

Chapter 1

A Framework for Financial Accounting

REVIEW QUESTIONS

Question 1-1 (LO 1-1)

Accounting is the language of business. Whereas a basic math class might involve adding, subtracting, and solving for unknown variables, accounting involves learning to measure business transactions and communicating those measurements in a format that is generally understood by decision makers.

Question 1-2 (LO 1-1)

Those interested in making decisions about a company include investors, creditors, customers, suppliers, managers, employees, competitors, regulators, tax authorities, and local communities.

Question 1-3 (LO 1-1)

Financial accounting seeks to measure business activities of a company and to communicate those measurements to *external* parties for decision-making purposes. The two primary external, or outside the firm, users of financial accounting information are investors and creditors. Managerial accounting deals with the methods accountants use to provide information to an organization's *internal* users, that is, its own managers.

Question 1-4 (LO 1-1)

The two primary functions of financial accounting are to measure business activities of a company and to communicate information about those activities to investors and creditors for decision-making purposes.

Question 1-5 (LO 1-2)

The three basic business activities are financing, investing, and operating activities. Financing activities are transactions that raise cash needed to operate the business, such as issuing stock and borrowing money from a bank. Investing activities typically include the purchase or disposal of long-term resources that are expected to benefit the company for several years, such as land, buildings, equipment, and machinery. Operating activities include the primary operations of the company, providing products and services to customers and the associated costs of doing so, like utilities, taxes, advertising, wages, rent, and maintenance.

Question 1-6 (LO 1-2)

Typical financing activities for UPS would include selling stock and paying dividends to investors, as well as borrowing and repaying debt to creditors.

Question 1-7 (LO 1-2)

Typical investing activities for Caesars Entertainment would include the purchase or disposal of land, casino buildings, hotels, gaming tables, chairs, cleaning equipment, and food preparation machines.

Answers to Review Questions (continued)

Question 1-8 (LO 1-2)

Typical operating activities for Oracle would include the sale of software and consulting services, as well as costs related to salaries, research, utilities, advertising, rent, and taxes.

Question 1-9 (LO 1-2)

The three major legal forms of business organizations include sole proprietorship, partnership, and corporation? A corporation is chosen by most of the largest companies in the United States.

Question 1-10 (LO 1-2)

Assets: Resources owned.

Liabilities: Amounts owed.

Stockholders' equity: Owners' claims to resources.

Dividends: Distributions to stockholders.

Revenues: Sales of products or services to customers.

Expenses: Costs of selling products or services.

Question 1-11 (LO 1-2)

The major advantage of a corporation is limited liability. Stockholders of a corporation are not held personally responsible for the financial obligations of the corporation. Owners of sole proprietorships or partnerships remain personally liable for activities of the business. Corporations have the disadvantages of double taxation compared to sole proprietorships and partnerships. Sole proprietorship and partnership forms of business have the advantage that income is taxed only once. However, there could be other tax advantages for certain types of corporations, such as a lower overall tax rate compared to partnerships and sole proprietorships. Sole proprietorships and partnerships are often limited in the amount of funds they can raise to start a business.

Question 1-12 (LO 1-3)

1. **Income statement:** Reports the company's revenues and expenses during an interval of time. If revenues exceed expenses, then the company reports net income. If expenses exceed revenues, then the company reports a net loss.
2. **Statement of stockholders' equity:** Summarizes the changes in stockholders' equity from net income, dividends, and stock issuances during an interval of time.
3. **Balance sheet:** Presents the financial position of the company on a particular date. It shows that assets equal liabilities plus stockholders' equity.
4. **Statement of cash flows:** Reports cash inflows and outflows related to operating, investing, and financing activities during an interval of time.

Question 1-13 (LO 1-3)

Balances of accounts reported in the income statement, statement of stockholders' equity, and statement of cash flows reflect activity from the beginning of the period through the end of the period. Balances of accounts reported in the balance sheet reflect the financial position of the company as of a single date, the end of the period. The income statement, statement of stockholders'

equity and statement of cash flows is like a video (shows events over time), whereas the balance sheet is like a photograph (shows events at a point in time).

Answers to Review Questions (continued)

Question 1-14 (LO 1-3)

Basic revenues would include sale of products (such as toys, dolls, and games) and services (such as theme park tickets). Expenses include cost of merchandise sold, employee salaries, utilities, advertising, taxes, interest, and legal fees.

