

# CHAPTER 1

## ACCOUNTING IN ACTION

### CHAPTER LEARNING OBJECTIVES

**1. *Identify the use and users of accounting and the objective of financial reporting.***

Accounting is the information system that identifies, records, and communicates the economic events of an organization to a wide variety of interested users. Good accounting is important to people both inside and outside the organization. Internal users, such as management, use accounting information to plan, control, and evaluate business operations. External users include investors and creditors, among others. Accounting data are used by investors (owners or potential owners) to decide whether to buy, hold, or sell their financial interests. Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money based on the accounting information. The objective of financial reporting is to provide useful information to investors and creditors to make these decisions. Users need information about the business's ability to earn a profit and generate cash. For our economic system to function smoothly, reliable and ethical accounting and financial reporting are critical.

**2. *Compare the different forms of business organization.*** The most common examples of business organization are proprietorships, partnerships, and corporations. Proprietorships and partnerships are not separate legal entities but are separate entities for accounting purposes; income taxes are paid by the owners and owners have unlimited liability. Corporations are separate legal entities as well as separate entities for accounting purposes; income taxes are paid by the corporation and owners of the corporation have limited liability.

**3. *Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.*** Generally accepted accounting principles are a common set of guidelines that are used to prepare and report accounting information. The conceptual framework outlines some of the body of theory used by accountants to fulfill their goal of providing useful accounting information to users. Ethical behaviour is fundamental to fulfilling the objective of financial accounting. The reporting entity concept requires the business activities of each reporting entity to be kept separate from the activities of its owner and other economic entities. The going concern assumption presumes that a business will continue operations for enough time to use its assets for their intended purpose and to fulfill its commitments. The periodicity concept requires businesses to divide up economic activities into distinct periods of time. Qualitative characteristics include fundamental and enhancing characteristics that help to ensure accounting information is useful. Only events that cause changes in assets, liabilities, or owner's equity are recorded. Recognition is the process of recording items and measurement is the process of determining cost concept states that assets should be recorded at their historical (original) cost. Fair value may be a more appropriate measure for certain types of assets. Generally fair value is the amount the asset could be sold for in the market. The monetary unit concept requires that only transactions that can be expressed as an amount of money be included in the accounting records, and it assumes that the monetary unit is stable. The revenue recognition principle requires companies to recognize revenue when a performance obligation(s) is satisfied. The matching concept requires that costs be recognized as expenses in the same period as revenue is recognized when there is a direct association between the cost incurred and revenue recognized.

In Canada, there are two sets of standards for profit-oriented businesses. Publicly accountable enterprises must follow International Financial Reporting Standards (IFRS) and private enterprises have the choice of following IFRS or Accounting Standards for Private Enterprises (ASPE).

**4. Describe the components of the financial statements and explain the accounting equation.** Assets, liabilities, and owner's equity are reported in the balance sheet. Assets are present economic resources controlled by the business as a result of past events that are capable of producing economic benefits. Liabilities are present obligations of a business to transfer an economic resource as a result of past events. Owner's equity is the owner's claim on the company's assets and is equal to total assets minus total liabilities. The balance sheet is based on the accounting equation:  $\text{Assets} = \text{Liabilities} + \text{Owner's equity}$ .

The Income statement reports the profit or loss for a specified period of time. Profit is equal to revenues minus expenses. Revenues are the increases in assets, or decreases in liabilities, that result from business activities that are undertaken to earn profit. Expenses are the cost of assets consumed or services used in a company's business activities. They are decreases in assets or increases in liabilities, excluding withdrawals made by the owners, and result in a decrease to owner's equity.

The Statement of owner's equity summarizes the changes in owner's equity during the period. Owner's equity is increased by investments by the owner and profits. It is decreased by drawings and losses. Investments are contributions of cash or other assets by owners. Drawings are withdrawals of cash or other assets from the business for the owner's personal use. Owner's equity in a partnership is referred to as partners' equity and in a corporation as shareholders' equity. A Cash flow statement summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

**5. Analyze the effects of business transactions on the accounting equation.** Each business transaction must have a dual effect on the accounting equation. For example, if an individual asset is increased, there must be a corresponding (1) decrease in another asset, (2) increase in a liability, and/or (3) increase in owner's equity.

**6. Prepare financial statements.** The Income statement is prepared first. Expenses are deducted from revenues to calculate the profit or loss for a specific period of time. Then the Statement of owner's equity is prepared using the profit or loss reported in the Income statement. The profit is added to (losses are deducted from) the owner's equity at the beginning of the period. Drawings are then deducted to calculate owner's equity at the end of the period. A balance sheet reports the assets, liabilities, and owner's equity of a business as at the end of the accounting period. The owner's equity at the end of period, as calculated in the Statement of owner's equity, is reported in the balance sheet in the owner's equity section.

## EXERCISES

### Exercise 1

Ogilvie Homes is a business owned by Joe Ogilvie. The accounting for this business is done by Joe's sister Leigh. Leigh is currently preparing the 2017 year-end financial statements which Joe will use for three purposes:

1. to submit with his tax returns;
2. to support a loan application; and
3. to help him evaluate the success of the business.

### Instructions

- a) For each of the three purposes identified, describe the information needs the user will fulfill based on Ogilvie Home's financial statements.
- b) Leigh has suggested that she can help Joe out by recording some January 2018 revenue in December 2017. She feels this is reasonable because it is just a slight timing difference and so "not really dishonest". Comment on the ethical implications of this suggestion and explain how each of the three users' needs may be affected if Leigh implements her suggestion.

### Solution Exercise 1 (10 min.)

- a) Information needs for each of the three users:
  1. The tax department will want to know whether the company respects tax laws.
  2. The bank's loans officer will evaluate the risk of granting credit or lending money.
  3. Joe will be able to assess whether the business is earning him the amount of profit he is expecting in comparison with other similar businesses.
- b) Leigh's action would be unethical because it would be misrepresenting the true results of the business operations for 2017. It would violate the trust each financial statement user places in the accounting information. The effect on each of the needs identified in part a) would be:
  1. The tax department might assess higher taxes than are really warranted.
  2. The bank might lend more money to Joe than they would otherwise, based on expectations of higher future profits than can actually be achieved because the bank's projections are based on incorrect historical information.
  3. Joe might assume that past projects were more profitable than they really were. He might therefore reject new projects based on the assumption that he does not need to increase his sales above current levels in order to earn target profit levels.

Bloomcode: Comprehension

Difficulty: Hard

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

CPA: Problem-Solving and Decision-Making

CPA: Professional and Ethical Behaviour

### Exercise 2

The following are six questions that users of accounting information might ask about Agusta Auto Towing.

**Instructions**

For each question, indicate who the decision maker is and whether it is an external or internal user.

	<b>Decision</b>	<b>Decision maker</b>	<b>External or internal</b>
a)	Can Agusta's operations generate sufficient cash to make payments on a term loan?		
b)	Does Agusta have sufficient assets to provide security for a mortgage loan?		
c)	Should Agusta continue its current business, or look for more profitable opportunities in a different line of business?		
d)	Were the profit sharing bonuses paid to unionized employees equal to the percentage of profit stated in the employment contract?		
e)	Was the amount of harmonized sales taxes (HST) that Agusta remitted to the tax department equal to 13% of its revenue, as required by law?		
f)	Does Agusta have enough money in the bank to pay out drawings to the owner?		

**Solution Exercise 2** (10 min.)

	<b>Decision</b>	<b>Decision maker</b>	<b>External or internal</b>
a)	Can Agusta's operations generate sufficient cash to make payments on a term loan?	Banker	External
b)	Does Agusta have sufficient assets to provide security for a mortgage loan?	Banker/lender	External
c)	Should Agusta continue its current business, or look for more profitable opportunities in a different line of business?	Management	Internal
d)	Were the profit sharing bonuses paid to unionized employees equal to the percentage of profit stated in the employment contract?	Employee union	External
e)	Was the amount of harmonized sales taxes (HST) that Agusta remitted to the tax department equal to 13% of its revenue, as required by law?	Tax assessor (Canada Revenue Agency)	External
f)	Does Agusta have enough money in the bank to pay out drawings to the owner?	Owner	Internal

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

**Exercise 3**

Jamenac Company recently released its first set of financial statements. Below is a list of potential

users of the financial statements:

1. Labour Union
2. Employees
3. Canadian Imperial Bank of Commerce
4. CRA
5. Potential shareholders/ investors
6. Sales Manager
7. Marketing Manager
8. Economic planners
9. Provincial Securities Commission
10. Human Resource Director
11. Customers

### Instructions

- a) For each user identify whether the user is an external or internal user.
- b) Provide a brief explanation as to the difference between external and internal users.

