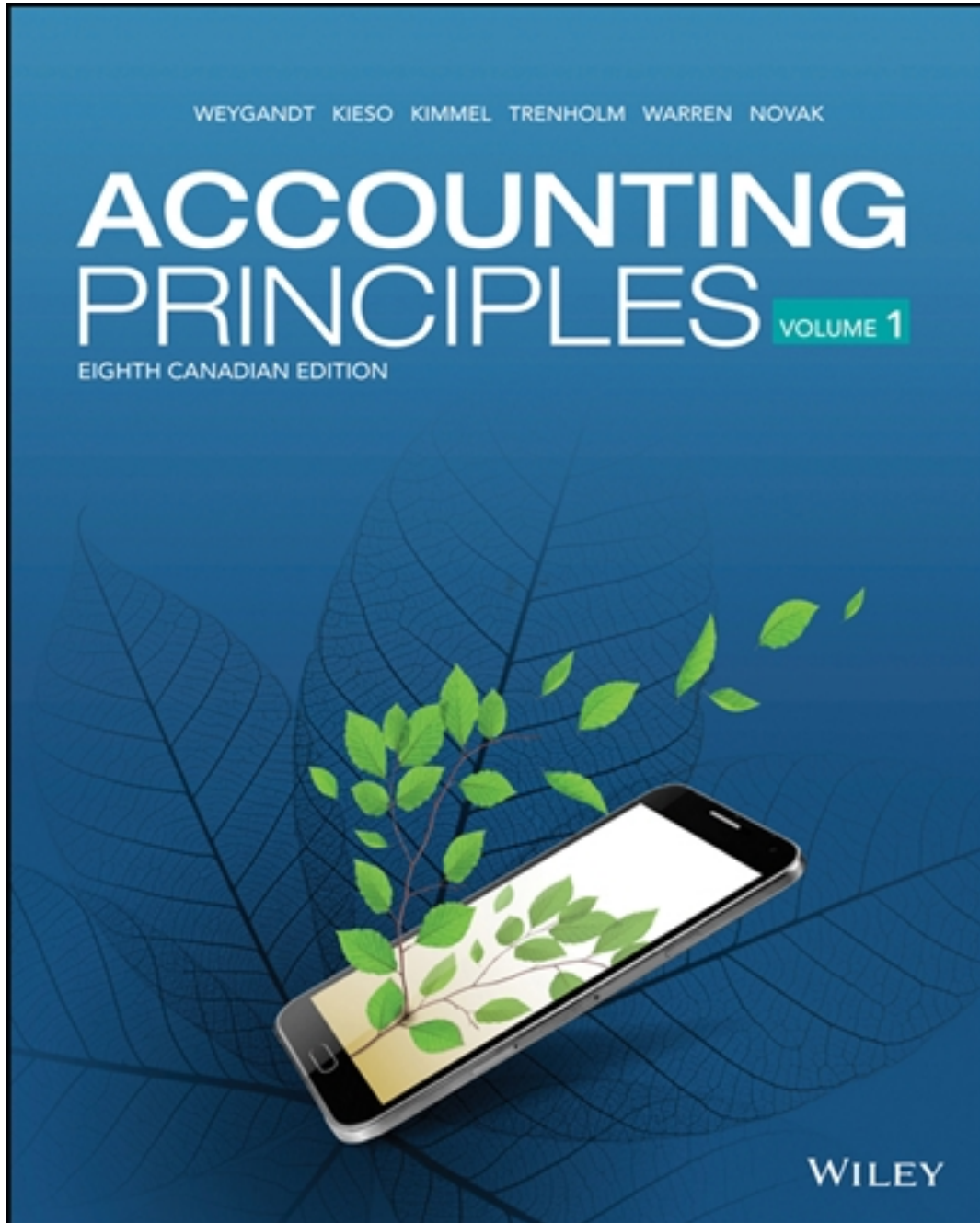


Solutions for Accounting Principles Volume 1 8th Edition by Weygandt

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Solutions

CHAPTER 1

Accounting in Action

Learning Objectives

1. Identify the use and users of accounting and the objective of financial reporting.
2. Compare the different forms of business organization.
3. Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
4. Describe the components of the financial statements and explain the accounting equation.
5. Analyze the effects of business transactions on the accounting equation.
6. Prepare financial statements.

Summary of Questions by Learning Objectives and Bloom's Taxonomy

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
Questions														
1.	1	C	5.	3	C	9.	3	C	13.	4	K	17.	5	C
2.	1	C	6.	3	K	10.	3	C	14.	4	K	18.	5	AP
3.	1	C	7.	3	K	11.	3	C	15.	4	C	19.	6	K
4.	2	K	8.	3	C	12.	4	K	16.	4	K	20.	6	C
Brief Exercises														
1.	1	K	5.	3	C	9.	4	AP	13.	5	AP	17.	6	AP
2.	2	C	6.	3	C	10.	4	AP	14.	4,5	AP	18.	6	AP
3.	3	AN	7.	4	C	11.	4	K	15.	4,6	AP			
4.	3	C	8.	4	AP	12.	5	AP	16.	6	AP			
Exercises														
1.	1	C	5.	1,3,5	K	9.	3,5,6	C	13.	4,5	AP	17.	6	AP
2.	1	C	6.	4	AP	10.	5	C	14.	6	AP			
3.	2	C	7.	4	AP	11.	5	C	15.	6	AP			
4.	3	C	8.	5	C	12.	4,5	AP	16.	6	AP			
Problems														
1.	1	S	4.	4	AP	7.	3,4,5,6	AP	10.	6	AN			
2.	2,3	AP	5.	3,5	C	8.	4,5,6	AP	11.	3,4,5,6	AP			
3.	4	AP	6.	4,6	AP	9.	6	AP						

Legend: The following abbreviations will appear throughout the solutions manual file.

LO	Learning objective	
BT	Bloom's Taxonomy K Knowledge C Comprehension AP Application AN Analysis S Synthesis E Evaluation	
Difficulty:	Level of difficulty S Simple M Moderate C Complex	
Time:	Estimated time to complete in minutes	
AACSB	Association to Advance Collegiate Schools of Business Communication Communication Ethics Ethics Analytic Analytic Tech. Technology Diversity Diversity Reflec. Thinking Reflective Thinking	
CPA CM	CPA Canada Competency Map Ethics Professional and Ethical Behaviour PS and DM Problem-Solving and Decision-Making Comm. Communication Self-Mgt. Self-Management Team & Lead Teamwork and Leadership Reporting Financial Reporting Stat. & Gov. Strategy and Governance Mgt. Accounting Management Accounting Audit Audit and Assurance Finance Finance Tax Taxation	

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Exercises</u>	<u>Problems Set A</u>	<u>Problems Set B</u>
1. Identify the use and users of accounting and the objective of financial reporting.	1, 2, 3	1	1, 2, 5	1	1
2. Compare the different forms of business organization.	4	2	3,	2	2
3. Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.	5, 6, 7, 8, 9, 10, 11	3, 4, 5, 6	4, 5, 9, 10	2, 5, 7, 11	2, 5, 7, 11
4. Describe the components of the financial statements and explain the accounting equation.	12, 13, 14, 15, 16	7, 8, 9, 10, 11, 15	6, 7, 13	3, 4, 6, 7, 8, 11	3, 4, 6, 7, 8, 11
5. Analyze the effects of business transactions on the accounting equation.	17, 18	12, 13, 14	5, 8, 9, 10, 11, 12, 13	5, 7, 8, 11	6, 7, 8, 9, 10, 11
6. Prepare financial statements.	19, 20	14, 15, 16, 17, 18	9, 14, 15, 16, 17	6, 7, 8, 9, 10, 11	2, 5, 7, 11

ASSIGNMENT CHARACTERISTICS TABLE

<u>Problem Number</u>	<u>Description</u>	<u>Difficulty Level</u>	<u>Time Allotted (min.)</u>
1A	Identify users and uses of accounting information.	Simple	15-20
2A	Determine forms of business organization and types of accounting standards.	Simple	15-20
3A	Determine missing items.	Complex	20-25
4A	Classify accounts and prepare accounting equation.	Simple	20-30
5A	Assess accounting treatment.	Moderate	20-25
6A	Analyze transactions and calculate owner's equity.	Simple	35-45
7A	Analyze transactions and prepare balance sheet.	Simple	40-50
8A	Analyze transactions and prepare financial statements.	Moderate	40-50
9A	Prepare financial statements.	Simple	35-45
10A	Determine missing amounts, and comment.	Moderate	35-45
11A	Discuss errors and prepare corrected balance sheet.	Moderate	45-55
1B	Identify users and uses of accounting information.	Simple	15-20
2B	Determine forms of business organization and types of accounting standards.	Simple	15-20
3B	Determine missing items.	Complex	20-25
4B	Classify accounts and prepare accounting equation.	Simple	20-30
5B	Assess accounting treatment.	Moderate	20-25
6B	Analyze transactions and calculate owner's equity.	Simple	35-45
7B	Analyze transactions and prepare balance sheet.	Simple	40-50
8B	Analyze transactions and prepare financial statements.	Moderate	40-50
9B	Prepare financial statements.	Simple	35-45
10B	Determine missing amounts, and comment.	Moderate	35-45
11B	Discuss errors and prepare corrected balance sheet.	Moderate	45-55

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Material

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Identify the use and users of accounting and the objective of financial reporting.	Q1.3 BE1.1 E1.5	Q1.1 Q1.2 E1.1 E1.2			P1.1A P1.1B	
2. Compare the different forms of business organization.		Q1.4 BE1.2 BE1.4 BE1.10 E1.3 E1.7	P1.2A P1.2B P1.11B			
3. Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.	Q1.6 Q1.7 E1.5	Q1.5 Q1.8 Q1.9 Q1.10 Q1.11 BE1.4 BE1.5 BE1.6 E1.4 E1.9 E1.10 P1.5A P1.5B	P1.2A P1.2B P1.3A P1.3B P1.7A P1.7B P1.11A P1.11B	BE1.3		
4. Describe the components of the financial statements and explain the accounting equation.	Q1.12 Q1.13 Q1.14 Q1.16 BE1.11	BE1.7	BE1.8 BE1.9 BE1.10 BE1.14 BE1.15 E1.6 E1.7 E1.13 P1.4A P1.4B P1.6A P1.6B P1.7A P1.7B P1.8A P1.8B P1.11A P1.11B			

BLOOM'S TAXONOMY TABLE (Continued)

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
5. Analyze the effects of business transactions on the accounting equation.	Q1.19 E1.5	Q1.17 Q1.20 E1.8 E1.9 E1.10 E1.11 P1.5A P1.5B	Q1.18 BE1.12 BE1.13 BE1.14 E1.12 E1.13 P1.7A P1.7B P1.8A P1.8B P1.11A P1.11B			
6. Prepare financial statements.		Q1.19 Q1.20 E1.9	BE1.15 BE1.16 BE1.17 BE1.18 E1.14 E1.15 E1.16 E1.17 P1.6A P1.6B P1.7A P1.7B P1.8A P1.8B P1.9A P1.9B P1.11A P1.11B	P1.10A P1.10B		
Broadening Your Perspective	BYP1.1	Santé Saga BYP1. 6	BYP1.3	BYP1.4	BYP1.2 BYP1.5	

ANSWERS TO QUESTIONS

1. Yes. Accounting is the financial information system that provides useful financial information to every person who owns and uses economic resources or otherwise engages in economic activity.

LO 1 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

2. Internal users are those who plan, organize, and run businesses and include managers, supervisors, directors, and company officers. External users work for other organizations but have reasons to be interested in the company's financial position and performance, and include current or potential investors (owners), and creditors.