Question 1-15 (LO 1-3)

The accounting equation is: $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$. The format of the balance sheet follows the accounting equation.

Question 1-16 (LO 1-3)

Assets would include items such as merchandise inventory, office supplies, buildings, land, trucks, and equipment. Liabilities would include items such as amounts owed to employees, suppliers, taxing authorities, and lenders.

Question 1-17 (LO 1-3)

Retained earnings represent the cumulative amount of net income earned over the life of the company that has *not* been distributed to stockholders as dividends. Net income is shown in the income statement and retained earnings are reported in the balance sheet. Thus, retained earnings represent a balance sheet account which reflects the cumulative result of income statements over the life of the company (less any dividends).

Question 1-18 (LO 1-3)

The statement of cash flows reports operating, investing, and financing activities involving cash receipts and cash payments over an interval of time. Examples of each include:

Operating – selling merchandise, paying employee salaries, and paying for advertisement.

Investing – purchasing land and buildings to open new factories and selling equipment for cash.

Financing – Borrowing from lenders or issuing stock to owners to obtain funds necessary to expand operations.

Question 1-19 (LO 1-3)

Two other important sources of information are the (1) management discussion and analysis (MD&A) of the company's activities and (2) note disclosures to the financial statements.

Question 1-20 (LO 1-4)

Successful companies use their resources efficiently to sell products and services for a profit. Unsuccessful companies either offer lower-quality products and services or do not efficiently keep their costs low. When a company is unprofitable, investors will neither invest in nor lend to the firm. Without these sources of financing, eventually the company will fail. When a company is able to make a profit, investors and creditors are willing to transfer their resources to it, and the company will expand its profitable operations even further. Investors and creditors rely heavily on financial accounting information in making investment and lending decisions.

Answers to Review Questions (continued)

Question 1-21 (LO 1-5)

GAAP refers to Generally Accepted Accounting Principles, or the rules of financial accounting. The fact that all companies use the same rules is critical to financial statement users, because it allows them to accurately *compare* financial information among companies when they are making decisions about where to lend or invest their resources. The U.S. Securities and Exchange Commission requires that all public companies listed on stock exchanges follow GAAP. Private companies must follow GAAP in many contractual relationships with lenders and investors.

Question 1-22 (LO 1-5)

The Financial Accounting Standards Board (FASB) is primarily responsible for the establishment of GAAP in the United States. The International Accounting Standards Board (IASB) serves this function on an international basis.

Question 1-23 (LO 1-5)

U.S. GAAP refers to the set of accounting standards being developed in the United States by the Financial Accounting Standards Board (FASB). IFRS (International Financial Reporting Standards) refers to the set of accounting standards being developed by the International Accounting Standards Board (IASB). The IASB promotes the use of IFRS around the world. Today, the IASB and FASB work closely in an effort to converge the two sets of accounting standards.

Question 1-24 (LO 1-5)

The 1933 Securities Act and the 1934 Securities Exchange Act were designed to restore investor confidence in financial accounting following the stock market crash in 1929 and the ensuing Great Depression. The SEC has the power to require companies with publicly traded securities to prepare periodic financial statements for distribution to investors and creditors.

Question 1-25 (LO 1-5)

The role of auditors is to help ensure that management has in fact appropriately applied GAAP in preparing the company's financial statements. They are hired by a company as an independent party to express a professional opinion of the conformity of that company's financial statements with GAAP. Auditors play a major role in investors' and creditors' decisions by adding credibility to the financial statements.

Question 1-26 (LO 1-5)

- According to FASB, the three objectives of financial reporting are providing information that:
1. is useful to investors and creditors in making decisions.
 2. helps to predict cash flows.
 3. tells about economic resources, claims to resources, and changes in resources and claims.

Answers to Review Questions (continued)

Question 1-27 (LO 1-6)

The benefits to obtaining a degree in accounting include a wide variety of job opportunities, high demand, and high salaries. Public accounting firms are professional service firms that traditionally have focused on three areas: auditing, tax preparation/planning, and business consulting. Private accounting means providing accounting services to the company that employs you. Traditional careers include auditor, tax preparer, consultant, and basic accounting services. Accountants are now expanding to work as financial analysts, forensic accountants, tax lawyers, FBI agents, and many others.