### Solution Exercise 3 (15 min.)

a)

1. external
2. internal
3. external
4. external
5. external
6. internal
7. internal
8. external
9. external
10. internal
11. external

- b) External users do not work for the company and may use the information to base future decisions about the company (i.e., loans, invest or future profitability) or in the case of governments and regulators whether the company is respecting laws and regulations. Internal users plan, organize and run the company. They use the information to create or alter future budgets, projects or for detailed comparisons.

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?  
CPA: Financial Reporting

#### Exercise 4

The following is a list of users of accounting information:

- A) Managers
- B) Regulators
- C) Employees
- D) Shareholders
- E) Lenders
- F) Suppliers
- G) External auditors

#### Instructions

Match the most appropriate user to the following user objectives. (Note: Each user should only be applied once.)

- \_\_\_\_\_ (1) The accuracy of the internal budgeted financial information
- \_\_\_\_\_ (2) Verification that the financial statements are fairly presented
- \_\_\_\_\_ (3) Compliance with income tax laws
- \_\_\_\_\_ (4) The ability of a company to repay its loans
- \_\_\_\_\_ (5) Fairness of wages
- \_\_\_\_\_ (6) Ensuring orders received are filled and shipped as quickly as possible
- \_\_\_\_\_ (7) The company's ability to generate profits and provide a return on investment

#### Solution Exercise 4 (5 min.)

- \_\_\_A\_\_\_ (1) The accuracy of the internal budgeted financial information
- \_\_\_G\_\_\_ (2) Verification that the financial statements are fairly presented
- \_\_\_B\_\_\_ (3) Compliance with income tax laws
- \_\_\_E\_\_\_ (4) The ability of a company to repay its loans
- \_\_\_C\_\_\_ (5) Fairness of wages
- \_\_\_F\_\_\_ (6) Ensuring orders received are filled and shipped as quickly as possible
- \_\_\_D\_\_\_ (7) The company's ability to generate profits and provide a return on investment

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?  
CPA: Financial Reporting

#### Exercise 5

The following is a list of users of accounting information:

- a) Managers
- b) Regulators
- c) Employees
- d) Shareholders
- e) Lenders
- f) Suppliers
- g) External auditors

**Instructions**

Identify the above users as internal (I) or external (E) using the following format:

- \_\_\_\_ (a) Managers
- \_\_\_\_ (b) Regulators
- \_\_\_\_ (c) Employees
- \_\_\_\_ (d) Shareholders
- \_\_\_\_ (e) Lenders
- \_\_\_\_ (f) Suppliers
- \_\_\_\_ (g) External auditors

**Solution Exercise 5 (5 min.)**

- \_\_\_I\_\_\_ (a) Managers
- \_\_\_E\_\_\_ (b) Regulators
- \_\_\_I\_\_\_ (c) Employees
- \_\_\_E\_\_\_ (d) Shareholders
- \_\_\_E\_\_\_ (e) Lenders
- \_\_\_E\_\_\_ (f) Suppliers
- \_\_\_E\_\_\_ (g) External auditors

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

**Exercise 6**

Listed below are various types of business organizations:

1. Three individuals created a law practice.
2. Two individuals bought shares of company as an investment.
3. A single mother opens her own hair salon.
4. Husband and wife decide to open a daycare business. The wife will operate and maintain the daycare while the husband works his normal full time job. The daycare income will be reported solely on the wife's personal tax return.

5. A public company with 100 shareholders.
6. Two friends create a chocolate company business. All profits will be on their personal returns.

**Instructions**

- a) For each of the six situations identify the type of business organization.
- b) For each of the six situations identify the owner's liability.

**Solution Exercise 6 (10 min.)**

a)	b)
1. Partnership	Unlimited
2. Corporation	Limited
3. Proprietorship	Unlimited
4. Proprietorship	Unlimited
5. Corporation	Limited
6. Partnership	Unlimited

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

**Exercise 7**

Listed below are various situations relating to business organizations:

1. Larkin Tools does not have a separate legal existence apart from the one person who owns it.
2. Luke and Sheri own Wise Financial Inc., a financial and personal taxation services provider. Neither Luke nor Sheri has personal responsibility of the debts of Wise Financial Inc.
3. Lucky Snacks is owned by Ray Umber, who is personally liable for the debts of the business.
4. Ownership of Tractor and Wheels is divided thousands of shares.
5. Chris and Melissa own Chris' Curiosity, a restaurant. Both Chris and Melissa are personally liable for the debts of the business.
6. Torby Technologies has two owners and does not pay income taxes.

**Instructions**

Determine whether the situation described above refers to a proprietorship, partnership, or corporation.

**Solution Exercise 7 (5 min.)**

1. Proprietorship
2. Corporation
3. Proprietorship
4. Corporation



5. Partnership

6. Partnership

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

### Exercise 8

Each of the following independent situations represents a violation of accounting assumptions:

1. It is now the end of 2017 and Catherine Co. is preparing its annual financial statements. The company has been experiencing severe financial difficulties and management anticipates that the company will cease operations in 2018 but this is not disclosed in the financial statements.
2. Jeff Connors runs a small business. All receipts from the business are deposited into Jeff's personal bank account and all Jeff's expenses, both personal and business, are paid out of this same account. Jeff makes no attempt to maintain separate records for the business.
3. Dean has a mining company which is very profitable. Over the past few years Dean has been very good at maintaining his business records and books. However, Dean's wife has recently been using the company account to pay for her personal expenses. She informed Dean that since he owns the company all the money earned will go to him anyways therefore using the company account or their personal bank account makes no difference.

### Instructions

For each of the situations listed above, fill in the appropriate letter to indicate which of the following accounting assumptions has been violated:

- a) Going Concern Assumption
- b) Reporting Entity Concept

### Solution Exercise 8 (5 min.)

1. a
2. b
3. b

Bloomcode: Analysis

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

### Exercise 9

1. Explain the going concern assumption. How is it relevant in accounting for a business that may be going through temporary financial difficulties?
2. Explain how the reporting entity concept applies when a business is owned and operated by a

sole proprietor.

**Solution Exercise 9 (10 min.)**

1. The going concern assumption states that one assumes that the business will continue its operations for the foreseeable future. This means that even though the business may be experiencing financial difficulties, one continues to present its assets and liabilities as though the assets will continue to be used in the business and liabilities will be able to be honoured. If it becomes apparent that the business will discontinue operations, it is necessary to report in the financial statements that the company is not a going concern.
2. The reporting entity concept requires that only the events and transactions of a business be reported in the financial statements of a business. Therefore, although an unincorporated business is not a separate legal entity in the same sense that a corporation is, the accountant must still ensure that personal transactions, assets, and liabilities of the business owner are not reported in the business financial statements.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

**Exercise 10**

Each of the following independent situations represents a departure from generally accepted accounting principles:

1. Strad Music Supplies is a proprietorship owned and operated by Giuseppe Amati. Giuseppe started the business with funds given to him by his uncle. He gives his uncle a copy of Strad's financial statements each year so that his uncle will see this was a good investment. In 2016 both Giuseppe and his uncle were disappointed that sales had decreased from the prior year. When Giuseppe wins \$50,000 in a lottery during 2017, he decides to record the amount as revenue in the financial statements of the business to avoid disappointing his uncle even further.
2. Xavier Quinn, the owner of Quinn's Travel is thinking of retiring in two years because the business is not as successful as he had hoped. Xavier has always been very careful to ensure that all assets and liabilities are recorded correctly. However, since he is thinking of retiring, Xavier decides that generally accepted accounting principles are no longer relevant, so he does not double check his work as carefully as he did previously.

**Instructions**

For each situation listed above:

- a) Identify which principle, concept or assumption has been violated
- b) Describe what the correct accounting treatment would be, and
- c) Why the correct treatment provides better information.

