

CHAPTER 1

Accounting in Action

ASSIGNMENT CLASSIFICATION TABLE

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

ANSWERS TO QUESTIONS

1. True. Virtually every organization and person in our society uses accounting information. Businesses, investors, creditors, government agencies, and not-for-profit organizations must use accounting information to operate effectively.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

2. Accounting is the process of identifying, recording, and communicating the economic events of an organization to interested users of the information. The first activity of the accounting process is to identify economic events that are relevant to a particular business. Once identified and measured, the events are recorded to provide a history of the financial activities of the organization. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner. The information is communicated through the preparation and distribution of accounting reports, the most common of which are called financial statements. A vital element in the communication process is the accountant's ability and responsibility to analyze and interpret the reported information.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

3. (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.
(b) To assist management, accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

4. (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell stock.
(b) Creditors use accounting information to evaluate the risks of granting credit or lending money.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

5. False. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.

LO 1, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

6. Harper Travel Agency should report the land at \$85,000 on its December 31, 2022 balance sheet. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (historical cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use historical cost. Only in situations where assets are actively traded do companies apply the fair value principle.

LO 2, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement, Analysis and Interpretation IMA: Reporting

7. The monetary unit assumption requires that only transaction data capable of being expressed in terms of money be included in the accounting records. This assumption enables accounting to quantify (measure) economic events.

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement, Analysis and Interpretation IMA: Reporting

Questions Chapter 1 (Continued)

8. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement, Analysis and Interpretation IMA: Reporting

9. The three basic forms of business organizations are (1) proprietorship, (2) partnership, and (3) corporation.

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

10. One of the advantages Juana would enjoy is that ownership of a corporation is represented by transferable shares of stock. This would allow Juana to raise money easily by selling a part of her ownership in the company. Another advantage is that because holders of the shares (stockholders) enjoy limited liability, they are not personally liable for the debts of the corporate entity. Also, because ownership can be transferred without dissolving the corporation, the corporation enjoys an unlimited life.

LO 2, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

11. The basic accounting equation is $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$.

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

12. (a) Assets are resources owned by a business. Liabilities are creditor claims against assets—that is, existing debts and obligations. Stockholders' equity is the ownership claim on total assets.

- (b) Stockholders' equity is affected by stockholders' investments, dividends, revenues, and expenses.

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

13. The liabilities are (b) Accounts payable and (g) Salaries and Wages Payable.

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

14. Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the Equipment account which is offset by a decrease in the Cash account is a specific example.

LO 3, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

15. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic accounting equation.

- (a) No, the death of the president of the company is not a business transaction as it does not affect the basic accounting equation.

- (b) Yes, supplies purchased on account is a business transaction as it affects the basic accounting equation.

- (c) No, an employee being fired is not a business transaction as it does not affect the basic accounting equation.

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

16. (a) Decrease assets and decrease stockholders' equity.

- (b) Increase assets and decrease assets.

- (c) Increase assets and increase stockholders' equity.

- (d) Decrease assets and decrease liabilities.

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

Questions Chapter 1 (Continued)

17. (a) Income statement. (d) Balance sheet.
 (b) Balance sheet. (e) Balance sheet and retained earnings statement.
 (c) Income statement. (f) Balance sheet.

LO 5, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

18. No, this treatment is not appropriate. While the transaction does involve a receipt of cash, it does not represent revenues. Revenues are the gross increase in stockholders' equity resulting from business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by one of the owners of the business.

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

19. Yes. Net income does appear on the income statement—it is the result of subtracting expenses from revenues. In addition, net income appears on the retained earnings statement—it is shown as an addition to the beginning-of-period retained earnings. Indirectly, the net income of a company is also included on the balance sheet. It is included in the end-of-period retained earnings which appears in the stockholders' equity section of the balance sheet.

LO 5, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

20. (a)	Ending stockholders' equity balance	\$198,000
	Beginning stockholders' equity balance	<u>158,000</u>
	Net income.....	<u>\$ 40,000</u>
(b)	Ending stockholders' equity balance	\$198,000
	Beginning stockholders' equity balance	<u>158,000</u>
		40,000
	Deduct: Investment	<u>16,000</u>
	Net income.....	<u>\$ 24,000</u>

LO 5, BT: AN, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

21. (a)	Total revenues (\$30,000 + \$70,000)	\$100,000
(b)	Total expenses (\$26,000 + \$38,000).....	\$64,000
(c)	Total revenues	\$100,000
	Total expenses.....	<u>64,000</u>
	Net income.....	<u>\$ 36,000</u>

LO 5, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

22. Apple's accounting equation (in millions) at September 29, 2018 was $\$365,725 = \$258,578 + \$107,147$

LO 3, BT: AP, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1.1

(a) $\$78,000 - \$50,000 = \$28,000$ (Stockholders' Equity).

(b) $\$45,000 + \$70,000 = \$115,000$ (Assets).

(c) $\$94,000 - \$60,000 = \$34,000$ (Liabilities).

LO 3, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.2

(a) $\$120,000 + \$232,000 = \$352,000$ (Total assets).

(Liabl. + Stock. equity = Assets)

(b) $\$190,000 - \$86,000 = \$104,000$ (Total liabilities).

(Assets - Stock. equity = Liabl.)

(c) $\$600,000 - 0.5(\$600,000) = \$300,000$ (Stockholders' equity).

[Assets - (0.5 x Assets) = Stock. equity]

LO 3, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.3

(a) $(\$870,000 + \$150,000) - (\$500,000 - \$80,000) = \$600,000$
(Stockholders' equity).

[(Beg. assets + incr.) - (Beg. liabl. - decrease) = Stock. equity]

(b) $(\$500,000 + \$100,000) + (\$870,000 - \$500,000 - \$66,000) = \$904,000$
(Assets).

[(Beg. liabl. + incr.) + (Beg. stock. equity - decr.) = Assets]

(c) $(\$870,000 - \$80,000) - (\$870,000 - \$500,000 + \$120,000) = \$300,000$
(Liabilities).

[(Beg. assets - decr.) - (Beg. stock. equity + incr.) = Liabl.]

LO 3, BT: AP, Difficulty: Easy, TOT: 5 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.4

	Assets	=	Liabilities	+	Stockholders' Equity		
					Common Stock	Retained Earnings	
					Revenues	- Expenses	- Dividends
(a)	X	=	\$90,000	+	\$150,000	+	\$450,000 - \$320,000 - \$40,000
	X	=	\$90,000	+	\$240,000		
	X	=	<u>\$330,000</u>				
	(Assets	=	<u>Liabl.</u>	+	Com. stock	+	Rev. - Exp. - Div.)
(b)	\$57,000	=	X	+	\$23,000	+	\$50,000 - \$35,000 - \$7,000
	\$57,000	=	X	+	\$31,000		
	X	=	<u>\$26,000</u> (\$57,000 - \$31,000)				
	(Liabl.	=	Assets	-	Com. stk.	-	Rev. + Exp. + Div.)
(c)	\$600,000	=	(\$600,000 x 2/3) + X (Stockholders' equity)				
	\$600,000	=	\$400,000 + X				
	X	=	<u>\$200,000</u>				
	(Stk. equity	=	<u>Assets</u>	-	(2/3 x Assets))		

LO 3, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.5

<u>A</u>	(a) Accounts receivable	<u>A</u>	(d) Supplies
<u>L</u>	(b) Salaries and wages payable	<u>SE</u>	(e) Dividends
<u>A</u>	(c) Equipment	<u>L</u>	(f) Notes payable

LO 3, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.6

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

LO 4, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.7

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

*Cash increased and accts. rec. decreased, so tot. assets unchanged.