Question 1-28 (LO 1-7)

Relevance and *faithful representation* are the two fundamental qualitative characteristics. Relevance implies that information is useful to the decision at hand. Faithful representation indicates that information accurately represents the underlying activity.

Question 1-29 (LO 1-7)

The three components/aspects of relevance include:

1. Predictive value – Information is useful in helping to forecast future outcomes.
2. Confirmatory value – Information provides feedback on past activities.
3. Materiality – The nature or amount of an item has the ability to affect decisions.

The three components/aspects of faithful representation include:

1. Completeness – All information necessary to describe an item is reported.
2. Neutrality – Measurements that independent parties would agree upon.
3. Free from error – Reported amounts reflect the best available information.

Question 1-30 (LO 1-7)

Cost effectiveness refers to practical boundaries (constraints) to achieving desired qualitative characteristics. Cost effectiveness suggests that financial accounting information is provided only when the benefits of doing so exceed the costs.

Question 1-31 (LO 1-7)

The four basic assumptions underlying GAAP include:

1. Economic entity assumption – All economic events can be identified with a particular economic entity.
2. Monetary unit assumption - A common denominator is needed to measure all elements. The dollar in the United States is the most appropriate common denominator to express information about financial statement elements and changes in those elements.
3. Periodicity assumption – The economic life of an enterprise (presumed to be indefinite) can be divided into artificial time periods for financial reporting.
4. Going concern assumption – In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely.

BRIEF EXERCISES

Brief Exercise 1-1 (LO 1-1)

1. True
2. True
3. False

Brief Exercise 1-2 (LO 1-2)

1. b.
2. c.
3. a.

Brief Exercise 1-3 (LO 1-2)

1. c.
2. a.
3. b.

Brief Exercise 1-4 (LO 1-2)

1. e.
2. f.
3. b.
4. c.
5. a.
6. d.

Brief Exercise 1-5 (LO 1-2)

1. e.
2. d.
3. f.
4. a.
5. b.

Brief Exercise 1-6 (LO 1-2)

1. b.
2. a.
3. e.
4. c.
5. d.

Brief Exercise 1-7 (LO 1-3)

1. b.
2. a.
3. d.
4. c.

Brief Exercise 1-8 (LO 1-3)

1. c.
2. a.
3. d.
4. b.

Brief Exercise 1-9 (LO 1-5)

1. b.
2. d.
3. a.
4. c.

Brief Exercise 1-10 (LO 1-5)

1. Yes.
2. No.
3. Yes.
4. No.
5. Yes.
6. No.

Brief Exercise 1-11 (LO 1-6)

1. **True**
2. **True**
3. **True**
4. **True**
5. **True**
6. **True**
7. **True**
8. **True**
9. **True**
10. **True**
11. **True**
12. **True**

Brief Exercise 1-12 (LO 1-7)

1. b.
2. a.
3. c.

Brief Exercise 1-13 (LO 1-7)

1. c.
2. b.
3. a.

EXERCISES

Exercise 1-1 (LO 1-2)

1. a.
2. c.
3. a.
4. b.
5. c.
6. a.
7. b.

Exercise 1-2 (LO 1-2)

Transaction	Financial Statement	Account	Activity
1. Falcon purchases common stock of Wildcat.	Balance sheet	Asset	Investing
2. Falcon borrows from Wildcat by signing a note.	Balance sheet	Liability	Financing
3. Falcon provides services to Wildcat.	Income statement	Revenue	Operating
4. Falcon pays interest to Wildcat on borrowing.	Income statement	Expense	Operating

Exercise 1-3 (LO 1-2)

Transaction	Financial Statement	Account	Activity
1. Wildcat issues common stock to Falcon.	Balance sheet	Equity	Financing
2. Wildcat lends to Falcon by accepting a note.	Balance sheet	Asset	Investing
3. Wildcat receives services from Falcon.	Income statement	Expense	Operating
4. Wildcat receives interest from Falcon on lending.	Income statement	Revenue	Operating

Exercise 1-4 (LO 1-2)**Requirement 1**

Revenues	–	Expenses	=	Net Income
\$14,000	–	\$9,000	=	\$5,000

Requirement 2

				Stockholders'
Assets	=	Liabilities	+	equity
\$50,000	=	\$27,000	+	\$X
\$50,000	–	\$27,000	=	\$23,000