**Solution Exercise 10 (10 min.)**

1. The reporting entity concept has been violated. Giuseppe should record only transactions related to the business in Strad's financial statements. By including personal income, a correct evaluation of the business's performance cannot be made.
2. The going concern assumption is violated. The assets and liabilities should be accounted for

as though the business were going to continue, so the accuracy of all amounts continues to be as relevant as they were before.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

CPA: Professional and Ethical Behaviour

### Exercise 11

You are auditing the accounting records of Delta Tool Company, owned and operated by Chad Fleming, and noticed the following events:

1. Chad deals with foreign suppliers who invoice the company in U.S. dollars. Chad normally records the amounts in the accounting records as displayed in the invoice since the exchange rate is often similar to the Canadian dollar.
2. Chad often receives deposits for contracts to be completed in the following fiscal year. He reports all deposits as revenue once the cash is received.
3. Chad wrote a cheque for \$900 to Little Hugs Day Care Centre. The amount relates to child care service for Chad's daughter Gabrielle.

### Instructions

Identify the accounting principle, concept or assumption violated in each of the events described above.

### Solution Exercise 11 (5 min.)

1. Monetary unit concept
2. Revenue recognition principle
3. Reporting entity concept

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

### Exercise 12

The following is a list of fundamental and enhancing qualitative characteristics:

- a) relevance
- b) faithful representation
- c) neutral
- d) comparability
- e) consistency
- f) verifiability
- g) timeliness

h) understandability

**Instructions**

Using the list of qualitative characteristics stated above, identify the appropriate qualitative characteristic being described in each of the statements below. (Note: qualitative characteristics cannot be used more than once.)

- a) Characteristic that requires that information cannot be selected to favour one set of interested parties over another.
- b) Characteristic requiring information be available to decision-makers before it loses its ability to influence decisions.
- c) Characteristic requiring that numbers and descriptions in financial statements represent what really existed or happened.
- d) Information that is capable of making a difference in a decision is said to have this qualitative characteristic.
- e) Characteristic being employed when companies in the same industry use the same accounting principles.

**Solution Exercise 12 (5 min.)**

- a) neutral
- b) timeliness
- c) faithful representation
- d) relevance
- e) consistency

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

**Exercise 13**

In each of the following situations, the accountant for Sydney Design Services (Sydney) must decide how to record the information in the financial statements. Sydney is a proprietorship owned and operated by Gloria Steinwald.

- 1. Gloria would like to borrow money from the bank to expand the business. Since she owns a house that can be pledged as security for a bank loan, she asks the accountant to ensure that the house is shown on Sydney's Balance sheet.
- 2. The accountant is confident that with the new contract that was signed, Sydney will be a successful business for many years to come. However, before that was finalized, he was curious whether there would be any effect on accounting for the assets and liabilities of the business if its ongoing viability had been in doubt.

**Instructions**

For each of the situations, identify which generally accepted accounting principle would guide the accountant in deciding how to report the situation, and describe the correct treatment.

**Solution Exercise 13** (5 min.)

1. The reporting entity concept requires that no personal assets are recorded in the records of the business, therefore the house should not be included on Sydney's Balance sheet.
2. The going concern assumption applies. In accordance with this assumption, accounting for the business should be based on the assumption that it will continue for the foreseeable future, so there is no difference in the accounting in this situation.

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

**Exercise 14**

Listed below are various types of organizations:

1. publicly accountable enterprise
2. bank or credit unions
3. private corporation
4. security broker
5. Canadian partnership

**Instructions**

- a For each organization, identify the appropriate accounting standards the organization should follow. (ASPE or IFRS).
- b) If applicable, identify if any organization has the option to follow both standards.

**Solution Exercise 14** (5 min.)

a)

1. IFRS

2. IFRS

3. ASPE

4. IFRS

5. ASPE

- b) Canadian private companies including corporations have the option to adopt IFRS or ASPE. Therefore 3. and 5. can adopt either set of standards.

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

**Exercise 15**

For the items listed below, fill in the appropriate code letter to indicate whether the item is an Asset (A), Liability (L), or Owner's Equity (OE) item.

- |                             |                              |
|-----------------------------|------------------------------|
| _____ 1. Rent Expense       | _____ 6. Cash                |
| _____ 2. Office Equipment   | _____ 7. Accounts Receivable |
| _____ 3. Accounts Payable   | _____ 8. L. Landry, Drawings |
| _____ 4. L. Landry, Capital | _____ 9. Service Revenue     |
| _____ 5. Insurance Expense  | _____ 10. Notes Payable      |

**Solution Exercise 15 (5 min.)**

1. OE
2. A
3. L
4. OE
5. OE
6. A
7. A
8. OE
9. OE
10. L

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

**Exercise 16**

1. What is meant by the historical cost measurement method? Explain why the method is used primarily when accounting for assets used in a business.
2. Explain the monetary unit concept of accounting. Explain how a business may have competitive advantage(s) that are not reported in the financial statements due to this principle, and provide an example.

**Solution Exercise 16 (10 min.)**

1. Cost is the amount paid for an asset. Cost is definite and verifiable as it can be measured by fact. Users will be more comfortable with this measurement as it is objective.

- The monetary unit concept states that only events that can be measured in a monetary unit are reported in the financial statements, and that the same monetary unit should be used to report all transactions. However, the business may have a particularly talented work force in comparison to competitors'. Because the value of this extra talent cannot be measured in monetary terms, it is not recorded as an asset in the financial statements. [Other examples might include inventions or internally developed technology.]

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

### Exercise 17

Each of the following independent situations represents a departure from generally accepted accounting principles:

- Value Properties owns a number of apartment buildings. In April 2013 a new building was purchased for \$1,000,000. Because of the rapid increase in real estate prices, by the time Value's accountant recorded the purchase in July 2013, the estimated value of the property had increased to \$1,200,000. The accountant decided to record the new building at \$1,200,000.
- Expat Imports International purchases products in the United States for resale in Canada. The goods they buy in the US are paid for in US dollars. In Expat's financial statements, each amount is identified as being in either US or Canadian dollars, for example as follows:

Sales .....	\$40,000	(Canadian \$)
Cost of goods sold.....	(25,000)	(US \$)
Wages expense.....	(7,000)	(Canadian \$)
Freight expense.....	(2,000)	(US \$)
Profit.....	<u>\$ 6,000</u>	

### Instructions

For each situation, (i) identify which principle, concept or assumption has been violated, (ii) describe what the correct accounting treatment would be, and (iii) why the correct treatment provides better information.

### Solution Exercise 17 (15 min)

- The historical cost measurement method has been violated. The accountant should have recorded the building at \$1,000,000. Cost is more verifiable than estimated fair values. Fair values are not relevant because the building is not being sold.
- The monetary unit concept has been violated. The transactions should all be recorded in the equivalent Canadian dollars. By combining different currencies, the amount of profit is not meaningful.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles  
CPA: Financial Reporting

**Exercise 18**

In each of the following situations, the accountant for Sydney Design Services (Sydney) must decide how to record the information in the financial statements. Sydney is a proprietorship owned and operated by Gloria Steinwald.

1. In April, Sydney purchased some furniture that will be used in a client's newly designed office. Sydney paid \$4,000 for the furniture, and the client will pay Sydney \$5,600 when it is delivered and assembled in May. The accountant wants to know at which amount the furniture should be reported on the April 30 Balance sheet.
2. In June, Sydney signed a long-term contract with a hotel chain to review all of their hotels' décor annually and recommend updates as fashions change. The fees will be based on the amount of time spent on the annual review. The first location will be evaluated starting in September. The accountant believes this contract is of great value to Sydney even though no money has changed hands yet, and wonders how it can be shown in the June 30 financial statements.

**Instructions**

For each of the situations, identify which generally accepted accounting principle would guide the accountant in deciding how to report the situation, and describe the correct treatment.

