

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>	<u>B Problems</u>
1. Explain what accounting is.	1, 2, 5		1	1		
2. Identify the users and uses of accounting.	3, 4		1	2		
3. Understand why ethics is a fundamental business concept.				3		
4. Explain accounting standards and the measurement principles.	6		1	4		
5. Explain the monetary unit assumption and the economic entity assumption.	7, 8, 9, 10			4		
6. State the accounting equation, and define its components.	11, 12, 13, 14, 22	1, 2, 3, 4, 5, 8, 9	2	5, 6, 7, 11	1A, 2A, 4A	1B, 2B, 4B
7. Analyze the effects of business transactions on the accounting equation.	15, 16	6, 7	3	6, 7, 8, 10, 11	1A, 2A, 4A, 5A	1B, 2B, 4B, 5B
8. Understand the four financial statements and how they are prepared.	17, 18, 19, 20, 21	10, 11	4	8, 9, 12, 13, 14, 15, 16, 17	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Analyze transactions and compute net income.	Moderate	40–50
2A	Analyze transactions and prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
3A	Prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
4A	Analyze transactions and prepare financial statements.	Moderate	40–50
5A	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50
1B	Analyze transactions and compute net income.	Moderate	40–50
2B	Analyze transactions and prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
3B	Prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
4B	Analyze transactions and prepare financial statements.	Moderate	40–50
5B	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50

WEYGANDT FINANCIAL ACCOUNTING, IFRS Version, 2e
CHAPTER 1
ACCOUNTING IN ACTION

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

ACCOUNTING IN ACTION (Continued)

Number	LO	BT	Difficulty	Time (min.)
P1A	6, 7	AP	Moderate	40–50
P2A	6–8	AP	Moderate	50–60
P3A	8	AP	Moderate	50–60
P4A	6–8	AP	Moderate	40–50
P5A	7, 8	AP	Moderate	40–50
P1B	6, 7	AP	Moderate	40–50
P2B	6–8	AP	Moderate	50–60
P3B	8	AP	Moderate	50–60
P4B	6–8	AP	Moderate	40–50
P5B	7, 8	AP	Moderate	40–50
BYP1	8	AN	Simple	10–15
BYP2	8	AN, E	Simple	10–15
BYP3	3	C	Simple	15–20
BYP4	8	E	Moderate	15–20
BYP5	8	E	Simple	12–15
BYP6	3	E	Simple	10–12

BLOOM'S TAXONOMY TABLE

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

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what accounting is.	DI1-1	Q1-1 Q1-2 E1-1				
2. Identify the users and uses of accounting.	DI1-1	Q1-3 Q1-4 E1-2				
3. Understand why ethics is a fundamental business concept.		E1-3				
4. Explain accounting standards and the measurement principles.	DI1-1	Q1-6 E1-4				
5. Explain the monetary unit assumption and the economic entity assumption.	Q1-7 Q1-8 Q1-9 Q1-10	E1-4				
6. State the accounting equation, and define its components.	Q1-11 Q1-12 Q1-13 DI1-2 BE1-5	Q1-11 Q1-14 BE1-8 BE1-9 E1-5 E1-6 E1-7	Q1-22 P1-1A P1-2A BE1-1 P1-4A BE1-2 P1-1B BE1-3 P1-2B BE1-4 P1-4B E1-11			
7. Analyze the effects of business transactions on the accounting equation.		Q1-15 Q1-16 BE1-6 BE1-7 E1-6 E1-7	DI1-3 P1-4A E1-8 P1-5A E1-11 P1-1B P1-1A P1-2B P1-2A P1-4B P1-5B			
8. Understand the four financial statements and how they are prepared.		Q1-17 Q1-18 Q1-19 Q1-20 BE1-11	Q1-21 BE1-10 E1-17 P1-2A DI1-4 P1-3A E1-8 P1-4A E1-9 P1-5A E1-10 P1-2B E1-12 P1-3B E1-14 P1-4B E1-15 P1-5B E1-16	E1-13		
Broadening Your Perspective		Real-World Focus		Financial Reporting Comparative Analysis		Comparative Analysis Decision-Making Across the Organization Communication Activity Ethics Case

ANSWERS TO QUESTIONS

1. Yes, this is correct. Virtually every organization and person in our society uses accounting information. Businesses, investors, creditors, government agencies, and not-for-profit organizations must use accounting information to operate effectively.
2. Accounting is the process of identifying, recording, and communicating the economic events of an organization to interested users of the information. The first step of the accounting process is therefore to identify economic events that are relevant to a particular business. Once identified and measured, the events are recorded to provide a history of the financial activities of the organization. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner. The information is communicated through the preparation and distribution of accounting reports, the most common of which are called financial statements. A vital element in the communication process is the accountant's ability and responsibility to analyze and interpret the reported information.
3.
 - (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.
 - (b) To assist management, accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.
4.
 - (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell shares.
 - (b) Creditors use accounting information to evaluate the risks of granting credit or lending money.
5. No, this is incorrect. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.
6. Jackie Remmers Travel Agency should report the land at \$85,000 on its December 31, 2014 statement of financial position. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use cost. Only in situations where assets are actively traded do companies apply the fair value principle extensively. An important concept that accountants follow is the historical cost principle.
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.
8. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.
9. The three basic forms of business organizations are: (1) proprietorship, (2) partnership, and (3) corporation.