Exercise 1-5 (LO 1-2)**Requirement 1**

Revenues	–	Expenses	=	Net Loss
\$28,000	–	\$33,000	=	(\$5,000)

Requirement 2

				Stockholders'
Assets	=	Liabilities	+	equity
\$19,000	=	\$15,000	+	\$X
\$19,000	–	\$15,000	=	\$4,000

Exercise 1-6 (LO 1-3)

**Cowboy Law Firm
Income Statement**

For the period ended December 31

Service revenue	\$9,300
Expenses:	
Salaries	2,200
Utilities	1,200
Total expenses	3,400
Net income	\$5,900

Exercise 1-7 (LO 1-3)

**Buffalo Drilling
Statement of Stockholders' Equity
For the year ended December 31**

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance, Jan. 1	\$11,000	\$ 8,200	\$19,200
Issuance of common stock	8,000		8,000
Add: Net income		8,500	8,500
Less: Dividends		(3,200)	(3,200)
Ending balance, Dec. 31	\$19,000	\$13,500	\$32,500

Exercise 1-8 (LO 1-3)

**Wolfpack Construction
Balance Sheet
December 31**

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 6,000	Accounts payable	\$ 3,000
Land	18,000	Notes payable	<u>20,000</u>
Equipment	26,000	Total liabilities	23,000
		<u>Stockholders' Equity</u>	
		Common stock	11,000
		Retained earnings	<u>16,000</u> *
		Total stockholders' equity	<u>27,000</u>
Total assets	<u>\$50,000</u>	Total liabilities and stockholders' equity	<u>\$50,000</u>

*	Assets	=	Liabilities	+	Stockholders' equity
	\$50,000	=	\$23,000	+	(\$11,000 + Retained earnings)
	\$50,000	-	\$23,000	-	\$11,000 = Retained earnings
					\$16,000 = Retained earnings

Exercise 1-9 (LO 1-3)**Requirement 1**

Beginning balance	\$ 5,000
Cash received from sale of products to customers	40,000
Cash received from the bank for long-term loan	45,000
Cash paid to purchase factory equipment	(50,000)
Cash paid to merchandise suppliers	(12,000)
Cash received from the sale of an unused warehouse	13,000
Cash paid to workers	(24,000)
Cash paid for advertisement	(4,000)
Cash received for sale of services to customers	30,000
Cash paid for dividends to stockholders	(6,000)
Ending balance	<u>\$37,000</u>

Requirement 2

Tiger Trade
Statement of Cash Flows

Cash Flows from Operating Activities		
Cash inflows:		
From sale of products to customers	\$40,000	
From sale of services to customers	30,000	
Cash outflows:		
For merchandise suppliers	(12,000)	
For workers	(24,000)	
For advertisement	(4,000)	
Net cash flows from operating activities		\$30,000
Cash Flows from Investing Activities		
Purchase factory equipment	(50,000)	
Sale of warehouse	13,000	
Net cash flows used in investing activities		(37,000)
Cash Flows from Financing Activities		
Borrow from bank	45,000	
Pay dividends	(6,000)	
Net cash flows from financing activities		39,000
Net increase in cash		32,000
Cash at the beginning of the year		5,000
Cash at the end of the year		<u>\$37,000</u>

Exercise 1-10 (LO 1-3)

Requirement 1

**Fighting Okra Cooking Services
Income Statement**

For the year ended December 31, 2024

Service revenue	<u>\$75,000</u>
Expenses:	
Salaries	24,000
Supplies	14,500
Rent	10,600
Legal fees	2,400
Postage	1,500
Total expenses	<u>53,000</u>
Net income	<u>\$22,000</u>

Requirement 2

**Fighting Okra Cooking Services
Statement of Stockholders' Equity
For the year ended December 31, 2024**

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance	\$200,000	\$32,000	\$232,000
Issuance of common stock	25,000		25,000
Add: Net income		22,000	22,000
Less: Dividends		(10,000)	(10,000)
Ending balance	<u>\$225,000</u>	<u>\$44,000</u>	<u>\$269,000</u>

Exercise 1-11 (LO 1-3)**Requirement 1**

Artichoke Academy
Statement of Stockholders' Equity
For the year ended December 31, 2024

