CHAPTER 1

Accounting in Action

ASSIGNMENT CLASSIFICATION TABLE

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Learning Objectives** |  | **Questions** |  | **Brief**  **Exercises** |  | **Do It!** |  | **Exercises** |  | **A**  **Problems** |  | **B**  **Problems** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| 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 generally accepted accounting 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 |  | 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,  17, 18 |  | 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. |  | 19, 20, 21 22 |  | 10, 11 |  | 4 |  | 8, 9, 11, 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 balance sheet. |  | Moderate |  | 50–60 |
|  |  |  |  |  |  |  |
| 3A |  | Prepare income statement, retained earnings statement,  and balance sheet. |  | 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 balance sheet. |  | Moderate |  | 50–60 |
|  |  |  |  |  |  |  |
| 3B |  | Prepare income statement, retained earnings statement,  and balance sheet. |  | 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 9E

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 |  | 7 |  | AP |  | Moderate |  | 8–10 |
| EX11 |  | 6, 7, 8 |  | 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 |  | 8 |  | AN, E |  | Simple |  | 10–15 |
| BYP4 |  | 3–9 |  | C, AN |  | Simple |  | 15–20 |
| BYP5 |  | 8 |  | E |  | Moderate |  | 15–20 |
| BYP6 |  | 8 |  | E |  | Simple |  | 12–15 |
| BYP7 |  | 3 |  | E |  | Simple |  | 10–12 |
| BYP8 |  | 3 |  | E |  | Moderate |  | 15–20 |
| BYP9 |  | 8 |  | E |  | Moderate |  | 15–20 |
| BYP10 |  | – |  | AP |  | Moderate |  | 15–20 |
| BYP11 |  | – |  | C |  | Simple |  | 10–15 |

**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** | **Q1-5 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 generally accepted  accounting 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 BE1-4 BE1-8 BE1-9** | **E1-5 E1-6 E1-7** | **BE1-1 BE1-2 BE1-3 E1-11 P1-1A** | **P1-2A P1-4A P1-1B P1-2B P1-4B** |  |  |  |
| **7. Analyze the effects of business transactions on the accounting equation.** |  | **Q1-15 Q1-16 Q1-17 Q1-18 BE1-6 BE1-7** | **E1-6 E1-7** | **DI1-3 E1-8 E1-10 E1-11 P1-1A P1-2A** | **P1-4A P1-5A P1-1B P1-2B P1-4B P1-5B** |  |  |  |
| **8. Understand the four financial statements and how they are  prepared.** |  | **Q1-19 Q1-20 BE1-11** | | **Q1-21 Q1-22 BE1-10 DI1-4 E1-8 E1-9 E1-11 E1-12 E1-14 E1-15** | **E1-16 E1-17 P1-2A P1-3A P1-4A P1-5A P1-2B P1-3B P1-4B P1-5B** | **E1-13** |  |  |
| **Broadening Your Perspective** |  | **Real–World Focus Considering  People, Planet,  and Profit** | | **FASB Codification** | | **Financial Reporting Comparative Analysis** |  | **All About You Comparative Analysis Decision–Making Across  the Organization Communication Activity Ethics Case** |

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BLOOM’S TAXONOMY TABLE

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 stock.

(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.** Harper Travel Agency should report the land at $85,000 on its December 31, 2015 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 (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. An important concept that accountants follow is the 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 would enjoy is that ownership of a corporation is repre­sented by transferable shares of stock. This would allow 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.

**11.** The basic accounting equation is Assets = Liabilities + Stockholders’ (Owners’) Equity.

**12.** (a) Assets are resources owned by a business. Liabilities are 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.

**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 stockholders’ equity.

(b) Increase assets and decrease assets.

(c) Increase assets and increase stockholders’ equity.

(d) Decrease assets and decrease liabilities.

**17.** (a) Income statement. (d) Balance sheet.

(b) Balance sheet. (e) Balance sheet and retained earnings statement.

(c) Income statement. (f) Balance sheet.

**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 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.

**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 balance sheet. It is included in the Retained Earnings account which appears in the stockholders’ equity section of the balance sheet.

**Questions Chapter 1** (Continued)

**20.** (a) Ending stockholders’ equity balance $198,000

Beginning stockholders’ equity balance 158,000

Net income $ 40,000

(b) Ending stockholders’ equity balance $198,000

Beginning stockholders’ equity balance 158,000

  40,000

Deduct: Investment 16,000

Net income $ 24,000

**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 64,000

Net income $ 36,000

**22.** Apple’s accounting equation at September 24, 2011 was $116,371,000,000 = $39,756,000,000 + $76,615,000,000.

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).

BRIEF EXERCISE 1-2

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

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

(c) $600,000 – 0.5($600,000) = $300,000 (Stockholders’ equity).

BRIEF EXERCISE 1-3

(a) ($870,000 + $150,000) – ($500,000 – $80,000) = $600,000

(Stockholders’ equity).

(b) ($500,000 + $100,000) + ($870,000 – $500,000 – $66,000) = $904,000

(Assets).

(c) ($870,000 – $80,000) – ($870,000 – $500,000 + $120,000) = $300,000

(Liabilities).