**Solution Exercise 18** (10 min.)

1. The historical cost measurement method states that the transaction should be reported at its cost, which is \$4,000.
2. The monetary unit assumption states that only transactions that can be measured in monetary terms should be recorded. Since no funds have changed hands, and the benefit cannot be measured until it is known how many hours are to be spent, there is no transaction that can be measured in monetary terms.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

**Exercise 19**

For each of the situations listed below, indicate which of the following generally accepted accounting principles have been violated:

- a) Monetary Unit concept
- b) Historical cost measurement method

1. Harvester International revalues its financial statements each year to take into consideration the effects of inflation. The company justifies its decision by stating the "inflation adjusted statements more fully reflect the purchasing power of the company's earnings."
2. Ernie began operations 11 years ago and purchased land for \$200,000. Ernie has since built a manufacturing plant on this land to use in daily operations. Today Ernie has appraised the



value of his land to be \$1.5 million. He would like the increase in the value of his land to be reported on the financial statements at \$1.5 million.

**Solution Exercise 19** (5 min.)

1. Monetary Unit concept
2. Historical cost measurement method

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

**Exercise 20**

From the following list of selected accounts taken from the records of Miller Clinic, identify which would appear on the Balance sheet.

- |                         |                      |
|-------------------------|----------------------|
| a) Jane Miller, Capital | f) Accounts Payable  |
| b) Patient Revenue      | g) Cash              |
| c) Land                 | h) Rent Expense      |
| d) Wages Expense        | i) Medical Supplies  |
| e) Notes Payable        | j) Utilities Expense |

**Solution Exercise 20** (5 min.)

- a) Jane Miller, Capital
- c) Land
- e) Notes Payable
- f) Accounts Payable
- g) Cash
- i) Medical Supplies

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

**Exercise 21**

Carrie's Carpet Cleaning has the following Balance sheet items:

- |                  |                     |
|------------------|---------------------|
| Van              | Notes Payable       |
| Accounts Payable | T. Carrie, Capital  |
| Cash             | T. Carrie, Drawings |

Cleaning Supplies                                      Equipment  
Accounts Receivable

**Instructions**

Identify which items are

- a) Assets
- b) Liabilities
- c) Owner's Equity

**Solution Exercise 21** (5 min.)

- a) Assets—Van, Cash, Cleaning Supplies, Accounts Receivable, Equipment
- b) Liabilities—Accounts Payable, Notes Payable
- c) Owner's Equity—T. Carrie, Capital, T. Carrie, Drawings

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

**Exercise 22**

The following amounts are the ending balances that form the accounting equation of Anna's Consulting Services.

Accounts payable.....	\$ 2,100
Accounts receivable .....	1,900
Bank loan payable.....	60,000
Cash .....	3,000
A. Mercer, Drawings.....	12,000
Equipment.....	6,000
Expenses .....	23,800
Land and building.....	100,000
A. Mercer, Capital, beginning of year .....	25,000
Revenues.....	60,000
Supplies .....	400

**Instructions**

- a) For each amount, indicate whether it is classified as an Asset (A), Liability (L), or Owner's Equity (OE).
- b) Calculate total assets, total liabilities, and total owner's equity. Use these amounts to show that the accounting equation is in balance.

**Solution Exercise 22** (10 min.)

a)

Accounts payable	2,100	L
Accounts receivable	1,900	A

Bank loan payable	60,000	L
Cash	3,000	A
A Mercer, Drawings	12,000	OE
Equipment	6,000	A
Expenses	23,800	OE
Land and building	100,000	A
A. Mercer, Capital, beginning of year	25,000	OE
Revenues	60,000	OE
Supplies	400	A

- b) Total assets = \$1,900 + \$3,000 + \$6,000 + \$100,000 + \$400 = \$111,300  
 Total liabilities = \$2,100 + \$60,000 = \$62,100  
 Total owner's equity = \$25,000 + \$60,000 – \$23,800 – \$12,000 = \$49,200

$$\text{Assets } (\$111,300) = \text{Liabilities } (\$62,100) + \text{Owner's equity } (\$49,200)$$

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

### Exercise 23

At the beginning of the year, Diskman Company had total assets of \$700,000 and total liabilities of \$300,000.

### Instructions

Answer the following questions viewing each situation as being independent of the others:

- If total assets increased \$250,000 during the year, and total liabilities decreased \$100,000, what is the amount of owner's equity at the end of the year?
- During the year, total liabilities increased \$340,000 and owner's equity decreased \$130,000. What is the amount of total assets at the end of the year?
- If total assets decreased \$60,000 and owner's equity increased \$190,000 during the year, what is the amount of total liabilities at the end of the year?

### Solution Exercise 23 (5 min.)

a)

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Owner's Equity</u>
Beginning	\$700,000		\$300,000		\$400,000
Change	<u>250,000</u>		<u>(100,000)</u>		
Ending	\$950,000	–	\$200,000	=	<u>\$750,000</u>

b)

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Owner's Equity</u>
Beginning	\$700,000		\$300,000		\$400,000
Change			<u>340,000</u>		<u>(130,000)</u>
Ending	<u>\$910,000</u>	=	\$640,000	+	\$270,000

c)

<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Owner's Equity</u>
---------------------	--	--------------------------	--	-----------------------

Beginning	\$700,000		\$300,000		\$400,000
Change	<u>(60,000)</u>				<u>190,000</u>
Ending	\$640,000	=	<u>\$ 50,000</u>	+	\$590,000

Bloomcode: Application

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

### Exercise 24

Calculate the missing amount in each category of the accounting equation.

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
a)	\$280,000	<u>\$?</u>	\$ 98,000
b)	\$178,000	\$ 63,000	<u>\$?</u>
c)	<u>\$?</u>	\$202,000	\$300,000

### Solution Exercise 24 (5 min.)

a) \$182,000 (\$280,000 – \$98,000 = \$182,000)

b) \$115,000 (\$178,000 – \$63,000 = \$115,000)

c) \$502,000 (\$202,000 + \$300,000 = \$502,000)

Bloomcode: Application

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

### Exercise 25

Below are three lists of accounting information with missing amounts. Each list is independent of the others.

Cash	\$ 2,100	\$ 550	\$ 1,800
Accounts receivable	a)	100	1,200
Equipment	5,000	2,500	10,000
Bank loan payable	2,000	0	e)
Accounts payable	750	c)	1,500
J. Rodriguez, Capital, beginning of year	3,000	900	5,000
J. Rodriguez, Drawings	1,200	350	3,500
Revenues	10,000	6,000	15,000
Expenses	7,000	4,000	f)
J. Rodriguez, Capital, end of year	b)	d)	2,500

### Instructions

Use the accounting equation to determine the missing amounts.

**Solution Exercise 25** (10 min.)

- a) \$450
- b) \$4,800
- c) \$600
- d) \$2,550
- e) \$9,000
- f) \$14,000

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

**Exercise 26**

Summaries of information from the Balance sheets and Income statements for four different proprietorships are provided below, with several amounts missing.

	<b>Jordan Installations</b>	<b>Campus Cleaning</b>	<b>Millenium Sales</b>	<b>Ferrier Enterprises</b>
Beginning of year				
Total assets	\$ 50,000	\$ 8,500	\$124,000	\$ 15,600
Total liabilities	24,300	c)	63,900	9,900
Total owner's equity	25,700	4,300	e)	5,700
End of year:				
Total assets	62,400	10,000	165,000	21,000
Total liabilities	25,900	5,600	69,900	g)
Total owner's equity	a)	4,400	95,100	h)
Changes in owner's equity:				
Investments	5,000	d)	10,000	1,000
Drawings	18,000	12,000	60,000	24,000
Total revenues	151,700	51,000	f)	140,000
Total expenses	b)	41,800	215,000	115,000

**Instructions**

Determine the missing amounts.

**Solution Exercise 26** (10 min.)

- a) 36,500
- b) 127,900

- c) 4,200
- d) 2,900
- e) 60,100
- f) 300,000
- g) 13,300
- h) 7,700

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

### Exercise 27

The following are six questions that users of accounting information might ask about Agusta Auto Towing (Agusta).

### Instructions

For each question determine which part of the financial statements (Income statement, Balance sheet, or Cash flow statement) would provide the information required.

	Decision	Financial statement used
1.	Can Agusta's operations generate sufficient cash to make payments on a term loan?	
2.	Does Agusta have sufficient assets to provide security for a mortgage loan?	
3.	Should Agusta continue its current business, or look for more profitable opportunities in a different line of business?	
4.	Were the profit sharing bonuses paid to unionized employees equal to the percentage of profit stated in the employment contract?	
5.	Was the amount of harmonized sales taxes (HST) that Agusta remitted to the tax department equal to 13% of its revenue, as required by law?	
6.	Does Agusta have enough money in the bank to pay out drawings to the owner?	