Internal users may want answers to several types of questions. For example, the finance department wants to know if there is enough cash to pay the bills. The marketing department wants to know what price the business should use in selling its products to maximize profits. The human resources department wants to know how many people the business can afford to hire. The production department wants to know which product lines make the business the most profit.

External users may want answers to several types of questions. For example, investors want to know if the company is earning enough to give them a return on their investment. Creditors want to know if the company is able to pay its debts as they come due. Labour unions want to know whether the owners can afford to pay increased wages and benefits. Customers are interested in whether a company will continue to honour its product warranties and support its product lines. Taxing authorities want to know whether the company respects the tax laws. Regulatory agencies want to know whether the company is respecting established rules.

LO 1 BT: C Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

3. The main objective of financial reporting is to provide useful information to investors and creditors (external users) to make decisions about a business. Users may be potential investors who need to decide if they wish to invest in the business or they may be creditors deciding if they wish to lend money to the business. These users want to know if the business is running successfully and can generate cash and earn a profit.

LO 1 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

QUESTIONS (Continued)

4. Proprietorships, partnerships, and corporations are the three main forms of business organization. The main difference among these three forms is the size of the business. Since a proprietorship is a business owned by one person, it has limited resources. The size of the business is typically small and the life of the business is limited to the life of the owner. The size of businesses can expand in the case of a partnership as more owners are involved in the day-to-day operations of the business. In order to achieve a large size, with a diverse group of owners, the corporate form is used to have easy transferability of the ownership through the issuance of shares. Another important difference is that the corporation is a separate legal entity and pays income taxes. In addition, the corporation is the only form where owners have limited liability with respect to the business. The following are the main characteristics of each form:
- a. A proprietorship is a private business with one owner who has unlimited liability for the business. The proprietorship has a limited life tied to the life of the owner. There is transparency between the owner and the business. Ultimately, the owner is personally responsible to pay tax on the profit of the business.
 - b. A partnership has essentially the same characteristics as a proprietorship except that in a partnership, there is more than one owner. Partnerships are often used to organize service-type businesses, including professional practices.
 - c. For corporations, the owners are one or more shareholders who enjoy limited liability. The corporation pays income taxes and can have an indefinite life since its ownership units, in the form of shares, are easily transferred to other owners.

LO 2 BT: K Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

5. Ethics is a fundamental business concept. If accountants do not have a high ethical standard, the information they produce will not have any credibility.

Ethics are important to statement users because it provides them comfort that the financial information they are using is credible and reliable.

LO 3 BT: C Difficulty: S Time: 5 min. AACSB: Ethics CPA: cpa-t001 cpa-e001 CM: Reporting and Ethics

QUESTIONS (Continued)

6. The users of financial information of publicly accountable companies have different needs than the users of financial information of private companies. Publicly traded corporations are required to present financial information using accounting rules that are consistent with those used globally. To do this, public traded companies need to follow International Financial Reporting Standards (IFRS). Doing so helps Canadian companies compete in a global market. But following this set of policies and standards is often not essential or cost effective for privately owned businesses. The users of private company financial statements often do not require the extensive measurements and disclosures required by IFRS and thus private companies may report under Accounting Standards for Private Enterprises (ASPE).

LO 3 BT: K Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

7. The reporting entity concept states that economic events can be identified with a particular unit of accountability. This concept requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.

LO 3 BT: K Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

8. Accounting information has relevance if it makes a difference in a decision. Faithful representation shows the economic reality of events rather than just their legal form. Faithful representation is achieved if the information is complete, neutral, and free from material error. Complete information includes all information necessary to show the economic reality of the transaction. Accounting information is neutral if it is free from bias intended to attain a predetermined result or encourage a particular behaviour.

LO 3 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

9. Historical cost represents the amount paid in a transaction. The fair value of an asset is generally the amount an asset could be sold for in the market. On the date of purchase, fair value and cost are the same. As time progresses, the fair value changes depending on the nature of the asset.

LO 3 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

10. In order for an event to be recognized in the accounting records, the event must change the entity's financial position. Examples of events that are not transactions include hiring of employees and signing a lease for premises.

LO 3 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

QUESTIONS (Continued)

11. The monetary unit concept states that only transaction data that can be expressed as an amount of money may be included in the accounting records. Consequently, information that cannot be objectively measured in dollars cannot be included as transactions of the business. It is also assumed that the monetary unit is stable with respect to the value over several years. In other words, inflation is ignored.

LO 3 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

12. The basic accounting equation is $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ and the expanded accounting equation is $\text{Assets} = \text{Liabilities} + \text{Owner's Capital} - \text{Owner's Drawings} + \text{Revenue} - \text{Expenses}$. The equation is the basis for recording and summarizing all the economic events and transactions of a business.

LO 4 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

13. a. Assets are resources controlled by a business, as a result of past events, and from which future economic benefits (like cash) have the potential to flow into the business. Liabilities are current obligations, arising from past events, the settlement of which will include an outflow of economic benefits (such as cash or services) Put more simply, liabilities are existing debts and obligations. Owner's equity is the owner's claim on the residual assets of the company, which is the assets in a business after deducting liabilities.
- b. Revenues and investments by the owner increase owner's equity. Drawings and expenses decrease owner's equity.

LO 4 BT: K Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

14. Accounts Receivable represent amounts owed to the business by its customers for services performed or goods provided, but for which collection has not yet been received. It is an asset. Accounts Payable represent amounts owed by the business for services or goods received, but for which payment has not yet been made. It is a liability.

LO 4 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

15. Profit or loss is the result of the calculation: revenues less expenses. If revenues exceed expenses, the business has experienced profit. If expenses exceed revenues, a loss is experienced by the business.

LO 4 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

QUESTIONS (Continued)

16. a. Accounts for assets, liabilities, and owner's equity are reported on the balance sheet.
b. Accounts for revenue and expenses are reported on the income statement.

LO 4 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

17. 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, such as when equipment is purchased for cash (resulting in an increase in the equipment asset account that is offset by a decrease in the cash asset account).

LO 5 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

18. No, this treatment is not proper. While the transaction does involve a disbursement of cash, it does not represent an expense. Expenses are decreases in owner's equity resulting from business activities entered into for the purpose of earning profit. This transaction is a withdrawal of capital from the business by the owner and should be recorded as a decrease in both cash and owner's equity.

LO 5 BT: AP Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

19. Financial statements are prepared in the following order: 1) Income statement, 2) Statement of owners' equity, and 3) Balance sheet. This sequence is necessary because the profit or loss calculated on the income statement is used in the statement of owner's equity, reporting the amounts that affect the owner's equity during the year. The ending balance on the statement of owner's equity is the year-end balance of the owner's capital account. That balance is needed in the balance sheet.

LO 6 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

20. It is likely that the use of rounded figures would not change the decisions made by the users of the financial statements. As well, presenting the information in this manner makes the statements easier to read and analyze, thereby increasing their usefulness to the users.

LO 6 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1.1

User	a. Kind of Decision	b. Internal or External User
Owner	4	Internal
Marketing manager	3	Internal
Creditor	2	External
Chief financial officer	5	Internal
Labour union	1	External

LO 1 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.2

- a. P**
- b. C**
- c. PP**

LO 2 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.3

- a. The student is provided with the opportunity to cheat on an exam.**
- b. A production supervisor might become aware of a defect in a company's product that is ready to ship but his/her bonus is based on volume of shipments.**
- c. A banker is able to approve a loan for an unqualified family member.**

LO 3 BT: AN Difficulty: C Time: 5 min. AACSB: Ethics CPA: cpa-t001 cpa-e001 CM: Reporting and Ethics

BRIEF EXERCISE 1.4

- a. F
- b. F
- c. T
- d. T
- e. T

LO 3 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.5

- a. F
- b. F
- c. T
- d. T

LO 3 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.6

- a. 5. Monetary unit concept
- b. 1. Historical cost
- c. 4. Reporting entity concept
- d. 2. Revenue recognition
- e. 3. Going concern assumption

LO 3 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.7

	<u>Component</u>	<u>Balance Sheet or Income Statement</u>
a.	Revenues	Income Statement
b.	Assets	Balance Sheet
c.	Owner's equity	Balance Sheet
d.	Liabilities	Balance Sheet
e.	Expenses	Income Statement

LO 4 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.8

- a. $\$75,000 - \$24,000 = \$51,000$ (Owner's Equity)
- b. $\$150,000 + \$91,000 = \$241,000$ (Assets)
- c. $\$89,000 - \$52,000 = \$37,000$ (Liabilities)

LO 4 BT: AP Difficulty: C Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.9

- a. $\$120,000 + \$232,000 = \$352,000$ (Assets)
- b. $\$190,000 - \$91,000 = \$99,000$ (Total liabilities)
- c. $\$800,000 - (\$800,000 \times \frac{1}{2}) = \$400,000$ (Owner's equity)

LO 4 BT: AP Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.10

Assets = Liabilities + Owner's Equity

$$\$850,000 = \$550,000 + X$$

Owner's Equity = Assets - Liabilities

$$\$300,000 = \$850,000 - \$550,000$$

- a. $(\$850,000 + \$130,000) - (\$550,000 - \$80,000)$
 $= \$510,000$ (Owner's equity)
- b. $(\$550,000 - \$95,000) + (\$300,000 - \$40,000 + \$100,000)$
 $= \$815,000$ (Assets)
- c. $(\$850,000 + \$45,000) - (\$550,000 - \$50,000) = \$395,000$
ending balance Owner's equity
 $\$395,000 + \$40,000 - \$300,000 = \$135,000$ Profit

LO 4 BT: AP Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.11

1. Accounts receivable	<u>A</u>
2. Salaries payable	<u>L</u>
3. Equipment	<u>A</u>
4. Supplies	<u>A</u>
5. Owner's capital	<u>OE</u>
6. Notes payable	<u>L</u>

LO 4 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.12

Trans- action	Assets	Liabilities	Owner's Equity			
			Capital	Drawings	Revenues	Expenses
a.	+\$250	+\$250	NE	NE	NE	NE
b.	+500	NE	NE	NE	+\$500	NE
c.	−300	NE	NE	NE	NE	−\$300
d.	−250	−250	NE	NE	NE	NE
e.	+1,000	NE	+\$1,000	NE	NE	NE
f.	−400	NE	NE	−\$400	NE	NE
g.	NE	NE	NE	NE	NE	NE
h.	+500 / −500	NE	NE	NE	NE	NE
i.	+450	+450	NE	NE	NE	NE

LO 5 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.13

<u>Description</u>	<u>Transaction Analysis</u>
a. Company paid in advance for rent.	2
b. Owner invests cash in the business.	1
c. Supplies are purchased on account.	3
d. Company provides service on account.	4

LO 5 BT: AP Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.14

<u>E</u>	a. Advertising expense
<u>R</u>	b. Commission fees earned
<u>I</u>	c. Cash received from the company's owner
<u>E</u>	d. Amounts paid to employees
<u>R</u>	e. Services performed on account
<u>E</u>	f. Utilities incurred
<u>D</u>	g. Cash distributed to company owner

LO 4,5 BT: AP Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.15

- $\$68,000 - \$25,000 - \$50,000 = \text{drawings } \$7,000$
- $\$65,000 + \$33,000 - \$68,000 = \text{profit } \$30,000$
- $\$65,000 \text{ Ending balance } 2020 = \text{Opening balance } 2021$
- $\$65,000 + \$20,000 + \$17,000 - \$12,000 = \$90,000$

LO 4,6 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.16

PRAIRIE COMPANY Income Statement Month Ended October 31, 2021

Revenues	
Service revenue	\$23,000
Expenses	
Advertising expense.....	\$3,600
Rent expense	<u>2,600</u>
Total expenses	<u>6,200</u>
Profit.....	<u>\$16,800</u>

