Solutions for Fundamental Accounting Principles Volume 1 17th Edition by Larson

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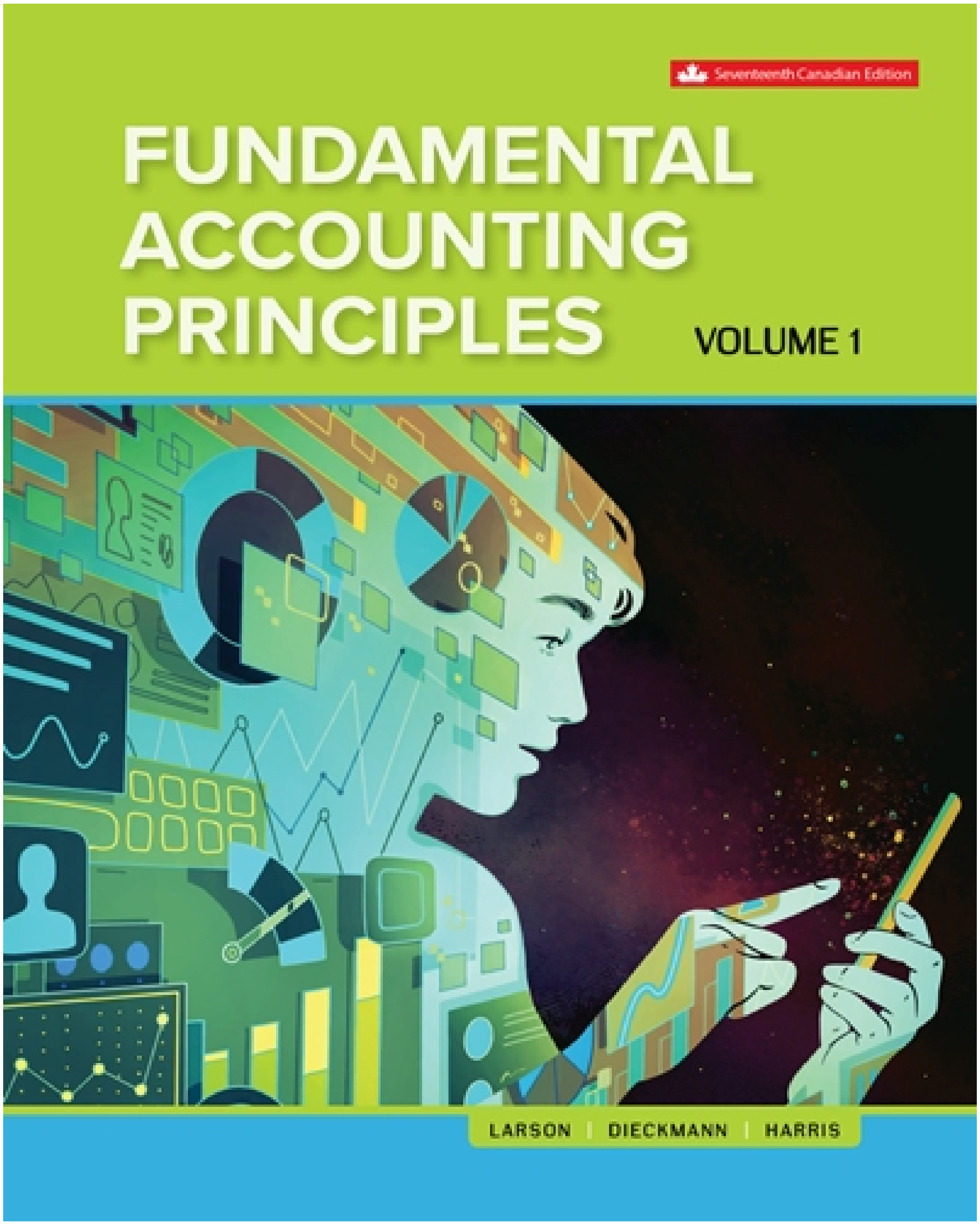


Solutions

Last revised: May 2021

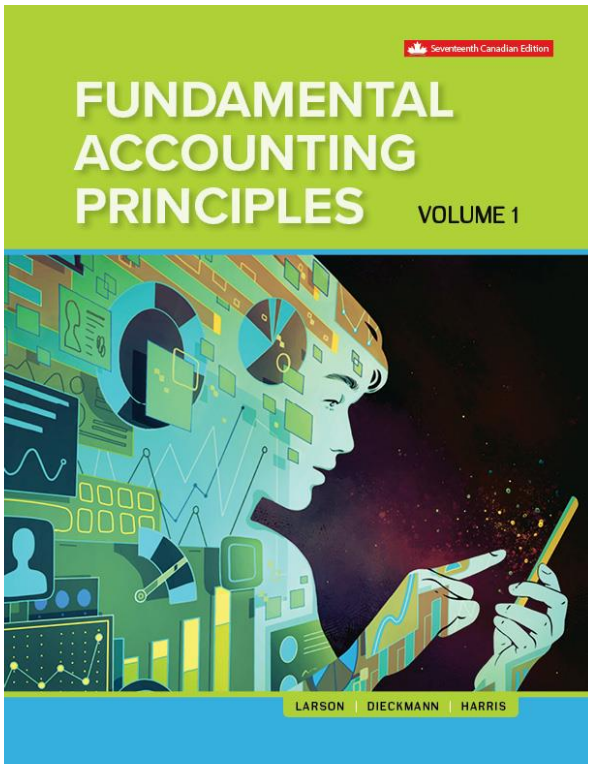
SOLUTIONS MANUAL

to accompany

Fundamental Accounting Principles

17th Canadian Edition

by Larson/Dieckmann/Harris



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Chapter 1 Accounting in Business

Chapter Opening Vignette Critical Thinking Challenge Questions*

1. **What questions might Molly Burke (MB) need the answers to, to get a loan from a bank?**

The key question the bank wants answered is whether Molly Burke can repay the loan. In order to assess this, they would ask questions such as:

- <u>Financial Results:</u> How much is the business earning per year? How profitable have MB's events been for the past year? How much are revenues and expenses? How are the results compared to the past year or couple of years? Where do you expect results to be in the next few years?
- <u>Cash:</u> How much cash does Molly Burke currently have? How much does she want for the loan? What is her credit score?
- <u>Debt:</u> Are there any outstanding loans? If so, what is the balance outstanding, the term, the payments, and the interest rate?
- <u>Assets:</u> What personal or business assets does Molly Burke have? The bank may want to take some of Molly Burke's assets as collateral.
- <u>Customers:</u> How many customers on average are served per day? How many customers are new or repeat customers?
- <u>Employees:</u> How many employees does MB need to hire to serve customers? Does Molly Burke pay his employees a salary or a wage? How much does MB pay them? Does MB have the cash in the bank to pay employees?
- <u>Production Assets:</u> Does Molly Burke own any assets that are used in the production of MB creative outlets? If so, does MB pay cash or does MB owe money on it? If MB owes money, is interest? Does MB lease them? Does MB have insurance?
- <u>Creative/Production Products (Inventory):</u> How does Molly Burke manage MB creative inventory? Does it become obsolete and, if so, over what time period?
- <u>Advertising:</u> Does Molly Burke advertise? If so, how much does MB pay?
- <u>Taxes:</u> What is the amount of income tax MB pays?
- There are many other questions that could be asked.

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

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

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

Knowledge Check-Up Questions

1. d)	2. a)	3. b)	4. b)	5. a)
6. c)	7. d)	8. a)	9. d)	10. c)

Concept Review Questions

1. Accounting will provide Molly Burke (MB) useful information to make good decisions. For instance, it is important for Molly Burke to track MB revenues and expenses to determine whether business is profitable (MB revenues are exceeding MB expenses). Based on the accounting information, Molly Burke can make decisions on how to price creative production activities where MB can decrease expenses to improve profits. Accounting will provide Molly Burke important information on MB business' performance to make informed decisions on existing and planned activities strategy.