### Solution Exercise 27 (5 min.)

	Decision	Financial statement used
1.	Can Agusta's operations generate sufficient cash to make payments on a term loan?	Statement of cash flow
2.	Does Agusta have sufficient assets to provide	Balance sheet

	security for a mortgage loan?	
3.	Should Agusta continue its current business, or look for more profitable opportunities in a different line of business?	Income statement
4.	Were the profit sharing bonuses paid to unionized employees equal to the percentage of profit stated in the employment contract?	Income statement
5.	Was the amount of harmonized sales taxes (HST) that Agusta remitted to the tax department equal to 13% of its revenue, as required by law?	Income statement
6.	Does Agusta have enough money in the bank to pay out drawings to the owner?	Balance sheet

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

### Exercise 28

Listed below are various accounts which can be found on the financial statements:

1. Cash
2. Unearned revenue
3. Delivery truck
4. Accounts receivable
5. Prepaid expenses
6. Rental income
7. Accounts payable
8. Consulting fees earned
9. Telephone expense
10. Bank loan payable
11. Supplies expense
12. Interest revenue
13. Sales
14. Salaries payable
15. Building
16. Note payable
17. Insurance expense
18. Owners investment
19. Commission revenue
20. Owners drawings

### Instructions

For each account listed, identify the applicable financial statement on which the account will be presented (Balance sheet, Income statement or Statement of owner's equity).

### Solution Exercise 28 (10 min)

1. Balance sheet
2. Balance sheet
3. Balance sheet
4. Balance sheet
5. Balance sheet
6. Income statement
7. Balance sheet
8. Income statement
9. Income statement
10. Balance sheet
11. Income statement
12. Income statement
13. Income statement
14. Balance sheet
15. Balance sheet
16. Balance sheet
17. Income statement
18. Statement of owner's equity
19. Income statement
20. Statement of owner's equity

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

### **Exercise 29**

One item is omitted in each of the following summaries of Balance sheet and Income statement data for three different sole proprietorships, A, B, and C.

\_\_\_\_\_  
Proprietorship



	<u>A</u>	<u>B</u>	<u>C</u>
Beginning of the Year:			
Assets	\$400,000	\$150,000	\$199,000
Liabilities	250,000	105,000	168,000
End of the Year:			
Assets	450,000	195,000	195,000
Liabilities	280,000	95,000	169,000
During the Year:			
Additional Investment by the owner	<u>?</u>	79,000	80,000
Withdrawals by the owner	90,000	83,000	<u>?</u>
Revenue	195,000	<u>?</u>	187,000
Expenses	170,000	113,000	185,000

**Instructions**

Determine the amounts of the missing items, identifying each proprietorship by letter.

**Solution Exercise 29** (10 min.)Proprietorship A \$85,000

Beginning Capital balance (\$400,000 – \$250,000) .....	\$150,000
Additional investments (\$260,000 – \$150,000 – \$25,000) ....	85,000
Profit for year (\$195,000 – \$170,000) .....	<u>25,000</u>
.....	260,000
Less withdrawals .....	<u>90,000</u>
Ending Capital balance (\$450,000 – \$280,000) .....	<u>\$170,000</u>

Proprietorship B \$172,000

Beginning Capital balance (\$150,000 – \$105,000) .....	\$ 45,000
Additional investments .....	79,000
Profit for year (\$183,000 – \$45,000 – \$79,000) .....	<u>59,000</u>
[Revenue = \$172,000 (\$113,000 + \$59,000)] .....	183,000
Less withdrawals .....	<u>83,000</u>
Ending Capital balance (\$195,000 – \$95,000) .....	<u>\$100,000</u>

Proprietorship C \$87,000

Beginning Capital balance (\$199,000 – \$168,000) .....	\$ 31,000
Additional investments .....	80,000
Profit for year (\$187,000 – \$185,000) .....	<u>2,000</u>
.....	113,000
Less withdrawals (\$113,000 – \$26,000) .....	<u>87,000</u>
Ending Capital balance (\$195,000 – \$169,000) .....	<u>\$ 26,000</u>

Bloomcode: Application

Difficulty: Hard

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

**Exercise 30**

Indicate in the space provided by each item whether it would appear on the Income statement (IS), Balance sheet (BS), or Statement of owner's equity (OE):

- |                            |                               |
|----------------------------|-------------------------------|
| 1. _____ Service Revenue   | 7. _____ Accounts Receivable  |
| 2. _____ Utilities Expense | 8. _____ K. Brown, Capital    |
| 3. _____ Cash              | 9. _____ Equipment            |
| 4. _____ Accounts Payable  | 10. _____ Advertising Expense |
| 5. _____ Office Supplies   | 11. _____ K. Brown, Drawings  |
| 6. _____ Wage Expense      | 12. _____ Notes Payable       |

**Solution Exercise 30** (5 min.)

1. IS
2. IS
3. BS
4. BS
5. BS
6. IS
7. BS
8. OE, BS
9. BS
10. IS
11. OE
12. BS

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

**Exercise 31**

Indicate in the space provided by each item whether it would appear on the Income statement (IS), Balance sheet (BS), or Statement of owner's equity (OE):

- |                               |                               |
|-------------------------------|-------------------------------|
| 1. _____ Unearned Revenue     | 7. _____ Notes Payable        |
| 2. _____ Prepaid Expense      | 8. _____ D. Donovan, Capital  |
| 3. _____ Salaries Expense     | 9. _____ Notes Receivable     |
| 4. _____ D. Donovan, Drawings | 10. _____ Insurance Expense   |
| 5. _____ Land                 | 11. _____ Accounts Receivable |
| 6. _____ Service Revenue      | 12. _____ Cash                |

**Solution Exercise 31** (5 min.)

1. BS
2. BS
3. IS
4. OE
5. BS
6. IS
7. BS
8. OE, BS
9. BS
10. IS
11. BS
12. BS

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

### Exercise 32

Calculate the missing amount in each category of the accounting equation.

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
a)	\$1,610,000	<u>\$?</u>	\$ 900,000
b)	\$1,070,000	\$ 295,000	<u>\$?</u>
c)	<u>\$?</u>	\$ 822,000	\$1,107,000

### Solution Exercise 32 (5 min.)

- a) \$710,000 ( $\$1,610,000 - \$900,000 = \$710,000$ )
- b) \$775,000 ( $\$1,070,000 - \$295,000 = \$775,000$ )
- c) \$1,929,000 ( $\$822,000 + \$1,107,000 = \$1,929,000$ )

Bloomcode: Application

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

**Exercise 33**

Analyze the transactions described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (–) to indicate a decrease.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1. Received cash for services performed.	_____		_____		_____
2. Purchased office equipment on credit.	_____		_____		_____
3. Paid employees' salaries.	_____		_____		_____
4. Received cash from customer in payment on account.	_____		_____		_____
5. Paid telephone bill for the month.	_____		_____		_____
6. Paid for office equipment purchased in transaction 2.	_____		_____		_____
7. Purchased office supplies on credit.	_____		_____		_____
8. Proprietor withdrew cash for personal expenses.	_____		_____		_____
9. Obtained a loan from the bank.	_____		_____		_____
10. Billed customers for services performed.	_____		_____		_____

**Solution Exercise 33** (10 min.)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1. Received cash for services performed.	+				+
2. Purchased office equipment on credit.	+		+		
3. Paid employees' salaries.	–				–
4. Received cash from customer in payment on account.	+,–				
5. Paid telephone bill for the month.	–				–
6. Paid for office equipment purchased in transaction 2.	–		–		
7. Purchased office supplies on credit.	+		+		
8. Proprietor withdrew cash for personal expenses.	–				–
9. Obtained a loan from the bank.	+		+		
10. Billed customers for services performed.	+				+

Bloomcode: Analysis

Difficulty: Hard

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

### Exercise 34

Presented below is a Balance sheet for the Marks Lawn Service at December 31, 2016.

