABILITIES | + | EQUITY | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Contributed Capital | + | Retained Earnings | | | | |
| | | | + | Common Stock | – | Dividends | + | Revenues | – | Expenses |
| $45,800 | = | $17,220 | + | $27,460 | – | $6,500 | + | $8,850 | – | **?** |
| $45,800 | = | $17,220 | + | $27,460 | – | $6,500 | + | $8,850 | – | **$1,230** |

**Requirement 2**

Roland's Overhead Doors reported net income of $7,620. Net Income = Revenues ($8,850) – Expenses ($1,230)

**S1-8**

| | |
|---|---|
| a. L | f. E |
| b. A | g. A |
| c. E | h. E |
| d. A | i. A |
| e. E | j. E |

**S1-9**

a. Increase asset (Cash); Increase equity (Service Revenue)
b. Decrease asset (Cash); Decrease equity (Salaries Expense)
c. Increase asset (Cash); Increase Equity (Common Stock)
d. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
e. Increase liability (Accounts Payable); Decrease equity (Utility Expense)
f. Decrease asset (Cash); Decrease equity (Dividends)

**S1-10**

a. Increase asset (Cash); Increase equity (Common Stock)
b. Increase asset (Equipment); Increase liability (Accounts Payable)
c. Increase asset (Office Supplies); Decrease asset (Cash)
d. Increase asset (Cash); Increase equity (Service Revenue)
e. Decrease asset (Cash); Decrease equity (Wages Expense)
f. Decrease asset (Cash); Decrease equity (Dividends)
g. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
h. Decrease asset (Cash); Decrease equity (Rent Expense)
i. Increase liability (Accounts Payable); Decrease equity (Utilities Expense)

**S1-11**

| | |
|---|---|
| a. B | f. I |
| b. B, C | g. B |
| c. B | h. RE |
| d. B | i. B |
| e. I | j. I |

**S1-12**

CENTERPIECE ARRANGEMENTS
Income Statement
Year Ended December 31, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $ 70,000 |
| Expenses: | | |
| Salaries Expense | $ 46,000 | |
| Rent Expense | 16,000 | |
| Insurance Expense | 4,500 | |
| Utilities Expense | 1,400 | |
| Total Expenses | | 67,900 |
| Net Income | | $ 2,100 |

**S1-13**

CENTERPIECE ARRANGEMENTS
Statement of Retained Earnings
Year Ended December 31, 2018

| | |
|---|---|
| Retained Earnings, January 1, 2018 | $ 5,100 |
| Net income for the year | 2,100 |
| | 7,200 |
| Dividends | (4,800) |
| Retained Earnings, December 31, 2018 | $ 2,400 |

**S1-14**

CENTERPIECE ARRANGEMENTS
Balance Sheet
December 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 7,200 | Accounts Payable | $ 17,600 |
| Accounts Receivable | 8,000 | | |
| Office Supplies | 1,700 | Stockholders' Equity | |
| Equipment | 12,100 | Common Stock | 9,000 |
| | | Retained Earnings | 2,400 |
| | | Total Stockholders' Equity | 11,400 |
| Total Assets | $ 29,000 | Total Liabilities and Stockholders' Equity | $ 29,000 |

**S1-15**

POLK STREET HOMES
Statement of Cash Flows
Month Ended July 31, 2018

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts: | | |
| Collections from customers | | $ 25,000 |
| Payments: | | |
| To employees | $ (1,500) | |
| To suppliers | (2,500) | (4,000) |
| Net cash provided by operating activities | | 21,000 |
| Cash flows from investing activities: | | |
| Purchase of equipment | (25,000) | |
| Net cash used by investing activities | | (25,000) |
| Cash flows from financing activities: | | |
| Issued common stock | 13,000 | |
| Payment of cash dividend | (4,000) | |
| Net cash provided by financing activities | | 9,000 |
| Net increase in cash | | 5,000 |
| Cash balance, July 1, 2018 | | 14,000 |
| Cash balance, July 31, 2018 | | $ 19,000 |

**S1-16**

| | | |
|---|---|---|
| Return on assets | = | Net income / Average total assets |
| | = | $50,880 / (($362,000 + $486,000) / 2) |
| | = | $50,880 / $424,000 |
| | = | 12% |

## *Exercises*

**E1-17**

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

**E1-18**

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

**E1-19**

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

**E1-20**

| | Assets | Liabilities | Equity |
|---|---|---|---|
| Hair Styles | **$ 72,000** | $ 36,000 | $ 36,000 |
| Style Cuts | 90,000 | **42,000** | 48,000 |
| Your Basket | 101,000 | 68,000 | **33,000** |

**E1-21**

| | a. | b. | c. |
|---|---|---|---|
| Stockholders' equity, May 31, 2018 ($122,000 – $66,000) | $ 56,000 | $ 56,000 | $ 56,000 |
| Issuance of common stock | 10,000 | 0 | 12,500 |
| Net income for the month | **77,000** | **90,000** | **104,500** |
| | 143,000 | 146,000 | 173,000 |
| Dividends | 0 | (3,000) | (30,000) |
| Stockholders' equity, June 30, 2018 ($287,000 – $144,000) | $ 143,000 | $ 143,000 | $ 143,000 |

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

| | Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Beginning of 2018 | $19,000 | = | $14,000 | + | ? |
| | $19,000 | = | $14,000 | + | **$5,000** |
| | | | | | |
| End of 2018 | $12,000 | = | $9,000 | + | ? |
| | $12,000 | = | $9,000 | + | **$3,000** |

Stockholders' equity decreased in 2018 by $2,000 ($5,000 – $3,000).

**Requirement 2**

a. Increase through issuance of common stock.
b. Increase through net income.
c. Decrease through dividend payment.
d. Decrease through net loss.

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

| Revenues | – | Expenses | = | Net Income |
|---|---|---|---|---|
| $30,000 | – | $15,000 | = | **$15,000** |

**Requirement 2**

Flowing Rivers Spa's equity increased by $15,000 ($29,000 - $14,000) or the amount of the net income.

| | Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Beginning of 2018 | $28,000 | = | $14,000 | + | ? |
| | $28,000 | = | $14,000 | + | $14,000 |
| | | | | | |
| Ending of 2018 | $43,000 | = | $14,000 | + | ? |
| | $43,000 | = | $14,000 | + | $29,000 |

**E1-24**
**Requirement 1**

| | Assets | − | Liabilities | = | Equity |
|---|---|---|---|---|---|
| Beginning of 2018 | $67,000 | − | $11,000 | = | $56,000 |
| Ending of 2018 | $46,000 | − | $34,000 | = | $12,000 |

| Retained Earnings: | |
|---|---|
| Retained Earnings, Jan. 1, 2018 | $ 45,000 |
| Plus: Revenues | 205,000 |
| Less: Expenses | **(241,000)** |
| Less: Dividends | (8,000) |
| Retained Earnings, Dec. 31, 2018 | $ 1,000 |

| Stockholders' Equity: | |
|---|---|
| Common Stock | $ 11,000 |
| Retained Earnings | 1,000 |
| Total Stockholders' Equity | $ 12,000 |

**Requirement 2**

Felix Company suffered (or reported) a net loss of ($36,000).

| Revenue | − | Expenses | = | Net Income (Loss) |
|---|---|---|---|---|
| $205,000 | − | $241,000 | = | ($36,000) |

**E1-25**

Student responses will vary. Examples include:

a. Cash purchase of office supplies.
b. Cash dividends paid to stockholders.
c. Paid cash on accounts payable.
d. Received cash for services provided.
e. Borrowed cash from the bank.