BRIEF EXERCISE 1.8

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

LO 4, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.9

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

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.10

ELLERBY COMPANY
Balance Sheet
December 31, 2022

<u>Assets</u>		
Cash		\$ 44,000
Accounts receivable		72,500
Total assets		<u>\$116,500</u>
 <u>Liabilities and Stockholders' Equity</u>		
Liabilities		
Accounts payable		\$ 85,000
Stockholders' equity		
Common stock.....	\$21,500	
Retained earnings.....		<u>10,000</u>
Total stockholders' equity		<u>31,500</u>
Total liabilities and stockholders' equity		<u>\$116,500</u>

(Cash + Accts. rec. = Accts. pay. + Com. stk. + Ret. earn.)

LO 5, BT: AP, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

BRIEF EXERCISE 1.11

<u> BS </u>	(a) Notes payable
<u> IS </u>	(b) Advertising expense
<u> BS </u>	(c) Common stock
<u> BS </u>	(d) Cash
<u> IS </u>	(e) Service revenue
<u> RE </u>	(f) Dividends

SOLUTIONS FOR DO IT! EXERCISES

DO IT! 1.1

- 1. False. The three steps in the accounting process are identification, recording, and communication.**
- 2. True.**
- 3. False. Managerial accounting provides internal reports to help users make decisions about their companies.**
- 4. True.**
- 5. True.**

LO 1, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

DO IT! 1.2

- 1. False. Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.**
- 2. False. The standards of conduct by which actions are judged as right or wrong, honest or dishonest, fair or not fair, are ethics.**
- 3. False. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).**
- 4. True.**
- 5. True.**

LO 2, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

DO IT! 1.3

- 1. Dividends is dividends (D); it decreases stockholders' equity.**
- 2. Rent revenue is revenue (R); it increases stockholders' equity.**
- 3. Advertising expense is an expense (E); it decreases stockholders' equity.**
- 4. When stockholders invest cash in the business, they receive shares of stock (I); it increases stockholders' equity.**

LO 3, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

DO IT! 1.4

Assets		=	Liabilities		+	Stockholders' Equity							
Cash	+ Accounts Receivable	=	Accounts Payable	+	Common Stock	+	Retained Earnings						
						+	Revenues	-	Expenses	-	Dividends		
(1)	+ \$23,000						+ \$23,000						
(2)	+\$23,000 -		23,000										
(3)			+ \$1,800					-	\$1,800				
(4)	- 5,000									-	\$5,000		
	\$18,000 +		\$0	+	\$1,800	+	\$0	+	\$23,000	-	\$1,800	-	\$5,000

LO 4, BT: AP, Difficulty: Easy, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

DO IT! 1.5

(a) The total assets are \$51,500, comprised of Cash \$9,000, Accounts Receivable \$13,500, and Equipment \$29,000.

(Cash + Accts. rec. + Equip.)

(b) Net income is \$21,700, computed as follows:

Revenues		
Service revenue.....		\$54,000
Expenses		
Salaries and wages expense	\$16,500	
Rent expense.....	9,800	
Advertising expense	<u>6,000</u>	
Total expenses		<u>32,300</u>
Net income		<u>\$21,700</u>

(Serv. rev. - Tot. exp.)

DO IT! 1.5 (Continued)

(c) The ending stockholders' equity balance of Garryowen Company is \$23,500. By rewriting the accounting equation, we can compute Stockholders' Equity as Assets minus Liabilities, as follows:

Total assets [as computed in (a)]		\$51,500
Less: Liabilities		
Notes payable	\$25,000	
Accounts payable	<u>3,000</u>	<u>28,000</u>
Stockholders' equity		<u>\$23,500</u>

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

(Tot. assets – Tot. liabl.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

SOLUTIONS TO EXERCISES

EXERCISE 1.1

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

LO 1, BT: C, Difficulty: Easy, TOT: 5 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.2

(a) *Internal users*

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

External users

- Customers
- Internal Revenue Service
- Labor unions
- Securities and Exchange Commission
- Suppliers

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

LO 1, BT: C, Difficulty: Easy, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.3

Sam Cresco, president of Cresco Company, instructed Sharon Gross, the head of the accounting department, to report the company's land in their accounting reports at its fair market value of \$170,000 instead of its cost of \$100,000, in an effort to make the company appear to be a better investment. Although we have an accounting system that permits various measurement approaches, historical cost should be used whenever there are questions regarding the reliability of a market value. In this case, valuation of land is too subjective and therefore the historical cost principle should be used.

The stakeholders include stockholders and creditors of Cresco Company, potential stockholders and creditors, other users of Cresco accounting reports, Sam Cresco, and Sharon Gross. All users of Cresco's accounting reports could be harmed by relying on information which violates accounting principles. Sam Cresco could benefit if the company is able to attract more investors, but would be harmed if the fraudulent reporting is discovered. Similarly, Sharon Gross could benefit by pleasing her boss, but would be harmed if the fraudulent reporting is discovered.

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

LO 2, BT: C, Difficulty: Moderate, TOT: 7 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.4

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

LO 2, BT: C, Difficulty: Moderate, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.5

<u>Asset</u>	<u>Liability</u>	<u>Stockholders' Equity</u>
Cash	Accounts payable	Common stock
Equipment	Notes payable	
Supplies	Salaries and wages payable	
Accounts receivable		

LO 3, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.6

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

LO 4, BT: C, Difficulty: Easy, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.7

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

LO 4, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.8

- (a)
1. Stockholders invested \$15,000 cash in the business.
 2. Purchased office equipment for \$5,000, paying \$2,000 in cash and the balance of \$3,000 on account.
 3. Paid \$750 cash for supplies.
 4. Earned \$9,400 in revenue, receiving \$4,900 cash and \$4,500 on account.
 5. Paid \$1,500 cash on accounts payable.

EXERCISE 1.8 (Continued)

6. Paid \$2,000 cash dividends to stockholders.
7. Paid \$850 cash for rent.
8. Collected \$450 cash from clients on account.
9. Paid salaries and wages of \$3,900.
10. Incurred \$500 of utilities expense on account.

(b) Stockholder investment	\$15,000
Service revenue	9,400
Dividends	(2,000)
Rent expense	(850)
Salaries and wages expense.....	(3,900)
Utilities expense	(500)
Increase in stockholders' equity.....	<u>\$17,150</u>

(Invest. + Serv. rev. – Div. – Exp.)

(c) Service revenue	\$9,400
Rent expense	(850)
Salaries and wages expense.....	(3,900)
Utilities expense	(500)
Net income	<u>\$4,150</u>

(Serv. rev. – Tot. exp.)

LO 4,5, BT: AP, Difficulty: Moderate, TOT: 12 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.9

FOLEY & CO. Income Statement For the Month Ended August 31, 2022

Revenues	
Service revenue	\$9,400
Expenses	
Salaries and wages expense.....	\$3,900
Rent expense	850
Utilities expense	500
Total expenses	<u>5,250</u>
Net income	<u>\$4,150</u>

(Serv. rev. – Tot. exp.)

