

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

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

Mizkan Company	
Statement of Retained Earnings	
For the Year Ended December 31, 2014	
Retained earnings, December 31, 2013	\$2,000
Net income for the year	<u>2,820</u>
Subtotal	\$4,820
Less withdrawals	<u>1,400</u>
Retained earnings, December 31, 2014	<u>\$3,420</u>

Mizkan Company			
Balance Sheet			
December 31, 2014			
Assets		Liabilities	
Cash	\$3,100	Accounts payable	<u>\$ 900</u>
Accounts receivable	1,500	Total liabilities	\$ 900
Supplies	200	Stockholders' Equity	
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	
Total assets	<u>\$6,800</u>	stockholders' equity	<u>\$6,800</u>

E9B. Statement of Cash Flows		
Mojoe Service Company Statement of Cash Flows For the Year Ended December 31, 2014		
Cash flows from operating activities:		
Net income		\$ 38,000
Adjustments to reconcile net income to net cash flows from operating activities:		
Increase in accounts receivable	\$ (7,800)	
Increase in accounts payable	11,700	3,900
Net cash flows from operating activities		\$ 41,900
Cash flows from investing activities:		
Purchase of equipment	\$(125,000)	
Net cash flows used by investing activities		(125,000)
Cash flows from financing activities:		
Borrowings from bank	\$ 78,000	
Dividends paid	(19,500)	
Net cash flows from financing activities		58,500
Net increase (decrease) in cash		\$ (24,600)
Cash at beginning of year		55,900
Cash at end of year		\$ 31,300
E10B. Statement of Retained Earnings		
Mrs. Clark's Cookies Statement of Retained Earnings For the Year Ended January 31, 2014		
Retained earnings, January 31, 2013		\$105,000
Net income for the year		54,490
Subtotal		\$159,490
Less dividends		—
Retained earnings, January 31, 2014		\$159,490
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.		
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.		

E11B. Preparation and Integration of Financial Statements					
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.					
E12B. Users of Accounting Information and Forms of Business Organization					
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.					
E13B. The Nature of Accounting					
1.	a	5.	k	9.	g
2.	l	6.	e	10.	d
3.	c	7.	b	11.	f
4.	i	8.	j	12.	h

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