2. Businesses offering products include Spin Master Corp., Lululemon, NIKE, and Reebok which produce apparel; Dell, Hewlett-Packard, and Apple which produce computer equipment; and Abercrombie and Fitch, GAP, and Zara which produce clothing. Service business examples include: WestJet Airlines which provides airline services; Bell Canada, Rogers Communications, and Telus provide information communication services; and Google, Twitter, Skype, Facebook and Instagram which provide internet services.

3. "Accounting is relevant to all students even if they do not plan on becoming an accountant. If you are pursuing a career in marketing, you will need to understand information such as sales volume, advertising costs, promotion costs, salaries of sales personnel, and sales commissions. If you are studying human resources, you will need to understand the financial position of your company to determine whether you have the resources to hire new employees or provide existing employees a pay increase. Even if you do not pursue a career in business, understanding the basics of accounting can help you better understand your own personal finances and the world around us. I am convinced that this course will be a good investment of our time."

4. Answers will vary on what students would sell. Business organizations can be organized in one of three forms: sole proprietorship, partnership, or corporation. These forms have implications for legal liability, taxation, continuity, number of owners, and legal status as follows:

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

Answers and reasons will vary for the best form of business. Possible answers include: A sole proprietorship would be easiest to form for a student. A partnership would be helpful in bringing people with multiple skills and/or resources together. A corporation would be the easiest to obtain financing and to limit liability.

5. The equity section of the balance sheet reports a Hailey Walker, Capital account. The presence of the owner's capital account indicates that Organico has been organized as a sole proprietorship.

6. The two organizations for which accounting information is available in Appendix III at the end of the book are Recipe Unlimited Corporation, Spin Master Corp., Telus or Indigo.
7. Hospitals, colleges, prisons, and bus lines are examples of organizations that can be formed as profit-oriented businesses, government units, or not-for-profit establishments.
8. External users and their uses of accounting information include: (1) lenders for measuring the return of loans; (2) shareholders for assessing the acquisition of shares; (3) members of the board of directors for overseeing management; and (4) potential employees for judging employment opportunities. Other users are external auditors, consultants, regulators, unions, suppliers, and appraisers. Internal users and their uses of accounting information include: (1) management for overseeing performance, financial position, and cash flow; (2) current employees for generating special purpose reports to assist management; (3) internal auditors for identifying high-risk areas to audit; and (4) Sales staff to determine how to increase sales.
9. The internal role of accounting is to serve the organization's internal operating functions by providing useful information in completing their tasks more effectively and efficiently. By providing this information, accounting helps the organization reach its overall goals.
10. "Tyler, there are a number of areas you could pursue within accounting. There are also a number of opportunities within those accounting areas. I have put together some information to help with your decision."

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

	- Planners - Appraisers

11. The independent auditor for Recipe Unlimited International is KPMG LLP.

12. The purpose of accounting is to provide decision makers with information helping them make better decisions. Examples include information for people making investments, loans and similar decisions.

13. Accounting professionals deal with a variety of information about their employers and clients that is not generally available to the public. Ethical issues arise concerning the possibility that accounting professionals might personally benefit by using confidential information. There is also the possibility that their employers and clients might be harmed if certain information is not kept confidential.

14. An income statement user must know what time period is covered to judge whether the company's performance is satisfactory. For example, a statement user would not be able to assess whether the amounts of revenue and profit are satisfactory without knowing whether they were earned over a week, a month, or a year.

15. The revenue recognition principle provides guidance that managers and auditors need for knowing when to recognize revenue. For example, if revenue is recognized too early, the income statement reports income earlier than it should and the business looks more profitable than it really is. On the other hand, if the revenue is not recognized on time, the income statement shows lower amounts of revenue and profit than it should and the business looks less profitable than it really is. Basically, this principle requires revenue to be recognized when it is earned and can be measured reliably. The amount of revenue should equal the value of the assets received from the customers.

16. The four financial statements are: the income statement, the balance sheet, the statement of changes in equity, and the statement of cash flows.

17. An income statement reports on the business's performance during the period. It shows whether the business earned a profit (or loss). The statement does not simply report the amount of profit or loss but lists the types and amounts of the revenues and expenses.

    The balance sheet reports on the financial position of a business at a specific point in time. It is often called the statement of financial position. It provides information that helps users understand a company's financial status. The balance sheet lists the types and dollar amounts of assets, liabilities, and equity of the business.

18. Cash has purchasing power and can be used to acquire other assets. A business that sells products to a customer and does not collect cash immediately has created an Accounts Receivable. This account represents a future collection of cash. Supplies are resources that will help a business carry on its operations.

19. I disagree with Rachel. While an accounts receivable and an accounts payable both show up on the balance sheet and in the accounting equation, an accounts receivable is an asset and an accounts payable is a liability. These two accounts also represent two different perspectives. When a company sells products or services on credit, an accounts receivable is created. When a company buys products on credit, an accounts payable is created.

20. A revenue is an inflow of assets received in exchange for goods or services provided to customers as part of the major or central operations of the business. A revenue also may occur as a decrease in liabilities as when a service or product is delivered having been paid for in advance. The accountant has recorded revenue incorrectly. The accountant should record $5,000 in revenue from the sale of frozen yogurt and $10,000 as an owner's investment in the owner's equity account.

21. A business's equity is increased by investments into the business made by the owner and by profit, which is the excess of revenues over expenses. It is decreased by withdrawals made by the owner and by a loss, which is the excess of expenses over revenues.

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

    A celebrity's assets may include land, real estate, cars and companies. A celebrity's liabilities may include a mortgage, bank debt and credit card debt. A celebrity's equity represents their net worth, which is their assets less liabilities.

23. Financial statements need to be prepared in a specific order because they are integrated. Some of the numbers on one financial statement are inputs for other financial statements. Financial statements should be prepared in the following order: 1) Income Statement 2) Statement of Changes in Equity 3) Balance Sheet and 4) Statement of Cash Flow. The profit on the income statement is an input in the statement of changes in equity. The ending equity balance on the statement of changes in equity is an input for the balance sheet. The cash balance on the balance sheet corresponds to the ending cash balance on the statement of cash flows.

QUICK STUDY

Quick Study 1-1

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

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

Quick Study 1-2

a.	Do not record	Meeting with the mechanical staff to determine new machine requirements for next year.
b.	Record	Receiving the company's utility bill detailing the usage for the past month.
c.	Do not record	Analyzing last year's sales report to determine if the discount policy is effective in getting customers to buy in multiple quantities.
d.	Record	Downloading the online bank statements and identifying customer payments.
e.	Do not record	Interviewing and then hiring an employee for an accounting position.

Quick Study 1-3

a.	Highlands United Church	Non-business	d.	University of Toronto	Non-business
b.	Royal Alexandra Hospital	Non-business	e.	Loblaw	Business
c.	Toronto-Dominion Bank	Business	f.	World Vision	Non-business

Quick Study 1-4

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

Quick Study 1-5

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

Quick Study 1-6

1. Relevant facts: You have failed your midterms and are at high risk of failing the course. Your university policy will punish all academic acts of dishonesty. You have faced a difficult personal situation during the semester.
2. Ethical issues involved: Whether it is ethical for you to look at accounting notes during the final exam.
3. Fundamental principles and rules applicable to the matter in question: Your university policy will punish all academic acts of dishonesty. You believe in the principle of honesty. It is not honest to misrepresent the amount of accounting knowledge you know.
4. Established internal procedures: The university's policy will punish all acts of academic dishonesty.
5. Alternative courses of action: Continue engaging in acts of academic dishonesty until you are caught. The consequence will be that you may be caught in the future and be punished for it. Resolve to not engage in any acts of academic dishonesty in the future. The consequence will be that you avoid the chance of being punished for unethical behaviour in the future.

Conclusion
The behaviour in the situation described appears to be unethical based on the application of the Chartered Professional Accountants of Ontario's Rules of Professional Conduct - Approach to

Ethical Conflict Resolution. You are acting against your University's policy and against your own personal value of being honest.