EXERCISE 1.9 (Continued)

**FOLEY & CO.
Retained Earnings Statement
For the Month Ended August 31, 2022**

Retained earnings, August 1	\$ 0
Add: Net income	4,150
	<u>4,150</u>
Less: Dividends.....	2,000
Retained earnings, August 31	<u>\$ 2,150</u>

(Beg. ret. earn. + Net inc. – Div.)

**FOLEY & CO.
Balance Sheet
August 31, 2022**

<u>Assets</u>	
Cash	\$ 9,350
Accounts receivable	4,050
Supplies	750
Equipment.....	<u>5,000</u>
Total assets	<u>\$19,150</u>

Liabilities and Stockholders' Equity

Liabilities	
Accounts payable	\$ 2,000
Stockholders' equity	
Common stock.....	\$15,000
Retained earnings	<u>2,150</u>
Total stockholders' equity	<u>17,150</u>
Total liabilities and stockholders' equity	<u>\$19,150</u>

[(Cash + Accts. rec. + Supp. + Equip.) = Accts. pay. + (Com. stk. + Ret. earn)]

LO 5, BT: AP, Difficulty: Easy, TOT: 12 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.10

(a) Stockholders' equity—12/31/21 (\$400,000 – \$260,000)	\$140,000
Less: Stockholders' investment—1/1/21.....	100,000
Increase in stockholders' equity from retained earnings ...	40,000
Add: Dividends	15,000
Net income for 2021.....	<u>\$ 55,000</u>

(End. stk. equity – Stkhldrs.' Invest. + Div.)

EXERCISE 1.10 (Continued)

(b) Stockholders' equity—12/31/22 (\$480,000 – \$300,000).....	\$180,000
Less: Stockholders' equity—1/1/22—see (a)	<u>140,000</u>
Increase in stockholders' equity.....	40,000
Less: Additional investment	<u>50,000</u>
Net loss for 2022	<u>\$ (10,000)</u>

(End. stk. equity – Beg. stk. equity – Add'l. invest.)

(c) Stockholders' equity—12/31/23 (\$590,000 – \$400,000).....	\$190,000
Less: Stockholders' equity—1/1/23—see (b)	<u>180,000</u>
Increase in stockholders' equity.....	10,000
Less: Additional investment	<u>15,000</u>
Decrease in stockholders' equity from retained earnings.....	
(5,000)	
Add: Dividends	<u>30,000</u>
Net income for 2023.....	<u>\$ 25,000</u>

(End. stk. equity – Beg. stk. equity – Add'l. invest. + Div.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 10 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.11

(a) Total assets (beginning of year)	\$ 97,000
Less: Total liabilities (beginning of year).....	<u>85,000</u>
Total stockholders' equity (beginning of year).....	<u>\$ 12,000</u>

(Beg. assets – Beg. liabl.)

(b) Total stockholders' equity (end of year)	\$ 40,000
Less: Total stockholders' equity (beginning of year).....	<u>12,000</u>
Increase in stockholders' equity.....	<u>\$ 28,000</u>

Total revenues	\$215,000
Less: Total expenses.....	<u>175,000</u>
Net income	<u>\$ 40,000</u>

Increase in stockholders' equity.....	\$ 28,000
Less: Net income	\$40,000
Add: Dividends	<u>15,000</u>
Additional investment	<u>\$ 3,000</u>

[(End. stk. equity – Beg. stk. equity) – (Rev. – Exp.) + Div.]

(c) Total assets (beginning of year)	\$122,000
Less: Total stockholders' equity (beginning of year).....	<u>75,000</u>
Total liabilities (beginning of year)	<u>\$ 47,000</u>

(Beg. assets – Beg. stk. equity)

EXERCISE 1.11 (Continued)

(d) Total stockholders' equity (end of year)		\$130,000
Less: Total stockholders' equity (beginning of year)		<u>75,000</u>
Increase in stockholders' equity		<u>\$ 55,000</u>
Total revenues		\$100,000
Less: Total expenses		<u>55,000</u>
Net income		<u>\$ 45,000</u>
Increase in stockholders' equity		\$ 55,000
Less: Net income	\$45,000	
Additional investment	<u>25,000</u>	<u>70,000</u>
Dividends		<u>\$ 15,000</u>

[(End. stk. equity – Beg. stk. equity) – (Rev. – Exp.) – Add'l. invest.]

LO 5, BT: AN, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.12

LA GRECA CO. Income Statement For the Year Ended December 31, 2022

Revenues		
Service revenue		\$62,500
Expenses		
Salaries and wages expense	\$28,000	
Rent expense	10,400	
Utilities expense	3,100	
Advertising expense	<u>1,800</u>	
Total expenses		<u>43,300</u>
Net income		<u>\$19,200</u>

(Serv. rev. – Tot. exp.)

LA GRECA CO. Retained Earnings Statement For the Year Ended December 31, 2022

Retained earnings, January 1	\$48,000
Add: Net income	<u>19,200</u>
	67,200
Less: Dividends	<u>5,000</u>
Retained earnings, December 31	<u>\$62,200</u>

(Beg. ret. earn. + Net inc. – Div.)

LO 5, BT: AP, Difficulty: Easy, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.13

**MADISON COMPANY
Balance Sheet
December 31, 2022**

<u>Assets</u>	
Cash	\$14,000
Accounts receivable.....	8,500
Supplies	3,000
Equipment.....	<u>48,000</u>
Total assets	<u>\$73,500</u>
<u>Liabilities and Stockholders' Equity</u>	
Liabilities	
Accounts payable	\$15,000
Stockholders' equity	
Common stock.....	\$50,000
Retained earnings.....	<u>8,500</u>
Total stockholders' equity	<u>58,500</u>
Total liabilities and stockholders' equity	<u>\$73,500</u>

[(Cash + Accts. rec. + Supp. + Equip. = Accts. pay. + (Com. stk. + End. ret. earn.)]

LO 5, BT: AN, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.14

(a)	Camping fee revenues.....	\$140,000
	General store revenues	<u>47,000</u>
	Total revenue	187,000
	Expenses	<u>150,000</u>
	Net income	<u>\$ 37,000</u>

(Tot. rev. – Tot. exp.)

(b) **WYCO PARK
Balance Sheet
December 31, 2022**

<u>Assets</u>	
Cash.....	\$ 20,000
Supplies.....	2,500
Equipment	<u>105,500</u>
Total assets	<u>\$128,000</u>

EXERCISE 1.14 (Continued)

WYCO PARK Balance Sheet (Continued) December 31, 2022

<u>Liabilities and Stockholders' Equity</u>		
Liabilities		
Notes payable.....	\$ 60,000	
Accounts payable	<u>11,000</u>	
Total liabilities.....		\$ 71,000
Stockholders' equity		
Common stock	20,000	
Retained earnings (\$128,000 - \$71,000 - \$20,000) ..	<u>37,000</u>	
Total stockholders' equity		<u>57,000</u>
Total liabilities and stockholders' equity ...		<u>\$128,000</u>

[(Cash + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 5, BT: AP, Difficulty: Easy, TOT: 10 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.15

LOUISA CRUISE COMPANY Income Statement For the Year Ended December 31, 2022

Revenues		
Ticket revenue		\$328,000
Expenses		
Salaries and wages expense	\$142,000	
Maintenance and repairs expense.....	92,000	
Utilities expense	10,000	
Advertising expense.....	<u>3,500</u>	
Total expenses		<u>247,500</u>
Net income.....		<u>\$ 80,500</u>

(Ticket rev. – Tot. exp.)