#### MARKS LAWN SERVICE Balance sheet December 31, 2016

<u>Assets</u>		<u>Liabilities and Owner's Equity</u>	
Cash	\$12,000	Liabilities	
Accounts receivable	7,000	Accounts payable	\$ 8,000
Supplies	9,000	Notes payable	15,000
Equipment	11,000	Owner's equity	
		B. Marks, Capital	16,000
Total assets	<u>\$39,000</u>	Total liabilities & Owner's equity	<u>\$39,000</u>

The following additional data are available for the year which began on January 1, 2016: All expenses (excluding supplies expense) total \$6,000. Supplies on January 1, were \$11,000 and \$3,000 of supplies were purchased during the year. Profit for the year was \$8,000 and drawings were \$5,000.

### Instructions

Determine the following: (Show all calculations.)

- Supplies used during the year.
- Total expenses for the year.
- Service revenues for the year.
- Bill Marks' capital balance on January 1.

### Solution Exercise 34 (10 min.)

- Calculation of Supplies Used:
 

Beginning Supplies, Jan 1 .....	\$11,000
Add: Purchases .....	3,000
Less: Ending Supplies, Dec 31 .....	<u>(9,000)</u>
Equals: Supplies Used .....	<u>\$ 5,000</u>
- Calculation of Total Expenses:
 

All Expenses (excluding supplies expense) .....	\$ 6,000
Plus: Supplies Used .....	<u>5,000</u>
Total Expenses .....	<u>\$11,000</u>
- Calculation of Revenues:
 

Profit .....	\$ 8,000
Plus: Total Expenses .....	<u>11,000</u>
Total Revenues .....	<u>\$19,000</u>
- Calculation of Bill Marks, Capital on January 1:
 

Capital, December 31 .....	\$16,000
----------------------------	----------

Plus: Drawings .....	5,000
Less: Profit .....	<u>(8,000)</u>
Capital, January 1 .....	<u>\$13,000</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

### Exercise 35

The following items are taken from the December 31 financial statements of Scotia Rental Properties, an unincorporated business owned by Leo DeRosier.

Accounts payable	\$ 9,320
Accounts receivable	8,600
Building and equipment	246,000
Cash	15,000
L. DeRosier, drawings	12,000
Insurance expense	3,450
Interest expense	5,905
Interest payable	420
Investments, L. DeRosier	8,000
L. DeRosier, capital, beginning of year	40,695
Mortgage payable	210,000
Other assets	4,500
Prepaid insurance	510
Rental revenue	36,000
Repair expenses	2,300
Telephone expense	680
Wages expense	5,490

### Instructions

- For each of the above items indicate in column a) whether the item is an Asset (A), Liability (L), Capital (C), Drawings (D), Revenue (R), or Expense (E) item.
- For each of the above items indicate on which financial statement—Income statement (IS), Statement of owner's equity (OE), or Balance sheet (BS)—each item would be reported.
- Calculate total assets.
- Calculate total liabilities.
- Calculate profit.
- Calculate total owner's equity.
- Demonstrate that the accounting equation is in balance.

### Solution Exercise 35 (20 min.)

		a)	b)
--	--	----	----

Accounts payable	\$ 9,320	L	BS
Accounts receivable	8,600	A	BS
Building and equipment	246,000	A	BS
Cash	15,000	A	BS
L. DeRosier, Drawings	12,000	D	OE
Insurance expense	3,450	E	IS
Interest expense	5,905	E	IS
Interest payable	420	L	BS
Investments, L. DeRosier	8,000	C	OE
L DeRosier, capital, beginning of year	40,695	C	OE
Mortgage payable	210,000	L	BS
Other assets	4,500	A	BS
Prepaid insurance	510	A	BS
Rental revenue	36,000	R	IS
Repair expenses	2,300	E	IS
Telephone expense	680	E	IS
Wages expense	5,490	E	IS

- c) Total assets:  $(\$8,600 + \$246,000 + \$15,000 + \$4,500 + \$510) = \$274,610$
- d) Calculate total liabilities:  $(\$9,320 + \$420 + \$210,000) = \$219,740$
- e) Calculate profit:  $(\$36,000 - \$3,450 - \$5,905 - \$2,300 - \$680 - \$5,490) = \$18,175$
- f) Calculate total owner's equity:  $(\$40,695 + \$8,000 + \$18,175 - \$12,000) = \$54,870$
- g) Accounting equation:  $\$274,610 = \$219,740 + \$54,870$

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

### Exercise 36

For each of the following, describe a transaction that will have the stated effect on the elements of the accounting equation.

1. Increase one asset and decrease another asset.
2. Increase an asset and increase a liability.
3. Decrease an asset and decrease a liability.
4. Increase an asset and increase owner's equity.
5. Increase one asset, decrease another asset, and increase a liability.

### Solution Exercise 36 (5 min.)

1. Receive cash from customers on account.  
Purchase supplies for cash.  
Purchase equipment for cash.

2. Purchase supplies on account.  
Purchase equipment and sign a note payable.  
Borrow money from bank.
3. Pay cash to reduce accounts payable.  
Pay cash to reduce a note payable.
4. Initial contribution by an owner  
Additional contributions by an owner  
Render services on account.  
Render services for cash.
5. Buy equipment with a cash down payment with the remainder financed by a note payable.

Bloomcode: Comprehension

Difficulty: Hard

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

### Exercise 37

The following transactions represent part of the activities of Lewis Company for the first month of its existence. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.

1. The owner invested cash to start the business.
2. Purchased a computer for cash.
3. Purchased office equipment with money borrowed from the bank.
4. Paid the first month's utility bill.
5. Collected an accounts receivable.
6. Owner withdrew cash from the business.

### Solution Exercise 37 (5 min.)

1. Increased total assets.
2. No change in total assets.
3. Increased total assets.
4. Decreased total assets.
5. No change in total assets.
6. Decreased total assets.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting



**Exercise 38**

Selected transactions for the Barkley Company are listed below:

1. Paid monthly utility bill.
2. Purchased new display case for cash.
3. Paid cash for repair work on security system.
4. Billed customers for services performed.
5. Received cash from customers billed in 4.
6. Withdrew cash for owner's personal use.
7. Incurred advertising expenses on account.
8. Paid monthly rent.
9. Received cash from customers when service was provided.

**Instructions**

List the number of the transaction and then describe the effect of each transaction on assets, liabilities, and owner's equity.

Sample: Made initial cash investment in the business. The answer would be: increase in assets and increase in owner's equity.

**Solution Exercise 38** (5 min.)

1. Decrease in assets and decrease in owner's equity.
2. No net change in assets.
3. Decrease in assets and decrease in owner's equity.
4. Increase in assets and increase in owner's equity.
5. No net change in assets.
6. Decrease in assets and decrease in owner's equity.
7. Increase in liabilities and decrease in owner's equity.
8. Decrease in assets and decrease in owner's equity.
9. Increase in assets and increase in owner's equity.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

**Exercise 39**

There are ten transactions listed below:

1. Receive cash from customers on account.
2. Initial cash contribution by an owner.
3. Pay cash to reduce an accounts payable.

4. Purchase supplies for cash.
5. Pay cash to reduce a notes payable.
6. Purchase supplies on account.
7. Customers pay cash for services rendered.
8. Purchase equipment with a note payable.
9. Pay utilities with cash.
10. Owner withdraws money from the business for personal use.

**Instructions**

Match the transactions that have the identical effect on the accounting equation. You should end up with five matches. The first one has been completed for you with an explanation.

Example: 1. and 4. are a match because both of them include one increase in assets and one decrease in assets, so there is no effect on the accounting equation.

**Solution Exercise 39 (10 min.)**

Match #1 = 1, 4

Match #2 = 3, 5

Match #3 = 6, 8

Match #4 = 2, 7

Match #5 = 9, 10

Bloomcode: Comprehension

Difficulty: Hard

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

**Exercise 40**

Selected transactions for Givens Lawn Services are listed below:

1. Purchased a new lawn mower for \$2,000, making a 10% down payment in cash, the remainder is on account.
2. Purchased \$350 supplies for cash.
3. Billed customers \$1,500 for lawn services completed.
4. Purchased used truck for \$6,500, fully financed by a bank loan.
5. Collected \$800 from customers for services previously billed.
6. Paid balance owing on lawn mower.
7. Incurred telephone expenses of \$85 on account.
8. Completed services for customers who pay \$440 cash.
9. William Givens, the owner, invests \$7,000 of additional funds in the business.
10. Part of the funds invested is used to repay the full balance of the bank loan plus \$65 in interest expense.
11. \$1,250 in wages is paid to employees.
12. William withdrew \$1,000 cash for personal use.