Questions Chapter 1 (Continued)

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

Questions Chapter 1 (Continued)

- 20.** (a) Ending equity balance..... \$198,000
Beginning equity balance..... 158,000
Net income..... \$ 40,000
- (b) Ending equity balance..... \$198,000
Beginning equity balance..... 158,000
40,000
Deduct: Investment..... 13,000
Net income..... \$ 27,000
- 21.** (a) Total revenues (£30,000 + £70,000)..... £100,000
- (b) Total expenses (£26,000 + £40,000) £66,000
- (c) Total revenues £100,000
Total expenses..... 66,000
Net income..... £34,000
- 22.** Nestle's accounting equation (in millions of Swiss Francs) at December 31, 2010 was CHF111,641 = CHF49,043 + CHF62,598.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1-1

- (a) $¥90,000 - ¥50,000 = ¥40,000$ (Equity).
 (b) $¥45,000 + ¥70,000 = ¥115,000$ (Assets).
 (c) $¥94,000 - ¥60,000 = ¥34,000$ (Liabilities).

BRIEF EXERCISE 1-2

- (a) $\$120,000 + \$232,000 = \$352,000$ (Total assets).
 (b) $\$190,000 - \$80,000 = \$110,000$ (Total liabilities).
 (c) $\$600,000 - 0.5(\$600,000) = \$300,000$ (Equity).

BRIEF EXERCISE 1-3

- (a) $(\text{€}70,000 + \text{€}150,000) - (\text{€}500,000 - \text{€}80,000) = \text{€}600,000$
 (Equity).
 (b) $(\text{€}500,000 + \text{€}100,000) + (\text{€}70,000 - \text{€}500,000 - \text{€}70,000) = \text{€}900,000$
 (Assets).
 (c) $(\text{€}70,000 - \text{€}80,000) - (\text{€}70,000 - \text{€}500,000 + \text{€}120,000) = \text{€}300,000$
 (Liabilities).

BRIEF EXERCISE 1-4

	Assets	=	Liabilities	+	Equity		
					Share Capital— Ordinary	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>				
(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)
(c)	£600,000	=	(£600,000 x 2/3) + X (Equity)				
	£600,000	=	£400,000 + X				
	X	=	<u>£200,000</u>				

BRIEF EXERCISE 1-5

<u>A</u>	(a) Accounts receivable	<u>A</u>	(d) Supplies
<u>L</u>	(b) Salaries and wages payable	<u>E</u>	(e) Share Capital—Ordinary
<u>A</u>	(c) Equipment	<u>L</u>	(f) Notes payable

BRIEF EXERCISE 1-6

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
(a)	+	+	NE
(b)	+	NE	+
(c)	—	NE	—

BRIEF EXERCISE 1-7

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
(a)	+	NE	+
(b)	—	NE	—
(c)	NE	NE	NE

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		

BRIEF EXERCISE 1-9

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

BRIEF EXERCISE 1-10

GRANDE COMPANY
Statement of Financial Position
December 31, 2014

Assets	
Accounts receivable.....	\$ 72,500
Cash.....	<u>44,000</u>
Total assets	<u>\$116,500</u>
Equity and Liabilities	
Equity	
Share capital—ordinary	\$ 31,500
Liabilities	
Accounts payable	<u>85,000</u>
Total equity and liabilities	<u>\$116,500</u>

BRIEF EXERCISE 1-11

<u>FP</u>	(a) Notes payable
<u>IS</u>	(b) Advertising expense
<u>FP</u>	(c) Share capital—ordinary
<u>FP</u>	(d) Cash
<u>IS</u>	(e) Service revenue
<u>RE</u>	(f) Dividends

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 1-1

1. False. The three steps in the accounting process are identification, recording, and communication.
2. True.
3. True.
4. False. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
5. True.

DO IT! 1-2

1. Dividends is dividends (D); it decreases equity.
2. Rent Revenue is revenue (R); it increases equity.
3. Advertising Expense is an expense (E); it decreases equity.
4. When shareholders pay cash into the business, they receive shares (I); it increases equity.

DO IT! 1-3

Assets		=	Liabilities	+	Equity		
Accounts			Accounts		Share	Retained Earnings	
Cash	+ Receivable	=	Payable	+	Capital	+ Revenues	– Expenses – Dividends
(1)	+ R23,000					+ R23,000	
(2) +R23,000	– R23,000						
(3)			+ R2,000				– R2,000
(4) – R5,000							– R5,000

DO IT! 1-4

- (a) The total assets are R\$51,500, comprised of Cash R\$9,000, Accounts Receivable R\$13,500, and Equipment R\$29,000.
- (b) Net income is R\$21,700, computed as follows:

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

DO IT! 1-4 (Continued)

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

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

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

SOLUTIONS TO EXERCISES

EXERCISE 1-1

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

EXERCISE 1-2

(a) *Internal users*

Marketing manager
Production supervisor
Store manager
Vice-president of finance

External users

Customers
Labor unions
Securities regulator
Suppliers
Taxing agency

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

EXERCISE 1-3

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

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

In general, even though IFRS allows companies to revalue property, plant, and equipment and other long-held assets to fair value, most companies choose to use cost. Only in situations where assets are actually traded, such as investment securities, do companies apply the fair value principle extensively.