BRIEF EXERCISE 1-4

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | Stockholders’ Equity | | | | | | | |
|  | Assets | = | Liabilities | + | 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 | = | $330,000 |  |  |  |  |  |  | |  |  |
| (b) | $57,000 | = | X | + | $23,000 | + | $50,000 | – | $35,000 | | – | $7,000 |
|  | $57,000 | = | X | + | $31,000 |  |  |  |  | |  |  |
|  | X | = | $26,000 ($57,000 – $31,000) | | |  |  |  |  | |  |  |
|  |  |  |  |  |  |  |  |  |  | |  |  |
| (c) | $600,000 | = | ($600,000 x 2/3) | + | X (Stockholders’ equity) | | |  |  | |  |  |
|  | $600,000 | = | $400,000 | + | X |  |  |  |  | |  |  |
|  | X | = | $200,000 |  |  |  |  |  |  | |  |  |

BRIEF EXERCISE 1-5

A (a) Accounts receivable A (d) Supplies

L (b) Salaries and wages payable SE (e) Owner’s investment

A (c) Equipment L (f) Notes payable

BRIEF EXERCISE 1-6

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Assets |  | Liabilities |  | Stockholders’ Equity |
| (a) |  | + |  | + |  | NE |
| (b) |  | + |  | NE |  | + |
| (c) |  | – |  | NE |  | – |

BRIEF EXERCISE 1-7

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Assets |  | Liabilities |  | Stockholders’ Equity |
| (a) |  | + |  | NE |  | + |
| (b) |  | – |  | NE |  | – |
| (c) |  | NE |  | NE |  | NE |

BRIEF EXERCISE 1-8

E (a) Advertising expense D (e) Dividends

R (b) Service revenue R (f) Rent revenue

E (c) Insurance expense E (g) Utilities expense

E (d) Salaries and wages expense

BRIEF EXERCISE 1-9

R (a) Received cash for services performed

NSE (b) Paid cash to purchase equipment

E (c) Paid employee salaries

BRIEF EXERCISE 1-10

ELLERBY COMPANY

Balance Sheet

December 31, 2015

Assets

Cash $ 44,000

Accounts receivable 72,500

Total assets $116,500

Liabilities and Stockholders’ Equity

Liabilities

Accounts payable $ 85,000

Stockholders’ equity

Common stock 31,500

Total liabilities and stockholders’ equity $116,500

BRIEF EXERCISE 1-11

BS (a) Notes payable

IS (b) Advertising expense

BS (c) Common stock

BS (d) Cash

IS (e) Service revenue

RE (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. False. Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.

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 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 pay cash into the business, they receive shares of stock (I); it increases stockholders’ equity.

DO IT! 1-3

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 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 |

DO IT! 1-4

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

(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 6,000

Total expenses 32,300

Net income $21,700

DO IT! 1-4 (Continued)

(c) The ending stockholders’ equity balance of Garryowen Company is $51,500. 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 3,000 28,000

Stockholders’ equity $23,500

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.

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.

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?

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 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 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 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’s 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.

EXERCISE 1-4

1. Incorrect. The *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.

EXERCISE 1-5

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Asset |  | Liability |  | Stockholders’ Equity |
| Cash |  | Accounts payable |  | Common stock |
| Equipment |  | Notes payable |  |  |
| Supplies |  | Salaries and wages payable |  |  |
| Accounts receivable |  |  |  |  |

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.

EXERCISE 1-7

1. (c) 5. (d)

2. (d) 6. (b)

3. (a) 7. (e)

4. (b) 8. (f)

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) 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 $17,150

(c) Service revenue $9,400

Rent expense (850 )

Salaries and wages expense (3,900 )

Utilities expense (500 )

Net income $4,150

EXERCISE 1-9

FOLEY & CO.

Income Statement

For the Month Ended August 31, 2015

Revenues

Service revenue $9,400

Expenses

Salaries and wages expense $3,900

Rent expense 850

Utilities expense 500

Total expenses 5,250

Net income $4,150

EXERCISE 1-9 (Continued)

FOLEY & CO.

Retained Earnings Statement

For the Month Ended August 31, 2015

Retained earnings, August 1 $ 0

Add: Net income 4,150

4,150

Less: Dividends 2,000

Retained earnings, August 31 $ 2,150

FOLEY & CO.

Balance Sheet

August 31, 2015

Assets

Cash $ 9,350

Accounts receivable 4,050

Supplies 750

Equipment 5,000

Total assets $19,150

Liabilities and Stockholders’ Equity

Liabilities

Accounts payable $ 2,000

Stockholders’ equity

Common stock $15,000

Retained earnings      2,150   17,150

Total liabilities and stockholders’ equity $19,150

EXERCISE 1-10

(a) Stockholders’ equity—12/31/14 ($400,000 – $260,000) $140,000

Stockholders’ equity—1/1/14 100,000

Increase in stockholders’ equity 40,000

Add: Dividends 15,000

Net income for 2014 $ 55,000

EXERCISE 1-10 (Continued)

(b) Stockholders’ equity—12/31/15 ($480,000 – $300,000) $180,000

Stockholders’ equity—1/1/15—see (a) 140,000

Increase in stockholders’ equity 40,000

Less: Additional investment 50,000

Net loss for 2015 $ (10,000)

(c) Stockholders’ equity—12/31/16 ($590,000 – $400,000) $190,000

Stockholders’ equity—1/1/16—see (b) 180,000

Increase in stockholders’ equity 10,000

Less: Additional investment 15,000

(5,000)

Add: Dividends 30,000

Net income for 2016 $ 25,000

EXERCISE 1-11

(a) Total assets (beginning of year) $ 97,000

Total liabilities (beginning of year) 85,000

Total stockholders’ equity (beginning of year) $ 12,000

(b) Total stockholders’ equity (end of year) $ 40,000

Total stockholders’ equity (beginning of year) 12,000

Increase in stockholders’ equity $ 28,000

Total revenues $215,000

Total expenses 175,000

Net income $ 40,000

Increase in stockholders’ equity $ 28,000

Less: Net income $(40,000)