**E1-26**

a. Increase asset (Cash); Increase equity (Common Stock)
b. Increase asset (Accounts Receivable); Increase equity (Rental Revenue)
c. Increase asset (Office Furniture); Increase liability (Accounts Payable)
d. Increase asset (Cash); Decrease asset (Accounts Receivable)
e. Decrease asset (Cash); Decrease liability (Accounts Payable)
f. Increase asset (Cash); Increase equity (Rental Revenue)
g. Decrease asset (Cash); Decrease equity (Rent Expense)
h. Decrease asset (Cash); Increase asset (Office Supplies).

**E1-27**

a. Increase asset (Cash); Increase equity (Common Stock)
b. Increase asset (Land); Decrease asset (Cash)
c. Decrease asset (Cash); Decrease liability (Accounts Payable)
d. Increase asset (Equipment); Increase liability (Notes Payable)
e. Increase asset (Accounts Receivable); Increase equity (Service Revenue)
f. Increase liability (Salaries Payable); Decrease equity (Salaries Expense)
g. Increase asset (Cash); Decrease asset (Accounts Receivable)
h. Increase asset (Cash); Increase liability (Notes Payable)
i. Decrease asset (Cash); Decrease equity (Dividends)
j. Increase liability (Accounts Payable); Decrease equity (Utility Expense)

**E1-28**

Transaction Descriptions:

1. Issuance of common stock to stockholders
2. Earned revenue on account
3. Purchased equipment on account
4. Collected cash on account
5. Cash purchase of equipment
6. Paid cash on account
7. Earned revenue and received cash
8. Paid cash for salaries

## E1-29

| | ASSETS | | | = LIABILITIES + | EQUITY | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Contributed Capital + | Retained Earnings | | | | |
| Date | Cash | + Medical Supplies | + Land | = Accounts Payable | + Common Stock | – Dividends | + Service Revenue | – Salaries Expense | – Rent Expense | – Utilities Expense |
| July 6 | +68,000 | | | | +68,000 | | | | | |
| Bal. | $68,000 | | | | $68,000 | | | | | |
| 9 | –56,000 | | +56,000 | | | | | | | |
| Bal. | $12,000 | | $56,000 | | $68,000 | | | | | |
| 12 | | +1,500 | | +1,500 | | | | | | |
| Bal. | $12,000 | $1,500 | $56,000 | $1,500 | $68,000 | | | | | |
| 15 | | | | | | | | | | |
| Bal. | $12,000 | $1,500 | $56,000 | $1,500 | $68,000 | | | | | |
| 20 | –2,900 | | | | | | | –1,300 | –1,500 | –100 |
| Bal. | $ 9,100 | $1,500 | $56,000 | $1,500 | $68,000 | | | $1,300 | $1,500 | $100 |
| 31 | +13,000 | | | | | | +13,000 | | | |
| Bal. | $22,100 | $1,500 | $56,000 | $1,500 | $68,000 | | $13,000 | $1,300 | $1,500 | $100 |
| 31 | –1,050 | | | –1,050 | | | | | | |
| Bal. | $21,050 | $1,500 | $56,000 | $ 450 | $68,000 | | $13,000 | $1,300 | $1,500 | $100 |

**E1-30**

**Requirement 1**

a. Income statement
b. Statement of retained earnings
c. Balance sheet
d. Statement of cash flows

**Requirement 2**

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

**Requirement 3**

Income Statement:

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

Statement of Retained Earnings:

a. The header includes the name of the business, the title of the statement, and the time period. A statement of retained earnings always represents a period of time, for example, a month or a year.
b. The beginning retained earnings is listed first and will always be the ending retained earnings from the previous time period.
c. The net income is added to the beginning retained earnings.
d. The dividends are subtracted from retained earnings. If there had been a net loss, this would also be subtracted.

Balance Sheet:

a. The header includes the name of the business and the title of the statement but the date is different. The balance sheet shows the date as a specific date and not a period of time.
b. Each asset account is listed separately and then totaled. Cash is always listed first.
c. Liabilities are listed separately and then totaled. Liabilities that are to be paid first are listed first.
d. The stockholders' equity section includes common stock and ending retained earnings from the statement of retained earnings.
e. The balance sheet must always balance: Assets = Liabilities + Equity.

Statement of Cash Flows:

a. The header includes the name of the business, the title of the statement, and the time period. A statement of cash flows always represents a period of time, for example, a month or a year.
b. Each dollar amount is calculated by evaluating the cash column on the transaction detail.
c. Operating activities involve cash receipts for services provided and cash payments for expenses paid.
d. Investing activities include the purchase and sale of land and equipment for cash.
e. Financing activities include cash from the issuance of common stock and payment of cash dividends.
f. The ending cash balance must match the cash balance on the balance sheet.

**E1-31**
**Requirement 1**

WILSON TOWING SERVICE
Income Statement
Month Ended June 30, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $ 15,000 |
| Expenses: | | |
| Salaries Expense | $ 2,400 | |
| Rent Expense | 900 | |
| Total Expenses | | 3,300 |
| Net Income | | $ 11,700 |

**Requirement 2**

The income statement reports revenues and expenses for a period of time.

**E1-32**
**Requirement 1**

WILSON TOWING SERVICE
Statement of Retained Earnings
Month Ended June 30, 2018

| | |
|---|---|
| Retained Earnings, June 1, 2018 | $ 3,250 |
| Net income for the month | 11,700 |
| | 14,950 |
| Dividends | (3,500) |
| Retained Earnings, June 30, 2018 | $ 11,450 |

**Requirement 2**

The statement of retained earnings reports the changes in retained earnings for a corporation during a time period. The statement of retained earnings reports a corporation's net income or net loss and dividends declared.

**E1-33**
**Requirement 1**

WILSON TOWING SERVICE
Balance Sheet
June 30, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 1,400 | Accounts Payable | $ 8,000 |
| Accounts Receivable | 9,000 | Notes Payable | 6,800 |
| Office Supplies | 1,000 | Total Liabilities | 14,800 |
| Equipment | 25,850 | Stockholders' Equity | |
| | | Common Stock | 11,000 |
| | | Retained Earnings | 11,450 |
| | | Total Stockholders' Equity | 22,450 |
| Total Assets | $ 37,250 | Total Liabilities and Stockholders' Equity | $ 37,250 |

**Requirement 2**

The balance sheet reports an entity's assets, liabilities, and stockholders' equity as of a specific date.

**E1-34**

DAMON DESIGN STUDIO
Income Statement
Year Ended December 31, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $ 154,600 |
| Expenses: | | |
| Salaries Expense | $ 65,000 | |
| Rent Expense | 23,000 | |
| Utilities Expense | 7,200 | |
| Miscellaneous Expense | 3,800 | |
| Property Tax Expense | 2,200 | |
| Total Expenses | | 101,200 |
| Net Income | | $ 53,400 |

**E1-35**

| DAMON DESIGN STUDIO<br>Statement of Retained Earnings<br>Year Ended December 31, 2018 | |
|---|---|
| Retained Earnings, January 1, 2018 | $ 39,000 |
| Net income for the year | 53,400 |
| | 92,400 |
| Dividends | (57,000) |
| Retained Earnings, December 31, 2018 | $ 35,400 |

**E1-36**

| DAMON DESIGN STUDIO<br>Balance Sheet<br>December 31, 2018 | | | |
|---|---|---|---|
| Assets | | Liabilities | |
| Cash | $ 3,200 | Accounts Payable | $ 3,600 |
| Accounts Receivable | 9,300 | Notes Payable | 14,000 |
| Office Supplies | 5,100 | Total Liabilities | 17,600 |
| Office Furniture | 48,400 | Stockholders' Equity | |
| | | Common Stock | 13,000 |
| | | Retained Earnings | 35,400 |
| | | Total Stockholders' Equity | 48,400 |
| Total Assets | $ 66,000 | Total Liabilities and Stockholders' Equity | $ 66,000 |