Carla's alternatives are to report the land at \$100,000 or to report it at \$170,000. Reporting the land at \$170,000 is not appropriate because Leon thinks it is "probably worth" that amount and it would mislead many people who rely on Manternach's accounting reports to make financial decisions. Carla's should report the land at its cost of \$100,000. She should try to convince Leon Manternach that this is the appropriate course of action, but be prepared to resign her position if Manternach insists.

EXERCISE 1-4

1. Correct. The *fair value principle* allows companies to revalue property, plant and equipment to fair value. However, most companies choose not to instead, due to reliability concerns about valuation, and negative effects on net income, most companies report property, plant and equipment at cost.

2. **Correct.** The *monetary unit assumption* requires that companies include in the accounting records only transaction data that can be expressed in terms of money.
3. **Incorrect.** The *economic entity assumption* requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

EXERCISE 1-5

<u>Asset</u>	<u>Liability</u>	<u>Equity</u>
Cash	Accounts payable	Share Capital—
Equipment	Notes payable	Ordinary
Supplies	Salaries and wages payable	
Accounts receivable		

EXERCISE 1-6

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

EXERCISE 1-7

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

EXERCISE 1-8

- (a)
1. Shareholders invested \$15,000 cash in the business.
 2. Purchased equipment for \$5,000, paying \$2,000 in cash and the balance of \$3,000 on account.
 3. Paid \$750 cash for supplies.
 4. Earned \$9,100 in revenue, receiving \$4,600 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 shareholders.
7. Paid \$650 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)	Investment	\$15,000
	Service revenue.....	9,100
	Dividends	(2,000)
	Rent expense	(650)
	Salaries and wages expense.....	(3,900)
	Utilities expense.....	<u>(500)</u>
	Increase in equity	<u>\$17,050</u>
(c)	Service revenue.....	\$9,100
	Rent expense	(650)
	Salaries and wages expense.....	(3,900)
	Utilities expense.....	<u>(500)</u>
	Net income	<u>\$4,050</u>

EXERCISE 1-9

J. L. KANG & CO.
Income Statement
For the Month Ended August 31, 2014

Revenues		
	Service revenue.....	\$9,100
Expenses		
	Salaries and wages expense.....	\$3,900
	Rent expense	650
	Utilities expense.....	<u>500</u>
	Total expenses.....	<u>5,050</u>
	Net income.....	<u>\$4,050</u>

EXERCISE 1-9 (Continued)

J. L. KANG & CO.
Retained Earnings Statement
For the Month Ended August 31, 2014

Retained earnings, August 1	\$ 0
Add: Net income.....	<u>4,050</u>
	4,050
Less: Dividends.....	<u>2,000</u>
Retained earnings, August 31	<u>\$ 2,050</u>

J.L. KANG & CO.
Statement of Financial Position
August 31, 2014

Assets		
Equipment.....		\$ 5,000
Supplies		750
Accounts receivable.....		4,050
Cash.....		<u>9,250</u>
Total assets		<u>\$19,050</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$15,000	
Retained earnings.....	<u>2,050</u>	\$17,050
Liabilities		
Accounts payable		<u>2,000</u>
Total equity and liabilities.....		<u>\$19,050</u>

EXERCISE 1-10

(a) Equity—12/31/13 (₺400,000 – ₺260,000).....	₺140,000
Equity—1/1/13	<u>100,000</u>
Increase in equity	40,000
Add: Dividends	<u>15,000</u>
Net income for 2013.....	<u>₺ 55,000</u>

EXERCISE 1-10 (Continued)

(b) Equity—12/31/14 (₺480,000 – ₺300,000)	₺180,000
Equity—1/1/14—see (a).....	<u>140,000</u>
Increase in equity	40,000
Less: Additional investment	<u>50,000</u>
Net loss for 2014	<u>₺(10,000)</u>
 (c) Equity—12/31/15 (₺590,000 – ₺400,000)	₺190,000
Equity—1/1/15—see (b).....	<u>180,000</u>
Increase in equity	10,000
Less: Additional investment	<u>15,000</u>
	(5,000)
Add: Dividends.....	<u>30,000</u>
Net income for 2015	<u>₺ 25,000</u>

EXERCISE 1-11

(a) Total assets (beginning of year)	£ 97,000
Total liabilities (beginning of year)	<u>85,000</u>
Total equity (beginning of year).....	<u>£ 12,000</u>
 (b) Total equity (end of year).....	£ 40,000
Total equity (beginning of year).....	<u>12,000</u>
Increase in equity	<u>£ 28,000</u>
 Total revenues	£215,000
Total expenses	<u>175,000</u>
Net income	<u>£ 40,000</u>
 Increase in equity	£ 28,000
Less: Net income	£(40,000)
Add: Dividends.....	<u>24,000</u>
Additional investment.....	<u>(16,000)</u>
	<u>£ 12,000</u>
 (c) Total assets (beginning of year)	£129,000
Total shareholders' equity (beginning of year)	<u>75,000</u>
Total liabilities (beginning of year)	<u>£ 54,000</u>

