

## Exercises: Set B—Solutions

### E1B. Business Transactions

- |    |   |
|----|---|
| 1. | Yes, this is an expense of the business.  |
| 2. | Yes, this is an expense of the business (assuming that Dave intends to repay the loan). |
| 3. | No, this is not a business transaction because no economic exchange has taken place.    |
| 4. | Yes, this is an expense of the business.  |

### E2B. Accounting Concepts

- |    |   |     |   |
|----|---|-----|---|
| 1. | b | 6.  | c |
| 2. | c | 7.  | b |
| 3. | a | 8.  | a |
| 4. | a | 9.  | c |
| 5. | b | 10. | a |

### E3B. Money Measure

Company	Sales				
Ritz Chip	2,750,000	×	1.000	=	\$2,750,000
Mykha	5,000,000	×	0.130	=	\$650,000
Rizzoli	350,000,000	×	0.012	=	\$4,200,000
Volia	3,500,000	×	1.320	=	\$4,620,000
Company	Assets				
Ritz Chip	1,300,000	×	1.000	=	\$1,300,000
Mykha	2,800,000	×	0.130	=	\$364,000
Rizzoli	290,000,000	×	0.012	=	\$3,480,000
Volia	3,900,000	×	1.320	=	\$5,148,000

Volia is the largest in terms of sales and assets due to the high value of the euro.

E4B. The Accounting Equation									
1.			<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Stockholders' Equity</b>		
			<b>\$380,000</b>	=	<b>Liabilities</b>	+	<b>\$155,000</b>		
			<b>Liabilities</b>	=	<b><u>\$225,000</u></b>				
2.			<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Stockholders' Equity</b>		
			<b>Assets</b>	=	<b>\$ 65,000</b>	+	<b>\$79,500</b>		
			<b>Assets</b>	=	<b><u>\$144,500</u></b>				
3.			<b>Assets</b>	=	<b>1/3 Assets</b>	+	<b>\$180,000</b>		
			<b>2/3 Assets</b>	=	<b>\$180,000</b>				
			<b>Assets</b>	=	<b>\$270,000</b>				
			<b>Liabilities</b>	=	<b>1/3</b>	×	<b>\$270,000</b>	=	<b><u>\$90,000</u></b>
4.	<b>Beginning:</b>		<b>\$310,000</b>	=	<b>Liabilities</b>	+	<b>\$150,000</b>		
			<b>Liabilities</b>	=	<b>\$160,000</b>				
			<b>\$310,000</b>	=	<b>\$160,000</b>	+	<b>\$150,000</b>		
	<b>Change:</b>		<b>+ 45,000</b>		<b>- 22,500</b>				
			<b>\$355,000</b>	=	<b>\$137,500</b>	+	<b>Stockholders' Equity</b>		
	<b>End:</b>	<b>Stockholders' Equity</b>		=	<b><u>\$217,500</u></b>				
E5B. Stockholders' Equity and the Accounting Equation									
1.	<b>Net income is:</b>	<b>\$13,250</b>							
			<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Stockholders' Equity</b>		
	<b>End:</b>		<b>\$275,000</b>	=	<b>\$150,500</b>	+	<b>\$124,500</b>		
	<b>Beginning:</b>		<b>180,000</b>	=	<b>68,750</b>	+	<b><u>111,250</u></b>		
			<b>Net income</b>					<b><u>\$ 13,250</u></b>	
2.	<b>Net income is:</b>	<b>\$40,750</b>							
			<b>Change in stockholders' equity</b>			<b>\$ 13,250</b>			
			<b>+ Dividends</b>			<b><u>27,500</u></b>			
			<b>Net income</b>			<b><u>\$ 40,750</u></b>			
3.	<b>Net loss is:</b>	<b>\$3,000</b>							
			<b>Change in stockholders' equity</b>			<b>\$ 13,250</b>			
			<b>- Common stock</b>			<b><u>16,250</u></b>			
			<b>Net loss</b>			<b><u>\$ (3,000)</u></b>			
4.	<b>Net income is:</b>	<b>\$29,750</b>							
			<b>Change in stockholders' equity</b>			<b>\$ 13,250</b>			
			<b>+ Dividends</b>			<b><u>29,000</u></b>			
					<b>\$ 42,250</b>				
			<b>- Common stock</b>			<b><u>12,500</u></b>			
			<b>Net income</b>			<b><u>\$ 29,750</u></b>			