**E1-37**

| | |
|---|---|
| a. F + | f. I – |
| b. O – | g. O – |
| c. X | h. X |
| d. F – | i. O – |
| e. O + | j. X |

**E1-38**

MORNING BEAN FOOD EQUIPMENT COMPANY
Statement of Cash Flows
Month Ended January 31, 2018

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts: | | |
| Collections from customers | | $ 8,500 |
| Payments: | | |
| To employees | $ (1,300) | |
| To suppliers | (2,050) | (3,350) |
| Net cash provided by operating activities | | 5,150 |
| Cash flows from investing activities: | | |
| Purchase of land | (19,000) | |
| Net cash used by investing activities | | (19,000) |
| Cash flows from financing activities: | | |
| Issuance of common stock | 5,000 | |
| Payment of cash dividends | (500) | |
| Net cash provided by financing activities | | 4,500 |
| Net decrease in cash | | (9,350) |
| Cash balance, January 1, 2018 | | 11,800 |
| Cash balance, January 31, 2018 | | $ 2,450 |

**E1-39**

Average total assets = (Beginning total assets + ending total assets) / 2
Beginning total assets = $34,000 + $23,000 + $160,000 + $2,200 + $24,000 + $4,800 = $248,000
Ending total assets = $134,200 + $44,000 + $160,000 + $19,800 + $42,000 + $2,000 = $402,000
Average total assets = ($248,000 + $402,000) / 2 = $325,000

ROA = Net income / Average total assets
ROA = $58,500 / $325,000 = 0.18 = 18%

## *Problems (Group A)*

**P1-40A**

| | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Contributed Capital | + | Retained Earnings | | | | | | | |
| | Cash | + | Accounts Receivable | + | Office Supplies | + | Land | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Advertising Expense |
| Bal. | $1,900 | + | $3,200 | | | + | $15,000 | = | $5,000 | + | $11,900 | | | | + $3,200 | | | | |
| (a) | +17,000 | | | | | | | | | | +17,000 | | | | | | | | |
| Bal. | $18,900 | + | $3,200 | | | + | $15,000 | = | $5,000 | + | $28,900 | | | | $3,200 | | | | |
| (b) | +800 | | | | | | | | | | | | | | +800 | | | | |
| Bal. | $19,700 | + | $3,200 | | | + | $15,000 | = | $5,000 | + | $28,900 | | | | $4,000 | | | | |
| (c) | –5,000 | | | | | | | | –5,000 | | | | | | | | | | |
| Bal. | $14,700 | + | $3,200 | | | + | $15,000 | = | $0 | + | $28,900 | | | + | $4,000 | | | | |
| (d) | | | | | +1,200 | | | | +1,200 | | | | | | | | | | |
| Bal. | $14,700 | + | $3,200 | + | $1,200 | + | $15,000 | = | $1,200 | + | $28,900 | | | + | $4,000 | | | | |
| (e) | +2,000 | | –2,000 | | | | | | | | | | | | | | | | |
| Bal. | $16,700 | + | $1,200 | + | $1,200 | + | $15,000 | = | $1,200 | + | $28,900 | | | + | $4,000 | | | | |
| (f) | –1,600 | | | | | | | | | | | | –1,600 | | | | | | |
| Bal. | $15,100 | + | $1,200 | + | $1,200 | + | $15,000 | = | $1,200 | + | $28,900 | – | $1,600 | + | $4,000 | | | | |
| (g) | | | +4,500 | | | | | | | | | | | | +4,500 | | | | |
| Bal. | $15,100 | + | $5,700 | + | $1,200 | + | $15,000 | = | $1,200 | + | $28,900 | – | $1,600 | + | $8,500 | | | | |
| (h) | –1,500 | | | | | | | | | | | | | | | | –1,000 | | –500 |
| Bal. | $13,600 | + | $5,700 | + | $1,200 | + | $15,000 | = | $1,200 | + | $28,900 | – | $1,600 | + | $8,500 | – | $1,000 | – | $500 |

## P1-41A

| | ASSETS | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Contributed Capital | + | Retained Earnings | | | | | | | | | | |
| | Cash | + | Accounts Receivable | + | Office Supplies | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Utilities Expense | – | Wages Expense | – | Advertising Expense |
| 1 | +19,000 | | | | | | | | +19,000 | | | | | | | | | | | | |
| 2 | +3,800 | | | | | | | | | | | | +3,800 | | | | | | | | |
| Bal. | $22,800 | | | | | = | | + | $19,000 | | | + | $3,800 | | | | | | | | |
| 5 | –200 | | | | +200 | | | | | | | | | | | | | | | | |
| Bal. | $22,600 | | | + | $200 | = | | + | $19,000 | | | + | $3,800 | | | | | | | | |
| 9 | | | +4,500 | | | | | | | | | | +4,500 | | | | | | | | |
| Bal. | $22,600 | + | $4,500 | + | $200 | = | | + | $19,000 | | | + | $8,300 | | | | | | | | |
| 10 | | | | | | | +200 | | | | | | | | | | –200 | | | | |
| Bal. | $22,600 | + | $4,500 | + | $200 | = | $200 | + | $19,000 | | | + | $8,300 | | | – | $200 | | | | |
| 15 | –250 | | | | | | | | | | | | | | | | | | | | –250 |
| Bal. | $22,350 | + | $4,500 | + | $200 | = | $200 | + | $19,000 | | | + | $8,300 | | | – | $200 | | | – | $250 |
| 20 | –200 | | | | | | –200 | | | | | | | | | | | | | | |
| Bal. | $22,150 | + | $4,500 | + | $200 | = | $ 0 | + | $19,000 | | | + | $8,300 | | | – | $200 | | | – | $250 |
| 25 | +4,500 | | –4,500 | | | | | | | | | | | | | | | | | | |
| Bal. | $26,650 | + | $ 0 | + | $200 | = | | + | $19,000 | | | + | $8,300 | | | – | $200 | | | – | $250 |
| 28 | –1,600 | | | | | | | | | | | | | | –1,600 | | | | | | |
| Bal. | $25,050 | | | + | $200 | = | | + | $19,000 | | | + | $8,300 | – | $1,600 | – | $200 | | | – | $250 |
| 28 | –1,450 | | | | | | | | | | | | | | | | | | –1,450 | | |
| Bal. | $23,600 | | | + | $200 | = | | + | $19,000 | | | + | $8,300 | – | $1,600 | – | $200 | – | $1,450 | – | $250 |
| 30 | +1,400 | | | | | | | | | | | | +1,400 | | | | | | | | |
| Bal. | $25,000 | | | + | $200 | = | | + | $19,000 | | | + | $9,700 | – | $1,600 | – | $200 | – | $1,450 | – | $250 |
| 31 | –3,500 | | | | | | | | | | –3,500 | | | | | | | | | | |
| Bal. | $21,500 | + | $ 0 | + | $200 | = | $ 0 | + | $19,000 | – | $3,500 | + | $9,700 | – | $1,600 | – | $200 | – | $1,450 | – | $250 |

**P1-42A**

**Requirement 1**

HOMETOWN DÉCOR COMPANY
Income Statement
Year Ended December 31, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $ 225,000 |
| Expenses: | | |
| Salaries Expense | $ 67,000 | |
| Advertising Expense | 17,000 | |
| Rent Expense | 14,000 | |
| Interest Expense | 6,800 | |
| Property Tax Expense | 2,800 | |
| Insurance Expense | 1,700 | |
| Total Expenses | | 109,300 |
| Net Income | | $ 115,700 |