LO 5, BT: AP, Difficulty: Easy, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.16

ALEXIS AND RYAN, ATTORNEYS AT LAW Retained Earnings Statement For the Year Ended December 31, 2022

Retained earnings, January 1	\$ 23,000
Add: Net income.....	<u>129,000*</u>
	152,000
Less: Dividends	<u>64,000</u>
Retained earnings, December 31	<u>\$ 88,000</u>
*Legal service revenue.....	\$340,000
Total expenses	<u>211,000</u>
Net income.....	<u>\$129,000</u>

[Beg. ret. earn. + (Legal serv. rev. – Tot. exp.) – Div.]

LO 5, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.17

PAULO COMPANY Statement of Cash Flows For the Year Ended December 31, 2022

Cash flows from operating activities		
Cash receipts from revenues		\$600,000
Cash payments for expenses		<u>(430,000)</u>
Net cash provided by operating activities		170,000
Cash flows from investing activities		
Purchase of equipment		(115,000)
Cash flows from financing activities		
Sale of common stock.....	\$280,000	
Payment of cash dividends.....	<u>(18,000)</u>	<u>262,000</u>
Net increase in cash.....		317,000
Cash at the beginning of the period.....		<u>30,000</u>
Cash at the end of the period		<u>\$347,000</u>

LO 5, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

EXERCISE 1.18

Transactions 4, 5, and 7 are operating activities.

Transaction 3 is an investing activity.

Transactions 1, 2, and 6 are financing activities.

LO 5, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

PROBLEM 1.1A

(a) FREDONIA REPAIR INC.

	Assets				=	Liabilities		+	Stockholders' Equity			
	Accounts					Accounts			Retained Earnings			
	Cash	+ Receivable	+ Supplies	+ Equipment		= Payable	+ Stock		+ Revenues	- Expenses	- Dividends	
1.	+\$10,000							+\$10,000	+		(a)	
2.	-5,000			+\$5,000								
3.	-400									-\$400	(b)	
4.	-300		+\$300									
5.						+\$250				-250	(c)	
6.	+4,700									+\$4,700	(d)	
7.	-700									-\$700	(e)	
8.	-1,000									-1,000	(f)	
9.	-140									-140	(g)	
10.		+\$1,100								+1,100	(h)	
11.	<u>+120</u> +	<u>-120</u>	<u> </u>	<u> </u>	=	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	(i)
	<u>\$ 7,280</u>	<u>\$980</u>	<u>\$300</u>	<u>\$5,000</u>	=	<u>\$250</u>	<u>\$10,000</u>	<u>\$5,800</u>	<u>\$1,790</u>	<u>\$700</u>		
	\$13,560					\$13,560						

PROBLEM 1.1A (Continued)

Key to changes in Stockholders' Equity

- (a) Issued common stock
- (b) Rent expense
- (c) Advertising expense
- (d) Service revenue
- (e) Dividends
- (f) Salaries and wages expense
- (g) Utilities expense
- (h) Service revenue
- (i) Collected cash for services performed in (h)

(b) Service revenue (\$4,700 + \$1,100)		\$5,800
Expenses		
Salaries and wages expense	\$1,000	
Rent..... expense		400
Advertising expense	250	
Utilities expense.....	<u>140</u>	<u>1,790</u>
Net income		<u>\$4,010</u>

(Serv. rev. – Tot. exp.)

LO 4, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

PROBLEM 1.2A

(a)

LA BRAVA VETERINARY CLINIC

	Assets				=	Liabilities		+	Stockholders' Equity								
	<u>Cash</u>	<u>Accounts Receivable</u>	<u>Supplies</u>	<u>Equipment</u>	=	<u>Notes Payable</u>	<u>Accounts Payable</u>	+	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Revenues</u>	<u>- Expenses</u>	<u>- Dividends</u>				
Bal.	\$ 9,000	+ \$1,700	+ \$600	+ \$ 6,000	=		\$3,600	+	\$13,000	+	\$700						
1.	-2,900				=		-2,900										
2.	+1,300	-1,300			=												
3.	-800			+2,100	=		+1,300										
4.	+2,500	+4,800			=						+\$7,300						
5.	-400				=								-\$400				
					=						-\$1,700						
					=						-900						
6.	-2,800				=						-200						
7.					=						-170						
8.	<u>+10,000</u>	<u> </u>	<u> </u>	<u> </u>	=	<u>+10,000</u>	<u>+170</u>	+	<u> </u>	<u> </u>	<u> </u>	<u>-</u>	<u> </u>	<u>-</u>	<u> </u>		
	<u>\$15,900</u>	<u>+ \$5,200</u>	<u>+ \$600</u>	<u>+ \$ 8,100</u>	=	<u>\$10,000</u>	<u>+ \$2,170</u>	+	<u>\$13,000</u>	<u>+</u>	<u>\$700</u>	<u>+</u>	<u>\$7,300</u>	<u>-</u>	<u>\$ 2,970</u>	<u>-</u>	<u>\$400</u>
	<div style="border-top: 1px solid black; width: 100%; margin-top: 5px;"></div>					<div style="border-top: 1px solid black; width: 100%; margin-top: 5px;"></div>											
	\$29,800					\$29,800											

PROBLEM 1.2A (Continued)

(b)

LA BRAVA VETERINARY CLINIC
Income Statement
For the Month Ended September 30, 2022

Revenues		
Service revenue.....		\$7,300
Expenses		
Salaries and wages expense	\$1,700	
Rent expense.....	900	
Advertising expense	200	
Utilities expense.....	170	
Total expenses.....		<u>2,970</u>
Net income		<u>\$4,330</u>

(Serv. rev. – Tot. exp.)

LA BRAVA VETERINARY CLINIC
Retained Earnings Statement
For the Month Ended September 30, 2022

Retained earnings, September 1	\$ 700
Add: Net income	<u>4,330</u>
	5,030
Less: Dividends	<u>400</u>
Retained earnings, September 30	<u>\$4,630</u>

(Beg. ret. earn. + Net inc. – Div.)

PROBLEM 1.2A (Continued)

LA BRAVA VETERINARY CLINIC
Balance Sheet
September 30, 2022

<u>Assets</u>		
Cash.....		\$15,900
Accounts receivable		5,200
Supplies.....		600
Equipment		<u>8,100</u>
Total assets		<u>\$29,800</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities		
Notes payable.....	\$10,000	
Accounts payable.....	<u>2,170</u>	
Total liabilities		\$12,170
Stockholders' equity		
Common stock	13,000	
Retained earnings	<u>4,630</u>	
Total stockholders' equity		<u>17,630</u>
Total liabilities and stockholders' equity ..		<u>\$29,800</u>

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 50 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

PROBLEM 1.3A

(a)

**NIMBUS FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2022**

<hr/>		
Revenues		
Service revenue.....		\$6,800
Expenses		
Gasoline expense.....	\$2,500	
Rent expense.....	900	
Advertising expense	500	
Utilities expense.....	400	
Maintenance and repairs expense	<u>350</u>	
Total expenses.....		<u>4,650</u>
Net income		<u>\$2,150</u>

(Serv. rev. – Tot. exp.)