Quick Study 1-7

a. Reporting entity principle (It is called Reporting Entity Concept in the chapter as well as in QS 1-8)
b. Revenue recognition principle
c. Historical cost principle

Quick Study 1-8

1. D. Revenue recognition principle
2. B. Measurement (cost) principle
3. C. Reporting entity principle

Quick Study 1-9

1. Revenue Recognition
2. Historical Cost
3. Reporting Entity
4. Going-Concern
5. Currency

Quick Study 1-10

Currency	1.	Delco performed work for a client located in China and collected 8,450,000 RMB (Chinese currency), the equivalent of about $1,320,000 Canadian. Delco recorded it as 8,450,000.
Revenue Recognition	2.	Delco collected $180,000 from a customer on December 20, 2023 for work to be done in February 2024. The $180,000 was recorded as revenue during 2023. Delco's year end is December 31.
Going-Concern	3.	Delco's December 31, 2023 balance sheet showed total assets of $840,000 and liabilities of $1,120,000. The income statement for the past 6 years has shown a trend of increasing losses.
Historical Cost	4.	Included in Delco's assets was land and building purchased for $310,000 and reported on the balance sheet at $470,000.
Reporting Entity	5.	Delco's owner, Tom Del, consistently buys personal supplies and charges them to the company.

Quick Study 1-11

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

Quick Study 1-12

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

Quick Study 1-13

a.

All-In Servicing
Income Statement
For Month Ended April 30, 2023

Revenues	$300
Expenses	125
Profit (loss)	175

All-In Servicing
Statement of Changes in Equity
For Month Ended April 30, 2023

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

All-In Servicing
Balance Sheet
April 30, 2023

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

b.

All-In Servicing
Income Statement
For Month Ended May 31, 2023

Revenues	$135
Expenses	85
Profit (loss)	$ 50

All-In Servicing
Statement of Changes in Equity
For Month Ended May 31, 2023

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

All-In Servicing
Balance Sheet
May 31, 2023

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

Quick Study 1-14

1. $20,000 - $15,000 = $5,000 beginning capital on January 1, 2023
2. $5,000 + $3,000 + $8,000 - $4,000 = $12,000 ending capital on December 31, 2023

Quick Study 1-15

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

Quick Study 1-16

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

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

Quick Study 1-17

1.	Total revenues	70 + 35 = 105
2.	Total operating expenses	22 + 10 + 45 = 77
3.	Profit	105 – 77 = 28
4.	Total assets	10 + 25 + 40 + 20 = 95
5.	Total liabilities	12 + 30 = 42
6.	Tim Roadster, capital (April 30, 2023)	60 – 35 + 28 = 53
7.	Total liabilities and equity	42 + 53 = 95

Quick Study 1-18

d	1.	Loss	2	Income statement & Statement of changes in equity
d	2.	Rent expense	22	Income statement
b	3.	Rent payable	6	
a	4.	Accounts receivable	14	
d	5.	Paul Sangha's investments in May	30	Statement of changes in equity
d	6.	Interest income	2	Income statement
d	7.	Paul Sangha's, capital, May 1, 2023	0	Statement of changes in equity
a	8.	Repair supplies	5	
b	9.	Notes payable	25	
d	10.	Paul Sangha's withdrawals in May	5	Statement of changes in equity
a	11.	Truck	15	
d	12.	Consulting revenue	18	Income statement
c	13.	Paul Sangha, capital, May 31, 2023	23*	
a	14.	Cash	20	

* *See QS1-19 for details on how this amount was calculated.*

Quick Study 1-19

SANGHA CONSULTING
Income Statement
For Month Ended May 31, 2023

Revenues:		
Consulting revenue	$18	
Interest income	2	
Total revenues		$20
Operating expenses:		
Rent expense		22
Loss		$ 2

SANGHA CONSULTING
Statement of Changes in Equity
For Month Ended May 31, 2023

Paul Sangha, capital, May 1		$ 0
Investments by owner		30
Total		$30
Less: Withdrawals by owner	$ 5	
Loss	2	7
Paul Sangha, capital, May 31		$23

SANGHA CONSULTING
Balance Sheet
May 31, 2023

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

Quick Study 1-20

Creating standards facilitates comparability across companies and periods. Without standards, each enterprise would develop its own standards. Readers of financial statement would then have to become familiar with every company's particular accounting and reporting practices. It would be almost impossible to prepare statements that could be compared.

Quick Study 1-21

Assets	=	Liabilities	+	Equity
$700,000		(a) $280,000		$420,000
$500,000		(b) $250,000		(b) $250,000

Quick Study 1-22

[*Code: Income statement (I), Balance sheet (B), or Statement of cash flows (CF).*]

1. B Balance sheet
2. CF Statement of cash flows
3. B Balance sheet
4. I Income statement
5. B Balance sheet
6. CF Statement of cash flows
7. I Income statement
8. B Balance sheet

Quick Study 1-23

1. A assets
2. L liabilities
3. A assets
4. L liabilities
5. A assets
6. A assets

EXERCISES

Exercise 1-1 (10 minutes)

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

Exercise 1-2 (10 minutes)

External Users	Decisions
Investor	Whether to invest in the company. Whether to buy or sell their stocks in the company.
Supplier	Whether to sell to Starbucks? Will Starbucks be able to pay for products? Does Starbucks represent ethical/socially responsible practices that suppliers want to align their image with?
Canada Revenue Agency	Has Starbucks filed their tax return? Have they appropriately reported their financial information and paid their taxes? Should we audit Starbucks?
Customer	Will the company be here to serve me in the long-run? Will Starbucks continue to honour their loyalty program? Does Starbucks represent ethical/socially responsible practices that customers want to align their image with?
External Auditors	Has Starbucks reported all of their financial information appropriately in accordance with the appropriate accounting standards? Have they recorded all of their transactions and are they recorded at the correct amounts? Has Starbucks disclosed all the necessary information to provide useful information to it's investors and other financial statement users?
Lenders	Should we provide a loan to Starbucks? Will Starbucks be able to repay the loan? Should we take any assets as collateral?

Exercise 1-2 (*Continued*)

Internal Users	Decisions
Marketing	Do we have enough money to launch a new marketing campaign? What products or promotion should we promote? How should we price our products?
Human Resources	How many employees can we afford to hire this year? How much should we pay employees? How much money should we invest into training? Can we provide employees with benefits?
Finance / Management	How is Starbucks' performance? What changes should we make in the coming year? Do we have enough money to operate in the short and long term?
Employees	Will Starbucks be able to pay my wages? Should I participate in the stock option plan? If I have stock options, when should I exercise them?

There are a number of users and decisions that can be identified.

Exercise 1-3 (20 minutes)

Accounting Role	Typical Day
(1) External Auditor	An external auditor is hired by a company's board of directors to express an opinion on whether their financial statements are prepared appropriately in accordance with the accounting standards (CAS 200). A typical day for an external auditor could involve: • Working at the client's site with a team of auditors. • Each team member will be assigned sections of the financial statements to audit. • Interviewing the Chief Financial Officer, Controller, internal accountants and employees from various departments to gain a strong understanding of the company. • Understanding the company's processes for how they sell product/services, how they purchase product or supplies, how they pay their employees. • Reviewing the client's financial statements. • Performing testing over the financial statements by selecting a sample of items or transactions from the general ledger. • Reviewing supporting documents such as bank statements, invoices, contracts. • Submitting completed sections to the senior auditor or manager for review. • Having a coffee break and lunch with the auditing team.
Exercise 1-3 (continued)	
(2) Controller	A controller is often responsible for preparing the financial statements with the

	assistance of one or more staff accountants. A controller will report to more senior Finance staff such as the Chief Financial Officer. A typical day for a Controller could involve: • Meeting with the management team to discuss the company's performance. • Preparing monthly, quarterly or annual financial statements. • Providing analysis and comments on the financial information for management and the Board of Directors. • Preparing reports with financial information that will help management make strategic and operational decisions. • Preparing budgets and cash flow projections. • Ensuring employees are following company policies and procedures. • Managing and supervising a team of accounting staff.
(3) Tax Specialist	• Meet with client to understand their tax planning needs. • Researching the tax standards. • Writing a tax memo analyzing and concluding on appropriate tax treatment. • Working on corporate or personal tax returns. • Looking through the documents the client has given you and using tax software to prepare the tax return. • Discuss ideas with other tax specialists or the Tax Manager / Partner.