Add: Dividends 15,000) (25,000 )

Additional investment $ 3,000

(c) Total assets (beginning of year) $122,000

Total stockholders’ equity (beginning of year) 75,000

Total liabilities (beginning of year) $ 47,000

EXERCISE 1-11 (Continued)

(d) Total stockholders’ equity (end of year) $130,000

Total stockholders’ equity (beginning of year) 75,000

Increase in stockholders’ equity $ 55,000

Total revenues $100,000

Total expenses 55,000

Net income $ 45,000

Increase in stockholders’ equity $ 55,000

Less: Net income $45,000

Additional investment 25,000 70,000

Dividends $ 15,000

EXERCISE 1-12

LA GRECA CO.

Income Statement

For the Year Ended December 31, 2015

Revenues

Service revenue $62,500

Expenses

Salaries and wages expense $28,000

Rent expense 10,400

Utilities expense 3,100

Advertising expense 1,800

Total expenses 43,300

Net income $19,200

LA GRECA CO.

Retained Earnings Statement

For the Year Ended December 31, 2015

Retained earnings, January 1 $48,000

Add: Net income 19,200

67,200

Less: Dividends 5,000

Retained earnings, December 31 $62,200

EXERCISE 1-13

MADISON COMPANY

Balance Sheet

December 31, 2015

Assets

Cash $14,000

Accounts receivable 8,500

Supplies 3,000

Equipment 48,000

Total assets $73,500

Liabilities and Stockholders’ Equity

Liabilities

Accounts payable $15,000

Stockholders’ equity

Common stock $50,000

Retained earnings ($17,500 – $9,000)     8,500   58,500

Total liabilities and stockholders’ equity $73,500

EXERCISE 1-14

(a) Camping fee revenues $140,000

General store revenues 47,000

Total revenue 187,000

Expenses 150,000

Net income $ 37,000

(b) WYCO PARK

Balance Sheet

December 31, 2015

Assets

Cash $ 20,000

Supplies 2,500

Equipment 105,500

Total assets $128,000

EXERCISE 1-14 (Continued)

WYCO PARK

Balance Sheet (Continued)

December 31, 2015

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $ 60,000

Accounts payable 11,000

Total liabilities $ 71,000

Stockholders’ equity

Common stock 20,000

Retained earnings     37,000 57,000

Total liabilities and stockholders’ equity $128,000

EXERCISE 1-15

LOUISA CRUISE COMPANY

Income Statement

For the Year Ended December 31, 2015

Revenues

Ticket revenue $328,000

Expenses

Salaries and wages expense $142,000

Maintenance and repairs expense 92,000

Utilities expense 10,000

Advertising expense 3,500

Total expenses 247,500

Net income $ 80,500

EXERCISE 1-16

ALEXIS AND RYAN, ATTORNEYS AT LAW

Retained Earnings Statement

For the Year Ended December 31, 2015

Retained earnings, January 1 $ 23,000

Add: Net income 129,000\*

152,000

Less: Dividends 64,000

Retained earnings, December 31 $ 88,000

\*Legal service revenue $340,000

Total expenses 211,000

Net income $129,000

EXERCISE 1-17

PAULO COMPANY

Statement of Cash Flows

For the Year Ended December 31, 2015

Cash flows from operating activities

Cash receipts from revenues $600,000

Cash payments for expenses (430,000)

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    (18,000) 262,000

Net increase in cash 317,000

Cash at the beginning of the period     30,000

Cash at the end of the period $347,000

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (a) FREDONIA REPAIR INC. | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  | **Stockholders’ Equity** | | | | | | |  |
|  |  | Cash | + | Accounts  Receivable | + | Supplies | + | Equipment | = | Accounts  Payable | + | Common  Stock | + | **Retained Earnings** | | | | |  |
| Revenues | – | Expenses | – | Dividends |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1.  2.  3.  4.  5.  6.  7.  8.  9.  10.  11. |  | +$10,000  + 10,000  + –5,000  +  5,000  +   –400  +  4,600  +   –300  +  4,300  +000,000  +  4,300  –+4,700  +  9,000  –700  +  8,300  + –1,000  +  7,300  +   –140  +  7,160  +000,000  +  7,160  –   +120  +$ 7,280 | +  + | +$1,100  + 1,100  +–120  +$980 | +  +  +  +  +  +  +  + | +$300  + 300  +0000  + 300  +0000  + 300  +0000  + 300  +0000  + 300  +0000  + 300  +0000  + 300    +$300 | +  +  +  +  +  +  +  +  +  + | +$5,000  + 5,000  +00,000  + 5,000  +00,000  + 5,000  +00,000  + 5,000  +00,000  + 5,000  +00,000  + 5,000  +00,000  + 5,000  +00,000  + 5,000  +00,000  + 5,000    +$5,000 | =  =  =  =  =  =  =  =  =  =  = | +$250  + 250  +0000  + 250  +0000  + 250  +0000  + 250  +0000  +0250  +0000  +0250    +$250 | +  +  +  +  +  +  +  +  +  + | +$10,000  0010,000  +000,  0010,000  10,000  +  10,000000  00010,000000  00010,000  0  10,000  10,000  10,000  10,000    $10,000 | +  +  +  +  +  +  +  +  +  +  + | +$4,700  4,700  4,700  4,700  4,700   +1,100  5,800    $5,800 | – | –$400  –400  –400    –250   –650   –650   –650  –1,000  –1,650    –140  –1,790  –1,790    $1,790 | **–** | –$700  –700  –700  –700  –700    $700 | (a)  (b)  (c)  (d)  (e)  (f)  (g) |
|  |  | $13,560 | | | | | | |  | $13,560 | | | | | | | | | |