LO 6 BT: AP Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.17

PRAIRIE COMPANY
Statement of Owner's Equity
Month Ended October 31, 2021

N. Woods, capital, October 1.....	\$36,000
Add: Profit	<u>16,800</u>
	52,800
Less: Drawings.....	<u>6,000</u>
N. Woods, capital, October 31.....	<u><u>\$46,800</u></u>

LO 6 BT: AP Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 1.18

PRAIRIE COMPANY
Balance Sheet
October 31, 2021

Assets	
Cash	\$ 59,300
Accounts receivable	<u>77,500</u>
Total assets.....	<u><u>\$136,800</u></u>

Liabilities and Owner's Equity

Liabilities	
Accounts payable	\$ 90,000
Owner's equity	
N. Woods, capital.....	<u>46,800</u>
Total liabilities and owner's equity	<u><u>\$136,800</u></u>

LO 6 BT: AP Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.1

- | | | |
|----|--|--------------|
| a. | Customers | E - External |
| | Store manager | I - Internal |
| | Canada Revenue Agency | E - External |
| | Supplier | E - External |
| | Labour unions | E - External |
| | Chief Financial Officer | I - Internal |
| | Marketing manager | I - Internal |
| | Loan officer | E - External |
| | | |
| b. | | |
| | Can the company afford to give our members a pay raise? | E |
| | How does the company's profitability compare with other companies in the industry? | E |
| | Do we need to borrow money in the near future? | I |
| | What does it cost to manufacture each unit produced? | I |
| | Has the company paid all income tax amounts owing? | E |
| | Which product should we emphasize? | I |

LO 1 BT: C Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.2

- a. **Chief Financial Officer — Can lululemon Athletica Inc. generate enough cash to expand its product line?**

Human Resource Manager — What is lululemon Athletica Inc.'s annual salary expense?

- b. **Creditor — Does lululemon Athletica Inc. have enough cash available to make its monthly debt payments?**

Investor — How much did lululemon Athletica Inc. pay in dividends last year?

LO 1 BT: C Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.3

	<u>Proprietorship</u>	<u>Partnership</u>	<u>Publicly Traded Corporation</u>
a.	F	F	T
b.	F	F	F
c.	F	F	T
d.	F	F	T
e.	F	F	T
f.	F	T	T
g.	T	T	F
h.	F	F	T

LO 2 BT: C Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.4

- a. 2 **Faithful representation**
- b. 1 **Relevance**
- c. 5 **Neutrality**
- d. 6 **Understandability**
- e. 4 **Verifiability**
- f. 3 **Comparability**

LO 3 BT: C Difficulty: C Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.5

- a. 8 **Corporation**
- b. 10 **Generally accepted accounting principles (GAAP)**
- c. 1 **Accounts payable**
- d. 11 **Accounts receivable**
- e. 12 **Owner's equity**
- f. 5 **Prepaid expense**
- g. 3 **Creditor**
- h. 7 **Assets**
- i. 4 **International Financial Reporting Standards (IFRS)**
- j. 6 **Profit**
- k. 2 **Expenses**
- l. 9 **Unearned revenue**

LO 1,3,5 BT: K Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.6

- a. **$\$6,800 - \$400 - \$900 - \$3,500 = \$2,000$**
- b. **$\$18,000 - \$6,800 = \$11,200$**
- c. **Same as b. $\$11,200$**
- d. **$\$26,200 - \$21,700 = \$4,500$**
- e. **$\$21,200 - \$11,200 = \$10,000$**

LO 4 BT: AP Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

Owner's equity, beginning of period + Owner's investments + Profit (loss) for the period – Owner's withdrawals = Owner's equity, end of period

**a. Owner's equity, December 31, 2021 = \$370,000 – \$210,000
= \$160,000**

$$\text{\$0} + \text{\$100,000} + \text{Profit(loss)} - \text{\$50,000} = \text{\$160,000}$$

Profit(loss) = \$160,000 - \$100,000 + 50,000

Profit (loss) = \$110,000

**b. Owner's equity, December 31, 2022 = \$440,000 - \$290,000
= \$150,000**

$$\text{\$160,000 (see a.)} + \text{\$40,000} + \text{Profit(loss)} - \text{\$0} = \text{\$150,000}$$

Profit(loss) = \$150,000 - \$160,000 - \$40,000

Profit (loss) = \$(50,000)

**c. Owner's equity, December 31, 2023 = \$525,000 - \$355,000
= \$170,000**

$$\text{\$150,000 (see b.)} + \text{\$10,000} + \text{Profit(loss)} - \text{\$60,000} = \text{\$170,000}$$

Profit(loss) = \$170,000 - \$150,000 - \$10,000 + \$60,000

Profit (loss) = \$70,000

LO 4 BT: AP Difficulty: C Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.8

	a.	b.
1. Accounts payable	<u>L</u>	<u>BS</u>
2. Accounts receivable	<u>A</u>	<u>BS</u>
3. Cash	<u>A</u>	<u>BS</u>
4. Equipment	<u>A</u>	<u>BS</u>
5. Interest payable	<u>L</u>	<u>BS</u>
6. Interest revenue	<u>Eq</u>	<u>IS</u>
7. Interest expense	<u>Eq</u>	<u>IS</u>
8. Investment by the owner	<u>Eq</u>	<u>OE</u>
9. Service revenue	<u>Eq</u>	<u>IS</u>
10. Prepaid rent	<u>A</u>	<u>BS</u>
11. P. Zizler, capital (opening balance)	<u>Eq</u>	<u>OE</u>
12. P. Zizler, drawings	<u>Eq</u>	<u>OE</u>
13. Salaries expense	<u>Eq</u>	<u>IS</u>
14. Supplies	<u>A</u>	<u>BS</u>
15. Supplies expense	<u>Eq</u>	<u>IS</u>
16. Unearned revenue	<u>L</u>	<u>BS</u>

LO 5 BT: CP Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.9

a. and b.

1. This accounting treatment is incorrect, as it violates the historical cost principle. Land was reported at its market value, when it should have been recorded and reported at cost.
2. This accounting treatment is correct. Although a commitment for future payments is put into place when the lease is signed, an exchange has not yet taken place so there is no transaction that needs to be recorded. At this time, all that is required concerning this lease is to disclose the details of the commitment in the notes to the financial statements.
3. This accounting treatment is incorrect, as it violates the reporting entity assumption. An owner's personal transactions should be kept separate from those of the business. Instead of being charged as an expense to the business, the transaction should be recorded as drawings taken by the owner.
4. This accounting treatment is incorrect, because, at the time of payment, the insurance coverage had not yet been used up. The amount should have been recorded to Prepaid Insurance. Eventually, when the coverage expires at the end of one year, the full amount of \$1,200 will have become insurance expense.
5. It is assumed that a company is a going concern, unless the notes state otherwise. Consequently, the statement in the notes that the company is a going concern need not be added.
6. The company is required to make the disclosure that it is following ASPE.

LO 3,5,6 BT: C Difficulty: C Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.10

a. and b.

- 1. This is a transaction that should be recorded in the accounts as there has been an exchange of assets. Cash was reduced and equipment was increased. The historical cost of \$10,000 should be used when recording this transaction.**
- 2. This is a transaction that should be recorded in the accounts as there has been an exchange of assets. Cash was reduced and equipment was increased. The transaction is to be recorded in Canadian funds to follow the monetary unit concept, so the amount that should be used when recording this transaction is \$5,200.**
- 3. This is a transaction that should be recorded in the accounts because a performance obligation has been completed related to a contract with a customer and accounts receivable should be increased as the company now has a right to payment. The amount of \$4,000 should be used when recording this transaction.**
- 4. This is not a transaction as an exchange has not yet occurred.**
- 5. This is a transaction that should be recorded in the accounts because an asset (cash) has increased and a liability (unearned revenue) has increased. The company has an obligation to perform services for the customer at a future date. The amount of \$4,000 should be used when recording this transaction.**

LO 3,5 BT: C Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.11

- 1. Purchase inventory on credit.**
Increases an asset (inventory) and increases a liability (accounts payable).
- 2. Investment made by owner.**
Increases an asset (cash) and increases owner's equity (owner's capital).
- 3. Payment of accounts payable.**
Decreases an asset (cash) and decreases a liability (accounts payable).
- 4. Withdrawal of cash by the owner or payment of an expense.**
Decreases an asset (cash) and decreases owner's equity (drawings or expense).
- 5. Record salaries due to employees.**
Increases a liability (salaries payable) and decreases owner's equity (expense).
- 6. Collect an accounts receivable.**
Increases one asset (cash) and decreases another asset (accounts receivable).

Note: These are examples. There are other correct responses.

LO 5 BT: C Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.12

Assets				=	Liabilities		+	Owner's Equity			
Trans.	Cash	+ Accounts Rec.	+ Equip- ment		+ Accounts Payable	+ Note Payable		+ G. Brister, Capital	- G. Brister, Drawings	+ Revenues	- Expenses
Bal.	\$12,000	\$18,000			\$4,000			\$26,000			
1	-3,000		+\$23,000			+\$20,000					
2	+12,000	-12,000									
3	-3,000										-\$3,000
4	-2,500				-2,500						
5	+7,000									+\$7,000	
6	-1,000										-1,000
7	-5,000								-\$5,000		
8	-2,100					-2,000					-100
9	No entry										
10					+1,500						-1,500
Total	\$14,400	+\$6,000	+\$23,000		+\$3,000	+\$18,000		+\$26,000	-\$5,000	+\$7,000	-\$5,600

\$43,400 = \$ 43,400

LO 5 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.13

- a. 1. Owner invested \$18,000 cash and equipment with the fair value of \$6,000 in the business.
 2. Purchased equipment for \$8,000, paying \$4,000 in cash with the balance of \$4,000 on account.
 3. Prepaid for insurance for \$750 cash.
 4. Earned \$8,300 in service revenue, receiving \$3,500 cash with the remaining \$4,800 on account.
 5. Paid \$2,000 cash on accounts payable.
 6. B. Star withdrew \$3,300 cash for personal use.
 7. Paid \$800 cash for rent for the month of July.
 8. Collected \$1,350 cash from customers on account.
 9. Paid salaries of \$2,700.
 10. Incurred \$420 of utilities expense on account.

b. Revenues	\$8,300
Rent expense	(800)
Salaries expense.....	(2,700)
Utilities expense	<u>(420)</u>
Profit.....	<u>\$4,380</u>

c. Investment	\$24,000
Profit.....	4,380
Drawings	<u>(3,300)</u>
Increase in owner's equity	<u>\$25,080</u>

LO 4,5 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.14

STAR & CO. Income Statement Month Ended July 31, 2021

Revenues		
Service revenue		\$8,300
Expenses		
Salaries expense.....	\$2,700	
Rent expense	800	
Utilities expense	<u>420</u>	
Total expenses		<u>3,920</u>
Profit.....		<u><u>\$4,380</u></u>

STAR & CO. Statement of Owner's Equity Month Ended July 31, 2021

B. Star, capital, July 1	\$	0
Add: Investments.....	\$24,000	
Profit	<u>4,380</u>	<u>28,380</u>
		28,380
Less: Drawings.....		<u>3,300</u>
B. Star, capital, July 31		<u><u>\$25,080</u></u>

EXERCISE 1.14 (Continued)

STAR & CO. Balance Sheet July 31, 2021

Assets

Cash	\$ 9,300
Accounts receivable	3,450
Prepaid insurance	750
Equipment.....	<u>14,000</u>
Total assets.....	<u>\$27,500</u>