**Requirement 2**

HOMETOWN DÉCOR COMPANY
Statement of Retained Earnings
Year Ended December 31, 2018

| | | |
|---|---|---|
| Retained Earnings, December 31, 2017 | $ | 56,000 |
| Net income for the year | | 115,700 |
| | | 171,700 |
| Dividends | | (36,000) |
| Retained Earnings, December 31, 2018 | $ | 135,700 |

**P1-42A, cont.**
**Requirement 3**

HOMETOWN DÉCOR COMPANY
Balance Sheet
December 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 2,800 | Accounts Payable | $ 14,000 |
| Accounts Receivable | 800 | Notes Payable | 33,000 |
| Office Supplies | 8,000 | Salaries Payable | 1,300 |
| Land | 13,000 | Total Liabilities | 48,300 |
| Building | 170,400 | | |
| Equipment | 17,000 | Stockholders' Equity | |
| | | Common Stock | 28,000 |
| | | Retained Earnings | 135,700 |
| | | Total Stockholders' Equity | 163,700 |
| Total Assets | $ 212,000 | Total Liabilities and Stockholders' Equity | $ 212,000 |

**P1-43A**
**Part a.**

PICTURE PERFECT PHOTOGRAPHY
Income Statement
Year Ended December 31, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $ 75,000 |
| Expenses: | | |
| Salaries Expense | $ 25,000 | |
| Insurance Expense | 6,000 | |
| Advertising Expense | 4,000 | |
| Total Expenses | | 35,000 |
| Net Income | | $ 40,000 |

**Part b.**

PICTURE PERFECT PHOTOGRAPHY
Statement of Retained Earnings
Year Ended December 31, 2018

| | |
|---|---|
| Retained Earnings, December 31, 2017 | $ 16,000 |
| Net income for the year | 40,000 |
| | 56,000 |
| Dividends | (8,000) |
| Retained Earnings, December 31, 2018 | $ 48,000 |

**Part c.**

PICTURE PERFECT PHOTOGRAPHY
Balance Sheet
December 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 42,000 | Accounts Payable | $ 11,000 |
| Accounts Receivable | 13,000 | Notes Payable | 14,000 |
| Equipment | 46,000 | Total Liabilities | 25,000 |
| | | Stockholders' Equity | |
| | | Common Stock | 28,000 |
| | | Retained Earnings | 48,000 |
| | | Total Stockholders' Equity | 76,000 |
| Total Assets | $101,000 | Total Liabilities and Stockholders' Equity | $101,000 |

**P1-44A**

OUTDOOR LIFE LANDSCAPING
Balance Sheet
November 30, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 4,600 | Accounts Payable | $ 2,700 |
| Accounts Receivable | 2,000 | Notes Payable | 24,600 |
| Office Supplies | 600 | Total Liabilities | 27,300 |
| Land | 34,100 | Stockholders' Equity | |
| Office Furniture | 5,800 | Common Stock | 8,000 |
| | | Retained Earnings | 11,800 |
| | | Total Stockholders' Equity | 19,800 |
| Total assets | $ 47,100 | Total Liabilities and Stockholders' Equity | $ 47,100 |

**P1-45A**
**Requirement 1**

| | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Contributed Capital | + | Retained Earnings | | | | | | |
| | Cash | + | Accounts Receivable | + | Office Supplies | + | Furniture | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Utilities Expense |
| 5 | +75,000 | | | | | | | | | | +75,000 | | | | | | | | |
| 6 | –300 | | | | +300 | | | | | | | | | | | | | | |
| Bal. | $74,700 | | | + | $300 | | | = | | + | $75,000 | | | | | | | | |
| 7 | | | | | | | +9,500 | | +9,500 | | | | | | | | | | |
| Bal. | $74,700 | | | + | $300 | + | $9,500 | = | $9,500 | + | $75,000 | | | | | | | | |
| 10 | +4,000 | | | | | | | | | | | | | | +4,000 | | | | |
| Bal. | $78,700 | | | + | $300 | + | $9,500 | = | $9,500 | + | $75,000 | | | + | $4,000 | | | | |
| 11 | –190 | | | | | | | | | | | | | | | | | | –190 |
| Bal. | $78,510 | | | + | $300 | + | $9,500 | = | $9,500 | + | $75,000 | | | + | $4,000 | | | – | $190 |
| 12 | | | +20,000 | | | | | | | | | | | | +20,000 | | | | |
| Bal. | $78,510 | + | $20,000 | + | $300 | + | $9,500 | = | $9,500 | + | $75,000 | | | + | $24,000 | | | – | $190 |
| 18 | –750 | | | | | | | | | | | | | | | | –750 | | |
| Bal. | $77,760 | + | $20,000 | + | $300 | + | $9,500 | = | $9,500 | + | $75,000 | | | + | $24,000 | – | $750 | – | $190 |
| 25 | +20,000 | | –20,000 | | | | | | | | | | | | | | | | |
| Bal. | $97,760 | | $ 0 | + | $300 | + | $9,500 | = | $9,500 | + | $75,000 | | | + | $24,000 | – | $750 | – | $190 |
| 27 | –9,500 | | | | | | | | –9,500 | | | | | | | | | | |
| Bal. | $88,260 | | | + | $300 | + | $9,500 | = | $ 0 | + | $75,000 | | | + | $24,000 | – | $750 | – | $190 |
| 30 | –3,500 | | | | | | | | | | | | –3,500 | | | | | | |
| Bal. | $84,760 | + | $ 0 | + | $300 | + | $9,500 | = | $ 0 | + | $75,000 | – | $3,500 | + | $24,000 | – | $750 | – | $190 |

**P1-45A, cont.**
**Requirement 2a**

ALLEN SHONTON, CPA
Income Statement
Month Ended April 30, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $ 24,000 |
| Expenses: | | |
| Rent Expense | $ 750 | |
| Utilities Expense | 190 | |
| Total Expenses | | 940 |
| Net Income | | $ 23,060 |

**Requirement 2b**

ALLEN SHONTON, CPA
Statement of Retained Earnings
Month Ended April 30, 2018

| | |
|---|---|
| Retained Earnings, April 1, 2018 | $ 0 |
| Net income for the month | 23,060 |
| | 23,060 |
| Dividends | (3,500) |
| Retained Earnings, April 30, 2018 | $ 19,560 |

**Requirement 2c**

ALLEN SHONTON, CPA
Balance Sheet
April 30, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 84,760 | | |
| Office Supplies | 300 | | |
| Furniture | 9,500 | Stockholders' Equity | |
| | | Common Stock | $ 75,000 |
| | | Retained Earnings | 19,560 |
| | | Total Stockholders' Equity | 94,560 |
| Total Assets | $ 94,560 | Total Liabilities and Stockholders' Equity | $ 94,560 |

