# Chapter 1

# The role of accounting in decision making

## Excel Exercise 1.1

*Solution isn’t provided as company reports will change each year.*

## Quick check

1. c

2. c

3. c

4. a

5. b

6. a

7. c

8. a

9. c

10. c

11. a

12. b

## Starters

### S1-1

a. FA

b. FA

c. FA

d. MA

e. MA

f. FA

g. MA

h. FA

### S1-2

#### Requirement 1

Kenmore Handyman Services has equity of $7,720.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity |
| $16,400 | = | $8,680 | + | ? |
| $16,400 | = | $8,680 | + | $7,720 |

#### Requirement 2

Kenmore Handyman Services has liabilities of $14,760.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity |
| $16,400 + $3,500 | = | ? | + | $7,720 – $2,580 |
| $19,900 | = | $14,760 | + | $5,140 |

### S1-3

#### Requirement 1

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Equity | | | | | | |
|  |  |  | + | Josh, Capital | – | Josh, Withdrawal | + | Revenues | – | Expenses |
| $42,600  $42,600 | =  = | $17,220  $17,220 | +  + | $26,240  $26,240 | –  – | $8,500  $8,500 | +  + | $12,080  $12,080 | –  – | ?  $4,440 |

#### Requirement 2

Josh’s Overhead Doors reported net profit of $7,640.

Profit = Revenues ($12,080) – Expenses ($4,440)

### S1-4

a. L

b. A

c. Q

d. A

e. Q

f. Q

g. A

h. Q

i. A

j. E

### S1-5

a. Increase asset (Cash); Increase equity (Service revenue)

b. Decrease asset (Cash); Decrease equity (Salaries expense)

c. Increase asset (Cash); Increase equity (Maxdale, capital)

d. Increase asset (Accounts receivable); Increase equity (Service revenue)

e. Increase liability (Accounts payable); Decrease equity (Electricity expense)

f. Decrease asset (Cash); Decrease equity (Maxdale, withdrawal)

### S1-6

a. Increase asset (Cash); Increase equity (Gibson, capital)

b. Increase asset (Equipment); Increase liability (Accounts payable)

c. Increase asset (Office supplies); Decrease asset (Cash)

d. Increase asset (Cash); Increase equity (Service revenue)

e. Decrease asset (Cash); Decrease equity (Wages expense)

f. Decrease asset (Cash); Decrease equity (Gibson, withdrawal)

g. Increase asset (Accounts receivable); Increase equity (Service revenue)

h. Decrease asset (Cash); Decrease equity (Rent expense)

i. Increase liability (Accounts payable); Decrease equity (Electricity expense)

### S1-7

a. B

b. B

c. OE and B

d. B

e. I

f. I

g. B

h. OE

i. B

j. I

### S1-8

|  |  |  |
| --- | --- | --- |
| **DECORATING ARRANGEMENTS** | | |
| **Income statement** | | |
| for the year ended 30 June 2021 | | |
|  | $ | $ |
| Revenue: |  |  |
| Service revenue |  | 80,000 |
| Expenses: |  |  |
| Salaries expense | 37,000 |  |
| Rent expense | 11,000 |  |
| Insurance expense | 2,000 |  |
| Electricity expense | 500 |  |
| Total expenses |  | 50,500 |
| Net profit |  | $29,500 |
|  |  |  |

### S1-9

Note that there is an error in the question. The first column, line 5, should read

Richards, capital, 1 July 2020 13,300

This has been corrected in the answer below.

|  |  |
| --- | --- |
| **DECORATING ARRANGEMENTS** | |
| **Statement of changes in owners’ equity** | |
| for the year ended 30 June 2021 | |
|  | $ |
| Richards, capital, 1 July 2020 | 13,300 |
| Owner contribution | 0 |
| Profit for the year | 29,500 |
|  | 42,800 |
| Owner withdrawal | (4,500) |
| Richards, capital, 30 June 2021 | 38,300 |
|  |  |