Liabilities and Owner's Equity

Liabilities

Accounts payable	\$ 2,420
Owner's equity	
B. Star, capital.....	<u>25,080</u>
Total liabilities and owner's equity	<u>\$27,500</u>

LO 6 BT: AP Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.15

ATLANTIC CRUISE CO. Income Statement Year Ended May 31, 2021

Revenue		\$350,640
Expenses		
Salaries expense.....	\$126,950	
Maintenance expense.....	82,870	
Other expenses.....	66,500	
Interest expense	20,960	
Advertising expense.....	3,640	
Insurance expense	<u>2,566</u>	
Total expenses		<u>303,486</u>
Profit.....		<u><u>\$ 47,154</u></u>

ATLANTIC CRUISE CO. Statement of Owner's Equity Year Ended May 31, 2021

I. Temelkova, capital, June 1, 2020		\$311,182
Add: Investments.....	\$5,847	
Profit	<u>47,154</u>	<u>53,001</u>
		364,183
Less: Drawings.....		<u>33,950</u>
I. Temelkova, capital, May 31, 2021.....		<u><u>\$330,233</u></u>

LO 6 BT: AP Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.16

ATLANTIC CRUISE CO.
Balance Sheet
May 31, 2021

Assets	
Cash	\$ 20,080
Accounts receivable	42,950
Supplies	16,800
Prepaid insurance	1,283
Building.....	122,570
Equipment.....	<u>553,300</u>
Total assets	<u>\$756,983</u>
 Liabilities and Owner's Equity	
Liabilities	
Notes payable	\$379,000
Accounts payable	<u>47,750</u>
Total liabilities	426,750
Owner's equity	
I. Temelkova, capital	<u>330,233</u>
Total liabilities and owner's equity	<u>\$756,983</u>

LO 6 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 1.17

a.	Revenues—camping fees	\$150,000
	Revenues—general store	<u>40,000</u>
	Total revenue	190,000
	Operating expenses	<u>150,000</u>
	Profit	<u>\$ 40,000</u>
b.	J. Cumby, capital, April 1, 2020	\$17,000
	Add: Profit	<u>40,000</u>
		57,000
	Less: J. Cumby, Drawings	<u>5,000</u>
	J. Cumby, capital, March 31, 2021	<u>\$52,000</u>

EXERCISE 1.17 (Continued)

c.

DEER PARK Balance Sheet March 31, 2021

Assets	
Cash	\$ 9,400
Accounts receivable	21,000
Supplies	2,500
Prepaid insurance	600
Equipment.....	<u>110,000</u>
Total assets.....	<u><u>\$143,500</u></u>
Liabilities and Owner's Equity	
Liabilities	
Notes payable	\$ 70,000
Accounts payable	11,500
Unearned revenue	<u>10,000</u>
Total liabilities	91,500
Owner's equity	
J. Cumby, capital	<u>52,000</u>
Total liabilities and owner's equity	<u><u>\$143,500</u></u>

LO 6 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

SOLUTIONS TO PROBLEMS

PROBLEM 1.1A

- 1. a. In deciding to extend credit to a new customer, Pierson Industries is an external user of the accounting information of its customers.**
 - b. Pierson Industries would focus its attention on the information about the customer's economic resources and claims to those resources. The terms of the credit they are extending to customers, requires collection in a short period of time. Funds used to pay Pierson Industries would come from cash on hand. The balance sheet will show if the new customer has enough cash to meet its obligations, including those to Pierson Industries.**
- 2. a. The owner, Dean Gunnerson, is an internal user of the accounting information of Toys and Sports Co.**
 - b. When deciding which manufactured products generate the most profit, the information that will be most relevant to the owner will be shown on the income statement. The income statement reports the past performance of the business in terms of its revenue, expenses, and profit. Using the details of revenue and expenses at a product line level, the owner can establish which product line is more profitable.**
- 3. a. The president of Hi-tech Adventure is an internal user of the accounting information.**
 - b. In order to determine if Hi-tech Adventure is holding enough cash to buy additional equipment, the president should examine the business's economic resources and claims to those resources in order to determine if the necessary cash is available to meet obligations and address the equipment purchase plans.**

PROBLEM 1.1A (Continued)

- 4. a. Standen Bank is an external user of the accounting information of the small business that is the loan applicant.**
- b. In deciding whether to extend a loan, Standen Bank is interested in two things—the ability of the company to make interest payments on an annual basis for the next five years and the ability to repay the principal amount at the end of five years. To determine if the necessary cash is available to meet obligations, the focus should be on the business’s economic resources and claims to those resources. As well, Standen Bank will look at the economic performance of the business that should generate the necessary cash from its operations on an ongoing basis. This will be the most important factor in determining if the company will survive and be able to repay the loan.**

Taking It Further:

When making decisions based on the financial statements of a business, users need to rely on the faithful representation of the financial statements. The individual preparing the financial statements must adhere to the highest standards of ethical behaviour to ensure that the decision maker is not hurt by false or misleading financial information.

LO 1 BT: S Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.2A

1. a. **Tom will likely operate his walking service as a proprietorship because he is planning on operating it for a short time and a proprietorship is the simplest and least costly business organization to form and dissolve.**

b. **ASPE will likely be the accounting standard followed, as it is simpler to follow.**
2. a. **Joseph and Sabra might form a partnership as it is a small operation and would be easy to set up. However, a corporation may offer benefits that the partnership will not offer. The corporation will give them limited liability. Also, a corporation may be the best form of business for them because they plan to raise funds in the coming year. It is easier to raise funds in a corporation. A corporation may also receive more favourable income tax treatment.**

b. **ASPE will likely be the accounting standard followed, as it is simpler to follow. The business would not be a publicly traded corporation requiring the use of IFRS.**
3. a. **The professors should incorporate their business because of their concerns about the legal liabilities. A corporation is the only form of business that provides limited liability to its owners.**

b. **ASPE will likely be the accounting standard followed, as it is simpler to follow. The business would not be a publicly traded corporation requiring the use of IFRS.**

PROBLEM 1.2A (Continued)

- 4. a. Abdur would likely form a corporation because he needs to raise funds to invest in inventories and equipment. He has no savings or personal assets and it is normally easier to raise funds through a corporation than through a proprietorship or partnership.**
- b. ASPE will likely be the accounting standard followed, as it is simpler to follow. The business would not be a publicly traded corporation requiring the use of IFRS.**

Taking It Further:

The advantages of starting a business as a proprietorship and later incorporating the business include the ease of formation, simplicity, and reduced costs. As the business grows and the additional costs and administration that are required of corporations are justified, incorporating the business provides additional advantages.

LO 2,3 BT: AP Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.3A

a.	Total assets (Jan. 1, 2019)	\$40,000
	Total liabilities (Jan. 1, 2019)	<u>0</u>
	Total owner's equity (Jan. 1, 2019)	<u>\$40,000</u>
b.	Total liabilities (Dec. 31, 2019)	\$50,000
	Total owner's equity (Dec. 31, 2019) c. below	<u>75,000</u>
	Total assets (Dec. 31, 2019)	<u>\$125,000</u>
c.	Total owner's equity (Dec. 31, 2019)	\$75,000
	Equal to owner's equity (Jan. 1, 2020) given	
d.	Total owner's equity (Dec. 31, 2019)	\$75,000
	Total owner's equity (Jan. 1, 2019)	<u>40,000</u>
	Increase in owner's equity	<u>\$35,000</u>
	Increase in owner's equity	\$35,000
	Less: Investments	(7,000)
	Add: Drawings	<u>15,000</u>
	Profit	<u>\$43,000</u>
e.	Total revenues	\$132,000
	Less: Profit d. above	<u>(43,000)</u>
	Total expenses	<u>\$ 89,000</u>
f.	Total liabilities (Jan. 1, 2020)	\$50,000
	Total owner's equity (Jan. 1, 2020)	<u>75,000</u>
	Total assets (Jan. 1, 2020)	<u>\$125,000</u>
	Also same as b. above	
g.	Total assets (Dec. 31, 2020)	\$140,000
	Total owner's equity (Dec. 31, 2020)	<u>97,000</u>
	Total liabilities (Dec. 31, 2020)	<u>\$ 43,000</u>

PROBLEM 1.3A (Continued)

h.	Total owner's equity (Dec. 31, 2020)	\$97,000
	Total owner's equity (Jan. 1, 2020) c. above	<u>75,000</u>
	Increase in owner's equity.....	<u>\$22,000</u>
	 Increase in owner's equity.....	 \$22,000
	Less: Profit	\$40,000
	Investments.....	<u>0</u>
	Drawings.....	<u>\$18,000</u>
 i.	 Profit.....	 \$40,000
	Total expenses	<u>95,000</u>
	Total revenues.....	<u>\$135,000</u>
 j.	 Total assets (Jan. 1, 2021)	 \$140,000
	Equal to total assets (Dec. 31, 2020) given	
 k.	 Total liabilities (Jan. 1, 2021)	 \$43,000
	Equal to total liabilities (Dec. 31, 2020) g. above	
 l.	 Total owner's equity (Jan. 1, 2021).....	 \$97,000
	Equal to total owner's equity (Dec. 31, 2020) given	
 m.	 Total assets (Dec. 31, 2021).....	 \$172,000
	Total liabilities (Dec. 31, 2021).....	<u>65,000</u>
	Total owner's equity (Dec. 31, 2021)	<u>\$107,000</u>
 n.	 Total owner's equity (Dec. 31, 2021)	 \$107,000
	Total owner's equity (Jan. 1, 2021) l. above	<u>97,000</u>
	Increase in owner's equity.....	<u>\$ 10,000</u>
	 Increase in owner's equity.....	 \$10,000
	Less: Profit o. below	\$(31,000)
	Add: Drawings.....	<u>36,000</u>
	Investments	<u>\$15,000</u>

PROBLEM 1.3A (Continued)

o. Total revenues	\$157,000
 Less: Total expenses	<u>126,000</u>
 Profit.....	<u>\$ 31,000</u>

Taking It Further:

In order to decide if an owner is able to withdraw cash from the business, the owner needs to find out if her/his capital account is sufficiently high to cover the drawings charge. S/He also needs to know that there is sufficient cash available to make the withdrawal and still have enough cash to meet the obligations of the business.

LO 4 BT: AP Difficulty: C Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.4A

a. and b.

(\$ in thousands)

1.	<u>L</u>	<u>BS</u>	Accounts payable	\$ 810
2.	<u>A</u>	<u>BS</u>	Accounts receivable	900
3.	<u>A</u>	<u>BS</u>	Cash	3,500
4.	<u>R</u>	<u>IS</u>	Consulting revenue	15,730
5.	<u>A</u>	<u>BS</u>	Equipment	5,700
6.	<u>E</u>	<u>IS</u>	Interest expense	790
7.	<u>E</u>	<u>IS</u>	Rent expense	4,800
8.	<u>C</u>	<u>OE</u>	S. Parker, capital, January 1	6,600
9.	<u>D</u>	<u>OE</u>	S. Parker, drawings	3,900
10.	<u>E</u>	<u>IS</u>	Salaries expense	3,200
11.	<u>E</u>	<u>IS</u>	Utilities expense	350

c. (in thousands)

Revenue – Expenses = Profit

Revenue = \$15,730

Expenses (\$4,800 + \$790 + \$3,200 + \$350) = \$9,140

Profit (\$15,730 - \$9,140) = \$6,590

Taking It Further:

It is important for Parker Information Technology Company to keep track of its different types of expenses to ensure that management is able to get the necessary information to make decisions concerning where improvements in performance can be made. The company can also determine, by comparing the expenses with the revenues, if the amount of expenses is reasonable.