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

| | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Contributed Capital | + | Retained Earnings | | | | | | |
| | Cash | + | Accounts Receivable | + | Office Supplies | + | Computer | = | Accounts Payable | + | Common Stock | − | Dividends | + | Service Revenue | – | Utilities Expense | – | Miscellaneous Expense |
| 3 | +73,000 | | | | | | | | | | +73,000 | | | | | | | | |
| 5 | –700 | | | | +700 | | | | | | | | | | | | | | |
| Bal. | $72,300 | | | + | $700 | | | = | | + | $73,000 | | | | | | | | |
| 7 | | | | | | | +5,000 | | +5,000 | | | | | | | | | | |
| Bal. | $72,300 | | | + | $700 | + | $5,000 | = | $5,000 | + | $73,000 | | | | | | | | |
| 9 | +2,800 | | | | | | | | | | | | | | +2,800 | | | | |
| Bal. | $75,100 | | | + | $700 | + | $5,000 | = | $5,000 | + | $73,000 | | | + | $2,800 | | | | |
| 15 | | | | | | | | | +400 | | | | | | | | | | –400 |
| Bal. | $75,100 | | | + | $700 | + | $5,000 | = | $5,400 | + | $73,000 | | | + | $2,800 | – | | – | $400 |
| 23 | | | +10,000 | | | | | | | | | | | | +10,000 | | | | |
| Bal. | $75,100 | + | $10,000 | + | $700 | + | $5,000 | = | $5,400 | + | $73,000 | | | + | $12,800 | – | | – | $400 |
| 28 | –400 | | | | | | | | –400 | | | | | | | | | | |
| Bal. | $74,700 | + | $10,000 | + | $700 | + | $5,000 | = | $5,000 | + | $73,000 | | | + | $12,800 | – | | – | $400 |
| 30 | –1,200 | | | | | | | | | | | | | | | | –1,200 | | |
| Bal. | $73,500 | + | $10,000 | + | $700 | + | $5,000 | = | $5,000 | + | $73,000 | | | + | $12,800 | – | $1,200 | – | $400 |
| 31 | +3,300 | | –3,300 | | | | | | | | | | | | | | | | |
| Bal. | $76,800 | + | $6,700 | + | $700 | + | $5,000 | = | $5,000 | + | $73,000 | | | + | $12,800 | – | $1,200 | – | $400 |
| 31 | –5,500 | | | | | | | | | | | | –5,500 | | | | | | |
| Bal. | $71,300 | + | $6,700 | + | $700 | + | $5,000 | = | $5,000 | + | $73,000 | – | $5,500 | + | $12,800 | – | $1,200 | – | $400 |

**P1-46A, cont.**
**Requirement 2a**

ANNETTE PACHELO, ATTORNEY
Income Statement
Month Ended March 31, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $ 12,800 |
| Expenses: | | |
| Utilities Expense | $ 1,200 | |
| Miscellaneous Expense | 400 | |
| Total Expenses | | 1,600 |
| Net Income | | $ 11,200 |

**Requirement 2b**

ANNETTE PACHELO, ATTORNEY
Statement of Retained Earnings
Month Ended March 31, 2018

| | |
|---|---|
| Retained Earnings, March 1, 2018 | $ 0 |
| Net income for the month | 11,200 |
| | 11,200 |
| Dividends | (5,500) |
| Retained Earnings, March 31, 2018 | $ 5,700 |

**Requirement 2c**

ANNETTE PACHELO, ATTORNEY
Balance Sheet
March 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 71,300 | Accounts Payable | $ 5,000 |
| Accounts Receivable | 6,700 | | |
| Office Supplies | 700 | Stockholders' Equity | |
| Computer | 5,000 | Common Stock | 73,000 |
| | | Retained Earnings | 5,700 |
| | | Total Stockholders' Equity | 78,700 |
| Total Assets | $ 83,700 | Total Liabilities and Stockholders' Equity | $ 83,700 |

**P1-46A, cont.**
**Requirement 2d**

ANNETTE PACHELO, ATTORNEY
Statement of Cash Flows
Month Ended March 31, 2018

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts: | | |
| Collections from customers | | $ 6,100 |
| Payments: | | |
| To suppliers | | (2,300) |
| Net cash provided by operating activities | | 3,800 |
| Cash flows from investing activities: | | 0 |
| Cash flows from financing activities | | |
| Issued common stock | $ 73,000 | |
| Payment of cash dividends | (5,500) | |
| Net cash provided by financing activities | | 67,500 |
| Net increase in cash | | 71,300 |
| Cash balance, March 1, 2018 | | 0 |
| Cash balance, March 31, 2018 | | $ 71,300 |

## *Problems Group B*

**P1-47B**

| | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Contributed Capital | + | Retained Earnings | | | | | | |
| | Cash | + | Accounts Receivable | + | Office Supplies | + | Land | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Advertising Expense |
| Bal. | $2,600 | + | $2,500 | + | | + | $16,000 | = | $5,000 | + | $13,600 | | | + | 2,500 | | | | |
| (a) | +14,000 | | | | | | | | | | +14,000 | | | | | | | | |
| Bal. | $16,600 | + | $2,500 | | | + | $16,000 | = | $5,000 | + | $27,600 | | | + | 2,500 | | | | |
| (b) | +1,600 | | | | | | | | | | | | | | +1,600 | | | | |
| Bal. | $18,200 | + | $2,500 | | | + | $16,000 | = | $5,000 | + | $27,600 | | | + | $4,100 | | | | |
| (c) | –5,000 | | | | | | | | –5,000 | | | | | | | | | | |
| Bal. | $13,200 | + | $2,500 | | | + | $16,000 | = | $0 | + | $27,600 | | | + | $4,100 | | | | |
| (d) | | | | | +1,200 | | | | +1,200 | | | | | | | | | | |
| Bal. | $13,200 | + | $2,500 | + | $1,200 | + | $16,000 | = | $1,200 | + | $27,600 | | | + | $4,100 | | | | |
| (e) | +2,300 | | –2,300 | | | | | | | | | | | | | | | | |
| Bal. | $15,500 | + | $200 | + | $1,200 | + | $16,000 | = | $1,200 | + | $27,600 | | | + | $4,100 | | | | |
| (f) | –1,500 | | | | | | | | | | | | –1,500 | | | | | | |
| Bal. | $14,000 | + | $200 | + | $1,200 | + | $16,000 | = | $1,200 | + | $27,600 | – | $1,500 | + | $4,100 | | | | |
| (g) | | | +4,000 | | | | | | | | | | | | +4,000 | | | | |
| Bal. | $14,000 | + | $4,200 | + | $1,200 | + | $16,000 | = | $1,200 | + | $27,600 | – | $1,500 | + | $8,100 | | | | |
| (h) | –1,350 | | | | | | | | | | | | | | | | –900 | | –450 |
| Bal. | $12,650 | + | $4,200 | + | $1,200 | + | $16,000 | = | $1,200 | + | $27,600 | – | $1,500 | + | $8,100 | – | $900 | – | $450 |

## P1-48B

| | ASSETS | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Contributed Capital | + | Retained Earnings | | | | | | | | | | |
| | Cash | + | Accounts Receivable | + | Office Supplies | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Utilities Expense | – | Wages Expense | – | Advertising Expense |
| 1 | +19,000 | | | | | | | | +19,000 | | | | | | | | | | | | |
| 2 | +3,800 | | | | | | | | | | | | +3,800 | | | | | | | | |
| Bal. | $22,800 | | | | | = | | + | $19,000 | | | + | $3,800 | | | | | | | | |
| 5 | –300 | | | | +300 | | | | | | | | | | | | | | | | |
| Bal. | $22,500 | | | + | $300 | = | | + | $19,000 | | | + | $3,800 | | | | | | | | |
| 9 | | | +4,500 | | | | | | | | | | +4,500 | | | | | | | | |
| Bal. | $22,500 | + | $4,500 | + | $300 | = | | + | $19,000 | | | + | $8,300 | | | | | | | | |
| 10 | | | | | | | +150 | | | | | | | | | | –150 | | | | |
| Bal. | $22,500 | + | $4,500 | + | $300 | = | $150 | + | $19,000 | | | + | $8,300 | | | – | $150 | | | | |
| 15 | –350 | | | | | | | | | | | | | | | | | | | | –350 |
| Bal. | $22,150 | + | $4,500 | + | $300 | = | $150 | + | $19,000 | | | + | $8,300 | | | – | $150 | | | – | $350 |
| 20 | –150 | | | | | | –150 | | | | | | | | | | | | | | |
| Bal. | $22,000 | + | $4,500 | + | $300 | = | $ 0 | + | $19,000 | | | + | $8,300 | | | – | $150 | | | – | $350 |
| 25 | +4,500 | | –4,500 | | | | | | | | | | | | | | | | | | |
| Bal. | $26,500 | + | $ 0 | + | $300 | = | | + | $19,000 | | | + | $8,300 | | | – | $150 | | | – | $350 |
| 28 | –2,600 | | | | | | | | | | | | | | –2,600 | | | | | | |
| Bal. | $23,900 | | | + | $300 | = | | + | $19,000 | | | + | $8,300 | – | $2,600 | – | $150 | | | – | $350 |
| 28 | –1,200 | | | | | | | | | | | | | | | | | | –1,200 | | |
| Bal. | $22,700 | | | + | $300 | = | | + | $19,000 | | | + | $8,300 | – | $2,600 | – | $150 | – | $1,200 | – | $350 |
| 30 | +1,600 | | | | | | | | | | | | +1,600 | | | | | | | | |
| Bal. | $24,300 | | | + | $300 | = | | + | $19,000 | | | + | $9,900 | – | $2,600 | – | $150 | – | $1,200 | – | $350 |
| 31 | –3,000 | | | | | | | | | | –3,000 | | | | | | | | | | |
| Bal. | $21,300 | + | $ 0 | + | $300 | = | $ 0 | + | $19,000 | – | $3,000 | + | $9,900 | – | $2,600 | – | $150 | – | $1,200 | – | $350 |