EXERCISE 1-11 (Continued)

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

EXERCISE 1-12

KAREN WEIGEL CO.
Income Statement
For the Year Ended December 31, 2014

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>

KAREN WEIGEL CO.
Retained Earnings Statement
For the Year Ended December 31, 2014

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>

EXERCISE 1-13

SANCULI COMPANY
Statement of Financial Position
December 31, 2014

Assets		
Equipment		€48,000
Supplies		8,000
Accounts receivable		8,500
Cash		<u>14,000</u>
Total assets		<u>€78,500</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	€50,000	
Retained earnings (€17,500 – €9,000)	<u>8,500</u>	€58,500
Liabilities		
Accounts payable		<u>20,000</u>
Total equity and liabilities		<u>€78,500</u>

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>

(b) **BEAR PARK**
Statement of Financial Position
December 31, 2014

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

EXERCISE 1-14 (Continued)

BEAR PARK
Statement of Financial Position (Continued)
December 31, 2014

Equity and Liabilities		
Equity		
Share capital—ordinary	\$20,000	
Retained earnings	<u>37,000</u>	
Total equity		\$ 57,000
Liabilities		
Notes payable	60,000	
Accounts payable	<u>11,000</u>	
Total liabilities		<u>71,000</u>
Total equity and liabilities		<u>\$128,000</u>

EXERCISE 1-15

DELGADO CRUISE COMPANY
Income Statement
For the Year Ended December 31, 2014

Revenues		
Ticket revenue		R\$335,000
Expenses		
Salaries and wages expense	R\$142,000	
Maintenance and repairs expense	97,000	
Utilities expense	10,000	
Advertising expense	<u>3,500</u>	
Total expenses		<u>252,500</u>
Net income		<u>R\$ 82,500</u>

EXERCISE 1-16

WILLIAMS AND DOUGLAS, ATTORNEYS AT LAW
Retained Earnings Statement
For the Year Ended December 31, 2014

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>

EXERCISE 1-17

JAVA COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014
(Amounts in thousands)

Cash flows from operating activities		
Cash receipts from revenues		Rp600,000
Cash payments for expenses.....		<u>(430,000)</u>
Net cash provided by operating activities		170,000
Cash flows from investing activities		
Purchase of equipment.....		(100,000)
Cash flows from financing activities.....		
Sale of ordinary shares	Rp280,000	
Payment of cash dividends	<u>(20,000)</u>	<u>260,000</u>
Net increase in cash		330,000
Cash at the beginning of the period.....		<u>30,000</u>
Cash at the end of the period		<u>Rp360,000</u>

PROBLEM 1-1A

1-25

PROBLEM 1-1A (Continued)

Key to Retained Earnings Column

- (a) Rent expense
- (b) Advertising expense
- (c) Service revenue
- (d) Dividends
- (e) Salaries and wages expense
- (f) Utilities expense
- (g) Service revenue

(b) Service revenue (£4,700 + £980)			£5,680
Expenses			
Salaries and wages	£1,000		
Rent.....	400		
Advertising.....	250		
Utilities.....	<u>140</u>		<u>1,790</u>
Net income			<u>£3,890</u>

PROBLEM 1-2A

(a)

\$29,800

PROBLEM 1-2A (Continued)

(b) DONAHUE VETERINARY CLINIC
Income Statement
For the Month Ended September 30, 2014

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><u>\$4,330</u></u>

DONAHUE VETERINARY CLINIC
Retained Earnings Statement
For the Month Ended September 30, 2014

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

PROBLEM 1-2A (Continued)

DONAHUE VETERINARY CLINIC
Statement of Financial Position
September 30, 2014

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

PROBLEM 1-3A

(a) **PARK FLYING SCHOOL**
Income Statement (in thousands)
For the Month Ended May 31, 2014

Revenues		
Service revenue		₩6,800
Expenses		
Gasoline expense	₩2,500	
Rent expense	1,200	
Advertising expense	500	
Utilities expense	400	
Maintenance and repairs expense	400	
Total expenses		<u>5,000</u>
Net income		<u>₩ 1,800</u>

PARK FLYING SCHOOL
Retained Earnings Statement (in thousands)
For the Month Ended May 31, 2014

Retained Earnings, May 1	₩ 0
Add: Net income	<u>1,800</u>
	1,800
Less: Dividends	<u>500</u>
Retained earnings, May 31	<u>₩ 1,300</u>

PARK FLYING SCHOOL
Statement of Financial Position (in thousands)
May 31, 2014

Assets	
Equipment	₩64,000
Accounts receivable	7,200
Cash	<u>4,500</u>
Total assets	<u>₩ 75,700</u>

PROBLEM 1-3A (Continued)

PARK FLYING SCHOOL
Statement of Financial Position (Continued)
May 31, 2014

Equity and Liabilities		
Equity		
Share capital—ordinary	W 45,000	
Retained earnings	<u>1,300</u>	
Total equity		W 46,300
Liabilities		
Notes payable	W 28,000	
Accounts payable	<u>1,400</u>	
Total liabilities		<u>29,400</u>
Total equity and liabilities		<u><u>W75,700</u></u>