**Instructions**

For each transaction, state whether the transaction increases or decreases assets, liabilities and/or owner's equity, and by what amount(s).

**Solution Exercise 40** (10 min)

1. Increases assets and liabilities by \$1,800 each.
2. No effect – increase and decrease in assets offset.
3. Assets and owner's equity are each increased by \$1,500.
4. Assets and liabilities each increase by \$6,500.
5. No effect – increase and decrease in assets offset.
6. Assets and liabilities are each decreased by \$1,800.
7. Liabilities are increased by \$85 and owner's equity decreased by the same amount.
8. Assets and owner's equity are each increased by \$440.
9. Assets and owner's equity are each increased by \$7,000.
10. Assets are decreased by \$6,565, liabilities decreased by \$6,500 and owner's equity decreased by \$65.
11. Assets and owner's equity are each decreased by \$1,250.
12. Assets and owner's equity are each decreased by \$1,000.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

**Exercise 41**

A service proprietorship shows five transactions summarized below. The effect of each transaction on the accounting equation is shown.

	Accounts		Equip-	Accounts						
	Cash	+ Rec.	+ ment	+Land	+Building	=Payable	+ Capital	– Drawings	+ Revenues	– Expenses
	\$5,000	\$6,500	\$10,000	\$7,500	\$50,000	\$3,000	\$66,000	\$20,000	\$35,000	\$5,000
1.	-2,000					-2,000				
2.	+1,000	-1,000								
3.			+5,000			+5,000				
4.	+2,500								+2,500	
5.		+3,000							+3,000	
Totals	<u>\$6,500</u>	<u>\$8,500</u>	<u>\$15,000</u>	<u>\$7,500</u>	<u>\$50,000</u>	<u>\$6,000</u>	<u>\$66,000</u>	<u>\$20,000</u>	<u>\$40,500</u>	<u>\$5,000</u>

**Instructions**

For each transaction, write an explanation of the nature of the transaction.

**Solution Exercise 41** (5 min.)

1. Paid cash to creditors.
2. Received cash from customers on account.
3. Bought equipment on account.
4. Services provided to customers for cash.
5. Services provided on account.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

**Exercise 42**

Sally's Custom Blinds shows five transactions summarized below. The effect of each transaction on the accounting equation is shown.

	Accounts		Equip-	Accounts						
	Cash	+ Rec.	+ ment	+Land	+Building	=Payable	+ Capital	– Drawings	+ Revenues	– Expenses
	\$5,000	\$6,500	\$10,000	\$7,500	\$50,000	\$3,000	\$66,000	\$20,000	\$35,000	\$5,000
1.	+6,000						+6,000			
2.	-7,500		+15,000			+7,500				
3.	-4,000							+4,000		
4.	+2,000	-2,000								
5.						+1,100				+1,100
Totals	<u>\$1,500</u>	<u>\$4,500</u>	<u>\$25,000</u>	<u>\$7,500</u>	<u>\$50,000</u>	<u>\$11,600</u>	<u>\$72,000</u>	<u>\$24,000</u>	<u>\$35,000</u>	<u>\$6,100</u>

**Instructions**

For each transaction, write an explanation of the nature of the transaction.

**Solution Exercise 42** (5 min.)

1. Cash invested by owner.
2. Purchase of equipment by paying half with cash and the other half on account.
3. Owner withdrew cash from company.
4. Collect accounts receivable.
5. Made a purchase on credit.

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

**Exercise 43**

Ken Serratore decides to open a cleaning and laundry service near the local college campus that will operate as a proprietorship. The transactions for the month of June are listed below:

1. Ken Serratore invests \$20,000 in cash to start a cleaning and laundry business on June 1.
2. Purchased laundry equipment for \$5,000 paying \$3,000 in cash and the remainder due in 30 days.
3. Purchased laundry supplies for \$1,200 cash.
4. Received a bill from Campus News for \$300 for advertising in the campus newspaper.
5. Cash revenue from customers for cleaning and laundry amounted to \$1,500.
6. Paid salaries of \$200 to student workers.
7. Billed the Tiger Football Team \$100 for cleaning and laundry services.
8. Paid \$300 to Campus News for advertising that was previously billed in Transaction 4.
9. Ken Serratore withdrew \$700 from the business for living expenses.
10. Incurred utility expenses for month on account, \$400.

**Instructions**

Analyze the transactions above in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (–) the dollar amount of each item affected. Total and balance the equation at the end of the month.

Trans-		Accounts	Laundry	Laundry	Accounts	K.	K.		
action	Cash	+	Rec.	+	Supplies	+	Equip.	=	Payable + Capital – Drawings + Revenues – Expenses
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									

---

Totals

**Solution Exercise 43** (20 min.)

Trans- action	Cash	Accounts + Rec.	Laundry + Supplies	Laundry + Equip.	Accounts = Payable	K. Serratore, + Capital	K. Serratore, - Drawings	+ Revenues	- Expenses
1.	+\$20,000					+\$20,000			
2.	-3,000			+\$5,000	+\$2,000				
3.	-1,200		+\$1,200						
4.					+300				-\$300
5.	+1,500							+\$1,500	
6.	-200								-200
7.		+\$100						+100	
8.	-300				-300				
9.	-700						-\$700		
10.					+400				-400
Totals	\$16,100	\$100	\$1,200	\$5,000	\$2,400	\$20,000	-\$700	\$1,600	-\$900

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

**Exercise 44**

Amanda Maynes recently started a business, Mayne Events, that will provide promotion and advertising for fund raising events hosted by charities. She will operate the business as a proprietorship. The first month's transactions are listed below:

1. Amanda invests \$5,000 in the business out of her personal savings.
2. Amanda transfers a computer valued at \$3,000 to the business.
3. Purchases computer supplies for \$400 cash.
4. Pays \$550 for wages to an assistant.
5. Completes advertising brochures for a client, who pays \$700 for the service.
6. Advertisements for Mayne Events are run in the local newspaper at a cost of \$600 on account.
7. Provides services totaling \$1,200 for several clients – one client whose bill is \$200 pays cash, the remainder are on account.
8. Pays the amount owing to the newspaper for the advertisements described in 6.
9. Half the amount receivable from customers is collected.
10. Purchases additional computer equipment for \$450, cash.
11. Amanda withdraws \$300 for personal use.

**Instructions**

- a) For each of the above items, determine the accounts that will be affected and, in the table provided, set up the headings in the order of the accounting equation.

- b) For each of the above items, record each transaction in the table provided.
- c) Calculate total assets.
- d) Calculate total liabilities.
- e. Calculate profit.
- f) Calculate owner's equity.
- g) Demonstrate that the accounting equation is in balance.

Trans- action									
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									
11.									
Totals									

**Solution Exercise 44** (20 min.)

a) and b)

Trans- action	Cash	A/R	Supplies	Computer equipment	Accounts payable	A. Maynes, Capital	A. Maynes, Drawings	Revenue	Expenses
1.	+\$5,000					+\$5,000			
2.				+\$3,000		+3,000			
3.	-400		+\$400						
4.	-550								-\$550
5.	+700							+\$700	
6.					+\$600				-600
7.	+200	+\$1,000						+1,200	
8.	-600				-600				
9.	+500	-500							
10.	-450			+450					
11.	-300						-\$300		
Totals	\$4,100	\$500	\$400	\$3,450	\$0	\$8,000	-\$300	\$1,900	-\$1,150

- c) Total assets = \$4,100 + \$500 + \$400 + \$3,450 = \$8,450
- d) Total liabilities = -0-
- e. Profit = \$1,900 – \$1,150 = \$750
- f) Owner's equity = \$8,000 + \$750 – \$300 = \$8,450
- g) The accounting equation \$8,450 = \$0 + \$8,450

Bloomcode: Application

Difficulty: Hard

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

### Exercise 45

Greg Stewart was reviewing his business activities at the end of the year (February 28, 2016) and decided to prepare a Statement of owner's equity. At the beginning of the year, his assets were \$500,000 and his liabilities were \$150,000. At the end of the year the assets had grown to \$950,000 but liabilities had also increased to \$300,000. The profit for the year was \$420,000. Greg had withdrawn \$120,000 during the year for his personal use.