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance	\$150,000	\$50,000	\$200,000
Issuance of common stock	40,000		40,000
Add: Net income		30,000	30,000
Less: Dividends		(10,000)	(10,000)
Ending balance	\$190,000	\$70,000	\$260,000

Requirement 2

Artichoke Academy
Balance Sheet
December 31, 2024

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 52,600	Accounts payable	\$ 9,100
Supplies	13,400	Utilities payable	2,400
Prepaid rent	24,000	Salaries payable	3,500
Land	200,000	Notes payable	15,000
		Total liabilities	30,000
		<u>Stockholders' Equity</u>	
		Common stock	190,000
		Retained earnings	70,000
		Total stockholders' equity	260,000
Total assets	\$290,000	Total liabilities and stockholders' equity	\$290,000

Exercise 1-12 (LO 1-3)
Requirement 1

Squirrel Tree Services
Balance Sheet
December 31, 2024

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 7,700	Accounts payable	\$ 9,700
Supplies	1,800	Salaries payable	3,500
Prepaid insurance	3,500	Notes payable	20,000
Building	72,000	Total liabilities	<u>33,200</u>
		<u>Stockholders' Equity</u>	
		Common stock	40,000
		Retained earnings	11,800
		Total stockholders' equity	<u>51,800</u>
		Total liabilities and	
Total assets	<u>\$85,000</u>	stockholders' equity	<u>\$85,000</u>

Requirement 2

Squirrel Tree Services
Statement of Cash Flows
For the year ended December 31, 2024

Cash Flows from Operating Activities		
Cash inflows from customers	\$ 60,000	
Cash outflows for salaries	(22,000)	
Cash outflows for supplies	(4,000)	
Net cash flows from operating activities		\$34,000
Cash Flows from Investing Activities		
Sale of investments	10,000	
Purchase building	(62,000)	
Net cash flows used in investing activities		(52,000)
Cash Flows from Financing Activities		
Borrow from bank	20,000	
Pay dividends	(6,500)	
Net cash flows from financing activities		13,500
Net decrease in cash		(4,500)
Cash at the beginning of the year*		12,200
Cash at the end of the year		<u><u>\$ 7,700</u></u>
* Plug number in order to calculate correct ending balance		

Exercise 1-13 (LO 1-3)

1.	Revenues	–	Expenses	=	Net Income	
	\$27,000	–	\$18,000	=	\$9,000	
2.	Change in stockholders’ equity	=	Issue common stock	+	Net Income	– Dividends
	\$17,000	=	\$11,000	+	\$12,000	– \$X
	\$17,000	–	\$11,000	–	\$12,000	= \$6,000
3.	Assets	=	Liabilities	+	Stockholders’ equity	
	\$24,000	=	\$X	+	\$15,000	
	\$24,000	=	\$9,000	+	\$15,000	
4.	Total change in cash	=	Operating cash flows	+	Investing cash flows	+ Financing cash flows
	\$26,000	=	\$34,000	+	(\$17,000)	+ \$X
	\$26,000	–	\$34,000	–	(\$17,000)	= \$9,000

Exercise 1-14 (LO 1-3)

Year	Net Income	Dividends	Retained Earnings*
1	\$1,700	\$ 600	<u>\$ 1,100</u>
2	2,200	600	<u>2,700</u>
3	3,100	1,500	<u>4,300</u>
4	4,200	1,500	<u>7,000</u>
5	5,400	1,500	<u>10,900</u>

* Retained earnings = Beginning retained earnings + Net income – Dividends

Exercise 1-15 (LO 1-3)

(\$ in billions)

	Change in retained earnings	=	Net income	–	Dividends
<hr/>					
1.	Change in retained earnings	=	Net income	–	Dividends
	\$3.2	=	\$6.9	–	\$X
	\$3.2	=	\$6.9	–	\$3.7
2.	Change in retained earnings	=	Net income	–	Dividends
	\$3.4	=	\$X	–	\$2.6
	\$3.4	=	\$6.0	–	\$2.6
3.	Change in retained earnings	=	Net income	–	Dividends
	\$1.6	=	\$1.6	–	\$X
	\$1.6	=	\$1.6	–	\$0
4.	Change in retained earnings	=	Net income	–	Dividends
	[\$X – (–\$1.6)]	=	(\$1.0)	–	\$0
	\$X = (\$2.6)				
5.	Change in retained earnings	=	Net income	–	Dividends
	[\$1.56 – \$X]	=	\$0.43	–	\$0.06
	\$X = \$1.19				