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

a.

1. Relevant facts: Your colleague mentioned that he makes personal calls and gets them reimbursed by your company. Your employer allows you to submit business calls for reimbursement.
2. Ethical issues involved: Whether it is ethical to submit personal calls for reimbursement.
3. Fundamental principles and rules applicable to the matter in question: Your employer's rule is that you can submit business calls for reimbursement. It is not honest to misrepresent personal calls for business calls.
4. Established internal procedures: Your employer reimburses business calls.
5. Alternative courses of action: Bring the situation up with your colleague. Your colleague may become upset and this could affect your working relationship. Stay silent, which will likely result in your colleague continuing to submit personal calls for reimbursement. Let your employer know. This action could result in your colleague being disciplined by your employer.

Conclusion
The behaviour in the situation described appears to be unethical based on the application of the Chartered Professional Accountants of Ontario's Rules of Professional Conduct - Approach to Ethical Conflict Resolution. Your colleague is acting against your employer's policy and a personal value of being honest.

b.

1. Relevant facts: It appears that the three people ahead of you entered without tickets.
2. Ethical issues involved: Whether it is ethical watch a movie without purchasing a ticket. Whether it is ethical for the ticket-taker to let non-paying patrons into the movie theatre.
3. Fundamental principles and rules applicable to the matter in question: The movie theater's rule is that people must pay for a ticket to watch a movie. To watch a movie without paying is like stealing. Stealing a movie viewing is not honest. The three people have misrepresented themselves as paying patrons.
4. Established internal procedures: Patrons of the theatre must pay for the movie they will watch. The ticket-taker needs to see a ticket before admitting people into the theatre.
5. Alternative courses of action: Bring the situation up to the manager at the movie theatre. The consequence will be that the ticket-taker will likely lose his/her job. Do not take action as this situation does not involve you. This will likely lead to more people entering the movie theatre without paying. This may lead to ticket prices being increased to cover the cost of this kind of lost sale.

Exercise 1-4 (*Continued*)

Conclusion
The behaviour in the situation described appears to be unethical based on the application of the Chartered Professional Accountants of Ontario's Rules of Professional Conduct - Approach to Ethical Conflict Resolution. The three people and the ticket-taker have violated the movie's theater's policy.

c.

1. Relevant facts: The cashier only provides a cash register receipt if the customer asks. The cash register records will be inaccurate if not all sales are recorded.
2. Ethical issues involved: Whether it is ethical to only provide a cash register receipt if a customer asks.
3. Fundamental principles and rules applicable to the matter in question: The fitness centre would require the cashier to perform all of their duties. It is not honest for the cashier to intentionally or unintentionally not perform all of their duties.
4. Established internal procedures: The fitness centre requires that all sales are recorded in the cash register and the customer receives a receipt.
5. Alternative courses of action: The cashier could continue providing cash receipts only if they are asked. Eventually, the supervisor and/or owner of the facility will recognize that drop-in revenues are lower than the actual number of drop-in customers attending the facility and the cashier will lose his/her job and perhaps face criminal charges. Also, the prices may increase if the owner believes revenues are decreasing. The cashier could follow procedure and provide all customers with a receipt whether or not they ask for one. This cashier will be able to work at the fitness center and earn wages for a longer period of time.

Conclusion
The behaviour in the situation described appears to be unethical based on the application of the Chartered Professional Accountants of Ontario's Rules of Professional Conduct - Approach to Ethical Conflict Resolution.

Exercise 1-5 (10 minutes)

Description

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

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

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

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

Exercise 1-6 (10 minutes)

Code		Description	Principle/Assumption
H	1.	A company reports details behind financial statements that would impact users' decisions.	Full disclosure principle
G	2.	Financial statements reflect the assumption that the business continues operating.	Going-concern assumption
F	3.	A company records the expenses incurred to generate the revenues reported.	Expense recognition (matching) principle
A	4.	Concepts, assumptions, and guidelines for preparing financial statements.	General accounting principle
C	5.	Each business is accounted for separately from its owner or owners.	Reporting entity principle
D	6.	Revenue is recorded when products and services are delivered.	Revenue recognition principle
E	7.	Detailed rules used in reporting events and transactions.	Specific accounting principle
B	8.	Information is based on actual costs incurred in transactions.	Measurement (cost) principle

Exercise 1-7 (15 minutes)

Balance Sheet			Income Statement		Statement of Changes in Equity
Assets	**Liabilities**	**Owner's Equity**	**Revenue**	**Expenses**	
Cash	Accounts Payable	Owner's Capital, Ending Balance	Interest Income	Advertising Expense	Owner's Capital, Beginning Balance
Accounts Receivable	Interest Payable		Service Revenue	Fuel Expense	Investment by Owner
Interest Receivable	Salaries Payable		Rent Revenue	Insurance Expense	Profit / Loss
Merchandise Inventory	Unearned Revenue			Interest Expense	Withdrawals
Supplies	Notes Payable			Maintenance Expense	Owner's Capital, Ending Balance
Prepaid Expenses				Other Expenses	
Prepaid Rent				Rent Expense	
Land				Salaries Expense	
Building				Supplies Expense	
Vehicles				Telephone Expense	
Equipment				Utilities Expense	
Furniture				Vehicle Expenses	
				Wages Expense	

Exercise 1-8 (10 minutes)

a) \$540,000 – \$504,000 = \$36,000 profit

b) \$177,000 – \$300,000 = \$123,000 loss

c) \$44,000 + 0 – 0 + x = \$110,000
x = \$110,000 – \$44,000
x = \$66,000 profit

d) \$60,000 + \$52,000 – 0 + x = \$88,000
x = \$88,000 – \$60,000 – \$52,000
x = –\$24,000 or a \$24,000 loss

Exercise 1-9 (15 minutes)

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

Exercise 1-10 (15 minutes)

EXTRAORDINARY STUDIOS
Income Statement
For Month Ended November 30, 2023

Revenues:		
Wedding consulting revenue		\$22,000
Operating expenses:		
Salaries expense	\$6,000	
Rent expense	2,550	
Telephone expense	1,680	
Utilities expenses	660	
Total operating expenses		10,890
Profit		\$ 11,110

Exercise 1-11 (15 minutes)

EXTRAORDINARY STUDIOS
Statement of Changes in Equity
For Month Ended November 30, 2023

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

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

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

Exercise 1-12 (15 minutes)

EXTRAORDINARY STUDIOS
Balance Sheet
November 30, 2023

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

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

Exercise 1-13 (15 minutes)

ACADEMIC LEARNING SERVICES
Income Statement
For Month Ended July 31, 2023

Revenues:		
Tutoring revenue		$6,200
Textbook rental revenue		500
Total revenues		$ 6,700
Operating expenses:		
Office rent expense	$4,500	
Tutors' wages expense	1,740	
Utilities expense	880	
Total operating expenses		7,120
Loss		$ 420

Exercise 1-14 (15 minutes)

ACADEMIC LEARNING SERVICES
Statement of Changes in Equity
For Month Ended July 31, 2023

Breanne Allarie, capital, July 1		$ 15,400
Investments by owner		3,200
Total		$ 18,600
Less: Withdrawals by owner	$ 3,000	
Loss	420	3,420
Breanne Allarie, capital, July 31		$ 15,180

Analysis component:
Withdrawals of $3,000 by the owner, Breanne Allarie, caused equity to decrease during July, 2020. Also, the loss of $420 caused equity to decrease in July. The total decrease in equity during the month of July was $3,420 (calculated as $3,000 + $420).

NOTE: Students might point out that equity increased by $3,200 of owner investments which, in combination with the total decrease of $3,420, caused a net decrease in equity of $220.

Exercise 1-15 (15 minutes)

ACADEMIC LEARNING SERVICES
Balance Sheet
July 31, 2023

Assets		Liabilities	
Cash	$ 3,600	Accounts payable	$ 2,500
Accounts receivable	4,000		
Supplies	2,080	Equity	
Furniture	3,800	Breanne Allarie , capital	15,180
Computer equipment	4,200	Total liabilities and	
Total assets	$17,680	equity	$17,680

Analysis component:
$2,500 or 14.14% (calculated as $2,500/$17,680 × 100) of the total $17,680 assets held by Academic Learning Services are financed by debt.