### S1-10

|  |  |  |  |
| --- | --- | --- | --- |
| **DECORATING ARRANGEMENTS** | | | |
| **Balance sheet** | | | |
| as at 30 June 2021 | | | |
|  | $ |  | $ |
| Assets |  | Liabilities |  |
| Cash | 7,000 | Accounts payable | 4,300 |
| Accounts receivable | 7,500 |  |  |
| Office supplies | 1,500 | Owners’ equity | |
| Equipment | 26,600 | Richards, capital | 38,300 |
| Total assets | 42,600 | Total liabilities and owners’ equity | 42,600 |
|  |  |  |  |

### S1-11

|  |  |  |
| --- | --- | --- |
| **PUSHING DAISIES HOMES** | | |
| **Cash flow statement** | | |
| for the month ended 31 July 2021 | | |
|  | $ | $ |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | 24,000 |
| Payments: |  |  |
| For rent | (3,000) |  |
| For salaries | (1,600) |  |
| For electricity and gas | (900) | (5,500) |
| Net cash provided by operating activities |  | 18,500 |
| Cash flows from investing activities: |  |  |
| Purchase of equipment | (18,000) |  |
| Net cash used by investing activities |  | (18,000) |
| Cash flows from financing activities: |  |  |
| Owner contribution | 12,000 |  |
| Owner withdrawal | (3,500) |  |
| Net cash provided by financing activities |  | 8,500 |
| Net increase in cash |  | 9,000 |
| Cash balance, 1 July 2021 |  | 11,000 |
| Cash balance, 31 July 2021 |  | 20,000 |
|  |  |  |

### S1-12

|  |  |  |
| --- | --- | --- |
| Return on assets | = | Profit / Average total assets |
|  | = | $74,000 / [($350,000 + $390,000) / ][ |
|  | = | $74,000 / $370,000 |
|  | = | 20% |

### S1-13

The Australian or New Zealand Accounting Standards Boards govern the majority of guidelines used by Australian and New Zealand businesses respectively. They are sometimes referred to as ‘generally accepted accounting principles’ (GAAP) and professional accountants will use these to prepare financial statements for Wholly Shirts.

### S1-14

a. The accounting entity concept.

b. The accrual basis of accounting.

c. The accounting period concept.

d. The going concern assumption.

### S1-15

Chloe’s needs will best be met by organisng a corporation since a corporation has an unlimited life and is a separate tax entity. In addition, the owners (shareholders) have limited liability.

### S1-16

#### Advantages:

• Easy to organise

• Unification of ownership and management.

• Less government regulation.

• Owner has more control over business.

#### Disadvantages:

• The owner pays personal business taxes since it is not a separate tax entity.

• No continuous life or transferability of ownership.

• Unlimited liability of owner for business’s debts.

### S1-17

Issues of environmental and economic sustainability are suggested. The environmental costs are imponderable but arguably at least as important as the economic ones. However, they are not independent, since, depending upon the seriousness with which the environmental effects are treated, the financial costs of a clean-up vary. The eventual financial costs of remedying waste pollution may be much higher than estimated, which raises the issue of intergenerational equity (the present generation passing costs on to future generations). Also, probabilities are involved. There may be no environmental pollution. If the chance of pollution is, say, 50%, do you weight the costs accordingly? Or is it best to be very conservative when considering outcomes that may have dire environmental consequences – for instance, by assuming worst financial outcome scenarios?

The obvious financial arithmetic, ignoring the time value of money, is: The total profit for landfill project over 30 years is 30 x $(2 – 1)m – $5m = $25m. If the landfill is successfully contained, this is the overall profit. If the chance of contamination is 50%, then, ‘on average’, the net financial benefit will be zero ($25m – 50% x $50 m). However, unless contracts require Southern Waste to pay for any contamination, it will still realise a lifetime profit of $25m, while the taxpayer or ratepayer will suffer a loss of the same amount. The financial situation will be worse and possibly more inequitable if the costs of the environmental clean-up turn out to be higher.