(b) **PARK FLYING SCHOOL**
Income Statement (in thousands)
For the Month Ended May 31, 2014

Revenues		
Service revenue (W 6,800 + W 900)		W 7,700
Expenses		
Gasoline expense (W 2,500 + W 1,500)	W 4,000	
Rent expense	1,200	
Advertising expense	500	
Utilities expense	400	
Maintenance and repairs expense	<u>400</u>	
Total expenses		<u>6,500</u>
Net income		<u><u>W1,200</u></u>

PARK FLYING SCHOOL
Retained Earnings Statement (in thousands)
For the Month Ended May 31, 2014

Retained Earnings, May 1	W 0
Add: Net income	<u>1,200</u>
	1,200
Less: Dividends	<u>500</u>
Retained Earnings, May 31	<u><u>W 700</u></u>

PROBLEM 1-4A

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PROBLEM 1-4A (Continued)

Key to Retained Earnings Column

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

(b) **STINER DELIVERIES**
Income Statement
For the Month Ended June 30, 2014

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>

(c) **STINER DELIVERIES**
Statement of Financial Position
June 30, 2014

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

PROBLEM 1-5A

(a)	Crosby Company	Stills Company	Nash Company	Young Company
	(a) \$ 25,000	(d) \$50,000	(g) \$120,000	(j) \$ 50,000
	(b) 95,000	(e) 62,000	(h) 70,000	(k) 220,000
	(c) 5,000	(f) 48,000	(i) 431,000	(l) 465,000

(b)

STILLS COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained earnings, January 1.....	\$20,000
Add: Net income.....	<u>35,000</u>
	55,000
Less: Dividends.....	<u>48,000</u>
Retained earnings, December 31.....	<u><u>\$ 7,000</u></u>

- (c) The sequence of preparing financial statements is income statement, retained earnings statement, and statement of financial position. 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 in the retained earnings statement and ending retained earnings reported in the retained earnings statement is the amount reported for retained earnings on the statement of financial position.

PROBLEM 1-1B

HOLIDAY TRAVEL AGENCY									
Accounts				Accounts		Equity			
Cash	+ Receivable	+ Supplies	+ Equipment	= Payable	+ Capital	+ Revenues	- Expenses	= Dividends	
<u>+€10,000</u>					<u>+€10,000</u>				
<u>10,000</u>					<u>10,000</u>				
<u>-400</u>							- € 400		
<u>9,600</u>					<u>10,000</u>		- 400		
<u>-2,500</u>			<u>+€2,500</u>						
<u>7,100</u>		+	<u>2,500</u>	=	<u>10,000</u>		- 400		
<u>7,100</u>		+	<u>2,500</u>	=	<u>+€300</u>		- 300		
<u>-600</u>		<u>+€600</u>		<u>300</u>	<u>+</u>		- 700		
<u>6,500</u>	+	<u>600</u>	<u>2,500</u>	<u>=</u>	<u>300</u>	+	- 700		
<u>+2,000</u>	<u>+€6,500</u>					<u>+ €8,500</u>			
<u>8,500</u>	<u>+ 6,500</u>	<u>+ 600</u>	<u>2,500</u>	<u>=</u>	<u>300</u>	<u>+ 10,000</u>	- 700		
<u>-200</u>								<u>- €200</u>	
<u>8,300</u>	<u>+ 6,500</u>	<u>+ 600</u>	<u>2,500</u>	<u>=</u>	<u>300</u>	<u>+ 10,000</u>	- 700	<u>- 200</u>	
<u>-300</u>				<u>-300</u>					
<u>8,000</u>	<u>+ 6,500</u>	<u>+ 600</u>	<u>2,500</u>	<u>=</u>	<u>0</u>	<u>+ 10,000</u>	- 700	<u>- 200</u>	
<u>-2,200</u>							- 2,200		
<u>5,800</u>	<u>+ 6,500</u>	<u>+ 600</u>	<u>2,500</u>	<u>=</u>	<u>10,000</u>	<u>+ 8,500</u>	- 2,900	<u>- 200</u>	
<u>+5,700</u>	<u>-5,700</u>								
<u>€11,500</u>	<u>+ €800</u>	<u>+ €600</u>	<u>+ €2,500</u>	<u>=</u>	<u>€ 0</u>	<u>+ €10,000</u>	- €2,900	<u>- €200</u>	

PROBLEM 1-1B (Continued)

Key to Retained Earnings Column

- (a) Rent Expense

(b) Advertising Expense

(c) Service Revenue
- (d) Dividends

(e) Salaries and Wages Expense

(b) Service revenue.....			€8,500
Expenses			
Salaries and wages	€2,200		
Rent.....	400		
Advertising.....	300		
Net income			<u>2,900</u>
			<u>€5,600</u>

PROBLEM 1-2B

(a)

$\$14,100$

PROBLEM 1-2B (Continued)

(b) MANDY ARNOLD, ATTORNEY AT LAW
Income Statement
For the Month Ended August 31, 2014