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PROBLEM 1-1A

SOLUTIONS TO PROBLEMS

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 + $1,100) $5,800

Expenses

Salaries and wages $1,000

Rent 400

Advertising 250

Utilities 140 1,790

Net income $4,010

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(a)** **LA BRAVA VETERINARY CLINIC** | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | | | | | | | | | | | | |  |  |  |  |  |
|  |  | Cash | + | Accounts  Receivable | + | Supplies | + | Equipment | = | Notes  Payable | + | Accounts  Payable | + | Common  Stock | + | Retained Earnings | + | Revenues | – | Expenses | – | Dividends |  | |
| Bal.  1.  2.  3.  4.  5.  6.  7.  8. |  | $ 9,000   –2,900    6,100   +1,300    7,400     –800    6,600   +2,500    9,100   –400    8,700   –2,800    5,900  000,000  5,900  +10,000  $15,900 | +  +  +  +  +  +  +  +  + | $1,700  00,000   1,700  –1,300     400  00,000     400  +4,800   5,200  00,000   5,200  00,000   5,200  00,000   5,200    $5,200 | +  +  +  +  +  +  +  +  + | $600  0000   600  0000   600  0000   600  0000   600  0000   600  0000   600  0000   600    $600 | +  +  +  +  +  +  +  +  + | $ 6,000  000,000    6,000  000,000    6,000   +2,100    8,100  000,000    8,100  000,000    8,100  000,000    8,100  000,000    8,100    $ 8,100 | =  =  =  =  =  =  =  =  = | +$10,000  +$10,000 | + | $3,600  –2,900     700  00,000     700  +1,300   2,000  00,000   2,000  00,000   2,000  00,000   2,000    +170   2,170    $2,170 | +  +  +  +  +  +  +  +  + | $13,000  13,000  13,000  13,000  13,000  13,000  13,000  13,000    $13,000 | +  0  +  +  +  +  +  +  +  + | $700  700  700  700  700  700  700  700    $700 | + | +$7,300    7,300    7,300   7,300  7,300    $7,300 | – | –$1,700  –900     –200  –2,800     –170  –2,970    $ 2,970 | – | –$400  –400  –400  –400    $400 |
|  |  | $29,800 | | | | | | |  | **$29,800** | | | | | | | | | | | | | | |

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PROBLEM 1-2A

PROBLEM 1-2A (Continued)

(b) LA BRAVA VETERINARY CLINIC

Income Statement

For the Month Ended September 30, 2015

Revenues

Service revenue $7,300

Expenses

Salaries and wages expense $1,700

Rent expense 900

Advertising expense 200

Utilities expense 170

Total expenses 2,970

Net income $4,330

LA BRAVA VETERINARY CLINIC

Retained Earnings Statement

For the Month Ended September 30, 2015

Retained earnings, September 1 $ 700

Add: Net income 4,330

5,030

Less: Dividends 400

Retained earnings, September 30 $4,630

PROBLEM 1-2A (Continued)

LA BRAVA VETERINARY CLINIC

Balance Sheet

September 30, 2015

Assets

Cash $15,900

Accounts receivable 5,200

Supplies 600

Equipment 8,100

Total assets $29,800

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $10,000

Accounts payable 2,170

Total liabilities $12,170

Stockholders’ equity

Common stock 13,000

Retained earnings     4,630 17,630

Total liabilities and stockholders’ equity $29,800

|  |
| --- |
| PROBLEM 1-3A |

(a) NIMBUS FLYING SCHOOL

Income Statement

For the Month Ended May 31, 2015

Revenues

Service revenue $6,800

Expenses

Gasoline expense $2,500

Rent expense 900

Advertising expense 500

Utilities expense 400

Maintenance and repairs expense 350

Total expenses 4,650

Net income $2,150

NIMBUS FLYING SCHOOL

Retained Earnings Statement

For the Month Ended May 31, 2015

Retained Earnings, May 1 $ 0

Add: Net income 2,150

  2,150

Less: Dividends 500

Retained earnings, May 31 $1,650

NIMBUS FLYING SCHOOL Balance Sheet May 31, 2015

Assets

Cash $ 4,650

Accounts receivable 7,400

Equipment 64,000

Total assets $76,050

PROBLEM 1-3A (Continued)

NIMBUS FLYING SCHOOL Balance Sheet (Continued) May 31, 2015

Liabilities and Stockholders’ Equity

Liabilities Notes payable $28,000 Accounts payable 1,400 Total liabilities $29,400 Stockholders’ equity Common stock 45,000