**P1-49B**

**Requirement 1**

PEMBROKE BOOKKEEPING COMPANY
Income Statement
Year Ended December 31, 2018

| | | |
|---|---|---|
| Revenues: | | |
| Service Revenue | | $ 192,000 |
| Expenses: | | |
| Salaries Expense | $ 64,000 | |
| Advertising Expense | 12,000 | |
| Rent Expense | 7,000 | |
| Interest Expense | 6,600 | |
| Property Tax Expense | 3,100 | |
| Insurance Expense | 1,700 | |
| Total Expenses | | 94,400 |
| Net Income | | $ 97,600 |

**Requirement 2**

PEMBROKE BOOKKEEPING COMPANY
Statement of Retained Earnings
Year Ended December 31, 2018

| | |
|---|---|
| Retained Earnings, December 31, 2017 | $ 51,000 |
| Net income for the year | 97,600 |
| | 148,600 |
| Dividends | (28,000) |
| Retained Earnings, December 31, 2018 | $ 120,600 |

**Requirement 3**

PEMBROKE BOOKKEEPING COMPANY
Balance Sheet
December 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 2,800 | Accounts Payable | $ 7,000 |
| Accounts Receivable | 1,200 | Notes Payable | 31,000 |
| Office Supplies | 12,000 | Salaries Payable | 800 |
| Land | 10,000 | Total Liabilities | 38,800 |
| Building | 147,400 | Stockholders' Equity | |
| Equipment | 15,000 | Common Stock | 29,000 |
| | | Retained Earnings | 120,600 |
| | | Total Stockholders' Equity | 149,600 |
| Total Assets | $ 188,400 | Total Liabilities and Stockholders' Equity | $ 188,400 |

**P1-50B**
**Requirement a**

PRETTY PICTURES
Income Statement
Year Ended December 31, 2018

| | | |
|---|---|---|
| Revenues: | | |
| Service Revenue | | $ 115,000 |
| Expenses: | | |
| Salaries Expense | $ 30,000 | |
| Insurance Expense | 6,000 | |
| Advertising Expense | 4,500 | |
| Total Expenses | | 40,500 |
| Net Income | | $ 74,500 |

**Requirement b**

PRETTY PICTURES
Statement of Retained Earnings
Year Ended December 31, 2018

| | |
|---|---|
| Retained Earnings, December 31, 2017 | $ 20,000 |
| Net income for the year | 74,500 |
| | 94,500 |
| Dividends | (13,000) |
| Retained Earnings, December 31, 2018 | $ 81,500 |

**Requirement c**

PRETTY PICTURES
Balance Sheet
December 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 42,000 | Accounts Payable | $ 13,000 |
| Accounts Receivable | 5,000 | Notes Payable | 10,000 |
| Equipment | 85,500 | Total Liabilities | 23,000 |
| | | Stockholders' Equity | |
| | | Common Stock | 28,000 |
| | | Retained Earnings | 81,500 |
| | | Total Stockholders' Equity | 109,500 |
| Total Assets | $ 132,500 | Total Liabilities And Stockholders' Equity | $ 132,500 |

**P1-51B**

JUNIPER LANDSCAPING
Balance Sheet
July 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 5,300 | Accounts Payable | $ 2,700 |
| Accounts Receivable | 1,800 | Notes Payable | 24,700 |
| Office Supplies | 800 | Total Liabilities | 27,400 |
| Land | 34,500 | | |
| Office Furniture | 6,300 | Stockholders' Equity | |
| | | Common Stock | 10,000 |
| | | Retained Earnings | 11,300 |
| | | Total Stockholders' Equity | 21,300 |
| Total Assets | $ 48,700 | Total Liabilities and Stockholders' Equity | $ 48,700 |

**P1-52B**

Requirement 1

| | ASSETS | | | | | | | = | LIABILITIES | + | EQUITY | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Contributed Capital | + | Retained Earnings | | | | | | |
| | Cash | + | Accounts Receivable | + | Office Supplies | + | Office Furniture | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Rent Expense | – | Utilities Expense |
| 5 | +45,000 | | | | | | | | | | +45,000 | | | | | | | | |
| Bal. | $45,000 | | | | | | | = | | + | $45,000 | | | | | | | | |
| 6 | –300 | | | | +300 | | | | | | | | | | | | | | |
| Bal. | $44,700 | | | + | $300 | | | = | | + | $45,000 | | | | | | | | |
| 7 | | | | | | | +6,500 | | +6,500 | | | | | | | | | | |
| Bal. | $44,700 | | | + | $300 | + | $6,500 | = | $6,500 | + | $45,000 | | | | | | | | |
| 10 | +3,300 | | | | | | | | | | | | | | +3,300 | | | | |
| Bal. | $48,000 | | | + | $300 | + | $6,500 | = | $6,500 | + | $45,000 | | | + | $3,300 | | | | |
| 11 | –340 | | | | | | | | | | | | | | | | | | –340 |
| Bal. | $47,660 | | | + | $300 | + | $6,500 | = | $6,500 | + | $45,000 | | | + | $3,300 | | | – | $340 |
| 12 | | | +16,000 | | | | | | | | | | | | +16,000 | | | | |
| Bal. | $47,660 | + | $16,000 | + | $300 | + | $6,500 | = | $6,500 | + | $45,000 | | | + | $19,300 | | | – | $340 |
| 18 | –1,800 | | | | | | | | | | | | | | | | –1,800 | | |
| Bal. | $45,860 | + | $16,000 | + | $300 | + | $6,500 | = | $6,500 | + | $45,000 | | | + | $19,300 | – | $1,800 | – | $340 |
| 25 | +16,000 | | –16,000 | | | | | | | | | | | | | | | | |
| Bal. | $61,860 | | $ 0 | + | $300 | + | $6,500 | = | $6,500 | + | $45,000 | | | + | $19,300 | – | $1,800 | – | $340 |
| 27 | –6,500 | | | | | | | | –6,500 | | | | | | | | | | |
| Bal. | $55,360 | | $ 0 | + | $300 | + | $6,500 | = | $ 0 | + | $45,000 | | | + | $19,300 | – | $1,800 | – | $340 |
| 31 | –3,800 | | | | | | | | | | | | –3,800 | | | | | | |
| Bal. | $51,560 | + | $ 0 | + | $300 | + | $6,500 | = | $ 0 | + | $45,000 | – | $3,800 | + | $19,300 | – | $1,800 | – | $340 |