**NIMBUS FLYING SCHOOL
Retained Earnings Statement
For the Month Ended May 31, 2022**

<hr/>		
Retained Earnings, May 1		\$ 0
Add: Net income		<u>2,150</u>
		2,150
Less: Dividends		<u>500</u>
Retained earnings, May 31		<u>\$1,650</u>

(Beg. ret. earn. + Net inc. – Div.)

**NIMBUS FLYING SCHOOL
Balance Sheet
May 31, 2022**

<hr/>		
<u>Assets</u>		
Cash		\$ 4,650
Accounts receivable		7,400
Equipment		<u>64,000</u>
Total assets		<u>\$76,050</u>

PROBLEM 1.3A (Continued)

**NIMBUS FLYING SCHOOL
Balance Sheet (Continued)
May 31, 2022**

Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	\$28,000	
Accounts payable	<u>1,400</u>	
Total liabilities		\$29,400
Stockholders' equity		
Common stock	45,000	
Retained earnings	<u>1,650</u>	
Total stockholders' equity		<u>46,650</u>
Total liabilities and stockholders' equity ..		<u>\$76,050</u>

[(Cash + Accts. rec. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

**(b) NIMBUS FLYING SCHOOL
Income Statement
For the Month Ended May 31, 2022**

Revenues		
Service revenue (\$6,800 + \$900)		\$7,700
Expenses		
Gasoline expense (\$2,500 + \$1,500)	\$4,000	
Rent expense	900	
Advertising expense	500	
Utilities expense	400	
Maintenance and repairs expense	<u>350</u>	
Total expenses		<u>6,150</u>
Net income		<u>\$1,550</u>

(Adj. serv. rev. – Adj. tot. exp.)

**NIMBUS FLYING SCHOOL
Retained Earnings Statement
For the Month Ended May 31, 2022**

Retained Earnings, May 1	\$ 0
Add: Net income	<u>1,550</u>
	1,550
Less: Dividends	<u>500</u>
Retained Earnings, May 31	<u>\$1,050</u>

(Beg. ret. earn. + Net inc. – Div.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 50 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

PROBLEM 1.4A

Date	TERCEK DELIVERIES											
	Assets				=	Liabilities		+	Stockholders' Equity			
	Cash	Accounts Receivable	Supplies	Equipment	=	Notes Payable	Accounts Payable	+	Common Stock	Retained Earnings		
									Revenues	Expenses	Dividends	
June 1	+\$10,000							+\$10,000				(a)
June 2	-2,000			+\$14,000		+\$12,000						
June 3	-500									-\$ 500		(b)
June 5		+\$4,800							\$4,800			(c)
June 9	-300										-\$300	(d)
June 12			+\$150				+\$150					
June 15	+1,250	-1,250										
June 17							+100			-100		(e)
June 20	+1,500								+1,500			(f)
June 23	-500					-500						
June 26	-250									-250		(g)
June 29	-100						-100					
June 30	<u>-1,000</u>	<u>\$3,550</u>	<u>\$150</u>	<u>\$14,000</u>	=	<u>\$11,500</u>	<u>\$150</u>	<u>\$10,000</u>	<u>\$6,300</u>	<u>-1,000</u>	<u>\$300</u>	(h)
	\$25,800					\$25,800						

PROBLEM 1.4A (Continued)

Key to changes in Stockholders' Equity

- | | |
|-------------------------|--------------------------------|
| (a) Issued common stock | (e) Gasoline expense |
| (b) Rent expense | (f) Service revenue |
| (c) Service revenue | (g) Utilities expense |
| (d) Dividends | (h) Salaries and wages expense |

(b) **TERCEK DELIVERIES**
Income Statement
For the Month Ended June 30, 2022

Revenues		
Service revenue (\$4,800 + \$1,500).....		\$6,300
Expenses		
Salaries and wages expense	\$1,000	
Rent expense	500	
Utilities expense	250	
Gasoline expense	100	
Total expenses		<u>1,850</u>
Net income		<u>\$4,450</u>

(Serv. rev. – Tot. exp.)

PROBLEM 1.4A (Continued)

(c)

TERCEK DELIVERIES
Balance Sheet
June 30, 2022

<u>Assets</u>		
Cash.....		\$ 8,100
Accounts receivable.....		3,550
Supplies		150
Equipment.....		<u>14,000</u>
Total assets.....		<u>\$25,800</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities		
Notes payable.....	\$11,500	
Accounts payable	<u>150</u>	
Total liabilities.....		\$11,650
Stockholders' equity		
Common stock.....	10,000	
Retained earnings (\$0 + \$4,450 – \$300)	<u>4,150</u>	
Total stockholders' equity		<u>14,150</u>
Total liabilities and stockholders' equity..		<u>\$25,800</u>

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

PROBLEM 1.5A

(a)	<u>Donatello Company</u>	<u>Leonardo Company</u>	<u>Michelangelo Company</u>	<u>Raphael Company</u>
	(a) \$ 27,000	(d) \$50,000	(g) \$120,000	(j) \$ 50,000
	(b) 95,000	(e) 62,000	(h) 70,000	(k) 220,000
	(c) 4,000	(f) 51,000	(i) 431,000	(l) 465,000

[(c): Beg. stk. eq. + (Rev. – Exp.) – Div. + Add'l. invest. = End. stk. eq.]; [\$27,000 + (\$350,000 - \$335,000) - \$6,000 + Add'l. invest. = \$40,000]

[(f): Beg. stk. eq. + Net inc. + Add'l. invest. - Div. = End. stk. eq.]; [\$60,000 + \$38,000 + \$15,000 – Div. = \$62,000]

[(i): Beg. stk. eq. + (Rev. Exp.) + Add'l. invest. - Div. = End. stk. eq.]; [\$45,000 + (Rev. - \$342,000) + \$10,000 - \$14,000 = \$130,000]

[(l): Beg. stk. eq. + (Rev. – Exp.) + Add'l. invest. – Div. = End. stk. eq.]; [\$100,000 + (\$500,000 – Exp.) + \$15,000 - \$10,000 = \$140,000]

(b)

LEONARDO COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2022

Retained earnings, January 1	\$20,000
Add: Net income	<u>38,000</u>
	58,000
Less: Dividends	<u>51,000</u>
Retained earnings, December 31	<u><u>\$ 7,000</u></u>

(Beg. ret. earn. + Net inc. – Div.)

- (c) The sequence of preparing financial statements is income statement, retained earnings statement, and balance sheet. The interrelationship of the retained earnings statement to the other financial statements results from the fact that net income from the income statement is reported on the retained earnings statement and ending retained earnings reported on the retained earnings statement is the amount reported for retained earnings on the balance sheet.

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

- (a) Apple's total assets at September 29, 2018 were \$365,725 million and at September 30, 2017 were \$375,319 million.
- (b) Apple had \$25,913 million of cash and cash equivalents at September 29, 2018.
- (c) Apple had accounts payable totaling \$55,888 million on September 29, 2018 and \$44,242 million on September 30, 2017.
- (d) Apple reports net sales for three consecutive years as follows:
- | | |
|------|-------------------|
| 2016 | \$215,639 million |
| 2017 | \$229,234 million |
| 2018 | \$265,595 million |
- (e) From 2017 to 2018, Apple's net income increased \$11,180 million from \$48,351 million to \$59,531 million.