Exercise 1-16 (20 minutes)

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

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

Proofs:

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

a. *An alternative calculation:*

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

b. *An alternative calculation:*

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

c. *An alternative calculation:*

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

(*Continued*)

d. *An alternative calculation:*

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

Exercise 1-17 (10 minutes)

a.
If assets decreased by $15,000 during August, then
$25,000 + $15,000 = $40,000 Assets at August 1, 2023.
Therefore, Equity at August 1, 2023 = $40,000 - $10,000 = $30,000

b.
If liabilities increased by $9,000 during August, then
$10,000 + $9,000 = $19,000 Liabilities at August 31, 2020.
Therefore, Equity at August 31, 2023 = $25,000 - $19,000 = $6,000

Exercise 1-18 (15 minutes)

	Assets						Liabilities	+	Equity
	Cash	+	Accounts Receivable	+	Office Supplies	=	Accounts Payable	+	Katie Copp, Capital
a)	+ $36,000								+ $36,000
b)					+ $1,150		+ $1,150		
c)	+ 8,100								+ 8,100
d)*									
e)	– 5,600								– 5,600
f)			+ $1,800						+ 1,800
Totals	$38,500	+	$1,800	+	$1,150	=	$1,150	+	$40,300
			$41,450			=	$41,450		

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

Exercise 1-19 (20 minutes)

	Assets					Liabilities +	Equity
	Cash	+ Accounts Receivable	+ Parts Supplies	+ Equipment	=	Accounts Payable	+ Stacey Comeau, Capital
a)	+$29,000						+ $29,000
b)	- 4,000						- 4,000
c)			+ $1,550			+ $1,550	
d)		+ $4,900					+ $ 4,900
e)	– $ 2,700			+ $2,700			
f)*							
g)	– $1,550					– $1,550	
h)	+ $4,900						+ $ 4,900
i)	– $4,200						– $ 4,200
Totals	$21,450 +	$4,900 +	$1,550 +	$2,700	=	$ 0 +	$30,600

$30,600 = $30,600

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

Exercise 1-20: (15 minutes)

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

Exercise 1-21 (20 minutes)

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

$14,250 = $14,250

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

Exercise 1-22 (25 minutes)

Mailin Moon– Freelance Writing Income Statement For Month Ended March 31, 2023		
Revenues:		
Freelance writing revenue		$11,000
Operating expenses:		
Salaries expense	$ 1,450	
Rent expense	1,400	
Total operating expenses		2,850
Profit		$8,150

Mailin Moon– Freelance Writing Statement of Changes in Equity For Month Ended March 31, 2023		
Mailin Moon, capital, March 1		$ 0
Investment by owner	$5,500	
Profit	8,150	13,650
Mailin Moon, capital, March 31		$13,650

Mailin Moon– Freelance Writing Balance Sheet March 31, 2023			
Assets		*Liabilities*	
Cash	$6,650	Accounts payable	$ 600
Accounts receivable	4,500		
Supplies	600		
Equipment	2,500		
		Equity	
		Mailin Moon, capital	13,650
Total assets	$14,250	Total liabilities and equity	$14,250

Analysis component:

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

Exercise 1-23 (20 minutes)

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

$22,550 = $22,550

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

Exercise 1-24 (25 minutes)

Omar's Yard Care Income Statement For Month Ended March 31, 2023		
Revenues:		
Yard care revenue		$1,150
Operating expenses:		
Advertising expense		250
Profit		$ 900

Omar's Yard Care Statement of Changes in Equity For Month Ended March 31, 2023		
Ali Omar, capital, March 1		$ 0
Investment by owner	$19,300	
Profit	900	20,200
Ali Omar, capital, March 31		$20,200

Omar's Yard Care Balance Sheet March 31, 2023				
Assets			*Liabilities*	
Cash	$ 4,450		Accounts payable	$ 2,350
Accounts receivable	550			
Supplies	2,550			
Equipment	15,000			
			Equity	
			Ali Omar, capital	20,200
Total assets	$22,550		Total liabilities and equity	$22,550

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

Last revised: May 2021

Exercise 1-25 (20 minutes)

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

$$\underbrace{\$2,650 + \$2,000 + \$1,900 + \$6,500}_{\$13,050} = \underbrace{\$1,500 + \$11,550}_{\$13,050}$$

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

Exercise 1-26 (25 minutes)

VIVID VOICE Income Statement For Month Ended July 31, 2023		
Revenues:		
Consulting revenue		$2,700
Operating expenses:		
Rent expense	$ 1,200	
Utilities expense	600	
Wage expense	950	
Total operating expenses		2,750
Loss		$ 50

VIVID VOICE Statement of Changes in Equity For Month Ended July 31, 2023		
Natalie Gold, capital, July 1		$ 11,600
Less: Loss		50
Natalie Gold, capital, July 31		$ 11,550

VIVID VOICE Balance Sheet July 31, 2023			
Assets		*Liabilities*	
Cash	$2,650	Accounts payable	$ 1,500
Accounts receivable	2,000		
Supplies	1,900		
Equipment	6,500		
		Equity	
		Natalie Gold, capital	11,550
Total assets	$13,050	Total liabilities and equity	$13,050

Analysis component:

$11,550 or 88.51% (calculated as $11,550/$13,050 × 100) of the assets are financed by Natalie Gold, the owner. $1,500 or 11.49% (calculated as $1,500/$13,050 × 100) of the assets are financed by debt.

PROBLEM SET "A"

Problem 1-1A (10 minutes)

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

Problem 1-2A (20 minutes)

To: CEO
From: Accountant
Subject: Analysis of recording employees as assets

This memo analyzes whether it is appropriate to record our employees as assets on Bright Consulting's balance sheet.

Based on our generally accepted accounting principles, the definition of an asset has three key characteristics:

1. An asset is a resource controlled by a business.
2. An asset results from a past transaction.
3. An asset is expected to generate future economic benefits for the business.

a) Recording employees as assets

1. At Bright Consulting, we employ many employees. We hire employees and we pay them salaries. It can be argued that our employees are controlled by our company.
2. As our employees have all been hired, it can be argued that their employment has resulted from a past transaction.
3. I understand that at Bright Consulting, our business is based on the knowledge and skills of our employees. Our employees perform consulting work for our clients that generate revenue for our company. It can be argued that we can expect our employees to generate future economic benefit for our company.

b) Not recording employees as assets

1. While employees are hired by Bright Consulting, it can be argued that our company does not control our employees. We may control our employees' time while they are at work, but we cannot say that we control them as a whole.
2. As our employees have all been hired, it can be argued that their employment has resulted from a past transaction.
3. Our employees help our company earn consulting revenue. However, it is difficult to quantify and put a dollar amount on how much future benefit an employee will generate. We cannot reliably measure the amount of future benefit our employees may generate. Some employees may provide a lot of future benefit while others may provided limited future benefit.

c) Conclusion

Based on the above analysis, I recommend that we do not record our employees on the balance sheet. We cannot argue that we control our employees and we cannot reliably quantify the future benefit our employees may generate for our company.