LO 4 BT: AP Difficulty: S Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.5A

1.
 - a. This accounting treatment is incorrect as people involved with the organization are not an asset of the business to be placed on the balance sheet. There is no reasonable way that a measurement of their value could be made.
 - b. The entries to record people as assets should be removed from the accounting records.
2.
 - a. This accounting treatment is incorrect as it violates the historical cost concept. The land and building should be recorded at \$350,000, the amount paid on purchase. If the company was in the business of buying and reselling land and buildings, they may be able to value these items at fair value but that does not appear to be the case here. It appears that Sharon is attempting to deliberately overstate her assets to get a loan. These actions would be considered professionally unethical.
 - b. The entry to increase the carrying value of the land and building from \$350,000 to \$500,000 should be removed from the accounting records of Barton Industries.
3.
 - a. This accounting treatment is incorrect as it violates the reporting entity concept. The electric guitar is a personal asset, and not an asset of the business.
 - b. The entry to record the purchase of the guitar should be removed from the Equipment account. Instead this should be recorded as drawings by Will Viceira.
4.
 - a. West Spirit Oil Corp. must adopt IFRS because it is a publicly traded corporation.
 - b. The 2021 financial statements must be prepared in accordance with the International Financial Reporting Standards (IFRS).

PROBLEM 1.5A (Continued)

Taking It Further:

It is important for private and public companies to follow generally accepted accounting principles (GAAP) because a common set of standards, applied by all businesses and entities, provides financial statements that are reasonably comparable. Without a common set of standards, each enterprise could develop its own theory structure and set of practices, resulting in non-comparability among enterprises, to the detriment of financial statement users.

LO 3,5 BT: C Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.6A

a. PETRONICK ACCOUNTING SERVICES

Assets	=	Liabilities	+	Owner's Equity
---------------	---	--------------------	---	-----------------------

Transaction	Cash	+	+	+	+	+	-	+	-
		Acc. Rec.	Supplies	Furniture	Acc. Payable	F. Petronick, Capital	F. Petronick, Drawings	Revenues	Expenses
June 4	+\$4,376					+\$4,376			
6	-1,050								-\$1,050
8				+\$3,160	+\$3,160				
15		+\$1,865						+\$1,865	
15	-1,580				-1,580				
18			+\$344		+\$344				
26	-49								-49
28	+900	-900							
30	-128						-\$128		
Total	\$2,469	\$965	\$344	\$3,160	\$1,924	+\$4,376	-\$128	+\$1,865	-\$1,099

\$6,938 = \$6,938

Note: Events at other dates than the transactions above are either not transactions or are personal transactions of F. Petronick.

PROBLEM 1.6A (Continued)

b. Capital investment	\$4,376
Less: Drawings.....	<u>128</u>
	4,248
Add: Revenue	1,865
Less: Expenses	<u>(1,099)</u>
F. Petronick, capital, June 30	<u><u>\$5,014</u></u>

Taking It Further:

\$144 should be reported as an asset, Supplies, on the June 30 balance sheet. This is the amount of supplies on hand. \$200 should be reported as an expense. This is the cost of supplies that were used in the month of June.

LO 4,6 BT: AP Difficulty: S Time: 45 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.7A

a. LETOURNEAU LEGAL SERVICES

Assets					=	Liabilities			+	Owner's Equity			
Tran- sac- tion	Cash	+	+	+		+	+	+		+	-	+	-
		Acc. Rec.	Sup- plies	Equip- ment		Acc. Payable	Un- earned Rev- enue	Note Payable		A. LeTour- neau, Capital	A. LeTour- neau, Drawings	Rev- enues	Exp- enses
1													
2													
3	+\$50,000									+\$50,000			
4													
5	-2,500												-\$2,500
6													
7	-10,000			+\$10,000									
8			+\$400			+\$400							
9	-3,000			+6,500				+\$3,500					
10		+\$3,500										+\$3,500	
11	+2,500						+\$2,500						
12	-500												-500
13	-400					-400							
Total	\$36,100	\$3,500	\$400	\$16,500		\$0	\$2,500	\$3,500		\$50,000	0	\$3,500	-\$3,000

\$56,500 = \$56,500

PROBLEM 1.7A (Continued)

a. (Continued)

Notes: Items 1 (March 4), 2 (March 7), and 4 (March 14) are not relevant to the business entity. They are personal transactions.

Item 6 (March 19) is not recorded because the transaction has not yet been completed. There is no expense, nor liability, until he begins working.

b. Profit = Revenues – Expenses = (\$3,500 – \$3,000) = \$500

**Owner's Equity = Investment – Drawings + Profit =
(\$50,000 – \$0 + \$500) = \$50,500**

PROBLEM 1.7A (Continued)

c.

LETOURNEAU LEGAL SERVICES Balance Sheet March 31, 2021

Assets	
Cash	\$36,100
Accounts receivable	3,500
Supplies	400
Equipment.....	<u>16,500</u>
Total assets.....	<u>\$56,500</u>
Liabilities and Owner's Equity	
Note payable.....	\$ 3,500
Unearned revenue	<u>2,500</u>
Total liabilities.....	6,000
Owner's Equity	
A. LeTourneau, capital	<u>50,500</u>
Total liabilities and owner's equity	<u>\$56,500</u>

Taking It Further:

Recognition of an event or transaction should take place only when there has been a change in the financial position of the company. In other words, if a transaction affects any asset, liability, equity, revenue, or expense and has a measureable dollar amount, it should be recognized in the accounting records. As well, personal transactions must be excluded, to comply with the reporting entity concept.

LO 3,4,5,6 BT: AP Difficulty: S Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.8A

a. Izabela Jach, MD

	Cash	+ Accounts Receivable	+ Sup- plies	+ Equip- ment	= Accounts Payable	+ Notes Payable	+ I. Jach, Capital	- I. Jach, Drawings	+ Revenues	- Expenses
Bal	\$3,000	+ \$1,500	+ \$600	+ \$7,500	= \$5,500	+ \$3,000	+ \$4,100			
Sept. 4	+800	-800								
5	+7,700	+2,800							+\$10,500	
7	-2,900				-2,900					
12	-800			+2,300	+1,500					
15	-2,800									-\$2,800
15	-1,900									-1,900
15	-275									-275
18	+700	-700								
20	-1,000							-\$1,000		
26	+3,000					+3,000				
29					+325					-325
30		<u>+10,000</u>							<u>+10,000</u>	
		<u>\$12,800</u>	<u>\$600</u>	<u>\$9,800</u>	<u>\$4,425</u>	<u>\$6,000</u>	<u>\$4,100</u>	<u>\$1,000</u>	<u>\$20,500</u>	<u>\$5,300</u>

$$\$28,725 = \$28,725$$

Note that the September 28 transaction is not recorded because the work will not commence until October.

PROBLEM 1.8A (Continued)

b.

IZABELA JACH, MD Income Statement Month Ended September 30, 2021

Revenues	
Service revenue	\$20,500
Expenses	
Advertising expense.....	\$ 275
Rent expense	1,900
Salaries expense.....	2,800
Utilities expense	<u>325</u>
Total expenses	<u>5,300</u>
Profit.....	<u>\$15,200</u>

IZABELA JACH, MD Statement of Owner's Equity Month Ended September 30, 2021

I. Jach, capital, September 1	\$4,100
Add: Profit	<u>15,200</u>
	19,300
Less: Drawings.....	<u>1,000</u>
I. Jach, capital, September 30	<u>\$18,300</u>

PROBLEM 1.8A (Continued)

b. (Continued)

IZABELA JACH, MD
Balance Sheet
September 30, 2021

Assets	
Cash	\$ 5,525
Accounts receivable	12,800
Supplies	600
Equipment.....	<u>9,800</u>
Total assets.....	<u>\$28,725</u>
Liabilities and Owner's Equity	
Liabilities	
Accounts payable	\$ 4,425
Notes payable	<u>6,000</u>
Total liabilities	10,425
Owner's Equity	
I. Jach, capital	<u>18,300</u>
Total liabilities and owner's equity	<u>\$28,725</u>

Taking It Further:

When an item is purchased on account, payment usually must be made in 30 days. If a note payable is used, payment will be delayed until the maturity date of the note, which is typically longer than 30 days. Although this will likely mean that interest will also have to be paid, the cash remains in the business longer than if the item had been purchased on account.

LO 4,5,6 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.9A

PAVLOV'S HOME RENOVATIONS
Income Statement
Year Ended December 31, 2021

Revenues	
Service revenue	\$153,750
 Expenses	
Interest expense	\$ 1,195
Insurance expense	3,375
Supplies expense	20,095
Salaries expense.....	88,230
Operating expenses	<u>3,545</u>
Total expenses	<u>116,440</u>
 Profit.....	 <u>\$ 37,310</u>

PAVLOV'S HOME RENOVATIONS
Statement of Owner's Equity
Year Ended December 31, 2021

J. Pavlov, capital, January 1	\$45,850
Add: Profit	<u>37,310</u>
	83,160
Less: J. Pavlov, Drawings	<u>44,800</u>
J. Pavlov, capital, December 31	<u>\$38,360</u>

PROBLEM 1.9A (Continued)

PAVLOV'S HOME RENOVATIONS Balance Sheet December 31, 2021

Assets	
Cash	\$ 8,250
Accounts receivable	10,080
Supplies	595
Prepaid insurance	1,685
Equipment.....	29,400
Vehicles	<u>42,000</u>
 Total assets	 <u>\$92,010</u>
Liabilities and Owner's Equity	
Liabilities	
Notes payable	\$30,800
Accounts payable	7,850
Unearned revenue	<u>15,000</u>
Total liabilities	53,650
 Owner's equity	
J. Pavlov, capital.....	<u>38,360</u>
 Total liabilities and owner's equity	 <u>\$92,010</u>

Taking It Further:

In order to prepare the statement of owner's equity, you need to have the amount of the profit or loss for the year. This is why the income statement is prepared first. The statement of owner's equity is prepared next to have the ending capital balance for the balance sheet.

LO 6 BT: AP Difficulty: S Time: 45 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.10A

- a. (i) $\$91,300 \text{ (from ii)} - \$9,500 - \$5,300 - \$41,500 = \$35,000$
- (ii) **Total liabilities and owner's equity = \$91,300**
- (iii) $\$43,800 - \$26,000 = \$17,800$
- (iv) $\$91,300 - \$43,800 = \$47,500$
- (v) $\$59,500 - \$32,000 - \$1,500 = \$26,000$
- (vi) $\$95,000 - \$59,500 = \$35,500$
- (vii) $\$62,500 - \$22,000 - \$35,500 \text{ (from viii)} = \$5,000$
- (viii) $\$35,500 \text{ from income statement (from vi)}$
- (ix) $\$62,500 - \$47,500 \text{ (from x)} = \$15,000$
- (x) $\$47,500 \text{ from the balance sheet (from iv)}$
- b. In preparing the financial statements, the first statement to be prepared is the income statement. The profit figure is used in the statement of owner's equity to calculate the ending balance of capital. The balance sheet is then completed, using the balance of capital as calculated in the statement of owner's equity.

Taking It Further:

The balance sheet, which is sometimes referred to as the statement of financial position, reports balances at a specific point in time – as of the last day of the reporting period. The income statement reports the results of revenue and expense business transactions for a period of time, whether it is a month, a quarter, or a fiscal year. The statement of owner's equity reports for the same period of time those items that have increased or decreased capital. Consequently, the income statement and the statement of owner's equity are for the period of time *ending* on a specific date and the balance sheet is *at* that specific date.

LO 6 AN: AP Difficulty: M Time: 45 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

PROBLEM 1.11A

a.