## Exercises

### E1-1 (5 min)

a. E

b. I

c. E

d. E

e. E

f. I

g. I

h. E

### E1-2 (5 min)

1—E

2—A

3—I

4—F

5—J

6—B

7—D

8—C

9—G

10—H

11—K

### E1-3 (5 min)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets | Liabilities | Equity |
| Newton Gas | $ 144,000 | $ 64,000 | $ 80,000 |
| Victoria Video Rentals | 65,000 | 40,000 | 25,000 |
| Cline’s Grocery | 200,000 | 43,000 | 157,000 |

### E1-4 (5 min)

|  |  |  |  |
| --- | --- | --- | --- |
|  | a. | b. | c. |
| Owners’ equity, 31 May 2021 ($188,000 – $122,000) | $ 66,000 | $ 66,000 | $ 66,000 |
| Owner contribution | 7,500 | 0 | 20,000 |
| Net profit for the month | 82,500 | 103,000 | 88,000 |
|  | 156,000 | 169,000 | 174,000 |
| Owner withdrawal | 0 | (13,000) | (18,000) |
| Owners’ equity, 30 June 2021 ($244,000 – $88,000) | $ 156,000 | $ 156,000 | $ 156,000 |
|  |  |  |  |

### E1-5 (5 min)

#### Requirement 1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Beginning of 2021 | $24,000 | = | $5,000 | + | ? |
|  | $24,000 | = | $5,000 | + | $19,000 |
|  |  |  |  |  |  |
| End of 2021 | $18,000 | = | $1,000 | + | ? |
|  | $18,000 | = | $1,000 | + | $17,000 |

Owner’s equity decreased in 2021 by $2,000 ($17,000 – $19,000).

#### Requirement 2

a. Increase through owner contributions.

b. Increase through net profit.

c. Decrease through owner withdrawals.

d. Decrease through net loss.

### E1-6 (5 min)

#### Requirement 1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Revenues | – | Expenses | = | Net Profit |
| $40,000 | – | $35,000 | = | $5,000 |

#### Requirement 2

Peaceful River Spa’s owner’s equity increased by $5,000 ($14,000 - $9,000) or the amount of the net profit.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liabilities | + | Equity |
| Beginning of 2021 | $18,000 | = | $9,000 | + | ? |
|  | $18,000 | = | $9,000 | + | $9,000 |
|  |  |  |  |  |  |
| Ending of 2021 | $23,000 | = | $9,000 | + | ? |
|  | $23,000 | = | $9,000 | + | $14,000 |

### E1-7 (5 min)

#### Requirement 1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Assets | − | Liabilities | = | Equity |
| 1 July 2020 | $64,000 | − | $44,000 | = | $20,000 |
| 30 June 2021 | $54,000 | − | $39,000 | = | $15,000 |

Owner’s Equity:

|  |  |
| --- | --- |
| Capital, 1 July 2020 | $ 20,000 |
| Plus: Contributions by the owner | 0 |
| Plus: Revenues | 257,000 |
| Less: Expenses | (258,000) |
| Less: Owner withdrawals | (4,000) |
| Capital, 30 June 2021 | $ 15,000 |

#### Requirement 2

Meehan Company suffered (or reported) a net loss of ($1,000).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Revenue | − | Expenses | = | Net Profit (Loss) |
| $257,000 | − | $258,000 | = | ($1,000) |

### E1-8 (5 min)

Student responses will vary. Examples include:

|  |
| --- |
| Cash purchase of office supplies. |
| Cash withdrawals by owner. |
| Paid cash on accounts payable. |
| Received cash for services provided. |
| Borrowed cash from the bank. |

### E1-9 (5–10 min)

a. Increase asset (Cash); Increase equity (Vivian, Capital)

b. Increase asset (Accounts Receivable); Increase equity (Rental Revenue)

c. Increase asset (Office Furniture); Increase liability (Accounts Payable)

d. Increase asset (Cash); Decrease asset (Accounts Receivable)

e. Decrease asset (Cash); Decrease liability (Accounts Payable)

f. Increase asset (Cash); Increase equity (Rental Revenue)

g. Decrease asset (Cash); Decrease equity (Office Rent Expense)

h. Decrease asset (Cash); Increase asset (Office Supplies).