**P1-52B, cont.**
**Requirement 2a**

| AMOS SHARP, CPA<br>Income Statement<br>Month Ended October 31, 2018 | | |
|---|---|---|
| Revenues: | | |
| Service Revenue | | $ 19,300 |
| Expenses: | | |
| Rent Expense | $ 1,800 | |
| Utilities Expense | 340 | |
| Total Expenses | | 2,140 |
| Net Income | | $ 17,160 |

**Requirement 2b**

| AMOS SHARP, CPA<br>Statement of Retained Earnings<br>Month Ended October 31, 2018 | |
|---|---|
| Retained Earnings, October 1, 2018 | $ 0 |
| Net income for the month | 17,160 |
| | 17,160 |
| Dividends | (3,800) |
| Retained Earnings, October 31, 2018 | $ 13,360 |

**Requirement 2c**

AMOS SHARP, CPA
Balance Sheet
October 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 51,560 | | |
| Office Supplies | 300 | | |
| Office Furniture | 6,500 | Stockholders' Equity | |
| | | Common Stock | $ 45,000 |
| | | Retained Earnings | 13,360 |
| | | Total Stockholders' Equity | 58,360 |
| Total Assets | $ 58,360 | Total Liabilities and Stockholders' Equity | $ 58,360 |

**P1-53B**
**Requirement 1**

| | ASSETS | | | | | | | | LIABILITIES | | EQUITY | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | = | | + | Contributed Capital | + | Retained Earnings | | | | | | |
| | Cash | + | Accounts Receivable | + | Office Supplies | + | Computer | = | Accounts Payable | + | Common Stock | – | Dividends | + | Service Revenue | – | Utility Expense | – | Misc. Expense |
| 3 | +89,000 | | | | | | | | | | +89,000 | | | | | | | | |
| 5 | –600 | | | | +600 | | | | | | | | | | | | | | |
| Bal. | $88,400 | | | | $600 | + | | = | | + | $89,000 | | | | | | | | |
| 7 | | | | | | | +8,000 | | +8,000 | | | | | | | | | | |
| Bal. | $88,400 | | | + | $600 | + | $8,000 | = | $8,000 | + | $89,000 | | | | | | | | |
| 9 | +2,900 | | | | | | | | | | | | | | +2,900 | | | | |
| Bal. | $91,300 | | | + | $600 | + | $8,000 | = | $8,000 | + | $89,000 | | | + | $2,900 | | | | |
| 15 | | | | | | | | | +300 | | | | | | | | | | –300 |
| Bal. | $91,300 | | | + | $600 | + | $8,000 | = | $8,300 | + | $89,000 | | | + | $2,900 | – | | – | $300 |
| 23 | | | +8,000 | | | | | | | | | | | | +8,000 | | | | |
| Bal. | $91,300 | + | $8,000 | + | $600 | + | $8,000 | = | $8,300 | + | $89,000 | | | + | $10,900 | – | | – | $300 |
| 28 | –300 | | | | | | | | –300 | | | | | | | | | | |
| Bal. | $91,000 | + | $8,000 | + | $600 | + | $8,000 | = | $8,000 | + | $89,000 | | | + | $10,900 | – | | – | $300 |
| 30 | –900 | | | | | | | | | | | | | | | | –900 | | |
| Bal. | $90,100 | + | $8,000 | + | $600 | + | $8,000 | = | $8,000 | + | $89,000 | | | + | $10,900 | – | $900 | – | $300 |
| 31 | +2,800 | | –2,800 | | | | | | | | | | | | | | | | |
| Bal. | $92,900 | + | $5,200 | + | $600 | + | $8,000 | = | $8,000 | + | $89,000 | | | + | $10,900 | – | $900 | – | $300 |
| 31 | –3,000 | | | | | | | | | | | | –3,000 | | | | | | |
| Bal. | $89,900 | + | $5,200 | + | $600 | + | $8,000 | = | $8,000 | + | $89,000 | – | $3,000 | + | $10,900 | – | $900 | – | $300 |

**P1-53B, cont.**
**Requirement 2a**

| ABBY PERRY, ATTORNEY<br>Income Statement<br>Month Ended December 31, 2018 | | |
|---|---|---|
| Revenues: | | |
| Service Revenue | | $ 10,900 |
| Expenses: | | |
| Utility Expense | $ 900 | |
| Miscellaneous Expense | 300 | |
| Total Expenses | | 1,200 |
| Net Income | | $ 9,700 |

**Requirement 2b**

| ABBY PERRY, ATTORNEY<br>Statement of Retained Earnings<br>Month Ended December 31, 2018 | |
|---|---|
| Retained Earnings, December 1, 2018 | $ 0 |
| Net income for the month | 9,700 |
| | 9,700 |
| Dividends | (3,000) |
| Retained Earnings, December 31, 2018 | $ 6,700 |

**Requirement 2c**

ABBY PERRY, ATTORNEY
Balance Sheet
December 31, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 89,900 | Accounts Payable | $ 8,000 |
| Accounts Receivable | 5,200 | | |
| Office Supplies | 600 | Stockholders' Equity | |
| Computer | 8,000 | Common Stock | 89,000 |
| | | Retained Earnings | 6,700 |
| | | Total Stockholders' Equity | 95,700 |
| Total Assets | $ 103,700 | Total Liabilities and Stockholders' Equity | $ 103,700 |

**P1-53B, cont.**
**Requirement 2d**

| ABBY PERRY, ATTORNEY<br>Statement of Cash Flows<br>Month Ended December 31, 2018 | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts: | | |
| Collections from customers | | $ 5,700 |
| Payments: | | |
| To suppliers | | (1,800) |
| Net cash provided by operating activities | | 3,900 |
| Cash flows from investing activities: | | 0 |
| Cash flows from financing activities | | |
| Issued common stock | $ 89,000 | |
| Payment of cash dividends | (3,000) | |
| Net cash provided by financing activities | | 86,000 |
| Net increase in cash | | 89,900 |
| Cash balance, December 1, 2018 | | 0 |
| Cash balance, December 31, 2018 | | $ 89,900 |

## *Using Excel*

**P1-54**

The student templates for *Using Excel* are available online in MyAccountingLab in the Multimedia Library or at http://www.pearsonhighered.com/Horngren. The solution to *Using Excel* is located in MyAccountingLab in the Instructor Resource Center or at http://www.pearsonhighered.com/Horngren.