Exercise 1-16 (LO 1-3)

(\$ in billions)

	Assets	=	Liabilities	+	Stockholders' equity
1.	Assets	=	Liabilities	+	Stockholders' equity
	\$228	=	\$107	+	\$X
	\$228	=	\$107	+	\$121
2.	Assets	=	Liabilities	+	Stockholders' equity
	\$X	=	\$1,500	+	\$110
	\$1,610	=	\$1,500	+	\$110
3.	Assets	=	Liabilities	+	Stockholders' equity
	\$4.7	=	\$X	+	\$0.3
	\$4.7	=	\$4.4	+	\$0.3
4.	Change in assets	=	Change in liabilities	+	Change in stockholders' equity
	\$1.2	=	\$0.3	+	\$X
	\$1.2	=	\$0.3	+	\$0.9
5.	Change in assets	=	Change in liabilities	+	Change in stockholders' equity
	\$X	=	(\$0.34)	+	\$0.02
	(\$0.32)	=	(\$0.34)	+	\$0.02

Exercise 1-17 (LO 1-3)

(\$ in billions)

	Total change in cash	=	Operating cash flows	+	Investing cash flows	+	Financing cash flows
1.	Total change in cash \$0	=	Operating cash flows \$3.6	+	Investing cash flows \$0.6	+	Financing cash flows (\$4.2)
2.	Total change in cash (\$X – \$0.7) \$X = \$0.4	=	Operating cash flows \$1.4	+	Investing cash flows (\$0.3)	+	Financing cash flows (\$1.4)
3.	Total change in cash \$0.04	=	Operating cash flows \$0.07	+	Investing cash flows \$0.63	+	Financing cash flows (\$0.66)
4.	Total change in cash \$0.02	=	Operating cash flows \$0.60	+	Investing cash flows (\$1.00)	+	Financing cash flows \$0.42
5.	Total change in cash \$0.02	=	Operating cash flows \$0.41	+	Investing cash flows (\$1.42)	+	Financing cash flows \$1.03

Exercise 1-18 (LO 1-5)

1. d.
2. e.
3. a.
4. c.
5. f.
6. b.
7. g.

Exercise 1-19 (LO 1-7)

1. **g.** Comparability
2. **f.** Free from error
3. **b.** Predictive value
4. **i.** Timeliness
5. **a.** Confirmatory value
6. **e.** Neutrality
7. **d.** Completeness
8. **h.** Verifiability
9. **j.** Understandability
10. **c.** Materiality

Exercise 1-20 (LO 1-7)

1. b.
2. c.
3. d.
4. a.

PROBLEMS: SET A

Problem 1-1A (LO 1-2)

Type of business activity	Transactions
1. <u>Financing</u>	Pay amount owed to the bank for previous borrowing.
2. <u>Operating</u>	Pay utility costs.
3. <u>Investing</u>	Purchase equipment to be used in operations.
4. <u>Operating</u>	Provide services to customers.
5. <u>Operating</u>	Purchase office supplies.
6. <u>Investing</u>	Purchase a building.
7. <u>Operating</u>	Pay workers' salaries.
8. <u>Operating</u>	Pay for research and development costs.
9. <u>Operating</u>	Pay taxes to the IRS.
10. <u>Financing</u>	Sell common stock to investors.

Problem 1-2A (LO 1-2)

	Account classifications	Account Names
1.	Stockholders' equity	Common stock
2.	Asset	Equipment
3.	Liability	Salaries payable
4.	Revenue	Service revenue
5.	Expense	Utilities expense
6.	Asset	Supplies
7.	Expense	Research and development expense
8.	Asset	Land
9.	Liability	Income tax payable
10.	Liability	Interest payable

Problem 1-3A (LO 1-3)

Longhorn Corporation

Income Statement

For the year ended Dec. 31, 2024

Service revenue	<u>\$67,700</u>
Expenses:	
Salaries	53,400
Rent	5,500
Delivery	<u>2,600</u>
Total expenses	<u>61,500</u>
Net income	<u>\$ 6,200</u>