- 1. The land should be recorded at cost of \$36,000 until it is sold. The increase in value is not recognized until the land is sold (historical cost concept).**
- 2. The accounts receivable should be recorded in Canadian dollars, not in Chinese yuan (monetary unit concept). Accounts receivable should have the corrected balance of \$7,000 Canadian.**
- 3. Equipment is an asset and not a liability. The entry in the liabilities for equipment of \$58,000 must be removed and appear instead under assets. Supplies are also assets, not liabilities. This item will also have to be removed from the liabilities and added to assets.**
- 4. Notes payable are liabilities, not assets. The company has an obligation to repay the note in the future. The entry in the assets for notes payable must be removed from assets and instead should appear under liabilities.**
- 5. C. Dryfuss, capital is an equity account, not an asset. His investment in the company is an asset to him, but for the company it is equity (reporting entity concept). The entry in the assets for C. Dryfuss, capital should be removed and instead appear under the owner's equity section of the balance sheet.**

The 'plug' figure needs to be removed. The accounting equation states that $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$. Dryfuss needs to make the corrections above to determine the Owner's equity balance.

PROBLEM 1.11A (Continued)

b.

REFLECTIONS BOOK SHOP Balance Sheet April 30, 2021

Assets	
Cash	\$ 10,000
Accounts receivable (\$5,000 + \$2,000)	7,000
Supplies	1,000
Land	36,000
Equipment.....	58,000
Building.....	<u>110,000</u>
Total assets	<u>\$222,000</u>
Liabilities and Owner's Equity	
Liabilities	
Notes payable	\$120,000
Accounts payable	<u>15,000</u>
Total liabilities	135,000
Owner's equity:	
C. Dryfuss, capital	<u>87,000</u>
Total liabilities and owner's equity	<u>\$222,000</u>

Taking It Further:

All transactions affect a minimum of two financial statement items to ensure that the accounting equation always remains in balance – what we do to one side of the equation must be done to the other side. For example, when cash is decreased the reason why the cash is decreased is also recorded. Thus, an increase in another asset or a decrease in a liability or owner's equity must also be recorded.

LO 3,4,5,6 BT: AP Difficulty: M Time: 55 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.1B

1. a. The owner, Samuel Colt is an internal user of the accounting information of Organics To You.
b. When deciding which retail products, in this case pasta, generate the most profit, the owner will be interested in the economic performance of the business as shown on the income statement. The income statement reports the past performance of the business in terms of its revenue, expenses, and profit. Using the details of revenue and expenses at a product line level, the owner can establish which pasta is more profitable to its retail chain of stores.
2. a. In deciding to extend credit to a new customer, The Backroads Company is an external user of the accounting information of its customers.
b. Backroads would focus its attention on the information about Europe Tours Company's economic resources and claims to those resources. The terms of the credit extended to customers requires collection in a short period. Funds used to pay Backroads would come from cash on hand. The balance sheet will show if the new customer has enough cash to meet its obligations, including those to Backroads .
3. a. The senior partner of Accountants R Us is an internal user of the accounting information.
b. To determine if the partnership is holding enough cash to increase the amount of partners' drawings and still have enough cash to expand its operations, the senior partner should examine the business's economic resources and claims to those resources to determine if the necessary cash is available to meet obligations and address the drawings and expansion plans.

PROBLEM 1.1B (Continued)

Taking It Further:

When making decisions based on the financial statements of a business, users need to rely on the faithful representation of the financial statements. To ensure this principle can be met, the individual preparing the financial statements must adhere to the highest standards of ethical behaviour so that the decision maker is not hurt by false or misleading financial information.

LO 1 BT: S Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.2B

1. a. The computer science students should incorporate their business because of their concerns about legal liabilities. A corporation is the only form of business that provides limited liability to its owners.
b. ASPE will likely be the accounting standards followed, as they are simpler to follow. The business would not be a publicly traded corporation requiring the use of IFRS.
2. a. Shamira should run her small cupcake shop as a proprietorship because this is the simplest and least costly form of business organization to establish and eventually dissolve. She is the only person involved in the business and is planning to operate for a limited time.
b. ASPE will likely be the accounting standards followed, as they are simpler to follow.
3. a. Robert and Tom should form a corporation when they combine their operations. This is the best form of business for them to choose because they expect to raise funds in the coming year and it is easier to raise funds in a corporation. A corporation may also receive more favourable income tax treatment.
b. ASPE will likely be the accounting standards followed, as they are simpler to follow. The business would not be a publicly traded corporation requiring the use of IFRS.
4. a. A partnership would be the most likely form of business for Darcy, Ellen, and Meg to choose. It is simpler to form than a corporation and less costly.
b. ASPE will likely be the accounting standards followed, as they are simpler to follow.

PROBLEM 1.2B (Continued)

Taking It Further:

The advantages of starting a business such as a partnership and later incorporating the business include ease of formation, simplicity, and reduced costs. As the business grows and the additional costs and administration that are required of corporations are justified, incorporating the business provides additional advantages.

LO 2,3 BT: AP Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.3B

a.	Total owner's equity (Jan. 1, 2019).....	\$60,000
	Total liabilities (Jan. 1, 2019)	<u>0</u>
	Total assets (Jan. 1, 2019).....	<u>\$60,000</u>
b.	Total assets (Dec. 31, 2019).....	\$75,000
	Total owner's equity (Dec. 31, 2019)	<u>45,000</u>
	Total liabilities (Dec. 31, 2019).....	<u>\$30,000</u>
c.	Total owner's equity (Dec. 31, 2019)	\$45,000
	Total owner's equity (Jan. 1, 2019).....	<u>60,000</u>
	Decrease in owner's equity.....	<u>\$15,000</u>
	Decrease in owner's equity	\$15,000
	Add: Investments.....	5,000
	Less: Drawings	<u>0</u>
	Loss	<u>\$20,000</u>
d.	Total expenses	\$120,000
	Less: Loss.....	<u>(20,000)</u>
	Total revenues	<u>\$100,000</u>
e.	Total liabilities (Jan. 1, 2020)	\$30,000
	Equal to total liabilities (Dec. 31, 2019) b. above	
f.	Total owner's equity (Jan. 1, 2020).....	\$45,000
	Equal to total owner's equity (Dec. 31, 2019) given	
g.	Total assets (Dec. 31, 2020).....	\$127,000
	Equal to total assets (Jan. 1, 2021) given	

PROBLEM 1.3B (Continued)

h.	Total assets (Dec. 31, 2020) g. above.....	\$127,000
	Total liabilities (Dec. 31, 2020).....	<u>45,000</u>
	Total owner's equity (Dec. 31, 2020).....	<u>\$ 82,000</u>
i.	Total owner's equity (Dec. 31, 2020)	\$82,000
	Total owner's equity (Jan. 1, 2020) f. above	<u>45,000</u>
	Increase in owner's equity	<u>\$37,000</u>
	Increase in owner's equity	\$37,000
	Less: Profit	\$(35,000)
	Add: Drawings	<u>10,000</u>
	Investments	<u>\$12,000</u>
j.	Profit.....	\$ 35,000
	Add: Total expenses	<u>95,000</u>
	Total revenues	<u>\$130,000</u>
k.	Total liabilities (Jan. 1, 2021)	\$45,000
	Equal to total liabilities (Dec. 31, 2020) given	
l.	Total owner's equity (Jan. 1, 2021).....	\$82,000
	Equal to total owner's equity (Dec. 31, 2020) h. above	
m.	Total assets (Dec. 31, 2021).....	\$170,000
	Total owner's equity (Dec. 31, 2021)	<u>100,000</u>
	Total liabilities (Dec. 31, 2021).....	<u>\$ 70,000</u>
n.	Total owner's equity (Dec. 31, 2021)	\$100,000
	Total owner's equity (Jan. 1, 2021) l. above	<u>82,000</u>
	Increase in owner's equity	<u>\$ 18,000</u>
	Increase in owner's equity	\$18,000
	Less: Profit	\$(30,000)
	Less: Investments	<u>0</u>
	Drawings	<u>\$12,000</u>

PROBLEM 1.3B (Continued)

o. Total revenues	\$160,000
 Less: Profit	<u>30,000</u>
 Total expenses	<u>\$130,000</u>

Taking It Further:

In order to decide if an owner needs to invest additional cash in the business, the owner needs to determine if there is sufficient cash available to pay the obligations of the business. Quite often when a business is new, cash infusions are needed to fund the purchase of operating assets. Once the business is established and profitable, the owner is able to start making withdrawals.

LO 4 BT: AP Difficulty: C Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.4B

a. and b. (\$ in thousands)

1.	<u>L</u>	<u>BS</u>	Accounts payable	\$195
2.	<u>A</u>	<u>BS</u>	Accounts receivable	160
3.	<u>A</u>	<u>BS</u>	Cash	120
4.	<u>A</u>	<u>BS</u>	Equipment	600
5.	<u>E</u>	<u>IS</u>	Insurance expense	15
6.	<u>E</u>	<u>IS</u>	Interest expense	45
7.	<u>A</u>	<u>BS</u>	Land and buildings	1,495
8.	<u>L</u>	<u>BS</u>	Notes payable	950
9.	<u>A</u>	<u>BS</u>	Prepaid insurance	30
10.	<u>E</u>	<u>IS</u>	Operating expenses	871
11.	<u>A</u>	<u>BS</u>	Other assets	615
12.	<u>L</u>	<u>BS</u>	Other liabilities	396
13.	<u>R</u>	<u>IS</u>	Other revenue	52
14.	<u>R</u>	<u>IS</u>	Rent revenues	1,295
15.	<u>L</u>	<u>BS</u>	Salaries payable	125
16.	<u>C</u>	<u>OE</u>	T. Yuen, capital, January 1	934
17.	<u>D</u>	<u>OE</u>	T. Yuen, drawings	20
18.	<u>L</u>	<u>BS</u>	Unearned rent revenue	24

c. (\$ in thousands)

Revenue – Expenses = Profit

Revenue (\$1,295 + \$52) = \$1,347

Expenses (\$15 + \$45 + \$871) = \$931

Profit (\$1,347 - \$931) = \$416

PROBLEM 1.4B (Continued)

Taking It Further:

It is important for Paradise Mountain Family Resort to keep track of its different types of expenses to ensure that management is able to get the necessary information to make decisions concerning where improvements in performance can be made. As well, separate expenses can be compared with their related revenues to determine the amount of profit from the different sources of revenue activity for the business.

LO 4 BT: AP Difficulty: S Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.5B

1. a. The accounting treatment is incorrect. The president is a person outside of the organization and not an asset of the business so the impact of his death should not be recorded.
b. The entry to record the impact of the death of the president should be removed from the accounting records. Users of the statements would be aware of the death and no mention need be made in the financial statement notes.
2. a. The accounting treatment is incorrect as it violates the historical cost concept. The equipment should be recorded at the amount paid to purchase it.
b. The entry to record the purchase of the equipment should be reduced by \$100,000 in the accounting records of Montigny.
3. a. A note to the financial statements stating that Vertical Lines Company is a going concern is not necessary. The business is assumed to be a going concern, unless there is evidence to the contrary.
b. Any note stating that the business is a going concern should be removed.

Taking It Further:

It is important for companies to follow generally accepted accounting principles (GAAP) because a common set of standards, applied by all businesses and entities, provides financial statements that are reasonably comparable. Without a common set of standards, each enterprise could develop its own theory structure and set of practices, resulting in non-comparability among enterprises, to the detriment of financial statement users.

LO 3,5 BT: C Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.6B

a.