Problem 1-3A (20 minutes)

	Year		
	2024	2023	2022
Beginning capital	125,000[1]	28,000[3]	0
+ Owner investment	0	0	10,000
+ Profit (loss)	(5,000)	175,000	60,000[5]
– Owner withdrawals	0	78,000	42,000
= Ending capital	120,000	125,000[2]	28,000[4]

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

Calculations:

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

Problem 1-4A (30 minutes)

CROSS FITNESS
Income Statement
For Year Ended July 31, 2023

Revenues:		
Group training revenue		$153,500
Personal training revenue		5,500
Total revenues		$159,000
Operating expenses:		
Wages expense	$69,500	
Rent expense	21,500	
Supplies expense	17,400	
Utilities expense	11,300	
Interest expense	3,600	
Total operating expenses		123,300
Profit		$ 35,700

(continued)

CROSS FITNESS
Statement of Changes in Equity
For Year Ended July 31, 2023

Jay Grey, capital, August 1, 2022		$ 80,800
Investments by owner	$ -0-	
Profit	35,700	35,700
Total		$ 116,500
Less: Withdrawals by owner		53,500
Jay Grey, capital, July 31, 2023		$ 63,000

CROSS FITNESS
Balance Sheet
July 31, 2023

Assets		Liabilities	
Cash	$ 7,100	Accounts payable	$ 10,900
Accounts receivable	57,000	Notes payable	35,000
Supplies	3,900	Total liabilities	$ 45,900
Prepaid rent	5,500		
Workout equipment	20,700	*Equity*	
Furniture	14,700	Jay Grey, capital	63,000
Total assets	$108,900	Total liabilities and equity	$ 108,900

Analysis component:

$45,900 or 42.15% (calculated as $45,900/$108,900 × 100) of the assets are financed by debt. $63,000 or 57.85% (calculated as $63,000/$108,900 × 100) of the assets are financed by Jay Grey, the owner.

Problem 1-5A (30 minutes)

DANCE TRAINING CO
Income Statement
For Year Ended December 31, 2023

Revenues:		
Dance training revenue		$143,000
Choreography revenue		24,100
Total revenues		$167,100
Operating expenses:		
Wages expense	$68,800	
Rent expense	18,000	
Supplies expense	16,700	
Utilities expense	10,600	
Interest expense	2,900	
Total operating expenses		117,000
Profit		$ 50,100

DANCE TRAINING CO
Statement of Changes in Equity
For Year Ended December 31, 2023

Jordan Ryan, capital, January 1, 2023		$ 80,100
Investments by owner	$ -0-	
Profit	50,100	50,100
Total		$ 130,200
Less: Withdrawals by owner		50,000
Jordan Ryan, capital, December 31, 2023		$ 80,200

DANCE TRAINING CO
Balance Sheet
December 31, 2023

Assets		Liabilities	
Cash	$ 26,400	Accounts payable	$ 10,200
Accounts receivable	50,000	Notes payable	28,000
Supplies	3,200	Total liabilities	$ 38,200
Prepaid rent	4,800		
Dance studio equipment	20,000	*Equity*	
Furniture	14,000	Jordan Ryan, capital	80,200
Total assets	$118,400	Total liabilities and equity	$ 118,400

Problem 1-5A (concluded)

Analysis component:

$38,200 or 32.26% (calculated as $38,200/$118,400 × 100) of the assets are financed by debt. $80,200 or 67.74% (calculated as $80,200/$118,400 × 100) of the assets are financed by Jordan Ryan, the owner.

Problem 1-6A (60 minutes)

Part 1

LeCLAIRE DELIVERY SERVICES
Balance Sheet
December 31, 2022

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

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

LeCLAIRE DELIVERY SERVICES
Balance Sheet
December 31, 2023

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

Calculations:
2. $235,200 – $71,250 = $163,950

Problem 1-6A *(concluded)*

Part 2

Calculation of profit for 2023:	
Jess LeClaire, Capital December 31, 2022	$135,000
+ Owner investment	17,500
+ Profit (loss)	?
– Owner withdrawals	18,000
= Jess LeClaire, capital December 31, 2023	$163,950

OR

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

Analysis component:
Assets increased by $96,450 ($235,200 - $138,750). $67,500 of the increase in assets were financed by an increase in debt (total liabilities went from $3,750 at December 31, 2022 to $71,250 at December 31, 2023).

The remaining $28,950 increase in assets ($96,450 - $67,500) resulted from equity financing (equity increased to $163,950 at December 31, 2023 from $135,000 at December 31, 2023 because of $17,500 owner investment plus $29,450 profit less $18,000 of withdrawals during 2023).

Problem 1-7A (40 minutes) *Part 1*

Company A:

(a) Equity on December 31, 2022:

Assets		$106,000
Liabilities		–46,000
Equity		$60,000

(b) Equity on December 31, 2023:

Equity, December 31, 2022		$60,000
Owner investments		26,000
Less: Owner's withdrawals		6,600
Loss		24,000
Equity, December 31, 2023		$55,400

(c) Amount of liabilities on December 31, 2023:

Assets		$112,000
Equity		–55,400
Liabilities	$56,600	

Problem 1-7A (*Continued*)

Part 2

Company B:

(a) and (b)

Equity:	*Dec. 31, 2022*	*Dec. 31, 2023*
Assets	$121,000	$98,000
Liabilities	–53,000	–63,000
Equity	$68,000	$35,000

(c) Profit (loss) for 2023:

Equity, December 31, 2022	$68,000
Owner investments	35,000
Profit (loss)	?
Less: Owner withdrawals	7,600
Equity, December 31, 2023	$35,000

Therefore, the loss must have been $(60,400).

Part 3

Company C:

First, calculate the beginning balance of equity:

	Dec. 31, 2022
Assets	$74,000
Liabilities	–36,000
Equity	$38,000

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

Equity, December 31, 2022	$38,000
Owner investments	23,500
Profit	19,600
Less: Owner withdrawals	10,150
Equity, December 31, 2023	$70,950

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

	Dec. 31, 2023
Liabilities	$46,000
Equity	70,950
Assets	$116,950

Problem 1-7A *(Continued)*

Part 4

Company D:

First, calculate the beginning and ending equity balances:

	Dec. 31, 2022	*Dec. 31, 2023*
Assets	$168,000	$266,000
Liabilities	–92,000	–136,000
Equity	$76,000	$ 130,000

Then, find the amount of owner investments during 2023 by completing this table:

Equity, December 31, 2022	$76,000
Owner investments	?
Profit	32,000
Less: Owner withdrawals	0
Equity, December 31, 2023	$130,000

Therefore, the owner investments must have been $22,000.

Part 5

Company E:

First, calculate the balance of equity as of December 31, 2023:

Assets	$241,000
Liabilities	–158,000
Equity	$ 83,000

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

Equity, December 31, 2022	$?
Owner investments	10,600
Profit	37,600
Less: Owner withdrawals	19,600
Equity, December 31, 2023	$83,000

Therefore, the beginning balance of equity was $54,400.

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

	Dec. 31, 2022
Assets	$262,000
Equity	–54,400
Liabilities	$207,600

Last revised: May 2021

Problem 1-8A (45 minutes) *Parts 1 and 2*

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

$$\underbrace{\$45{,}400 + \$2{,}700 + \$3{,}000 + \$92{,}000 + \$600{,}000}_{\$743{,}100} = \underbrace{\$68{,}000 + \$500{,}000 + \$175{,}100}_{\$743{,}100}$$

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

Problem 1-8A *(continued)*

Part 3

Littlechild Enterprises Income Statement For Month Ended March 31, 2023		
Revenues:		
Service revenue		$9,200
Operating expenses:		
Wages expense	$7,000	
Advertising expense	3,500	
Total operating expenses		10,500
Loss		$1,300

Littlechild Enterprises Statement of Changes in Equity For Month Ended March 31, 2023		
George Littlechild, capital, March 1		$ 0
Investment by owner		180,000
Total		$180,000
Less: Withdrawal by owner	$ 3,600	
Loss	1,300	4,900
George Littlechild, capital, March 31		$175,100

Littlechild Enterprises Balance Sheet March 31, 2023				
Assets			*Liabilities*	
Cash	$ 45,400		Accounts payable	$ 68,000
Accounts receivable	2,700		Notes payable	500,000
Office supplies	3,000		Total liabilities	$568,000
Office equipment	92,000			
Building	600,000		*Equity*	
			George Littlechild, capital	$175,100
Total assets	$743,100		Total liabilities and equity	$743,100

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

Problem 1-9A (60 minutes)

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

$96,100 = $96,100

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

Problem 1-9A (concluded)

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

Problem 1-10A

POWER ELECTRICAL
Income Statement
For Month Ended November 30, 2023

Revenues:		
Electrical revenue		$12,800
Operating expenses:		
Rent expense	$7,200	
Salaries expense	4,400	
Utilities expense	3,600	
Total operating expenses		15,200
Loss		$2,400

POWER ELECTRICAL
Statement of Changes in Equity
For Month Ended November 30, 2020

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

Problem 1-10A (concluded)

POWER ELECTRICAL
Balance Sheet
November 30, 2023

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

Analysis component:
Power Electrical incurred a loss of $2,400 for the month ended November 30, 2023. Therefore, instead of helping to finance assets, the November operating activities had a negative impact on equity. Equity did increase during November but because of an additional investment by the owner. As a sole proprietor, a goal is to increase equity because of positive earnings; not through owner investment.