E6B. Identification of Accounts					
1.	a.	A	2.	a.	IS
	b.	L		b.	BS
	c.	A		c.	IS
	d.	SE		d.	BS
	e.	A		e.	IS
	f.	L		f.	BS
	g.	A		g.	RE

**E7B. Preparation of a Balance Sheet**

Mita Mac Services Company				
Balance Sheet				
December 31, 2014				
Assets		Liabilities		
Cash	\$ 12,500	Accounts payable		\$ 25,000
Accounts receivable	31,250	Total liabilities		\$ 25,000
Supplies	6,250	Stockholders' Equity		
Building	56,250	Common stock	\$62,500	
Equipment	<u>25,000</u>	Retained earnings	<u>43,750</u>	
		Total stockholders' equity		<u>106,250</u>
		Total liabilities and		
Total assets	<u>\$131,250</u>	stockholders' equity		<u>\$131,250</u>

**E8B. Preparation and Integration of Financial Statements**

**Mizkan Company**  
**Income Statement**  
**For the Year Ended December 31, 2014**

<b>Revenues:</b>		
Service revenue		<b>\$26,400</b>
<b>Expenses:</b>		
Rent expense	\$ 2,400	
Wages expense	16,680	
Advertising expense	2,700	
Utilities expense	<u>1,800</u>	
<b>Total expenses</b>		<b><u>23,580</u></b>
<b>Net income</b>		<b><u>\$ 2,820</u></b>

**Mizkan Company**  
**Statement of Retained Earnings**  
**For the Year Ended December 31, 2014**

Retained earnings, December 31, 2013	<b>\$2,000</b>
Net income for the year	<u>2,820</u>
<b>Subtotal</b>	<b>\$4,820</b>
Less withdrawals	<u>1,400</u>
<b>Retained earnings, December 31, 2014</b>	<b><u>\$3,420</u></b>

**Mizkan Company**  
**Balance Sheet**  
**December 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$3,100	Accounts payable	<u>\$ 900</u>
Accounts receivable	1,500	Total liabilities	<u>\$ 900</u>
Supplies	200	<b>Stockholders' Equity</b>	
Land	<u>2,000</u>	Common stock	\$2,480
		Retained earnings	<u>3,420</u>
		Total stockholders' equity	<u>5,900</u>
		Total liabilities and	
<b>Total assets</b>	<b><u>\$6,800</u></b>	stockholders' equity	<b><u>\$6,800</u></b>