KENSINGTON BIKE REPAIR SHOP

	Cash	+	Acc. Rec.	+	Sup- plies	+	Equip- ment	=	Acc. Payable	+	Unearned Revenue	+	Note Payable	+	L.Depres, Capital	-	L.Depres, Drawings	+	Revenue	-	Ex- penses
April 1	+\$21,000														+\$21,000						
2	-3,000						+\$9,000						+\$6,000								
5	-1,050																				-\$1,050
7					+\$975				+\$975												
9	+3,200																		+\$3,200		
16			+\$2,900																+2,900		
26	+1,200		-1,200																		
27	-975								-975												
28	-290																				-290
29	-1,300																-1,300				
30									+200												-200
30	-1,400																				-1,400
30			+750																+750		
30	+2,100										+\$2,100										
	<u>\$19,485</u>	+	<u>\$2,450</u>	+	<u>\$975</u>	+	<u>\$9,000</u>	=	<u>\$200</u>	+	<u>\$2,100</u>	+	<u>\$6,000</u>	+	<u>\$21,000</u>	-	<u>\$1,300</u>	+	<u>\$6,850</u>	-	<u>\$2,940</u>
	\$31,910 = \$31,910																				

PROBLEM 1.6B (Continued)

b. Capital investment	\$21,000
Less: Drawings	<u>1,300</u>
	19,700
Add: Revenue.....	6,850
Less: Expenses.....	<u>(2,940)</u>
L. Depres, capital, April 30	<u>\$23,610</u>

Taking It Further:

\$500 should be reported as an asset, Supplies, on the April 30 balance sheet; the \$475 of supplies used as of that date should be reported as Supplies Expense representing supplies that were used in the month of April.

LO 4,6 BT: AP Difficulty: S Time: 45 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.7B

a. BARRY CONSULTING

Trans- action	Cash	+	Acc. Rec.	+	Sup- plies	+	Equip.	=	Acc. Payable	+	Notes Pay.	+	Unearn- ed Reve- nue	+	L. Barry, Capital	-	L. Barry, Drawings	+	Revenue	-	Ex- penses
June 1	+\$6,000														+\$6,000						
2	-900																			-\$900	
3					+\$545				\$545												
5	-95																			-95	
9	+3,275																		+\$3,275		
12	-600															-\$600					
15			+\$5,000																+\$5,000		
17	-1,800																			-1,800	
21	+3,000		-3,000																		
22	-545								-545												
26	+5,500										+\$5,500										
29	-2,150						+\$2,150														
30	-150																			-150	
30	+2,500												+\$2,500								
	<u>\$14,035</u>	+	<u>\$2,000</u>	+	<u>\$545</u>	+	<u>\$2,150</u>	=	<u>\$ 0</u>	+	<u>\$ 5,500</u>	+	<u>\$2,500</u>	+	<u>\$6,000</u>	-	<u>\$600</u>	+	<u>\$8,275</u>	-	<u>\$2,945</u>
	\$18,730 = \$18,730																				

PROBLEM 1.7B (Continued)

a. (Continued)

Note: The first June 1 transaction is not relevant to the business entity. It is a personal transaction.

The June 25 transaction is not recorded because the transaction has not yet been completed. Revenue will not be recognized until the services are performed in July.

b. $\text{Profit} = \text{Revenues} - \text{Expenses} = (\$8,275 - \$2,945) = \$5,330$

$\text{Owner's Equity} = \text{Investment} - \text{Drawings} + \text{Profit} = (\$6,000 - \$600 + \$5,330) = \$10,730$

c.

BARRY CONSULTING Balance Sheet June 30, 2021

Assets	
Cash	\$14,035
Accounts receivable	2,000
Supplies	545
Equipment.....	<u>2,150</u>
Total assets	<u>\$18,730</u>
Liabilities and Owner's Equity	
Liabilities	
Note payable	\$ 5,500
Unearned revenue	<u>2,500</u>
Total liabilities	8,000
Owner's equity	
L. Barry, capital (see part b.).....	<u>10,730</u>
Total liabilities and owner's equity	<u>\$18,730</u>

PROBLEM 1.7B (Continued)

Taking It Further:

Recognition of an event or transaction should take place only when there has been a change in the financial position of the company. In other words, if a transaction affects any asset, liability, equity, revenue, or expense and has a measureable dollar amount, it should be recognized in the accounting records. As well, personal transactions must be excluded, to comply with the reporting entity concept.

LO 3,4,5,6 BT: AP Difficulty: S Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.8B

a. BAKER'S ACCOUNTING SERVICE

		+	+	+	=	+	+	+	+	+	-	+	-
Trans.	Cash	Acc. Rec.	Sup-plies	Equip-ment		Acc. Pay.	Un-earned Revenue	Notes Payable		F. Baker, Capital	F. Baker, Drawings	Rev-enues	Exp-enses
Oct. 1	\$5,700	\$2,100	\$350	\$7,600		\$4,300				\$11,450			
1	-3,800					-3,800							
1	-900												
4	+1,550	-1,550											
8	-500			+4,000				+3,500					
14		+900											
15	-300												
18	+400	-400											
20	-500												
25	+8,000							+8,000					
28	+3,100	+2,300											
29	-720												
29	+2,800						+2,800						
30						+205							
30	-1,200												
Total	\$13,630	\$3,350	\$350	\$11,600	=	\$ 705	\$ 2,800	\$11,500	+	\$11,450	-\$ 1,700	\$ 6,300	-\$2,125
					\$28,930 = \$28,930								

PROBLEM 1.8B (Continued)

a. (Continued)

Note: The October 5 and October 26 events are not recorded because no accounting transaction has taken place. The October 26 statement is not a transaction.

In the October 5 transaction, the expense incurred for the office assistant will be recorded when the office assistant has worked for Baker.

b.

BAKER'S ACCOUNTING SERVICE Income Statement Month Ended October 31, 2021

Revenues	
Service revenue	\$6,300
 Expenses	
Advertising expense.....	\$300
Rent expense	900
Salaries expense.....	720
Telephone expense	<u>205</u>
Total expenses	<u>2,125</u>
 Profit.....	 <u>\$4,175</u>

BAKER'S ACCOUNTING SERVICE Statement of Owner's Equity Month Ended October 31, 2021

F. Baker, capital, October 1	\$11,450
Add: Profit	<u>4,175</u>
	15,625
Less: Drawings	<u>1,700</u>
F. Baker, capital, October 31	<u>\$13,925</u>

PROBLEM 1.8B (Continued)

b. (Continued)

BAKER'S ACCOUNTING SERVICE
Balance Sheet
October 31, 2021

Assets	
Cash	\$13,630
Accounts receivable	3,350
Supplies	350
Equipment.....	<u>11,600</u>
Total assets.....	<u>\$28,930</u>
 Liabilities and Owner's Equity	
Liabilities	
Notes payable	\$11,500
Accounts payable	705
Unearned revenue	<u>2,800</u>
Total liabilities	<u>15,005</u>
 Owner's Equity	
F. Baker, capital	<u>13,925</u>
Total liabilities and owner's equity	<u>\$28,930</u>

PROBLEM 1.8B (Continued)

b. (Continued)

Taking It Further:

Although a payment was made from the business bank account, the payment was with respect to a personal transaction of the owner for his family. The amount must be recorded as a drawings transaction to the F. Baker, Drawings account as it is not a business expense. The reporting entity concept guides the accounting treatment for these transactions; it states that transactions related to the business must be kept separate from the personal transactions of the owner. In this case, the cost of the dinner is not a benefit to the business nor does it represent a cost associated with operating the business.

LO 4,5,6 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.9B

JOHANSEN DESIGNS
Income Statement
Year Ended December 31, 2021

Revenues	
Service revenue	\$132,900
Expenses	
Salaries expense.....	\$70,500
Rent expense	18,000
Supplies expense	3,225
Telephone expense	3,000
Utilities expense	2,400
Insurance expense	1,800
Interest expense	<u>350</u>
Total expenses	<u>99,275</u>
Profit.....	<u><u>\$33,625</u></u>

JOHANSEN DESIGNS
Statement of Owner's Equity
Year Ended December 31, 2021

J. Johansen, capital, January 1.....	\$35,800
Add: Profit.....	<u>33,625</u>
	69,425
Less: Drawings.....	<u>40,000</u>
J. Johansen, capital, December 31	<u><u>\$29,425</u></u>

PROBLEM 1.9B (Continued)

JOHANSEN DESIGNS Balance Sheet December 31, 2021

Assets	
Cash	\$ 11,895
Accounts receivable	6,745
Supplies	675
Prepaid insurance	600
Furniture	15,750
Equipment.....	<u>9,850</u>
Total assets	<u>\$45,515</u>
 Liabilities and Owner's Equity	
Liabilities	
Notes payable	\$ 7,000
Accounts payable	6,590
Unearned revenue	<u>2,500</u>
Total liabilities	16,090
 Owner's equity	
J. Johansen, capital.....	<u>29,425</u>
Total liabilities and owner's equity	<u>\$45,515</u>

Taking It Further:

To determine the December 31, 2021, balance in the J. Johansen, capital account for the balance sheet, you need to have prepared the statement of owner's equity first. The balance in the owner's capital is not updated each time owner's equity is increased or decreased. Instead, at the end of the accounting period, the impact of the revenues, expenses, and drawings on owner's capital is determined in the income statement and then in the statement of owner's equity.

LO 6 BT: AP Difficulty: S Time: 45 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 1.10B

- a.
- (i) $\$110,000 - \$5,000 - \$10,000 - \$45,000 = \$50,000$
 - (ii) $\$66,500 - \$59,600 = \$6,900$
 - (iii) $\$110,000 - \$66,500 = \$43,500$
 - (iv) Total assets = $\$110,000$
 - (v) $\$62,500 - \$37,500 - \$6,000 = \$19,000$
 - (vi) $\$80,000 - \$62,500 = \$17,500$
 - (vii) $\$57,500 - \$35,000 - \$17,500$ (from vi) = $\$5,000$
 - (viii) $\$17,500$ (from vi)
 - (ix) $\$57,500 - \$43,500$ (from iii) = $\$14,000$
 - (x) $\$43,500$ from the balance sheet (from iii)
- b. In preparing the financial statements, the first statement to be prepared is the income statement. The profit figure is then used in the statement of owner's equity to calculate the ending balance of capital. The balance sheet is then completed using the balance of capital as calculated in the statement of owner's equity.

Taking It Further:

The balance sheet, which is sometimes referred to as the statement of financial position, reports balances at a specific point in time – as of the last day of the reporting period. The income statement reports the results of the business transactions of revenues and expenses for a period of time, whether it is a month, a quarter, or a fiscal year. The statement of owner's equity also reports for the same period of time those items that have increased or decreased capital. Consequently, the income statement and the statement of owner's equity are for the period of time ending at a specific date and the balance sheet is at that specific date.

LO 6 AN: AP Difficulty: M Time: 45 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

PROBLEM 1.11B

- a.
- 1. Only the assets that belong to the business and the liabilities that are owed by the business should be recorded in its financial statements. The boat and related debt should be removed from the balance sheet to conform to the reporting entity concept.**
 - 2. The supplies should be recorded at cost of \$15,000 until they are used (historical cost concept).**
 - 3. The \$5,000 should be returned to cash as this transaction has not yet occurred (recognition criteria).**
 - 4. G. Goodman, capital should be reported at its ending balance at December 31, 2021, on the balance sheet. He needs to update the balance to include the impact of all revenues, expense, and drawings during the period on owner's equity.**
 - 5. The prepaid insurance of \$1,200 needs to be added to the assets of the business.**
 - 6. The profit should not appear on the balance sheet; it should be included in the ending balance of the capital account.**

PROBLEM 1.11B (Continued)

b.