Retained earnings     1,650 46,650

Total liabilities and stockholders’ equity $76,050

(b) NIMBUS FLYING SCHOOL

Income Statement

For the Month Ended May 31, 2015

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 350

Total expenses 6,150

Net income $1,550

NIMBUS FLYING SCHOOL

Retained Earnings Statement For the Month Ended May 31, 2015

Retained Earnings, May 1 $ 0

Add: Net income 1,550

1,550

Less: Dividends 500

Retained Earnings, May 31 $1,050

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (a) TERCEK DELIVERIES | | | | | | | | | | | | | | | | | |  |  |  |  |
|  |  |  |  | Assets | | |  |  |  | Liabilities | | |  | Stockholders’ Equity | | | | | | |  |
| Date |  | Cash | + | Accounts  Receivable | + | Supplies | + | Equipment | = | Notes  Payable | + | Accounts  Payable | + | Common  Stock | + | Retained Earnings | | | | |  |
| Revenues | – | **Expenses** | – | **Dividends** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| June 1  June 2  June 3  June 5  June 9  June 12  June 15  June 17  June 20  June 23  June 26  June 29  June 30 |  | $10,000  + –2,000  8,000  +   –500  +  7,500  +  7,500  +   –300  7,2000    –  7,200  + +1,250  8,450  + 8,450  + +1,500  9,950  –500  + 9,450  +    –250  9,200  –100  9,100  –1,000  $ 8,100 | +  +  +  +  +  +  +  +  +  +  +  + | +$4,800  4,800  4,800  4,800  –1,250  3,550  3,550    3,550  3,550    3,550    3,550    $3,550 | +  +  +  +  +  +  +  +  +  + | +050  +$150  150    150    150    150    150    150    150    $150 | +  +  +  +  +  +  +  + | +$14,000  14,000    +14,000    +0014,000    +  14,000    14,000    14,000    14,000    +14,000    14,000    14,000    14,000    $14,000 | =  =  =  =  =  =  =  =  =  =  =  = | +$12,000  12,000    12,000    12,000    12,000    12,000    12,000    12,000    12,000       –500  11,500    11,500    11,500    $ 11,500 | +  +  +  +  +  +  +  +  +  +  +  + | +$150  + 150  +00  + 150  +100  + 250    + 250    +0250  +0  +0250  –100  150    $150 | +  +  +  +  +  +  +  + | +$10,000    10,000    10,000    10,000    10,000    10,000    10,000    10,000    10,000    10,000    10,000    10,000    $10,000 | +  +  +  +  +  +  +  +  +  +  +  + | $4,800  4,800  4,800  4,800  4,800  4,800    1,500  6,300    6,300  6,300  6,300    $6,300 | –  –  –  –  –  –  –  –  –  – | –$ 500  –500  –500  –500    –500  –500     –100  –600  –600  –600     –250  –850    –850  –1,000  $1,850 | –  –  –  –  –  –  –  –  – | –$300  –300    –300    –300  –300  –300  –300  –300    –300    $300 | (a)  (b)  (c)  (d)  (e)  (f)  (g) |
|  |  | $25,800 | | | | | | | **$25,800** | | | | | | | | | | | |  |

PROBLEM 1-4A

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) TERCEK DELIVERIES Income Statement For the Month Ended June 30, 2015

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 1,850

Net income $4,450

(c) TERCEK DELIVERIES

Balance Sheet

June 30, 2015

Assets

Cash $ 8,100

Accounts receivable 3,550

Supplies 150

Equipment 14,000

Total assets $25,800

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $11,500

Accounts payable 150

Total liabilities $11,650

Stockholders’ equity

Common stock 10,000

Retained earnings ($4,450 – $300)     4,150   14,150

Total liabilities and stockholders’ equity $25,800

|  |
| --- |
| PROBLEM 1-5A |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (a) | Donatello  Company | |  | Leonardo  Company | |  | Michelangelo  Company | |  | Raphael  Company | |
|  | (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 |

(b) LEONARDO COMPANY

Retained Earnings Statement

For the Year Ended December 31, 2015

Retained earnings, January 1 $20,000

Add: Net income 38,000

58,000

Less: Dividends 51,000

Retained earnings, December 31 $ 7,000

(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 in the retained earnings statement and ending retained earnings reported in the retained earnings statement is the amount reported for retained earnings on the balance sheet.

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (a) TAYLOR MADE TRAVEL AGENCY | | | | | | | | | | | | | | | | |  | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | | |  | **Stockholders’ Equity** | | | | |  |
|  |  | Cash | + | Accounts  Receivable | + | Supplies | + | Equipment | = | Accounts  Payable | + | Common  Stock | + | Retained Earnings | | | | | |  |
| Revenues | – | Expenses | – | Dividends | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |
| 1.  2.  3.  4.  5.  6.  7.  8.  9.  10. |  | +$8,000  + 8,000  +  –400  +  7,600  + –2,500  +  5,100  +000,000  +  5,100  +  –500  +  4,600  –+2,000  +  6,600  +  –200  +  6,400  +  –300  +  6,100  +–2,000  +  4,100  –+5,700  +$9,800 | +  +  +  +  + | +$6,500  + 6,500  + 0,000  + 6,500  + 0,000  + 6,500  + 0,000  + 6,500  –5,700  + $800 | +  +  +  +  +  + | +$500  + 500  +0000  + 500  +0000  + 500  +0000  + 500  +0000  + 500  +  +$500 | +  +  +  +  +  +  +  + | +$2,500  + 2,500  +00,000  + 2,500  +00,000  + 2,500  +00,000  + 2,500  +00,000  + 2,500  +00,000  + 2,500  +00,000  + 2,500    +$2,500 | =  =  =  =  =  =  =  =  =  = | +$300  + 300  +0000  + 300  +0000  + 300  +0000  + 300  +–300  +   0  +0000  +  +$  0 | +  +  +  +  +  + | +$8,000  8,000    8,000    8,000    8,000    8,000    8,000    8,000    8,000    $8,000 | +  +  +  +  +  + | +  +000,000  –$8,500  + 8,500  + 8,500  +000,000  + 8,500  + 8,500  +  +$8,500 | –  –  –  –  –  –  –  –  –  –  –  – | $ 400  400    400     300  700    700  700  700  700     2,000  2,700    $2,700 | –  –  –  –  – | $200  200  200  200    $200 | | (a)  (b)  (c)  (d)  (e) |
|  |  | $13,600 | | | | | | |  | $13,600 | | | | | | | | | |  |