LO 5, BT: AN, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

(a)	(in millions)	PepsiCo	Coca-Cola
1.	Total assets	\$77,648	\$83,216
2.	Accounts receivable (net)	\$7,142	\$3,396
3.	Net revenue (sales)	\$64,661	\$31,856
4.	Net income	\$12,559	\$6,476

- (b) Coca-Cola's total assets were approximately 7% greater than PepsiCo's total assets, but PepsiCo's net sales were approximately 103% greater than Coca-Cola's net sales. PepsiCo's accounts receivable were 110% greater than Coca-Cola's and represent 11% of its net sales. Coca-Cola's accounts receivable amount to 10.7% of its net sales. Both PepsiCo's and Coca-Cola's accounts receivable are at satisfactory levels.

PepsiCo's net income is 194% greater than Coca-Cola's. It appears that these two companies' operations are comparable in some ways, with PepsiCo's operations significantly more profitable.

LO 5, BT: AN, E, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

(a)	(in millions)	Amazon	Walmart
1.	Total assets	\$162,648	\$219,295
2.	Accounts receivable (net)	\$16,677	\$6,283
3.	Net sales	\$141,915	\$510,329
4.	Net income	\$10,073	\$7,179

- (b) Walmart's total assets were approximately 35% greater than Amazon's total assets, and Walmart's net sales were over 3.26 times greater than Amazon's net sales. Walmart's accounts receivable were 37.7% of Amazon's and represent 1.2% of its net sales. Amazon's accounts receivable amount to 11.75% of its net sales. Both Amazon's and Walmart's accounts receivable are at satisfactory levels.

Amazon's net income was 1.4 times that of Walmart's. It appears that these two companies' operations are comparable in some ways, but Amazon's operations are substantially more profitable.

LO 5, BT: AN, E, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

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

CHIP-SHOT DRIVING RANGE COMPANY
Balance Sheet
March 31, 2022

<u>Assets</u>	
Cash.....	\$18,900
Buildings	8,000
Equipment	<u>800</u>
Total assets	<u>\$27,700</u>
<u>Liabilities and Stockholders' Equity</u>	
Liabilities	
Accounts payable (\$150 + \$100)	\$ 250
Stockholders' equity	
Common stock	\$25,000
Retained earnings	<u>2,450</u>
Total stockholders' equity	<u>27,450</u>
Total liabilities and stockholders' equity	<u>\$27,700</u>

As shown on the balance sheet, the stockholders' equity at March 31 is \$27,450 (\$27,700 - \$250). The estimate of \$2,450 of net income is the difference between the initial investment of \$25,000 and the total stockholders' equity of \$27,450. This was not a valid basis for determining net income because changes in stockholders' equity between two points in time may have been caused by factors unrelated to net income. For example, there may be dividends and/or additional capital investments by the stockholders.

[(Cash + Bldgs. + Equip.) = Accts. pay. + (Com. stk. + Ret. earn.)]

CT 1.4 (Continued)

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

Stockholders' equity, March 31, per balance sheet	\$27,450
Less: Stockholders' investment, March 1.....	<u>25,000</u>
Increase in stockholders' equity	2,450
Add: Dividends	<u>1,000</u>
Net income	<u><u>\$ 3,450</u></u>

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

(End. stk. equity – Beg, stk. equity + Div.)

- (d) **Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, \$1,000; Wages, \$400; Advertising, \$750; and Utilities, \$100 for a total of \$2,250. Revenues earned, therefore, were \$5,700 (\$2,250 + \$3,450). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:**

Beginning cash balance.....	\$25,000
Less: Cash payments	
Caddy shack	\$8,000
Golf balls and clubs	800
Rent	1,000
Advertising.....	600
Wages.....	400
Dividends	<u>1,000</u>
Cash balance before revenues	<u>13,200</u>
Cash balance, March 31	<u>18,900</u>
Revenues	<u><u>\$ 5,700</u></u>

(End. cash bal. + Tot. cash pmts. – Beg. cash bal.)

LO 5, BT: E, Difficulty: Moderate, TOT: 20 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

To: Ashley Hirano
From: Student

I have received the balance sheet of New York Company as of December 31, 2022. A number of items on this balance sheet are not properly reported; corrected balance sheet is attached. Listed below is a summary of the corrections.

- 1. The balance sheet should be dated as of a specific date, not for a period of time. Therefore, it should be dated “December 31, 2022.”**
- 2. Equipment should be shown as an asset and reported below Supplies on the balance sheet.**
- 3. Accounts receivable should be shown as an asset, not a liability, and reported between Cash and Supplies on the balance sheet.**
- 4. Accounts payable should be shown as a liability, not an asset. The note payable is also a liability and should be reported in the liability section.**
- 5. Liabilities and stockholders’ equity should be reported separately on the balance sheet. Common stock is not a liability.**
- 6. Common stock and retained earnings are part of stockholders’ equity.**

CT 1.5 (Continued)

A correct balance sheet is as follows:

NEW YORK COMPANY
Balance Sheet
December 31, 2022

<u>Assets</u>		
Cash		\$ 9,000
Accounts receivable		6,000
Supplies		2,000
Equipment.....		<u>25,500</u>
Total assets		<u>\$42,500</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities		
Notes payable	\$10,500	
Accounts payable	<u>8,000</u>	
Total liabilities		\$18,500
Stockholders' equity		
Common stock	22,000	
Retained earnings.....	<u>2,000</u>	
Total stockholders' equity.....		<u>24,000</u>
Total liabilities and stockholders' equity		<u>\$42,500</u>

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 5, BT: AP, E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

- (a) The students should identify all of the stakeholders in the case; that is, all the parties that are affected, either beneficially or negatively, by the action or decision described in the case. The list of stakeholders in this case are:
- ▶ Greg Thorpe, interviewee.
 - ▶ Both Baltimore firms.
 - ▶ Great Northern College.
- (b) The students should identify the ethical issues, dilemmas, or other considerations pertinent to the situation described in the case. In this case the ethical issues are:
- ▶ Is it proper that Greg charged both firms for the total travel costs rather than split the actual amount of \$296 between the two firms?
 - ▶ Is collecting \$592 as reimbursement for total costs of \$296 ethical behavior?
 - ▶ Did Greg deceive both firms or neither firm?
- (c) Each student must answer the question for himself/herself. Would you want to start your first job having deceived your employer before your first day of work? Would you be embarrassed if either firm found out that you double-charged? Would your school be embarrassed if your act was uncovered? Would you be proud to tell your professor that you collected your expenses twice?

LO 2, BT: E, Difficulty: Easy, TOT: 12 min., AACSB: Ethics, AICPA FC: Reporting, AICPA PC: Ethical Conduct IMA: Business Applications

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

LO 2, BT: E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, Communication AICPA FC: Reporting, IMA: Reporting

In this chapter, you saw that there are very specific rules governing the recording of assets, liabilities, revenues, and expenses. However, within these rules there is a lot of room for judgment. It would not be at all unusual for two experienced accountants, when faced with identical situations, to arrive at different results.

Similarly, in reporting your financial situation for financial aid there is a lot of room for judgment. The question is, what kinds of actions are both permissible and ethical, and what kinds of actions are illegal and unethical? It might be argued that paying off your credit card debt to reduce your assets in order to improve your chances of getting aid is unethical. You did so, however, through a legitimate transaction. In fact, given the high interest rates charged on credit card bills, it would probably be a good idea to use the cash to pay off your bills even if you aren't applying for aid.