Longhorn Corporation
Statement of Stockholders' Equity
For the year ended Dec. 31, 2024

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance	\$40,000	\$18,200	\$58,200
Issuance of common stock	4,000		4,000
Add: Net income		6,200	6,200
Less: Dividends		(0)	(0)
Ending balance	<u>\$44,000</u>	<u>\$24,400</u>	<u>\$68,400</u>

Problem 1-3A (concluded)

Longhorn Corporation
Balance Sheet
Dec. 31, 2024

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 1,200	Accounts payable	\$ 4,400
Supplies	3,400	Salaries payable	800
Equipment	29,000	Total liabilities	5,200
Buildings	40,000		
		<u>Stockholders' Equity</u>	
		Common stock	44,000
		Retained earnings	24,400
		Total stockholders' equity	68,400
Total assets	\$73,600	Total liabilities and stockholders' equity	\$73,600

Problem 1-4A (LO 1-3)

(Suggested order of calculation)

On the statement of stockholders' equity,
 $\$7,000 + (c) - \$3,000 = \$10,000$
(c) = **\$6,000**

From (c),
(b) = **\$6,000**

From (b),
 $\$39,000 - (a) - \$6,000 - \$4,000 = \$6,000$ (b)
(a) = **\$23,000**

From the statement of stockholders' equity,
(e) = **\$11,100**
(f) = **\$10,000**

From total assets,
(g) = **\$26,000**

From (e), (f), and (g),
 $(d) + \$11,100 + \$10,000 + \$10,000 = \$26,000$ (g)
(d) = **\$4,900**

Problem 1-5A (LO 1-3)**Cornhusker Company****Income Statement****For the year ended December 31, 2024**

Service revenues	<u>\$37,000</u>
Expenses:	
Rent	7,000
Utilities	4,900
Salaries	13,300
Insurance	<u>3,500</u>
Total expenses	<u>28,700</u>
Net income	<u>\$ 8,300</u>

Cornhusker Company**Statement of Stockholders' Equity****For the year ended December 31, 2024**

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance (Jan. 1)	\$16,000	\$ 7,300	\$23,300
Issuance of common stock	0		0
Add: Net income		8,300	8,300
Less: Dividends		<u>(3,200)</u>	<u>(3,200)</u>
Ending balance (Dec. 31)	<u>\$16,000</u>	<u>\$12,400</u>	<u>\$28,400</u>

Problem 1-5A (concluded)

**Cornhusker Company
Balance Sheet
December 31, 2024**

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 4,800	Accounts payable	\$ 2,200
Accounts receivable	7,200	Salaries payable	2,400
Land	21,000	Total liabilities	4,600
		<u>Stockholders' Equity</u>	
		Common stock	16,000
		Retained earnings	12,400
		Total stockholders' equity	28,400
Total assets	\$33,000	Total liabilities and stockholders' equity	\$33,000

Problem 1-6A (LO 1-7)

	<u>Assumption violated</u>
1.	<u>Going concern</u>
2.	<u>Economic entity</u>
3.	<u>Monetary unit</u>
4.	<u>Periodicity</u>

Problem 1-7A (LO 1-7)

1. d.
2. b.
3. i.
4. c.
5. a.
6. g.
7. h.
8. f.
9. e.

PROBLEMS: SET B

Problem 1-1B (LO 1-2)

	Type of business activity	Transactions
1.	<u>Operating</u>	Pay for advertising.
2.	<u>Financing</u>	Pay dividends to stockholders.
3.	<u>Operating</u>	Collect cash from customer for previous sale.
4.	<u>Investing</u>	Purchase a building to be used for operations.
5.	<u>Investing</u>	Purchase equipment.
6.	<u>Investing</u>	Sell land.
7.	<u>Financing</u>	Receive a loan from the bank by signing a note.
8.	<u>Operating</u>	Pay suppliers for purchase of supplies.
9.	<u>Operating</u>	Provide services to customers.
10.	<u>Investing</u>	Invest in securities of another company.