Revenues		
Service revenue		\$7,900
Expenses		
Salaries and wages expense	\$3,000	
Rent expense	900	
Advertising expense	350	
Utilities expense	210	
Total expenses		<u>4,460</u>
Net income		<u><u>\$3,440</u></u>

MANDY ARNOLD, ATTORNEY AT LAW
Retained Earnings Statement
For the Month Ended August 31, 2014

Retained earnings, August 1	\$ 800
Add: Net income	<u>3,440</u>
	4,240
Less: Dividends	<u>450</u>
Retained earnings, August 31	<u><u>\$3,790</u></u>

PROBLEM 1-2B (Continued)

MANDY ARNOLD, ATTORNEY AT LAW
Statement of Financial Position
August 31, 2014

Assets		
Equipment		\$ 6,000
Supplies.....		500
Accounts receivable.....		5,000
Cash.....		<u>2,600</u>
Total assets		<u>\$14,100</u>
Equity and Liabilities		
Equity		
Share capital—ordinary.....	\$6,000	
Retained earnings.....	<u>3,790</u>	
Total equity		\$9,790
Liabilities		
Notes payable.....	2,000	
Accounts payable	<u>2,310</u>	
Total liabilities		<u>4,310</u>
Total equity and liabilities		<u>\$14,100</u>

PROBLEM 1-3B

(a) **ANGELIC COSMETICS CO.**
Income Statement (in thousands)
For the Month Ended June 30, 2014

Revenues		
Service revenue		¥5,500
Expenses		
Rent expense	¥1,600	
Gasoline expense	600	
Advertising expense	500	
Utilities expense	300	
Total expenses		<u>3,000</u>
Net income		<u>¥2,500</u>

ANGELIC COSMETICS CO.
Retained Earnings Statement (in thousands)
For the Month Ended June 30, 2014

Retained Earnings, June 1	¥ 0
Add: Net income	<u>2,500</u>
	2,500
Less: Dividends	<u>900</u>
Retained Earnings, June 30	<u>¥1,600</u>

ANGELIC COSMETICS CO.
Statement of Financial Position
June 30, 2014

Assets	
Equipment	¥25,000
Supplies	2,000
Accounts receivable	4,000
Cash	<u>10,000</u>
Total assets	<u>¥41,000</u>

PROBLEM 1-3B (Continued)

ANGELIC COSMETICS CO.
Statement of Financial Position (Continued)
June 30, 2014

Equity and Liabilities		
Equity		
Share capital—ordinary	¥25,000	
Retained earnings	<u>1,600</u>	
Total equity		¥26,600
Liabilities		
Notes payable	13,000	
Accounts payable	<u>1,400</u>	
Total liabilities		<u>14,400</u>
Total equity and liabilities		<u>¥41,000</u>

(b) **ANGELIC COSMETICS CO.**
Income Statement (in thousands)
For the Month Ended June 30, 2014

Revenues		
Service revenue (¥5,500 + ¥800)		¥6,300
Expenses		
Rent expense	¥1,600	
Gasoline expense (¥600 + ¥100)	700	
Advertising expense	500	
Utilities expense	<u>300</u>	
Total expenses		<u>3,100</u>
Net income		<u>¥3,200</u>

ANGELIC COSMETICS CO.
Retained Earnings Statement (in thousands)
For the Month Ended June 30, 2014

Retained earnings, June 1	¥ 0
Add: Net income	<u>3,200</u>
	3,200
Less: Dividends	<u>900</u>
Retained earnings, June 30	<u>¥2,300</u>

PROBLEM 1-4B

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PROBLEM 1-4B (Continued)

Key to Retained Earnings Column

- | | |
|-------------------------|--------------------------------|
| (a) Rent Expense | (e) Service Revenue |
| (b) Advertising Expense | (f) Salaries and Wages Expense |
| (c) Service Revenue | (g) Utilities Expense |
| (d) Dividends | |

(b) **PAULIS CONSULTING**
Income Statement
For the Month Ended May 31, 2014

Revenues		
Service revenue (\$3,000 + \$3,300)		\$6,300
Expenses		
Salaries and wages expense.....	\$2,100	
Rent expense.....	800	
Utilities expense.....	150	
Advertising expense	50	
Total expenses		<u>3,100</u>
Net income		<u>\$3,200</u>

(c) **PAULIS CONSULTING**
Statement of Financial Position
May 31, 2014

Assets		
Equipment		\$ 2,300
Supplies.....		500
Accounts receivable.....		1,300
Cash.....		<u>13,700</u>
Total assets		<u>\$17,800</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$8,000	
Retained earnings (\$3,200 – \$700).....	<u>2,500</u>	
Total equity		\$10,500
Liabilities		
Notes payable.....	5,000	
Accounts payable	<u>2,300</u>	
Total liabilities		<u>7,300</u>
Total equity and liabilities.....		<u>\$17,800</u>

PROBLEM 1-5B

(a)	John Company	Paul Company	George Company	Ringo Company
(a)	\$28,000	(d) \$40,000	(g) \$129,000	(j) \$ 50,000
(b)	95,000	(e) 38,000	(h) 80,000	(k) 225,000
(c)	7,000	(f) 10,000	(i) 408,000	(l) 460,000

(b)

JOHN COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained earnings, January 1	\$ 0
Add: Net income	<u>15,000</u>
	15,000
Less: Dividends.....	<u>10,000</u>
Retained earnings December 31	<u><u>\$ 5,000</u></u>

- (c) The sequence of preparing financial statements is income statement, retained earnings statement, and statement of financial position. 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 in the retained earnings statement and ending retained earnings reported in the retained earnings statement is the amount reported for retained earnings on the statement of financial position.