Now, consider an alternative situation. Suppose that you have \$10,000 in cash, and you have a sibling who is five years younger than you. Should you “give” the cash to your sibling while you are being considered for financial aid? This would give the appearance of substantially reducing your assets, and thus increase the likelihood that you will receive aid. Most people would argue that this is unethical, and it is probably illegal.

When completing your FAFSA form, don't ignore the following warning on the front of the form: “If you get Federal student aid based on incorrect information, you will have to pay it back; you may also have to pay fines and fees. If you purposely give false or misleading information on your application, you may be fined \$20,000, sent to prison, or both.”

LO 2, 5, BT: E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, Communication AICPA FC: Reporting, IMA: Reporting

No solution necessary

LO N/A, BT: AP, Difficulty: Moderate, TOT: 15min., AACSB: Technology, AICPA FC: Measurement, IMA: Reporting

The 5 aspirations relate to the company's goals related to sustaining its brands, its business, its people, its community and the planet.

LO N/A, BT: C, Difficulty: Easy, TOT: 10 min., AACSB: Analytic, Technology, AICPA FC: Reporting, IMA: Reporting

IFRS1.1

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

LO 7, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: Diversity, AICPA FC: Measurement, AICPA BB: Global/Industry
Perspective IMA: Reporting

IFRS1.2

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

LO 7, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: Diversity, AICPA FC: Measurement, AICPA BB: Global/Industry
Perspective IMA: Reporting

IFRS1.3

- (a) Mazars and Ernst & Young et Autres**
- (b) LVMH 22, avenue Montaigne – 75008 Paris, France**
- (c) The company reports in Euros.**

LO 7, BT: AN, Difficulty: Easy, TOT: 10 min., AACSB: Diversity, AICPA FC: Reporting, AICPA BB: Global/Industry
Perspective IMA: Reporting

SOLUTIONS TO CASES FOR MANAGEMENT DECISION MAKING

CASE 1

1. A predetermined manufacturing overhead rate means that all manufacturing overhead costs, are allocated to each job based on a cost driver. Often this is done based on the expected volume of units produced. That is, products that are produced in higher volume are allocated more overhead.

In the case of Wall Décor, in addition to volume sold, the base used is the cost of each print sold. That is, each print is allocated an amount of manufacturing overhead based on the cost of the print. The management of Wall Décor felt that this approach was logical because it was expected that more expensive prints would be more likely to be framed, and that the processing of framing requires the incurrence of considerably more overhead costs.

2. The advantages of using the cost of each print as the manufacturing overhead cost driver are that: (1) it is relatively inexpensive to implement in a business, (2) it is easy to explain, and (3) it keeps accounting records in compliance with GAAP.

The primary disadvantage of using the cost of each print as the manufacturing overhead cost driver is that it may not result in a reasonable estimate of the cost of a job, batch, or service. That is, the assumed relationship—that the cost of the print is related to the amount of overhead cost incurred—may be incorrect. Many of the overhead costs incurred are the result of the framing and matting processes. However, the approach used by Wall Décor will result in a high overhead allocation to expensive prints, even if those prints are not framed. Furthermore, even if overhead costs are related to the cost of prints, and substantially more unframed prints are sold than framed prints, then an inordinate amount of overhead will still be allocated to the unframed prints simply because more of those are sold. By allocating overhead in an inappropriate fashion, product costs are distorted, and, as a consequence, management decision making is affected.

CASE 1 (Continued)

3. Under a job order costing system, a predetermined overhead rate must be used, since the cost of jobs must be calculated throughout the year (rather than just at year-end). This predetermined overhead rate is based on expected costs and the expected total amount of the cost driver. Therefore, the first thing that must be done is to compute the total expected overhead cost. This step was completed in the information provided by the accounting and production teams. It was determined to be \$375,200 (Illustration CA 1-2).

The second step is to determine the total expected cost of prints for the period.

Unframed:	80,000 X \$12 =	\$ 960,000
Steel-framed:	15,000 X \$16 =	240,000
Wood-framed:	7,000 X \$20 =	140,000
Total expected cost of prints		<u>\$1,340,000</u>

Once the total expected overhead cost and total expected print cost are known, the overhead rate can be determined.

$$\text{Predetermined overhead rate} = \$375,200 \div \$1,340,000 = \$0.28$$

This means that for every \$1 of print cost, it is assumed that 28¢ of manufacturing overhead costs are consumed. For example, a \$12 print will be assigned \$3.36 ($\$12 \times \0.28) of overhead.

CASE 1 (Continued)

4.	Lance Armstrong Print	John Elway Steel-Framed Print, No Matting	Lambeau Field Wood-Framed Print, with Matting
Direct material			
Print	\$12.00	\$16.00	\$20.00
Frame and glass		4.00	6.00
Matting			4.00
Direct labor			
Picking			
([10/60] X \$12)	2.00	2.00	2.00
Matting and framing			
([20/60] X \$21)		7.00	
([30/60] X \$21)			10.50
Manufacturing overhead			
(0.28 X \$12, \$16, \$20)	<u>3.36</u>	<u>4.48</u>	<u>5.60</u>
Total product cost	<u>\$17.36</u>	<u>\$33.48</u>	<u>\$48.10</u>

5. (a) Unframed prints	80,000 X \$12 X \$0.28 =	\$268,800
(b) Steel-framed prints	15,000 X \$16 X \$0.28 =	67,200
(c) Wood-framed prints	7,000 X \$20 X \$0.28 =	39,200
		<u>\$375,200</u>

(d) As a percentage, unframed prints are being allocated 71.6 percent or ($\$268,800 \div \$375,200$) of the total overhead cost.

6. No. Unframed prints are being allocated too much manufacturing overhead and framed prints too little manufacturing overhead. In designing the allocation approach, management had assumed that since the average cost of framed prints would exceed the average cost of unframed prints, more of the overhead would be allocated to framed prints. However, the cause of the apparent misallocation is that the volume of unframed prints is much greater than the volume of framed prints. This dramatic difference in volume far outweighs the difference in price. Therefore, unframed prints as a category end up absorbing the bulk of the overhead costs. This does not seem appropriate since a review of the manufacturing overhead costs shows that many of the overhead costs are associated with the framing and matting component of the production area, such as salaries, rent of factory equipment, and information systems.

CASE 1 (Continued)

7. The high-volume unframed prints will be overcosted and the low-volume framed prints will be undercosted. This will occur because the category of prints that are sold most frequently will generally carry the greatest amount of overhead. For example, in reference to the solution to question 4, the framed and matted print is being allocated only \$5.60, but an unframed print is allocated \$3.36 of manufacturing overhead. This is not logical because a substantial portion of manufacturing overhead costs is dedicated to framing and matting prints.

As a result, Wall Décor might end up selling framed prints at a price that is too low to cover its cost. Changing the way the overhead is allocated may improve the profit center's performance.

Chapter One

Challenge Exercise 1

Expands on: E1-7

LO: 4

Wunderkind Photography entered into the following transactions during February 2022.