### E1-10 (5–10 min)

a. Increase asset (Cash); Increase equity (Sam, capital)

b. Increase asset (Land); Decrease asset (Cash)

c. Decrease asset (Cash); Decrease liability (Accounts payable)

d. Increase asset (Equipment); Increase liability (Loans payable)

e. Increase asset (Accounts receivable); Increase equity (Service revenue)

f. Increase liability (Salaries payable); Decrease equity (Salaries expense)

g. Increase asset (Cash); Decrease asset (Accounts receivable)

h. Increase asset (Cash); Increase liability (Loans payable)

i. Decrease asset (Cash); Decrease equity (Sam, withdrawals)

j. Increase liability (Accounts payable); Decrease equity (Electricity expense)

### E1-11 (5–10 min)

Transaction descriptions:

1. Cash contribution by owner

2. Earned revenue on credit

3. Purchased equipment on credit

4. Collected cash on account

5. Cash purchase of equipment

6. Paid cash on account

7. Earned revenue and received cash

8. Paid cash for salaries expense

### E1-12 (15–20 min)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **Assets** | | | | | **=** | **Liabilities** | | **+** | **Equity** | | | | | | | | | | | | | | | | |
|  | | Cash | + | Medical supplies | + | Land | = | Accounts payable | + | | Stamford, capital | – | Stamford, withdrawals | + | Service revenue | – | | Salaries expense | | – | | Rent expense | | – | | Electricity expense | |
|  | $ | |  | $ |  | $ |  | $ |  | | $ |  | $ |  | $ |  | $ | |  | | $ | |  | | $ | |
| Jul 6 | +65,000 | |  |  |  |  |  |  |  | | +65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal | 65,000 | |  |  |  |  | = |  | + | | 65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 9 | –52,000 | |  |  |  | +52,000 | = |  |  | |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal | 13,000 | |  |  | + | 52,000 | = |  | + | | 65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 12 |  | | + | +1,600 |  |  | = | +1,600 |  | |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal | 13,000 | | + | 1,600 | + | 52,000 | = | 1,600 | + | | 65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 15 |  | |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal | 13,000 | | + | 1,600 | + | 52,000 | = | 1,600 | + | | 65,000 |  |  |  |  |  |  | |  | |  | |  | |  | |
| 20 | –3,150 | |  |  |  |  | = |  |  | |  |  |  |  |  |  | –1,500 | |  | | –1,300 | |  | | –350 | |
| Bal | 9,850 | | + | 1,600 | + | 52,000 | = | 1,600 | + | | 65,000 |  |  |  |  | – | 1,500 | | – | | 1,300 | | – | | 350 | |
| 31 | +8,000 | |  |  |  |  | = |  |  | |  |  |  |  | +8,000 |  |  | |  | |  | |  | |  | |
| Bal | 17,850 | | + | 1,600 | + | 52,000 | = | 1,600 | + | | 65,000 |  |  | + | 8,000 | – | 1,500 | | – | | 1,300 | | – | | 350 | |
| 31 | –800 | |  |  |  |  | = | –800 |  | |  |  |  |  |  |  |  | |  | |  | |  | |  | |
| Bal | 17,050 | | + | 1,600 | + | 52,000 | = | 800 | + | | 65,000 |  |  | + | 8,000 | – | 1,500 | | – | | 1,300 | | – | | 350 | |
|  |  | |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | |  | |  | |  | |  | |

### E1-13 (15 min)

#### Requirement 1

• Income statement

• Statement of changes in owners’ equity

• Balance sheet

• Cash flow statement

#### Requirement 2

Yes, the financial statements should be prepared in the order listed above in Requirement 1.