Problem 1-2B (LO 1-2)

	Account classifications	Account Names
1.	Asset	Cash
2.	Revenue	Service Revenue
3.	Asset	Supplies
4.	Asset	Buildings
5.	Expense	Advertising Expense
6.	Asset	Equipment
7.	Expense	Interest Expense
8.	Liability	Accounts Payable
9.	Dividends	Dividends
10.	Liability	Notes Payable

Problem 1-3B (LO 1-3)

**Gator Investments
Income Statement
For the year ended Dec. 31, 2024**

Service revenue	\$127,600
Expenses:	
Advertising	33,500
Salaries	65,100
Utilities	15,500
Interest	3,500
Total expenses	117,600
Net income	\$ 10,000

**Gator Investments
Statement of Stockholders' Equity
For the year ended Dec. 31, 2024**

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance	\$100,000	\$30,300	\$130,300
Issuance of common stock	11,000		11,000
Add: Net income		10,000	10,000
Less: Dividends		(5,200)	(5,200)
Ending balance	\$111,000	\$35,100	\$146,100

Problem 1-3B (concluded)

Gator Investments
Balance Sheet
Dec. 31, 2024

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 5,500	Accounts payable	\$ 6,400
Equipment	27,000	Notes payable	<u>30,000</u>
Buildings	150,000	Total liabilities	36,400
		<u>Stockholders' Equity</u>	
		Common stock	111,000
		Retained earnings	<u>35,100</u>
		Total stockholders' equity	<u>146,100</u>
Total assets	<u>\$182,500</u>	Total liabilities and stockholders' equity	<u>\$182,500</u>

Problem 1-4B (LO 1-3)

(Suggested order of calculation)

On the statement of stockholders' equity,

$$\$14,000 + (c) = \$17,000$$

$$(c) = \mathbf{\$3,000}$$

$$\$7,000 + \$5,000 - (d) = \$8,000$$

$$(d) = \mathbf{\$4,000}$$

$$(b) = \mathbf{\$5,000}$$

From (b),

$$(a) - \$13,000 - \$7,000 - \$5,000 = \$5,000 \text{ (b)}$$

$$(a) = \mathbf{\$30,000}$$

From the statement of stockholders' equity,

$$(g) = \mathbf{\$17,000}$$

$$(h) = \mathbf{\$8,000}$$

From (g) and (h),

$$\$4,000 + \$17,000 \text{ (g)} + \$8,000 \text{ (h)} = (i)$$

$$(i) = \mathbf{\$29,000}$$

From total liabilities and stockholders' equity,

$$(f) = \mathbf{\$29,000}$$

From (f),

$$\$1,100 + (e) + \$6,000 + \$16,000 = \$29,000 \text{ (f)}$$

$$(e) = \mathbf{\$5,900}$$

Problem 1-5B (LO 1-3)

Tar Heel Corporation	
Income Statement	
For the year ended December 31, 2024	
Service revenues	\$69,400
Expenses:	
Advertising	10,400
Utilities	6,000
Salaries	26,700
Interest	2,100
Total expenses	45,200
Net income	\$24,200

Tar Heel Corporation
Statement of Stockholders' Equity
For the year ended December 31, 2024

	Common Stock	Retained Earnings	Total Stockholders' Equity
Beginning balance	\$21,000	\$26,800	\$47,800
Issuance of common stock	6,000		6,000
Add: Net income		24,200	24,200
Less: Dividends		(11,000)*	(11,000)
Ending balance	\$27,000	\$40,000	\$67,000

* Beginning retained earnings	\$26,800
+ Net income	24,200
– Dividends	?
= Ending retained earnings	\$40,000

Problem 1-5B (concluded)

**Tar Heel Corporation
Balance Sheet
December 31, 2024**

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$	5,200	Accounts payable
Accounts receivable		13,200	\$ 7,700
Supplies		4,600	3,300
Building		80,000	25,000
			36,000
			<u>Stockholders' Equity</u>
			Common stock
			27,000
			Retained earnings
			40,000
			Total stockholders' equity
			67,000
			Total liabilities and
			stockholders' equity
Total assets		\$103,000	\$103,000

Problem 1-6B (LO 1-7)

	Assumption violated
1.	<u>Periodicity</u>
2.	<u>Monetary unit</u>
3.	<u>Going concern</u>
4.	<u>Economic entity</u>

Problem 1-7B (LO 1-7)

1. h.
2. g.
3. f.
4. a.
5. d.
6. e.
7. i.
8. b.
9. c.