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

A proprietorship is the easiest to create and operate because there are no formal procedures involved in creating the proprietorship. However, if she operates the business as a proprietorship she will personally have unlimited liability for the debts of the business. Operating the business as a corporation would limit her liability to her investment in the business. Natalie will in all likelihood require the services of a lawyer to incorporate. Costs to incorporate as well as additional ongoing costs to administrate and operate the business as a corporation may be costly.

My recommendation is that Natalie choose the corporate form of business organization. If she expands the business after graduation, she can raise additional capital by issuing more shares. In addition, she limits her liability to her investment in the business. If she decides to transfer ownership to another student, she can do so without dissolving the corporation.

- (b) Yes, Natalie will need accounting information to help her operate her business. She will need information on her cash balance on a daily or weekly basis to help her determine if she can pay her bills. She will need to know the cost of her services so she can establish her prices. She will need to know revenue and expenses so she can report her net income for personal income tax purposes, on an annual basis. If she borrows money, she will need financial statements so lenders can assess the liquidity, solvency, and profitability of the business. Natalie would also find financial statements useful to better understand her business and identify any financial issues as early as possible. Monthly financial statements would be best because they are more timely, but they are also more work to prepare.

CCC1 (Continued)

(c) Assets: Cash, Accounts Receivable, Supplies, Equipment, Prepaid Insurance

Liabilities: Accounts Payable, Unearned Service Revenue, Notes Payable

Equity: Share Capital—Ordinary, Retained Earnings, Dividends

Revenue: Service Revenue

Expenses: Advertising Expense, Supplies Expense, Utilities Expense, Insurance Expense

(d) Natalie should have a separate bank account. This will make it easier to prepare financial statements for her business. The business is a separate entity from Natalie and must be accounted for separately.

- (a) Samsung's total assets at December 31, 2010 were ₩ 134,288,744 million and at December 31, 2009 were ₩ 112,179,789 million.
- (b) Samsung had ₩ 9,791,419 million of cash and cash equivalents at December 31, 2010.
- (c) Samsung had trade and other payables totaling ₩ 16,049,800 million on December 31, 2010 and ₩ 13,542,626 million on December 31, 2009.
- (d) Samsung reports revenues for 2009 of ₩ 136,323,670 million and for 2010 of ₩ 154,630,328 million.
- (e) From 2009 to 2010, Samsung's net income increased ₩ 6,385,975 million from ₩ 9,760,550 million to ₩ 16,146,525 million.

(a)	Nestlé (in millions)	Zetar (in thousands)
1. Total assets	CHF 111,641	£ 93,062
2. Accounts (trade) receivable (net)	CHF 12,083	£ 24,935
3. Net sales	CHF 104,613	£ 134,998
4. Net income (profit)	CHF 9,048	£ 4,482
(b)	Nestlé	Zetar
Receivables as a percentage of total assets.	10.82%	26.79%
Net income as a percentage of sales (revenue).	8.65%	3.32%

(a) The field is normally divided into three broad areas: auditing, financial/tax, and management accounting.

(b) The skills required in these areas:

People skills, sales skills, communication skills, analytical skills, ability to synthesize, creative ability, initiative, computer skills.

(c) The skills required in these areas differ as follows:

	<u>Auditing</u>	<u>Financial and Tax</u>	<u>Management Accounting</u>
People skills	Medium	Medium	Medium
Sales skills	Medium	Medium	Low
Communication skills	Medium	Medium	High
Analytical skills	High	Very High	High
Ability to synthesize	Medium	Low	High
Creative ability	Low	Medium	Medium
Initiative	Medium	Medium	Medium
Computer skills	High	High	Very High

(d) Some key job options in accounting:

Auditing: Work in audit involves checking accounting ledgers and financial statements within corporations and government. This work is becoming increasingly computerized and can rely on sophisticated random sampling methods. Audit is the bread-and-butter work of accounting. This work can involve significant travel and allows you to really understand how money is being made in the company that you are analyzing. It's great background!

Budget Analysis: Budget analysts are responsible for developing and managing an organization's financial plans. There are plentiful jobs in this area in government and private industry. Besides quantitative skills many budget analyst jobs require good people skills because of negotiations involved in the work.

BYP 1-3 (Continued)

Financial: Financial accountants prepare financial statements based on general ledgers and participate in important financial decisions involving mergers and acquisitions, benefits/ERISA planning, and long-term financial projections. This work can be varied over time. One day you may be running spreadsheets. The next day you may be visiting a customer or supplier to set up a new account and discuss business. This work requires a good understanding of both accounting and finance.