PROBLEM 1-1B

PROBLEM 1-1B (Continued)

Key to Retained Earnings Column

(a) Rent Expense (d) Dividends

(b) Advertising Expense (e) Salaries and Wages Expense

(c) Service Revenue

(b) Service revenue $8,500

Expenses

Salaries and wages $2,000

Rent 400

Advertising 300 2,700

Net income $5,800

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (a) Randy Coburn, ATTORNEY AT LAW | | | | | | | | | | | | | | | | | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | | |  |  |  |  |  |  |  |  |
|  |  | Cash | + | Accounts  Receivable | + | Supplies | + | Equipment | = | Notes  Payable | + | Accounts  Payable | + | Common Stock | + | Retained  Earnings | + | Revenues | – | Expenses | – | Dividends |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |
| Bal.  1.  2.  3.  4.  5.  6.  7.  8. |  | $4,000  +1,400   5,400  –2,700   2,700  +3,000   5,700    –400   5,300  –4,150   1,150    –450    700  +2,000   2,700    $2,700 | +  +  +  +  +  +  +  +  + | $1,500  –1,400     100  00,000     100  +4,900   5,000  00,000   5,000  00,000   5,000  00,000   5,000  00,000   5,000    $5,000 | +  +  +  +  +  +  +  +  + | $400  0000   400  0000   400  0000   400  0000   400  0000   400  0000   400  0000   400    $400 | +  +  +  +  +  +  +  +  + | $5,000  00,000   5,000  00,000   5,000  00,000   5,000  +1,000   6,000  00,000   6,000  00,000   6,000  00,000   6,000    $6,000 | =  =  =  =  =  =  =  =  = | +$2,000  + 2,000    +$2,000 | +  + | $4,200  00,000   4,200  –2,700   1,500  00,000   1,500    +600   2,100  00,000   2,100  00,000   2,100  00,000   2,100    +180  $2,280 | +  +  +  +  +  +  +  +  + | $6,000  6,000  6,000  6,000  6,000  6,000    6,000    6,000    $6,000 | +  +  +  +  +  +  +  +  + | $ 700  000,000  700  000,000    700     700  000,000   700   700  700  000,000  700    $ 700 | +  +  +  +  +  + | +$7,900  7,900  7,900  7,900  7,900  7,900    $7,900 | –  –  –  – | –$3,000  –900    –250  4,150  4,150  4,150     –180  $4.330 | –  –  – | –$450  450  450    $450 |  |
|  |  | $14,100 | | | | | | |  | $14,100 | | | | | | | | | | | | |  |

Key to changes in Retained Earnings

(a) Service revenue (d) Advertising expense

(b) Salaries expense (e) Dividends

(c) Rent expense (f) Utilities expense

PROBLEM 1-2B

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PROBLEM 1-2B (Continued)

(b) RANDY COBURN, ATTORNEY AT LAW

Income Statement

For the Month Ended August 31, 2015

Revenues

Service revenue $7,900

Expenses

Salaries and wages expense $3,000

Rent expense 900

Advertising expense 250

Utilities expense 180

Total expenses 4,330

Net income $3,570

RANDY COBURN, ATTORNEY AT LAW

Retained Earnings Statement

For the Month Ended August 31, 2015

Retained earnings, August 1 $ 700

Add: Net income 3,570

4,270

Less: Dividends 450

Retained earnings, August 31 $3,820

PROBLEM 1-2B (Continued)

RANDY COBURN, ATTORNEY AT LAW

Balance Sheet

August 31, 2015

Assets

Cash $ 2,700

Accounts receivable 5,000

Supplies 400

Equipment 6,000

Total assets $14,100

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $2,000

Accounts payable 2,280

Total liabilities $ 4,280

Stockholders’ equity

Common stock 6,000

Retained earnings   3,820     9,820

Total liabilities and stockholders’ equity $14,100

|  |
| --- |
| PROBLEM 1-3B |

(a) BLUSHE COSMETICS CO.

Income Statement

For the Month Ended June 30, 2015

Revenues

Service revenue $5,300

Expenses

Utilities expense $1,200

Gasoline expense 600

Advertising expense 500

Utilities expense 300

Total expenses 2,600

Net income $2,700

BLUSHE COSMETICS CO.

Retained Earnings Statement

For the Month Ended June 30, 2015

Retained Earnings, June 1 $ 0

Add: Net income 2,700

2,700

Less: Dividends 800

Retained Earnings, June 30 $1,900

BLUSHE COSMETICS CO.

Balance Sheet

June 30, 2015

Assets

Cash $8,000

Accounts receivable 4,000

Supplies 1,300

Equipment 25,000

Total assets $38,300

PROBLEM 1-3B (Continued)

BLUSHE COSMETICS CO.

Balance Sheet (Continued)

June 30, 2015

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $13,000

Accounts payable 1,400

Total liabilities  $14,400

Stockholders’ equity

Common stock 22,000

Retained earnings     1,900   23,900

Total liabilities and stockholders’ equity $38,300

(b) BLUSHE COSMETICS CO.