1. Stockholders invested \$5,000 in the business.
2. Bought photography equipment for a cash payment of \$1,000.
3. Bought more photography equipment by signing a \$500 note payable.
4. Performed photography services for \$400 cash.
5. Performed photography services, and billed the customer \$900 on account.
6. Collected \$900 from the customer in transaction 5.
7. Paid for February developing and printing, \$150.
8. Advertised the business in the Platteville Journal. The \$100 cost will be billed to Wunderkind.
9. Paid the advertising bill from transaction 8.
10. Paid \$200 for photography supplies.
11. Received \$300 cash advance payment from a customer for a photography job to be performed in April.
12. Paid \$250 dividend to the stockholders.

Instructions:

- A. Indicate whether each transaction increases or decreases assets, liabilities, or stockholders' equity. As an example, item one would be: increase assets and increase stockholders' equity.
- B. Ignoring dollar amounts, explain what transactions 4 and 5 have in common, and how they differ.
- C. Ignoring dollar amounts, explain what transactions 7 and 8 have in common, and how they differ.
- D. Ignoring dollar amounts, explain what transactions 4 and 11 have in common, and how they differ.

Challenge Exercise 1 – Solution

- A.
 1. Increase assets and increase stockholders' equity.
 2. Increase assets and decrease assets.
 3. Increase assets and increase liabilities.
 4. Increase assets and increase stockholders' equity.
 5. Increase assets and increase stockholders' equity.
 6. Increase assets and decrease assets.
 7. Decrease stockholders' equity and decrease assets.
 8. Decrease stockholders' equity and increase liabilities.
 9. Decrease liabilities and decrease assets.
 10. Increase assets and decrease assets.
 11. Increase assets and increase liabilities.
 12. Decrease stockholders' equity and decrease assets.

Challenge Exercise 1 – Solution (Continued)

B. In both transactions 4 and 5, stockholders' equity increases because revenue is earned. In addition, in both transactions, assets increase. Cash is the asset increasing in transaction 4, while accounts receivable is the asset increasing in transaction 5.

C. In transactions 7 and 8, stockholders' equity decreases because an expense is incurred. In transaction 7, the cash is paid at the time the expense is incurred; in transaction 8, cash will not be paid until after the expense is incurred.

D. In both transactions 4 and 11, cash is collected from customers for a revenue. In transaction 4, the cash is collected when the work was done for the customer, so the revenue is recorded and stockholders' equity is increased. In transaction 11, cash is collected before the work is done for the customer, so the firm has an increase in liabilities (they owe the photography work to the customer) instead of an increase in stockholders' equity.

Challenge Exercise 2

Expands on: E1-10

LO: 4

The total assets and liabilities of Robot Company at January 1 and December 31, 2022 are presented here.

	<u>January 1</u>	<u>December 31</u>
Assets	\$76,000	\$112,000
Liabilities	26,000	28,800

Instructions:

1. Assume dividends of \$10,800 were paid and no additional stock was issued during the year. Revenues were \$110,000. Compute (a) net income, and (b) expenses.
2. Assume additional stock was issued for \$4,800 and no dividends were paid during the year. Expenses were \$42,000. Compute (a) net income, and (b) revenues.
3. Assume additional stock was issued for \$62,000 and dividends of \$15,600 were paid during the year. Compute net income.
4. Assume additional stock was issued for \$6,000, and net income was \$51,000. Compute dividends paid.

Challenge Exercise 2 – Solution

1. (a) January 1, stockholders' equity = $\$76,000 - \$26,000 = \$50,000$.
December 31, stockholders' equity = $\$112,000 - \$28,800 = \$83,200$.
The change in stockholders' equity = $\$83,200 - \$50,000 = \$33,200$.
 $\$33,200 = \text{Net income} + \text{investments by owners} - \text{dividends}$.
 $\$33,200 = \text{NI} + \$0 - \$10,800$.
 $\text{NI} = \$44,000$.
(b) Revenues - expenses = net income.
 $\$110,000 - \text{expenses} = \$44,000$.
Expenses = $\$66,000$.
2. (a) January 1, stockholders' equity = $\$76,000 - \$26,000 = \$50,000$.
December 31, stockholders' equity = $\$112,000 - \$28,800 = \$83,200$.
The change in stockholders' equity = $\$83,200 - \$50,000 = \$33,200$.
 $\$33,200 = \text{Net income} + \text{investments by owners} - \text{dividends}$.
 $\$33,200 = \text{NI} + \$4,800 - \$0$.
 $\text{NI} = \$28,400$.
(b) Revenues - expenses = net income.
Revenues - $\$42,000 = \$28,400$.
Revenues = $\$70,400$.
3. January 1, stockholders' equity = $\$76,000 - \$26,000 = \$50,000$.
December 31, stockholders' equity = $\$112,000 - \$28,800 = \$83,200$.
The change in stockholders' equity = $\$83,200 - \$50,000 = \$33,200$.
 $\$33,200 = \text{Net income} + \text{investments by owners} - \text{dividends}$.
 $\$33,200 = \text{NI} + \$62,000 - \$15,600$.
 $\text{NI} = -\$13,200$. (a net loss).
4. January 1, stockholders' equity = $\$76,000 - \$26,000 = \$50,000$.
December 31, stockholders' equity = $\$112,000 - \$28,800 = \$83,200$.
The change in stockholders' equity = $\$83,200 - \$50,000 = \$33,200$.

$\$33,200 = \text{Net income} + \text{investments by owners} - \text{dividends}.$

$\$33,200 = \$51,000 + \$6,000 - \text{dividends}.$

$\text{Dividends} = \$23,800.$

Challenge Exercise 3

Expands on: E1-12, E1-14

LO: 5

Seattle Service had the following financial information at the end of 2022:

	<u>1/1/22</u>	<u>2022</u>	<u>12/31/22</u>
Accounts Payable			\$15,000
Accounts Receivable			20,000
Advertising Expense		\$ 1,000	
Cash			11,000
Common Stock			15,000
Dividends		9,000	
Equipment			33,000
Notes Payable			20,000
Rent Expense		3,500	
Retained Earnings	\$6,000		
Salaries and Wages Expense		16,000	
Service Revenue		40,000	
Utilities Expense		2,500	

Instructions:

Prepare a 2022 income statement, 2022 statement of retained earnings, and a 12/31/22 balance sheet for Seattle Service.

Challenge Exercise 3 – Solution

Seattle Service
Income Statement
For the Year Ended December 31, 2022

Revenues			
Service revenue			\$40,000
Expenses			
Salaries expense		\$16,000	
Rent expense		3,500	
Utilities expense		2,500	
Advertising expense		<u>1,000</u>	<u>23,000</u>
Net income			<u>\$17,000</u>

Challenge Exercise 3 – Solution (Continued)

Seattle Service
Retained Earnings Statement
For the Year Ended December 31, 2022

Retained earnings, 1/1/22	\$ 6,000
Add: Net income	<u>17,000</u>
	23,000
Less: Dividends	<u>9,000</u>
Retained earnings, 12/31/22	<u>\$ 14,000</u>

Seattle Service
Balance Sheet
December 31, 2022

Assets		
Cash		\$11,000
Accounts receivable		20,000
Equipment		<u>33,000</u>
Total assets		<u>\$64,000</u>
Liabilities		
Notes payable	\$20,000	
Accounts payable	<u>15,000</u>	
Total liabilities		\$35,000
Stockholders' Equity		
Common stock	15,000	
Retained earnings	<u>14,000</u>	
Total stockholders' equity		<u>29,000</u>
Total liabilities and stockholders' equity		<u>\$64,000</u>