GG Company Balance Sheet December 31, 2021

<u>Assets</u>		<u>Liabilities and Owner's Equity</u>	
Cash	\$20,000	Accounts payable	\$45,000
Accounts receivable	55,000		
Supplies	15,000	G. Goodman, capital	<u>46,200</u>
Prepaid insurance	<u>1,200</u>	Total liabilities and	
Total assets	<u>\$91,200</u>	owner's equity	<u>\$91,200</u>

G. Goodman, capital = \$91,200 – \$45,000 = \$46,200.

Taking It Further:

If Gil Goodman did not make any withdrawals from GG Company nor make further investments into the business during 2021, the change in his capital account will correspond to the profit for the year ended December 31, 2021. In this case the G. Goodman, capital account increased from \$25,000 to \$46,200 and so the profit was \$21,200.

LO 3,4,5,6 BT: AP Difficulty: M Time: 55 min. AACSB: None CPA: cpa-t001 CM: Reporting

BYP 1.1 FINANCIAL REPORTING PROBLEM

- a. Aritzia used a February 25 as its year end in 2018 and in 2017, the year end date was February 26. Aritzia uses a fiscal year end that is the Sunday closest to the last day in February each year. This results in a year end date that is one or two days different from the previous year. Companies may choose to use either a 12-month year or a 52-week year as in Aritzia's case. The key is a consistent number of days from year to year.
- b. As mentioned in note 1 to the financial statements, titled Nature of operations and basis of presentation, Aritzia presents this information under the caption "Statement of compliance."
- c. The five consolidated financial statements presented for the year ended February 25, 2018 include:
1. Statements of Financial Position
 2. Statements of Operations
 3. Statements of Comprehensive Income (Loss)
 4. Statements of Changes in Shareholders' Equity
 5. Statements of Cash Flows
- d. At the top of each financial statement, immediately after the title of the statement in brackets (in thousands of Canadian dollars) appears. For the statements of operations and the statements of changes in shareholders' equity, further clarification is given that this presentation excludes the amounts for the number of shares reported and for earnings per share (except per share amounts).
- e. Total assets as at
- | | |
|--------------------|---------------|
| February 25, 2018: | \$567,678,000 |
| February 26, 2017: | \$486,845,000 |

BYP 1.1 (Continued)

f. Total liabilities as at

February 25, 2018:	\$281,977,000
February 26, 2017:	\$285,237,000

g. Net income (loss) for year ended:

February 26, 2017	\$(56,109,000)
February 25, 2018	\$57,093,000

Increase in net income during the year is the sum of \$56,109,000 and \$57,093,000 which is \$113,202,000. A percentage comparison is misleading because of the loss in 2017.

BYP 1.2 INTERPRETING FINANCIAL STATEMENTS

- a. **Employees are the most important economic resource to a business such as Apple. Employees bring innovation in the development of new products and therefore have the potential to provide future economic benefit to the business.**

For an asset to be included on a company's balance sheet, that asset needs to be owned or controlled by the company and have the potential to provide future services or economic benefits. In addition, the value must be able to be reliably measured in monetary terms. While employees do provide future services and economic benefits, their value cannot be measured in monetary terms, and they are not owned by Apple Inc. Unrecorded economic resources such as employees are not included on the balance sheet.

- b. **The total assets reported on the balance sheet do not reveal what Apple is worth. A full balance sheet would be needed to find out how these assets are financed. If there was a great deal of debt on the balance sheet that would have to be paid out from the assets, this would leave very little equity to the shareholders, which is the amount that would be closer to the value of the business.**

There are other limitations to the balance sheet besides omitting the value of the employees. Many assets on the balance sheet are recorded at cost, rather than fair value. Other assets, such as the Apple trademark, are not listed. As well, what a business is "worth" or can be sold for may not be representative of either its cost or fair value. In the end, it is what someone is willing to pay for a company that determines a company's worth, ideally supported by its current fair value or potential future profits.

BYP 1.3 COLLABORATIVE LEARNING ACTIVITY

All of the material supplementing the collaborative learning activity, including a suggested solution, can be found in the Collaborative Learning section of the Instructor Resources site accompanying this textbook.

BYP 1.4 COMMUNICATION ACTIVITY

Date:

To: Robert Joote

From: Student

Subject: Balance Sheet Correction

I have reviewed the balance sheet of Peak Company as at December 31, 2021 and offer the following comments for your review and consideration:

- a. The balance in your capital account should be the accumulation of all investments, either in cash or other assets, contributed by you to the company, less any drawings, in either cash or other assets, you have made for personal use, plus profit and less losses over time.**

The purpose of a balance sheet is to present the financial position of the company at a point in time. The balance sheet lists the company's assets, liabilities, and equity.

- b. A number of items in your balance sheet are not properly reported, as indicated below:**
 - 1. The balance sheet should be dated as at a specific date, not for a period of time such as the month ended December 31, 2021. Rather, it should be dated "December 31, 2021."**
 - 2. Assets on the balance sheet are normally listed in order of liquidity.**
 - 3. Assets include Accounts Receivable and Prepaid Insurance, which should be included in the assets section rather than as deductions to liabilities and owner's equity.**

BYP 1.4 (Continued)

b. (Continued)

- 4. The bottom portion of the balance sheet, headed "Liabilities and Owner's Equity", should be sub-divided into two sections: one for Liabilities and one for Owner's Equity. Liability accounts would include Notes Payable and Accounts Payable. The owner's equity section would include the capital account.**
- 5. Accounts Payable should be reported in the liability section, rather than as a deduction in the assets section of the balance sheet.**
- 6. R. Joote, Drawings should not be reported separately on the balance sheet but rather should be subtracted from R. Joote, Capital to arrive at owner's equity for the end of the period.**

To prepare the statement of owner's equity, you need to have the amount of the profit or loss for the year. This is why the income statement is prepared first. To determine the ending balance in the capital account for the balance sheet, you need to have the balance in the owner's capital account. This is why the statement of owner's equity is prepared second.

BYP 1.4 (Continued)

c. A correct balance sheet follows:

PEAK COMPANY Balance Sheet December 31, 2021

Assets	
Cash	\$10,500
Accounts receivable	3,000
Supplies	2,000
Prepaid insurance	2,500
Equipment.....	<u>20,500</u>
Total assets	<u>\$38,500</u>
 Liabilities and Owner's Equity	
Liabilities	
Notes payable	\$12,000
Accounts payable	<u>5,000</u>
Total liabilities	17,000
 Owner's equity	
R. Joote, capital	<u>21,500</u>
Total liabilities and owner's equity	<u>\$38,500</u>

R. Joote, capital = \$38,500 – \$17,000 = \$21,500.

BYP 1.5 ALL ABOUT YOU

- a. 1. When deciding what kind of summer job to apply for, considerations would include tuition and textbooks costs, living expenses, and spending money requirements for the year. The wage rate of any employment opportunity is also relevant in the decision, including the the number of weeks of work during the summer months. Financial stability of the employer to ensure continued employment may also be a consideration particularly if continued part-time employment beyond the summer months is desired.
- b. By understanding an income statement and how it is used, the concept can be applied to assist in choosing an appropriate “profitable” job. Wages earned constitute the revenues that a student can expect less any of the relevant monthly expenses required to cover school and living expenses. This can help determine whether the wages earned by a particular job will result in a profit or loss at the end of the period.
- a. 2. In determining the affordability of purchasing a second-hand car and incurring parking expenses versus using public transit to get back and forth to college each day, several pieces of financial information are required. The relevant information for the purchase and financing of a second-hand car include the actual cost of the car, financing costs, insurance costs, maintenance costs, gas and parking costs, along with the value of the car at the end of the school term. Lending costs would be dependent on negotiations regarding the car purchase, including the amount that could be borrowed, money available for a down payment, interest rates, and the loan amortization period. All of these factors will affect the monthly loan payment required. Other debt obligations should also be taken into consideration.

BYP 1.5 (Continued)

2. a. (Continued)

Alternatively, public transit could be used. The cost would be limited to the college term.

- b. By understanding the financial statements, a better analysis of the value of the car as an asset and the associated debt as a liability can be determined, and the student can make a more informed decision regarding the obligations of a car purchase. Monthly costs of owning the vehicle or using a transit pass will also have an impact on the amount of money (revenues/wages) the student requires to cover these additional expenses.**
- a. 3. When assessing whether an employer is financially stable and has growth potential, it is useful to have financial information. If the two options include publicly traded companies, annual reports and audited financial statements are good sources of information about the companies' financial stability and growth potential.**
- b. By understanding the financial statements of a business, an individual is in a better position to reduce the risks involved in choosing between employers, whether this decision is upon graduation or for summer employment. The income statement provides information regarding profitability, while the balance sheet is used to assess long-term stability and immediate liquidity or solvency of the firm.**

BYP 1.6 Santé Smoothie Saga

- a. **Natalie has a choice between a sole proprietorship and a corporation. A partnership is not an option since she is the sole owner of the business.**

A proprietorship is the easiest to create and operate because there are no formal procedures involved in creating the proprietorship. However, if she operates the business as a proprietorship she will personally have unlimited liability for the debts of the business. Operating the business as a corporation may limit her liability to her investment in the business; however, in Canada it is not unusual for business lenders to require the shareholder(s) of small privately held corporations to personally guarantee corporate loans. In this case the shareholder may still be responsible for the business debt in the event of bankruptcy and/or insolvency. Natalie will likely require the services of a lawyer to incorporate. Costs to incorporate, as well as additional ongoing costs to administer and operate the business as a corporation, could be higher than a proprietorship.¹ The corporation would pay income taxes on its profits, instead of Natalie personally paying taxes on the net income of the proprietorship. The amount of taxes that would be paid could be higher or lower with the corporation.¹

My recommendation is that Natalie choose the proprietorship form of business organization. This is a very small business where the cost of incorporating outweighs the benefits of incorporating at present. Furthermore, it will be easier to stop operating the business if Natalie decides not to continue with it once she is finished college.

¹ Additional comments that are not specifically covered in the text that some students may identify, or the instructor may wish to discuss with the students.

BYP 1.6 (Continued)

- b. Yes, Natalie will need accounting information to help her operate her business. She will need information on her cash balance on a daily or weekly basis to help her determine if she can pay her bills. She will need to know the cost of her smoothies so she can establish what to charge her customers. She will need to know the company's revenues and expenses so she can report her profit for personal income tax reporting purposes on an annual basis. If she borrows money, she will need financial statements so lenders can assess the company's ability to service the debt and pay the principal plus interest. Natalie would also find financial statements useful to better understand her business and identify any financial issues as early as possible. Monthly financial statements would be best because accounting information is needed on a timely basis.**
- c. If Natalie needs to borrow money from a relative or from the bank or needs to establish credit with some suppliers, she will need to be able to present these creditors with a set of financial statements to obtain credit and to demonstrate her ability to repay loans.**

The Canada Revenue Agency (CRA) is another user of the financial information. CRA will want to ensure that Natalie is reporting all the profits properly and that the expenses of the business are in fact deductible. Natalie will personally pay income taxes on the (net) profit of the company.

BYP 1.6 (Continued)

d. Assets: Cash, Accounts Receivable, Supplies, Equipment

Liabilities: Accounts Payable, Unearned Revenue, Notes Payable

Owner's Equity: N. Koebel, Capital, N. Koebel, Drawings

Revenue: Revenue

Expenses: Advertising Expense, Interest Expense, Supplies Expense, Telephone Expense

- e. Natalie should have a separate bank account used solely by Santé Smoothies. This will make it easier to prepare financial statements for her business. The business is a separate entity from Natalie and must be accounted for separately.**

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