Income Statement

For the Month Ended June 30, 2015

Revenues

Service revenue ($5,300 + $800) $6,100

Expenses

Utilities expense $1,200

Gasoline expense ($600 + $100) 700

Advertising expense 500

Utilities expense 300

Total expenses 2,700

Net income $3,400

BLUSHE COSMETICS CO.

Retained Earnings Statement

For the Month Ended June 30, 2015

Retained earnings, June 1 $ 0

Add: Net income 3,400

3,400

Less: Dividends 800

Retained earnings, June 30 $2,600

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (a) RODD CONSULTING | | | | | | | | | | | | | | | | | |  |  |  |  |
|  |  |  |  | Assets | | |  |  |  | Liabilities | | |  | Stockholders’ Equity | | | | | | |  |
| Date |  | Cash | + | Accounts  Receivable | + | Supplies | + | Equipment | = | Notes  Payable | + | Accounts  Payable | + | Common  Stock | + | Retained Earnings | | | | |  |
| Revenues | – | Expenses | – | Dividends |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| May 1  May 2  May 3  May 5  May 9  May 12  May 15  May 17  May 20  May 23  May 26  May 29  May 30 |  | +$ 8,000  8,000      –800  7,200  7,200         –90  +  7,110  +3,000  10,110       –700  9,410  9,410  –2,100  7,310      –500  6,810    +2,500  + 9,310    +5,000  14,310  14,310       –150  $14,160 | +  +  +  +  +  +  +  +  +  +  + | +$3,500  3,500  3,500    3,500    –2,500  1,000  1,000  1,000    $ 1,000 | +  +  +  +  +  +  + | +$500  500  500  +050  500  500  500  500  500  500  500  500    $500 | +  + | +  +  +  +$2,600  2,600    $2,600 | =  =  =  =  =  =  =  =  =  =  =  =  = | +$5,000  5,000  5,000    $5,000 | + | +$ 500  500  500  500  500  500  500     –500      –0–  +  +    –0–      –0–  +2,600  2,600    $2,600 | +  +  +  +  +  +  +  +  +  +  + | +$8,000  8,000  8,000  8,000  8,000  8,000  8,000  8,000  8,000  8,000  8,000  8,000  8,000    $8,000 | +  +  +  +  +  +  +  +  +  +  + | +$3,000  3,000  3,000  +3,500  6,500  6,500  6,500  6,500  6,500  6,500    $6,500 | –  –  –  –  –  –  –  –  –  –  –  – | –$ 800  800  800  –90  890  890  890  890  –2,100  2,990  2,990  2,990  2,990  2,990     –150  $3,140 | –  –  –  –  –  –  –  – | –$700  700  700  700  700  700  700  700    $700 | (a)  (b)  (c)  (d)  (e)  (f)  (g) |
|  |  | $18,260 | | | | | | | **$18,260** | | | | | | | | | | | |  |
|  |  |  |

PROBLEM 1-4B

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) RODD CONSULTING

Income Statement

For the Month Ended May 31, 2015

Revenues

Service revenue ($3,000 + $3,500) $6,500

Expenses

Salaries and wages expense $2,100

Rent expense 800

Utilities expense 150

Advertising expense 90

Total expenses 3,140

Net income $3,360

(c) RODD CONSULTING

Balance Sheet

May 31, 2015

Assets

Cash $14,160

Accounts receivable 1,000

Supplies 500

Equipment 2,600

Total assets $18,260

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $5,000

Accounts payable 2,600

Total liabilities $ 7,600

Stockholders’ equity

Common stock 8,000

Retained earnings ($3,360 – $700)   2,660   10,660

Total liabilities and stockholders’ equity $18,260

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| PROBLEM 1-5B |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (a) | Chico  Company | |  | Harpo  Company | | |  | | Groucho  Company | |  | Zeppo  Company | |
|  | (a) | $28,000 |  | (d) | $44,000 |  | | (g) | | $129,000 |  | (j) | $ 50,000 |
|  | (b) | 95,000 |  | (e) | 38,000 |  | | (h) | | 80,000 |  | (k) | 240,000 |
|  | (c) | 7,000 |  | (f) | 6,000 |  | | (i) | | 408,000 |  | (l) | 445,000 |

(b) CHICO COMPANY

Retained Earnings Statement

For the Year Ended December 31, 2015

Retained earnings, January 1 $         0

Add: Net income 15,000

15,000

Less: Dividends 10,000

Retained earnings December 31 $ 5,000

(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 in the retained earnings statement and ending retained earnings reported in the retained earnings statement is the amount reported for retained earnings on the balance sheet.

|  |
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| BYP 1-1 FINANCIAL REPORTING PROBLEM |

(a) Apple’s total assets at September 24, 2011 were $116,371 million and at September 25, 2010 were $75,183 million.

(b) Apple had $9,815 million of cash and cash equivalents at September 24, 2011.

(c) Apple had accounts payable totaling $14,632 million on September 24, 2011 and $12,015 million on September 25, 2010.