### Instructions

Prepare a Statement of owner's equity in good form.

### Solution Exercise 45 (5 min.)

**GREG STEWART**  
**Statement of Owner's Equity**  
**Year Ended February 28, 2016**

G. Stewart, Capital March 1, 2015.....	\$350,000
Add: Profit .....	<u>420,000</u>
	770,000
Less: Drawings.....	<u>120,000</u>
G. Stewart, Capital February 28, 2016.....	<u>\$650,000</u>

Bloomcode: Application

Difficulty: Easy

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

### Exercise 46

At September 1, 2017, the Balance Sheet accounts for Reggie's Restaurant were as follows:

Accounts Payable.....	\$ 3,800	Land .....	\$33,000
Accounts Receivable.....	1,600	R. Roy, Capital .....	?
Building .....	68,000	Notes Payable .....	48,000
Cash.....	5,000	Supplies .....	6,600
Furniture.....	18,700		

The following transactions occurred during the next two days:

1. Reggie invested an additional \$22,000 cash in the business.
2. The accounts payable were paid in full. (No payment was made on the notes payable.)

### Instructions

Prepare a Balance sheet at September 3, 2017.

### Solution Exercise 46 (10 min.)



**REGGIE'S RESTAURANT**  
**Balance Sheet**  
**September 3, 2017**

**ASSETS**

Cash .....	\$ 23,200
Accounts receivable .....	1,600
Supplies .....	6,600
Furniture.....	18,700
Building .....	68,000
Land.....	<u>33,000</u>
Total Assets.....	<u>\$151,100</u>

**LIABILITIES**

Notes payable .....	\$ 48,000
---------------------	-----------

**OWNER'S EQUITY**

R. Ray, Capital .....	<u>103,100</u>
Total Liabilities and Owner's Equity .....	<u>\$151,100</u>

Cash (\$5,000 + \$22,000 – \$3,800) = \$23,200

Accounts Payable (\$3,800 – \$3,800) = \$0. Note that nil balances are not normally reported in the financial statements.

R. Ray, Capital:	Beginning balance .....	\$ 81,100
	Additional investment.....	<u>22,000</u>
	Ending balance .....	<u>\$103,100</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

**Exercise 47**

The dental practice of Pamela Bell, DDS, has the following items for the month of September, 2017:

P. Bell, Capital (September 1) .....	\$42,000
Accounts payable .....	7,000
Equipment .....	30,000
Service revenue .....	25,000
P. Bell, Drawings .....	6,000
Dental supplies expense .....	3,500
Cash.....	8,000
Utilities expense .....	700
Dental supplies.....	2,800
Salaries expense.....	7,000
Accounts receivable .....	14,000

Rent expense ..... 2,000

**Instructions**

Prepare an Income statement, a Statement of owner's equity, and a Balance sheet for the dental practice in the following formats:

**PAMELA BELL, DDS**  
**Income Statement**  
**Month Ended September 30, 2017**

Revenues		\$
Expenses		
	\$	
Total expenses		\$ _____
Profit		\$ _____

**PAMELA BELL, DDS**  
**Statement of Owner's Equity**  
**Month Ended September 30, 2017**

P. Bell, Capital, September 1	\$
Add:	\$ _____
Less:	\$
P. Bell, Capital, September 30	\$ _____

**PAMELA BELL, DDS**  
**Balance Sheet**  
**September 30, 2017**

ASSETS	\$
Total Assets	\$ _____
LIABILITIES AND OWNER'S EQUITY	
Liabilities	\$
Owner's Equity	
Total Liabilities and Owner's Equity	\$ _____

**Solution Exercise 47 (15 min.)**

**PAMELA BELL, DDS**  
**Income Statement**  
**Month Ended September 30, 2017**

Revenues		
Service revenue .....		\$25,000
Expenses		
Salaries expense .....	\$7,000	
Dental supplies expense .....	3,500	
Rent expense .....	2,000	
Utilities expense .....	<u>700</u>	
Total expenses .....		<u>13,200</u>
Profit .....		<u>\$11,800</u>

**PAMELA BELL, DDS**  
**Statement of Owner's Equity**  
**Month Ended September 30, 2017**

P. Bell, capital, September 1 .....		\$42,000
Add: Profit .....		<u>11,800</u>
	53,800	
Less: Drawings .....		<u>6,000</u>
P. Bell, capital, September 30 .....		<u>\$47,800</u>

**PAMELA BELL, DDS**  
**Balance Sheet**  
**September 30, 2017**

ASSETS		
Cash .....		\$ 8,000
Accounts receivable .....		14,000
Dental supplies .....		2,800
Equipment .....		<u>30,000</u>
Total Assets .....		<u>\$54,800</u>
LIABILITIES AND OWNER'S EQUITY		
Liabilities		
Accounts payable .....		\$ 7,000
Owner's Equity		
P. Bell, capital .....		<u>47,800</u>
Total Liabilities and Owner's Equity .....		<u>\$54,800</u>

Bloomcode: Application  
Difficulty: Hard  
Learning Objective: Prepare financial statements.  
Section Reference: Preparing Financial Statements  
CPA: Financial Reporting

**Exercise 48**

Listed below, in alphabetical order, are the Balance sheet items of Solo Company at December 31, 2017:

Accounts Payable.....	\$ 9,000
Accounts Receivable.....	15,000
Building .....	46,000
Cash.....	12,000
Land.....	52,000
Office Equipment.....	4,000
H. Solo, Capital .....	120,000

**Instructions**

Prepare a Balance sheet and include a complete heading.

**Solution Exercise 48** (5 min.)

**SOLO COMPANY**  
**Balance Sheet**  
**December 31, 2017**

ASSETS	
Cash .....	\$ 12,000
Accounts receivable .....	15,000
Office equipment .....	4,000
Building .....	46,000
Land .....	<u>52,000</u>
Total Assets .....	<u>\$129,000</u>
LIABILITIES	
Accounts payable .....	\$ 9,000
OWNER'S EQUITY	
H. Solo, capital .....	<u>120,000</u>
Total Liabilities and Owner's Equity .....	<u>\$129,000</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

**Exercise 49**

William Calvin owns and operates Sales Consulting, an unincorporated consulting firm. The following information is based on December 31, 2017 year end ending balances for the firm. (All amounts are in 000's).

Accounts payable	\$ 1,860
Accounts receivable	3,340
Cash	1,705
Drawings, W. Calvin	4,800
Fees earned	10,600

Insurance expense	900
Investments, W. Calvin	1,500
Prepaid insurance	80
Supplies	120
Telephone expense	480
W. Calvin, capital, beginning of year	3,755
Wages expense	6,890
Wages payable	600

**Instructions**

- a) Prepare the Income statement for Sales Consulting.  
 b) Prepare the Statement

of owner's equity.

- c) Prepare the Balance sheet.

**Solution Exercise 49** (20 min.)

a)

**Sales Consulting  
Income Statement  
Year Ended December 31, 2017**

Revenue		
Fees earned .....		\$ 10,600
Expenses		
Insurance expense .....	\$ 900	
Telephone expense .....	480	
Wages expense .....	6,890	8,270
Profit .....		<u>\$ 2,330</u>

b)

**Sales Consulting  
Statement of Owner's Equity  
Year ended December 31, 2017**

W. Calvin, January 1 .....		\$ 3,755
Add: Investments .....	\$ 1,500	
Profit .....	<u>2,330</u>	<u>3,830</u>
		7,585
Less: W. Calvin, Drawings .....		<u>4,800</u>
W. Calvin, December 31 .....		<u>\$ 2,785</u>

c)

**Sales Consulting  
Balance Sheet  
December 31, 2017**

ASSETS		
Cash .....	\$ 1,705	
Accounts receivable .....	3,340	
Supplies .....	120	
Prepaid insurance .....	80	
Total Assets .....	<u>\$5,245</u>	

## LIABILITIES AND OWNER'S EQUITY

## Liabilities

Accounts payable .....	\$ 1,860
Wages payable.....	<u>600</u>
Total liabilities.....	<u>2,460</u>

## Owner's Equity

W. Calvin, capital.....	<u>2,785</u>
Total Liabilities and Owner's Equity .....	<u>\$ 5,245</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

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