Management Accounting: Management accountants work in companies and participate in decisions about capital budgeting and line of business analysis. Major functions include cost analysis, analysis of new contracts, and participation in efforts to control expenses efficiently. This work often involves the analysis of the structure of organizations. Is responsibility to spend money in a company at the right level of our organization? Are goals and objectives to control costs being communicated effectively? Historically, many management accountants have been derided as “bean counters.” This mentality has undergone major change as management accountants now often work side by side with marketing and finance to develop new business.

Tax: Tax accountants prepare corporate and personal income tax statements and formulate tax strategies involving issues such as financial choice, how to best treat a merger or acquisition, deferral of taxes, when to expense items and the like. This work requires a thorough understanding of economics and the tax code. Increasingly, large corporations are looking for persons with both an accounting and a legal background in tax. A person, for example, with a JD and a CPA would be especially desirable to many firms.

(e) Junior Staff Accountant \$46,000 – \$63,000

- (a) The estimate of the \$4,900 loss was based on the difference between the \$20,000 invested in the driving range and the bank balance of \$15,100 at March 31. This is not a valid basis for determining income because it only shows the change in cash between two points in time.
- (b) The statement of financial position at March 31 is as follows:

CHIP-SHOT DRIVING RANGE COMPANY
Statement of Financial Position
March 31, 2014

Assets			
Building		\$ 6,000	
Equipment		800	
Cash		<u>15,100</u>	
Total assets			<u>\$21,900</u>
Equity and Liabilities			
Equity			
Share capital—ordinary	\$20,000		
Retained earnings	<u>1,650</u>		\$21,650
Liabilities			
Accounts payable (\$150 + \$100)		<u>250</u>	
Total equity and liabilities			<u>\$21,900</u>

As shown in the statement of financial position, the equity at March 31 is \$21,650. The estimate of \$1,650 of net income is the difference between the initial investment of \$20,000 and \$21,650. This was not a valid basis for determining net income because changes in 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 shareholders.

BYP 1-4 (Continued)

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

Equity, March 31, per statement of financial position	\$21,650
Equity, March 1	<u>(20,000)</u>
Increase in equity	1,650
Add: Dividends	<u>800</u>
Net income	<u>\$ 2,450</u>

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

- (d) Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, \$1,000; Salaries and Wages, \$400; Advertising, \$750; and Utilities, \$100 for a total of \$2,250. Revenues earned, therefore, were \$4,700 (\$2,250 + \$2,450). 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		\$20,000
Less: Cash payments		
Caddy shack	\$6,000	
Golf balls and clubs	800	
Rent	1,000	
Advertising	600	
Salaries and wages	400	
Dividends	<u>800</u>	<u>9,600</u>
Cash balance before revenues		10,400
Cash balance, March 31		<u>15,100</u>
Revenues earned		<u>\$ 4,700</u>

To: Erin Danielle
From: Student

I have received the statement of financial position of Liverpool Company as of December 31, 2014. A number of items in this statement of financial position are not properly reported. They are:

- 1. The statement of financial position should be dated as of a specific date, not for a period of time. Therefore, it should be dated “December 31, 2014.”**
- 2. Cash should be reported after Supplies on the statement of financial position.**
- 3. Accounts receivable should be shown as an asset, not a liability, and reported between Cash and Supplies on the statement of financial position.**
- 4. Accounts payable should be shown as a liability, not an asset. The note payable is also a liability and should be reported in the liability section.**
- 5. Liabilities and equity should be shown on the statement of financial position. Share capital—ordinary is not a liability.**
- 6. Share capital—ordinary and retained earnings are part of equity.**

BYP 1-5 (Continued)

A correct statement of financial position is as follows:

LIVERPOOL COMPANY
Statement of Financial Position
December 31, 2014

Assets		
Equipment		£22,500
Supplies		2,000
Accounts receivable		6,000
Cash		<u>9,000</u>
Total assets		<u>£39,500</u>
 Equity and Liabilities		
Equity		
Share capital—ordinary	£23,000	
Retained earnings	<u>(2,000)</u>	
Total liabilities.....		£21,000
Liabilities		
Notes payable	10,500	
Accounts payable	<u>8,000</u>	
Total liabilities.....		<u>18,500</u>
Total equity and liabilities		<u>£39,500</u>

- (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:
- ▶ Jeff Hunter, 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 Jeff 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 Jeff 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?

GAAP EXERCISES

GAAP 1-1

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

GAAP 1-2

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

GAAP 1-3

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

GAAP 1-4

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

GAAP FINANCIAL REPORTING PROBLEM

GAAP 1-5

*** (Amounts in thousands)**

- (a) Tootsie Roll's total assets at December 31, 2010 were \$ 860,383; and at December 31, 2009 were \$ 838,247.**
- (b) Tootsie Roll had \$ 115,976 in cash and cash equivalents at December 31, 2010.**
- (c) Tootsie Roll had \$ 9,791 in accounts payable at December 31, 2010; and \$9,140 at December 31, 2009.**
- (d) Total revenue in 2010 was \$521,448; and \$499,331 in 2009 for Tootsie Roll.**
- (e) The amount of change in Tootsie Roll's net income between 2009 and 2010 was (\$164).**