<b>E9B. Statement of Cash Flows</b>		
<b>Mojoe Service Company</b>		
<b>Statement of Cash Flows</b>		
<b>For the Year Ended December 31, 2014</b>		
<b>Cash flows from operating activities:</b>		
Net income		<b>\$ 38,000</b>
<b>Adjustments to reconcile net income to net cash flows from operating activities:</b>		
Increase in accounts receivable	\$ (7,800)	
Increase in accounts payable	<u>11,700</u>	<u>3,900</u>
<b>Net cash flows from operating activities</b>		<b>\$ 41,900</b>
<b>Cash flows from investing activities:</b>		
Purchase of equipment	<u>\$(125,000)</u>	
<b>Net cash flows used by investing activities</b>		<b>(125,000)</b>
<b>Cash flows from financing activities:</b>		
Borrowings from bank	\$ 78,000	
Dividends paid	<u>(19,500)</u>	
<b>Net cash flows from financing activities</b>		<b><u>58,500</u></b>
<b>Net increase (decrease) in cash</b>		<b>\$ (24,600)</b>
<b>Cash at beginning of year</b>		<b><u>55,900</u></b>
<b>Cash at end of year</b>		<b><u>\$ 31,300</u></b>
<b>E10B. Statement of Retained Earnings</b>		
<b>Mrs. Clark's Cookies</b>		
<b>Statement of Retained Earnings</b>		
<b>For the Year Ended January 31, 2014</b>		
<b>Retained earnings, January 31, 2013</b>		<b>\$105,000</b>
<b>Net income for the year</b>		<b><u>54,490</u></b>
<b>Subtotal</b>		<b>\$159,490</b>
<b>Less dividends</b>		<b><u>—</u></b>
<b>Retained earnings, January 31, 2014</b>		<b><u>\$159,490</u></b>
<b>Retained earnings are earnings of the corporation since its inception, less any losses, dividends, or transfers to contributed capital. Retained earnings are reinvested in the business.</b>		
<b>Mrs. Clark's Cookies may have decided not to pay any dividends because they may want to use the funds for other purposes such as to finance the company's growth or pay off debt.</b>		

<b>E11B. Preparation and Integration of Financial Statements</b>			
Net income links the income statement and the statement of retained earnings. The ending balance of retained earnings links the statement of retained earnings and the balance sheet.			
Thus, start with (c), which must equal \$1,500 (check: $\$14,500 + \$1,500 - \$1,000 = \$15,000$ ).			
Then, (b) equals (c), or \$1,500. Thus, (a) must equal \$4,050 (check: $\$5,550 - \$4,050 = \$1,500$ ).			
Because (e) equals \$15,000 (ending balance from the statement of retained earnings), (f) must equal \$26,000 (check: $\$8,000 + \$3,000 + \$15,000 = \$26,000$ ). Finally, (d) must equal (f), or \$26,000.			
<b>E12B. Users of Accounting Information and Forms of Business Organization</b>			
People who are interested in Ranalli's financial statements are the following:			
•	Management		
•	Investors (stockholders)		
•	Creditors		
•	Tax authorities		
•	Regulators		
•	Employees		
•	Customers		
•	Economic planners		
A partnership is a business that has two or more owners. A corporation is a business unit that has been granted a charter from the state and is legally separate from its owners (stockholders). A major advantage of the corporate form of business over the partnership is that the stockholders' liability is limited to the amount of the stockholders' investments in the company, whereas the personal assets of partners can be called upon to pay the obligations of a partnership. Also, the transfer of ownership is easier with the corporation because the shares owned by a stockholder can be sold to another party. When ownership of a partnership changes, the partnership must be dissolved and another one formed.			
<b>E13B. The Nature of Accounting</b>			
1.	a	5.	k
2.	l	6.	e
3.	c	7.	b
4.	i	8.	j
		9.	g
		10.	d
		11.	f
		12.	h

<b>E14B. Accounting Abbreviations</b>	
<b>AICPA:</b>	<b>American Institute of Certified Public Accountants</b>
<b>SEC:</b>	<b>Securities and Exchange Commission</b>
<b>PCAOB:</b>	<b>Public Company Accounting Oversight Board</b>
<b>GAAP:</b>	<b>Generally Accepted Accounting Principles</b>
<b>FASB:</b>	<b>Financial Accounting Standards Board</b>
<b>IRS:</b>	<b>Internal Revenue Service</b>
<b>GASB:</b>	<b>Governmental Accounting Standards Board</b>
<b>IASB:</b>	<b>International Accounting Standards Board</b>
<b>IMA:</b>	<b>Institute of Management Accountants</b>
<b>CPA:</b>	<b>Certified Public Accountant</b>
<b>E15B. Ethics and Accounting</b>	
<b>1.</b>	<b>d</b>
<b>2.</b>	<b>b</b>
<b>3.</b>	<b>e</b>
<b>4.</b>	<b>a</b>
<b>5.</b>	<b>c</b>