#### Requirement 3

Income statement:

• The header includes the name of the business, the title of the statement, and the time period. An income statement always represents a period of time, for example, a month or a year.

• The revenue accounts are always listed first and then subtotalled if necessary.

• Each expense account is listed separately often from largest to smallest (though this is not necessary) and then subtotalled if necessary.

• Profit or loss is calculated as total revenues minus total expenses.

Statement of changes in owners’ equity:

• The header includes the name of the business, the title of the statement, and the time period. A statement of owner’s equity always represents a period of time, for example, a month or a year.

• The beginning capital is listed first and will always be the ending capital from the previous time period.

• The owner’s contributions and profit or loss is added to the beginning capital.

• The owner’s withdrawals are subtracted from capital. If there had been a loss, this would also be subtracted.

Balance sheet:

• The header includes the name of the business and the title of the statement but the date is different. The balance sheet shows the date as a specific date and not a period of time.

• Each asset account is listed separately and then totalled. Cash is usually listed first.

• Liabilities are listed separately and then totalled. Liabilities that are to be paid first are usually listed first.

• The owner’s equity is taken directly from the statement of changes in owners’ equity.

• The balance sheet must always balance: Assets = Liabilities + Equity.

### E1-13 (continued)

#### Requirement 3 (continued)

Cash flow statement:

• The header includes the name of the business, the title of the statement, and the time period. A cash flow statement always represents a period of time, for example, a month or a year.

• Each dollar amount is calculated by evaluating the cash column on the transaction detail.

• Operating activities involve cash receipts for services provided and cash payments for expenses paid.

• Investing activities include the purchase and sale of land and equipment for cash.

• Financing activities include cash contributions by the owner and owner withdrawals of cash.

• The ending cash balance must match the cash balance on the balance sheet.

### E1-14 (10–15 min)

#### Requirement 1

|  |  |  |
| --- | --- | --- |
| **WILFORD TOWING SERVICE** | | |
| **Income statement** | | |
| for the month ended 30 June 2021 | | |
|  | $ | $ |
| Revenue: |  |  |
| Service revenue |  | 13,000 |
| Expenses: |  |  |
| Salaries expense | 1,900 |  |
| Rent expense | 800 |  |
| Total expenses |  | 2,700 |
| Profit |  | 10,300 |
|  |  |  |

#### Requirement 2

The income statement reports revenues and expenses for a period of time.

### E1-15 (10–15 min)

#### Requirement 1

|  |  |
| --- | --- |
| **WILFORD TOWING SERVICE** | |
| **Statement of changes in equity** | |
| for the month ended 30 June 2021 | |
|  | $ |
| Wilford, capital, 1 June 2021 | 7,700 |
| Owner contribution | 0 |
| Profit for the month | 10,300 |
|  | 18,000 |
| Owner withdrawal | (2,000) |
| Wilford, capital, 30 June 2021 | 16,000 |
|  |  |

#### Requirement 2

The statement of changes in owners’ equity reports the changes in capital during a time period. It reports a business’s owner contributions, profit or loss, and owner withdrawals.

### E1-16 (10–15 min)

#### Requirement 1

|  |  |  |  |
| --- | --- | --- | --- |
| **WILFORD TOWING SERVICE** | | | |
| **Balance sheet** | | | |
| as at 30 June 2021 | | | |
| $ | | $ | |
| Assets | | Liabilities | |
| Cash | 1,900 | Accounts payable | 6,000 |
| Accounts receivable | 8,200 | Loans payable | 6,900 |
| Office supplies | 1,300 | Total liabilities | 12,900 |
| Equipment | 17,500 | Owner’s equity | |
|  |  | Wilford, capital | 16,000 |
| Total assets | 28,900 | Total liabilities and owners’ equity | 28,900 |
|  |  |  |  |

#### Requirement 2

The balance sheet reports an entity’s assets, liabilities, and owner’s equity as of a specific date.