(d) Apple reports net sales for three consecutive years as follows:

2009 $108,249 million

2010 $65,225 million

2011 $42,905 million

(e) From 2010 to 2011, Apple’s net income increased $11,909 million from $14,013 million to $25,922 million.

|  |
| --- |
| BYP 1-2 COMPARATIVE ANALYSIS PROBLEM |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (a) |  | (in millions) |  | PepsiCo |  | Coca-Cola |
|  | 1. | Total assets |  | $72,882 |  | $79,974 |
|  | 2. | Accounts receivable (net) |  | $6,912 |  | $4,920 |
|  | 3. | Net sales |  | $66,504 |  | $46,542 |
|  | 4. | Net income |  | $6,462 |  | $8,634 |

(b) Coca-Cola’s total assets were approximately 10% greater than PepsiCo’s total assets, but PepsiCo’s net sales were 43% greater than Coca-Cola’s net sales. PepsiCo’s accounts receivable were 40% greater than Coca-Cola’s and represent 10% of its net sales. Coca-Cola’s accounts receivable amount to 11% of its net sales. Both PepsiCo’s and Coca-Cola’s accounts receivable are at satisfactory levels.

Coca-Cola’s net income is 34% greater than PepsiCo’s. It appears that these two companies’ operations are comparable in some ways, with Coca- Cola’s operations significantly more profitable.

|  |
| --- |
| BYP 1-3 COMPARATIVE ANALYSIS PROBLEM |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (a) |  | (in millions) |  | Amazon |  | Wal-Mart |
|  | 1. | Total assets |  | $25,278 |  | $193,406 |
|  | 2. | Accounts receivable (net) |  | $2,571 |  | $5,937 |
|  | 3. | Net sales |  | $42,000 |  | $443,854 |
|  | 4. | Net income |  | $631 |  | $15,699 |

(b) Wal-Mart’s total assets were approximately 765% greater than Amazon’s total assets, and Wal-Mart’s net sales were over 10 times greater than Amazon’s net sales. Wal-Mart’s accounts receivable were 231% greater than Amazon’s and represent 1% of its net sales. Amazon’s accounts receivable amount to 6% of its net sales. Both Amazon’s and Wal-Mart’s accounts receivable are at satisfactory levels.

Wal-Mart’s net income was 25 times greater than Amazon’s. It appears that these two companies’ operations are comparable in some ways, but Wal-Mart’s operations are substantially more profitable.

|  |
| --- |
| BYP 1-4 REAL–WORLD FOCUS |

(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:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Auditing |  | Financial and Tax |  | Management  Accounting |
| 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:

Audit: 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 1-4 (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 $40,000–$80,000

|  |
| --- |
| BYP 1-5 DECISION–MAKING ACROSS THE ORGANIZATION |

(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, 2015

Assets

Cash $18,900

Buildings 8,000

Equipment 800

Total assets $27,700

Liabilities and Stockholders’ Equity

Liabilities

Accounts payable ($150 + $100) $ 250

Stockholders’ equity

Common stock $25,000

Retained earnings    2,450   27,450

Total liabilities and stockholders’ equity $27,700

As shown in the balance sheet, the stockholders’ equity at March 31 is $27,450. The estimate of $2,450 of net income is the difference between the initial investment of $25,000 and $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.

BYP 1-5 (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

Stockholders’ equity, March 1 25,000

Increase in stockholders’ equity 2,450

Add: Dividends 1,000

Net income $ 3,450

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; 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 1,000 11,800

Cash balance before revenues 13,200

Cash balance, March 31 18,900

Revenues earned $ 5,700

|  |
| --- |
| BYP 1-6 COMMUNICATION ACTIVITY |

To: Ashley Hirano

From: Student

I have received the balance sheet of New York Company as of December 31, 2015. A number of items in this balance sheet are not properly reported. They are:

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, 2015.”

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 shown on the balance sheet. Common stock is not a liability.

6. Common stock and retained earnings are part of stockholders’ equity.

BYP 1-6 (Continued)

A correct balance sheet is as follows:

NEW YORK COMPANY

Balance Sheet

December 31, 2015

Assets

Cash $ 9,000

Accounts receivable 6,000

Supplies 2,000

Equipment 25,500

Total assets $42,500

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $10,500

Accounts payable 8,000

Total liabilities $18,500

Stockholders’ equity

Common stock 26,000

Retained earnings (2,000)   24,000

Total liabilities and stockholders’ equity $42,500

|  |
| --- |
| BYP 1-7 ETHICS CASE |

(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?

|  |
| --- |
| BYP 1-8 ALL ABOUT YOU |

(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 income if they are nego­tiating with employees. For example, professional sports teams fre­quently argue that they can not 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.

(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 to not 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 action because it would help the company, and therefore would help fellow employees.

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| BYP 1-9 ALL ABOUT YOU |

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 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.”

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| BYP 1-10 FASB CODIFICATION ACTIVITY |

No solution necessary

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| BYP 1-11 CONSIDERING PEOPLE, PLANET, AND PROFIT |

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

(b) i. Support sustainable food and agriculture: Purchased 170 million pounds of organic ingredients since the company’s inception.

ii. Embrace zero waste business practices: Caddies are 100% shrinkwrap free and made from 100% recycled paperboard.

iii. Promote climate action and renewable energy: Installed largest “smart” solar array in North America that provides nearly all of its electrical needs.

iv. Conserve natural resources, protect wild places: Planted 40,000 trees in partnership with American Forests.

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| IFRS EXERCISES |

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.

IFRS1-2

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.

IFRS1-3

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.

IFRS1-4

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.

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| IFRS1-5 INTERNATIONAL FINANCIAL REPORTING PROBLEM |

(a) Grant Thornton UK LLP

(b) 1000 Highgate Studios, 53-79 Highgate Road, London, NW5 1TL

(c) The company reports in sterling (pounds).

(d) The company operates in Confectionary which had sales of £85.9 million and Natural and Premium Snacks which had sales of £49.1 million.