Problem 1-11A (25 minutes)

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

Problem 1-12A

ARMANI COMPANY
Income Statement
For Year Ended December 31

Revenues:		
Consulting revenue		$ 33,000
Rental revenue		22,000
Total revenues		$ 55,000
Operating expenses:		
Salaries expense	$20,000	
Rent expense	12,000	
Selling and administrative expenses	8,000	
Total operating expenses		40,000
Profit		$ 15,000

PROBLEM SET "B"

Problem 1-1B (5 minutes)

a) Recipe Unlimited Corporation is a corporation because it has shareholders.
b) Spin Master is a corporation because it has shareholders.

Problem 1-2B (20 minutes)

To: Marketing Manager
From: Accountant
Subject: Analysis of recording marketing costs as an asset

This memo analyzes whether it is appropriate to record our $1 million spent on marketing costs as an asset on Global Consulting's balance sheet.

Based on our generally accepted accounting principles, the definition of an asset has three key characteristics:

1. An asset is a resource controlled by a business.
2. An asset results from a past transaction.
3. An asset is expected to generate future economic benefits for the business.

a) <u>Recording marketing costs as an asset</u>

1. Global Consulting had $1 million in cash that it owned. They then spent this money on marketing costs. It can be argued that the cash was controlled by Global Consulting and the benefits of the marketing costs will also benefit the company.
2. The marketing costs have been spent. Thus, they have resulted from a past transaction.
3. Our marketing costs are targeted at promoting our company and building awareness. These efforts strive to increase our sales. As we have already seen a 5% increase in our sales this year, it can be argued that the amount we spent on marketing has and will continue to generate future economic benefits for Global Consulting.

b) <u>Not recording marketing costs as an asset</u>

1. Global Consulting controlled $1M in cash. However, once the money is spent, the company no longer controls this cash.
2. The marketing costs have been spent. Thus, they have resulted from a past transaction.
3. Marketing costs help promote a company and may introduce the company to new customers or reinforce the relationship with existing customers. This may lead to increased sales. However, there is no guarantee that $1 million spent on marketing will directly correlate to $1 million in increased sales. If there are increased sales, it is difficult to quantify what the full future benefit will be. The increased sales also may not be directly related to the $1M marketing costs.

c) Conclusion

Based on the above analysis, I recommend that we do not record the marketing costs as an asset. We cannot argue that the $1 million that has been spent is still controlled by Global Consulting. Also, we cannot reliably determine the future benefit of the marketing costs.

Problem 1-3B (20 minutes)

	2024	2023	2022
Beginning capital	457,000[1]	369,000[3]	0
+ Owner investment	0	0	400,000
+ Profit (loss)	366,000	192,000	(31,000)[5]
– Owner withdrawals	218,000	104,000	0
= Ending capital	605,000	457,000[2]	369,000 [4]

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

Calculations:

1. 605,000 + 218,000 – 366,000 = <u>457,000</u>
2. The beginning capital of 457,000 for 2024 is the ending capital from 2023.
3. 457,000 + 104,000 – 192,000 = <u>369,000</u>
4. The beginning capital of 369,000 for 2023 is the ending capital from 2022.
5. 369,000 – 400,000 = <u>-31,000</u>

Problem 1-4B (30 minutes)

FIREWORKS FANTASIA
Income Statement
For Year Ended December 31, 2023

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

Problem 1-4B *(concluded)*

FIREWORKS FANTASIA
Statement of Changes in Equity
For Year Ended December 31, 2023

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

FIREWORKS FANTASIA
Balance Sheet
December 31, 2023

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

Analysis component:

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

Problem 1-5B (30 minutes)

DOG OBEDIENCE TRAINING CO
Income Statement
For Year Ended December 31, 2023

Revenues:		
Obedience training revenue		$121,000
Doggy daycare revenue		46,500
Total revenues		$167,500
Operating expenses:		
Wages expense	$70,000	
Rent expense	24,000	
Supplies expense	17,900	
Utilities expense	11,800	
Interest expense	4,100	
Total operating expenses		127,800
Profit		$ 39,700

DOG OBEDIENCE TRAINING CO
Statement of Changes in Equity
For Year Ended December 31, 2023

Tim Oram, capital, January 1, 2023		$ 81,300
Investments by owner	$ -0-	
Profit	39,700	39,700
Total		$ 121,000
Less: Withdrawals by owner		56,000
Tim Oram, capital, December 31, 2023		$ 65,000

DOG OBEDIENCE TRAINING CO
Balance Sheet
December 31, 2023

Assets		Liabilities	
Cash	$ 7,600	Accounts payable	$ 11,400
Accounts receivable	62,000	Notes payable	40,000
Supplies	4,400	Total liabilities	$ 51,400
Prepaid rent	6,000		
Dog kennel equipment	21,200	*Equity*	
Vehicle	15,200	Tim Oram, capital	65,000
Total assets	$116,400	Total liabilities and equity	$ 116,400

Analysis component:
$51,400 or 44.16% (calculated as $51,400/$116,400 × 100) of the assets are financed by debt. $65,000 or 55.84% (calculated as $65,000/$116,400 × 100) of the assets are financed by Tim Oram, the owner.

Problem 1-6B (60 minutes) ***Part 1***

CARMEN CREEK GOURMET MEATS
Balance Sheet
December 31, 2022

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

CARMEN CREEK GOURMET MEATS
Balance Sheet
December 31, 2023

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

Calculations:

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

Problem 1-6B *(concluded) Part 2*

Calculation of profit for 2023:	
Carmen Munch, Capital December 31, 2022	$269,000
+ Owner investment	50,000
+ Profit (loss)	?
– Owner withdrawals (12 months X $2,000)	24,000
= Carmen Munch, Capital December 31, 2023	$386,000

OR

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

Analysis component:
Assets increased by $657,000 ($936,000 - $279,000). $540,000 of the increase in assets were financed by an increase in debt (total liabilities went from $10,000 at December 31, 2022 to $550,000 at December 31, 2023). The remaining $117,000 increase in assets ($657,000 - $540,000) resulted from equity financing (equity increased to $386,000 at December 31, 2023 from $269,000 at December 31, 2022 because of $50,000 owner investment plus $91,000 profit less $24,000 of withdrawals during 2023).

Problem 1-7B (40 minutes) *Part 1*

Company V:

(a) and (b)

Calculation of equity:

	12/31/22	*12/31/23*
Assets	$165,000	$192,000
Liabilities	–30,000	–26,000
Equity	$135,000	$166,000

(c) Calculation of profit (loss) for 2023:

Equity, December 31, 2022	$135,000
Owner investments	60,000
Profit (loss)	?
Less: Owner withdrawals	4,500
Equity, December 31, 2023	$166,000

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

Problem 1-7B *(continued)*

Part 2

Company W:

(a) Calculation of equity at December 31, 2022:

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

(b) Calculation of equity at December 31, 2023:

Equity, December 31, 2022	$20,000
Owner investments	10,000
Profit	30,000
Less: Owner withdrawals	2,000
Equity, December 31, 2023	$58,000

(c) Calculation of the amount of liabilities at December 31, 2023:

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

Part 3

Company X:

First, calculate the beginning and ending equity balances:

	12/31/22	*12/31/23*
Assets	$121,500	$136,500
Liabilities	–58,500	–55,500
Equity	$ 63,000	$ 81,000

Then, find the amount of owner investments during 2023 by completing this table:

Equity, December 31, 2022	$63,000
Owner investments	?
Profit	16,500
Less: Owner withdrawals	0
Equity, December 31, 2023	$81,000

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

Problem 1-7B *(continued)*

Part 4

Company Y:

First, calculate the beginning balance of equity:

	Dec. 31, 2022
Assets	$82,500
Liabilities	–50,000
Equity	$32,500

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

Equity, December 31, 2022	$32,500
Owner investments	38,100
Less: Owner withdrawals	18,000
Loss	46,000
Equity, December 31, 2023	$6,600

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

	Dec. 31, 2023
Liabilities	$ 72,000
Equity	6,600
Assets	$78,600

Company Z:

First, calculate the balance of equity as of December 31, 2023:

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

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

Equity, December 31, 2022	$?
Owner investments	40,000
Profit	32,000
Less: Owner withdrawals	6,000
Equity, December 31, 2023	$108,000

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

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

	Dec. 31, 2022
Assets	$124,000
Equity	–42,000
Liabilities	$ 82,000

Last revised: May 2021

Problem 1-8B (45 minutes) ***Parts 1 and 2***

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

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

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

Problem 1-8B *(continued)*

Part 3

Zhang Consulting Income Statement For Year Ended December 31, 2023		
Revenues:		
Consulting services revenue		$14,000
Operating expenses:		
Wages expense	$3,800	
Advertising expense	4,500	
Total operating expenses		8,300
Profit		$5,700

Zhang Consulting Statement of Changes in Equity For Year Ended December 31, 2023		
Lily Zhang, capital, January 1		$ 0
Investment by owner	$130,000	
Profit	5,700	135,700
Total		$135,700
Less: Withdrawal by owner		5,500
Lily Zhang, capital, December 31		$130,200

Zhang Consulting Balance Sheet December 31, 2023				
Assets			*Liabilities*	
Cash	$ 43,800		Accounts payable	$ 4,000
Accounts receivable	2,000		Notes payable	190,000
Office supplies	4,000		Total liabilities	$194,000
Office equipment	34,400			
Building	240,000		*Equity*	
			Lily Zhang, capital	130,200
Total assets	$324,200		Total liabilities and equity	$324,200

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

Problem 1-9B (50 minutes)

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

$90,200 = **$90,200**

Problem 1-9B (concluded)

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

Problem 1-10B

BEYOND MUSIC
Income Statement
For Month Ended July 31, 2023

Revenues:		
DJ revenue		$15,200
Equipment rental revenue		4,000
Total revenues		$19,200
Operating expenses:		
Wages expense	$4,500	
Rent expense	1,000	
Utilities expense	1,700	
Total operating expenses		7,200
Profit		$12,000

BEYOND MUSIC
Statement of Changes in Equity
For Month Ended July 31, 2023

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

BEYOND MUSIC
Balance Sheet
July 31, 2023

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

Problem 1-10B (concluded)

Analysis component:
The owner of Beyond Music invested $20,000 during the month ended July 31, 2023 therefore having a positive impact on equity. Equity increased during July largely because of this additional investment by the owner. As a sole proprietor, a goal is to increase equity because of positive earnings; not through owner investment.

Problem 1-11B (25 minutes)

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

Problem 1-12B

ARMANI COMPANY
Income Statement
For Year Ended December 31

Revenues:		
Consulting revenue		$ 33,000
Rental revenue		22,000
Total revenues		$ 55,000
Operating expenses:		
Salaries expense	$20,000	
Rent expense	12,000	
Selling and administrative expenses	8,000	
Total operating expenses		40,000
Profit		$ 15,000

ANALYTICAL AND REVIEW PROBLEMS

A&R Problem 1-1

TASKER AUTO REPAIR SHOP
Balance Sheet
November 30, 2023

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

Note to Instructors:

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

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

A&R Problem 1-2

SUSAN HUANG, LAWYER
Income Statement
For Month Ended October 31, 2023

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

SUSAN HUANG, LAWYER
Statement of Changes in Equity
For Month Ended October 31, 2023

Susan Huang, capital, October 1		$ 0
Investment by owner	$10,500	
Profit	5,880	
Total		16,380
Susan Huang capital, October 31		$16,380

SUSAN HUANG, LAWYER
Balance Sheet
October 31, 2023

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

A&R Problem 1-3

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

ETHICS CHALLENGE 1-1

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

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

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

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

FOCUS ON FINANCIAL STATEMENTS

FFS 1-1

Parts 1 and 2

June 2023

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

$\underbrace{15{,}000 + 2{,}000 + 6{,}000}_{\textbf{23,000}} = \underbrace{300 + 22{,}700}_{\textbf{23,000}}$

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

July 2023

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

$\underbrace{\text{Assets}}_{\textbf{23,800}}$ = $\underbrace{\text{Liabilities + Equity}}_{\textbf{23,800}}$

FFS 1-1 *(continued)*

Part 3

GLENROSE SERVICING
Income Statement
For Month Ended June 30, 2023

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

GLENROSE SERVICING
Statement of Changes in Equity
For Month Ended June 30, 2023

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

GLENROSE SERVICING
Balance Sheet
June 30, 2023

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

FFS 1-1 *(continued) Part 3*

GLENROSE SERVICING
Income Statement
For Month Ended July 31, 2023

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

GLENROSE SERVICING
Statement of Changes in Equity
For Month Ended July 31, 2023

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

GLENROSE SERVICING
Balance Sheet
July 31, 2023

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

FFS 1-1 (concluded)

Analysis component:

1. The increase in assets of $800 from June 30, 2023 to July 31, 2023 was financed by a $500 increase in liabilities and a $300 increase in equity. The $300 increase in equity resulted from a profit of $2,300 less withdrawals of $2,000.
2. a. The income statement reports a company's financial performance. A company's financial performance is how a company performs or operates on a day-by-day basis: the generation of revenues and incurring of expenses that help create the revenues.
   b. The balance sheet reports a company's financial position at a specific point in time. Financial position describes what assets, liabilities, and equity a company has on a given date. For example, Glenrose Servicing's cash balance on July 31, 2023 is $12,500 — this describes how much cash Glenrose had on July 31.
3. Glenrose's July 31, 2023 income statement reports a profit of $2,300 which is reported on the July statement of changes in equity as one of the activities that caused equity to change during the month. The ending capital balance reported on the July statement of changes in equity is reported on the July balance sheet as the equity position on July 31, 2023.

FFS 1-2

Part A

1. Recipe Unlimited Corporation's assets are classified into seven groups on the December 27, 2020 balance sheet: Current Assets, Long-term receivables, Property, plant and equipment, Investment in the Keg Limited Partnership, Brands and other assets, Goodwill, and Deferred tax asset.
2. Recipe Unlimited Corporation rounds to thousands of Canadian dollars on its financial statements.
3. The December 27, 2020 balance sheet shows Assets of $2,109,071 thousand = Liabilities of $1,825,535 thousand + Equity of $283,536 thousand.
4. No, the personal assets belonging to the owners of Recipe Unlimited Corporation are not included on Recipe Unlimited Corporation's financial statements in accordance with the Reporting Entity Principle.
5. (variety of answers possible, for example, the accounts receivable manager would want to know if receivables are being collected efficiently)

Part B

6. a. Total assets = $1,342.1 million (US);

   b. Total net assets (US) = $1,342.1 million - $499.2 million = $842.9 million;

   Assets of $1,342.1 million (US) = Liabilities of $499.2 million + Equity of $842.9 million.
7. Data is provided on a comparative basis so decision makers can see the change from the previous year(s).
8. (variety of answers possible, for example, a potential creditor would be interested in knowing if Spin Master will have sufficient assets to cover any credit they grant)

CRITICAL THINKING

CT 1-1

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

Goal(s)*:
— Correctly stated sales reports*

Problem(s):
— Misclassification of items under GAAP

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

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

Conclusion(s)/Consequence(s):
— August 28 sale should be in August and not in September; consequence of current reporting is that August revenue, profit, and equity was understated and September revenue, profit, and equity are overstated
— September 10 purchase of desk is to be recorded as an asset and not expensed; consequence of current reporting is that September expenses will be overstated causing profit, assets, and equity to be understated.
— September 2–30 lunch costs should have been expensed; consequence of current reporting is that statements won't balance (it appears there are two credit entries with no debit) and that expenses are understated with profit and equity overstated.
— October 5 appears to be recorded correctly.

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