# *Continuing Problem*

## P1-55, Requirement 1

| | ASSETS | | | | = LIABILITIES | | | + EQUITY | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Contributed Capital | + Retained Earnings | | | | | |
| | Cash | + Accounts Receivable | + Office Supplies | + Canoes | = Accounts Payable | + Utilities Payable | + Telephone Payable | + Common Stock | – Dividends | + Canoe Rental Revenue | – Rent Expense | – Utilities Expense | – Wages Expense | – Telephone Expense |
| 1 | +16,000 | | | | | | | +16,000 | | | | | | |
| 2 | –1,200 | | | | | | | | | | –1,200 | | | |
| Bal. | $14,800 | | | | | | | $16,000 | | | $1,200 | | | |
| 3 | | | | +4,800 | +4,800 | | | | | | | | | |
| Bal. | $14,800 | | | $4,800 | $4,800 | | | $16,000 | | | $1,200 | | | |
| 4 | | | +750 | | +750 | | | | | | | | | |
| Bal. | $14,800 | | $750 | $4,800 | $5,550 | | | $16,000 | | | $1,200 | | | |
| 7 | +1,400 | | | | | | | | | +1,400 | | | | |
| Bal. | $16,200 | | $750 | $4,800 | $5,550 | | | $16,000 | | $1,400 | $1,200 | | | |
| 13 | –1,500 | | | | | | | | | | | | –1,500 | |
| Bal. | $14,700 | | $750 | $4,800 | $5,550 | | | $16,000 | | $1,400 | $1,200 | | $1,500 | |
| 15 | –50 | | | | | | | | –50 | | | | | |
| Bal. | $14,650 | | $750 | $4,800 | $5,550 | | | $16,000 | $50 | $1,400 | $1,200 | | $1,500 | |
| 16 | | | | | | +150 | | | | | | –150 | | |
| Bal. | $14,650 | | $750 | $4,800 | $5,550 | $150 | | $16,000 | $50 | $1,400 | $1,200 | $150 | $1,500 | |
| 20 | | | | | | | +175 | | | | | | | –175 |
| Bal. | $14,650 | | $750 | $4,800 | $5,550 | $150 | $175 | $16,000 | $50 | $1,400 | $1,200 | $150 | $1,500 | $175 |
| 22 | | +3,000 | | | | | | | | +3,000 | | | | |
| Bal. | $14,650 | $3,000 | $750 | $4,800 | $5,550 | $150 | $175 | $16,000 | $50 | $4,400 | $1,200 | $150 | $1,500 | $175 |
| 26 | –1,000 | | | | –1,000 | | | | | | | | | |
| Bal. | $13,650 | $3,000 | $750 | $4,800 | $4,550 | $150 | $175 | $16,000 | $50 | $4,400 | $1,200 | $150 | $1,500 | $175 |
| 28 | +750 | –750 | | | | | | | | | | | | |
| Bal. | $14,400 | $2,250 | $750 | $4,800 | $4,550 | $150 | $175 | $16,000 | $50 | $4,400 | $1,200 | $150 | $1,500 | $175 |
| 30 | –100 | | | | | | | | –100 | | | | | |
| Bal. | $14,300 | $2,250 | $750 | $4,800 | $4,550 | $150 | $175 | $16,000 | $150 | $4,400 | $1,200 | $150 | $1,500 | $175 |

**P1-55, cont.**
**Requirement 2**

CANYON CANOE COMPANY
Income Statement
Month Ended November 30, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Canoe Rental Revenue | | $ 4,400 |
| Expenses: | | |
| Wages Expense | $ 1,500 | |
| Rent Expense | 1,200 | |
| Telephone Expense | 175 | |
| Utilities Expense | 150 | |
| Total Expense | | 3,025 |
| Net Income | | $ 1,375 |

**Requirement 3**

CANYON CANOE COMPANY
Statement of Retained Earrings
Month Ended November 30, 2018

| | |
|---|---|
| Retained Earnings, November 1, 2018 | $ 0 |
| Net income for the month | 1,375 |
| | 1,375 |
| Dividends | (150) |
| Retained Earnings, November 30, 2018 | $ 1,225 |

**Requirement 4**

CANYON CANOE COMPANY
Balance Sheet
November 30, 2018

| Assets | | Liabilities | |
|---|---|---|---|
| Cash | $ 14,300 | Accounts Payable | $ 4,550 |
| Accounts Receivable | 2,250 | Utilities Payable | 150 |
| Office Supplies | 750 | Telephone Payable | 175 |
| Canoes | 4,800 | Total Liabilities | 4,875 |
| | | Stockholders' Equity | |
| | | Common Stock | 16,000 |
| | | Retained Earnings | 1,225 |
| | | Total Stockholder's Equity | 17,225 |
| Total Assets | $ 22,100 | Total Liabilities and Stockholders' Equity | $ 22,100 |

**P1-55, cont.**
**Requirement 5**
Average total assets = ($0 + $22,100) / 2 = $11,050
Return on assets = Net income / Average total assets = $1,375 / $11,050 = 0.124 = 12.4%

## *Critical Thinking*

**Tying It All Together Case 1-1**
**Requirement 1**

Starbucks Corporation would report the cost of internet service as an expense on its income statement. Most likely, the expense would be included in Store Operating Expenses.

**Requirement 2**

When Starbucks receives a bill from its internet service provider, Starbucks would record the following:
Increase Accounts Payable
Increase Store Operating Expenses
This would cause liabilities to increase and equity to decrease.

**Requirement 3**

When Starbucks pays the bill, Starbucks would record the following:
Decrease Cash
Decrease Accounts Payable
This would cause assets to decrease and liabilities to decrease.

**Requirement 4**

An increase in the cost of internet service in the coming year would cause expenses to increase. If revenue did not change, this would cause net income to decrease. Starbucks might overcome this impact by charging customers for using the internet service, thereby offsetting the increase in expenses with additional revenue. This change, though, might discourage customers from visiting Starbucks when other competitors might offer free internet service. Another alternative would be to increase the prices of the products sold to cover the increased cost of internet service.

**Decision Case 1-1**
**Requirement 1**

Greg's Tunes has more assets.
Sal’s $23,000, Greg’s $25,000 ($10,000 + $6,000 + $9,000)

**Requirement 2**

Greg's Tunes owes more to creditors.
Sal’s $2,000 ($23,000 – ($8,000 + $35,000 – $22,000)), Greg’s $10,000

**Requirement 3**

Sal’s Silly Songs has more stockholders’ equity.
Sal’s $21,000 ($8,000 + $35,000 – $22,000) Greg’s $15,000 ($6,000 + $9,000)

**Requirement 4**

Greg’s Tunes earned more revenue.
Sal’s $35,000, Greg’s $53,000 ($9,000 + $44,000)

**Requirement 5**

Sal’s Silly Songs is more profitable.
Sal’s $13,000 ($35,000 – $22,000), Greg’s $9,000

**Requirement 6**

This question is opinion based. More profit is good, which means Sal’s has the advantage. Greg’s also owes more to creditors which is risky. Sal’s has much more equity, which minimizes risk.

**Requirement 7**

Sal’s looks financially better, because Sal earned more net income on less total revenue. Sal also owes less to creditors and has more equity.

**Ethical Issues 1-1**
**Requirement 1**

The chief financial officer (CFO) of Philip Morris would be torn between addressing the fact that the payments are related to illnesses caused by the company's products, or alternatively, omitting or concealing this fact. The ethical course of action for the CFO is to be open, honest and forthcoming about the reasons for the payments.

**Requirement 2**

Negative consequences of not telling the truth are as follows: If users of the financial statements feel they are only getting part of the truth, or that the reports are distorting the information, this will damage the credibility of the company, and damage the company's reputation.

Negative consequences of telling the truth include painting so bleak a picture of the effects of smoking that investors will view Philip Morris as too risky and stop buying the company's stock. Another negative consequence would be to create the impression that the company is engaged in unethical behavior by selling a product that damages people's health.

**Fraud Case 1-1**
**Requirement 1**

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

**Requirement 2**

By making the company's financial situation look better than it actually was, the company's creditors would likely be more willing to extend credit to the company, and offer the credit at a lower interest rate.

**Financial Statement Case 1-1**
**Requirement 1**

$4,046 (in millions)

**Requirement 2**

$40,262 (in millions) at January 30, 2016; $41,172 (in millions) at January 31, 2015

**Requirement 3**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| $40,262 | = | $27,305 | + | $12,957 |

(shown in millions)

**Requirement 4**

$73,785 (in millions) for year ended January 30, 2016. This is an increase of $1,167 (in millions) over fiscal year 2014. ($73,785− $72,618)

**Requirement 5**

$3,363 (in millions) in 2015
$(1,636) (in millions) in 2014
Target has a net loss in 2014. Therefore, 2015 was better than 2014.

**Requirement 6**

All amounts in millions.
Average total assets = ($41,172 + $40,262) / 2 = $40,717
Return on assets = $3,363 / $40,717 = 0.0826 = 8.3%

**Requirement 7**

Target Corporation's return on assets (8.3%) was significantly higher than Kohl's Corporation (4.8%).