### E1-17 (10–15 min)

|  |  |  |
| --- | --- | --- |
| **DROUGHT DESIGN STUDIO** | | |
| **Income statement** | | |
| for the year ended 30 June 2021 | | |
|  | $ | $ |
| Revenue: |  |  |
| Service revenue |  | 159,200 |
| Expenses: |  |  |
| Salaries expense | 62,000 |  |
| Rent expense | 22,000 |  |
| Electricity expense | 6,500 |  |
| Miscellaneous expense | 4,000 |  |
| Rates expense | 1,200 |  |
| Total expenses |  | 95,700 |
| Profit |  | 63,500 |
|  |  |  |

### E1-18 (10–15 min)

|  |  |
| --- | --- |
| **DROUGHT DESIGN STUDIO** | |
| **Statement of changes in equity** | |
| for the year ended 30 June 2021 | |
|  | $ |
| Gates, capital, 1 July 2020 | 31,000 |
| Owner contribution | 20,000 |
| Net profit for the year | 63,500 |
|  | 114,500 |
| Owner withdrawal | (55,000) |
| Gates, capital, 30 June 2021 | 59,500 |
|  |  |

### E1-19 (10–15 min)

|  |  |  |  |
| --- | --- | --- | --- |
| **DROUGHT DESIGN STUDIO** | | | |
| **Balance sheet** | | | |
| as at 30 June 2021 | | | |
| $ | | $ | |
| Assets | | Liabilities | |
| Cash | 3,100 | Accounts payable | 3,700 |
| Accounts receivable | 10,200 | Loans payable | 9,800 |
| Office supplies | 4,500 | Total liabilities | 13,500 |
| Office furniture | 55,200 | Owners’ equity | |
|  |  | Gates, capital | 59,500 |
| Total assets | 73,000 | Total liabilities and owners’ equity | 73,000 |
|  |  |  |  |

### E1-20 (10–15 min)

a. F +

b. O –

c. X

d. F –

e. O +

f. I –

g. O –

h. X

i. O –

j. X

### E1-21 (15 min)

|  |  |  |
| --- | --- | --- |
| **BEAN TOWN FOOD EQUIPMENT COMPANY** | | |
| **Cash flow statement** | | |
| for the month ended 28 February 2021 | | |
|  | $ | $ |
| Cash flows from operating activities: |  |  |
| Receipts: |  |  |
| Collections from customers |  | 8,000 |
| Payments: |  |  |
| For rent | (1,800) |  |
| For salaries | (1,500) |  |
| For electricity and gas | (500) | (3,800) |
| Net cash provided by operating activities |  | 4,200 |
| Cash flows from investing activities: |  |  |
| Purchase of land | (18,000) |  |
| Net cash used by investing activities |  | (18,000) |
| Cash flows from financing activities: |  |  |
| Owner contribution | 7,500 |  |
| Owner withdrawal | (3,000) |  |
| Net cash provided by financing activities |  | 4,500 |
| Net decrease in cash |  | (9,300) |
| Cash balance, 1 February 2021 |  | 16,400 |
| Cash balance, 28 February 2021 |  | 7,100 |
|  |  |  |

### E1-22 (10–15 min)

Average total assets = (Beginning total assets + ending total assets) / 2

Beginning total assets = $39,000 + $20,000 + $155,000 + $1,600 + $22,000 + $4,200   
 = $241,800

Ending total assets = $20,200 + $38,000 + $155,000 + $18,400 + $46,000 + $600   
 = $278,200

Average total assets = ($241,800 + $278,200) / 2 = $260,000

ROA = Profit / Average total assets

= $18,200 / $260,000 = 0.07 = 7%

### E1-23 (5–10 min)

1—d

2—e

3—g

4—a

5—i

6—f

7—b

8—c

9—j

10—h

## Problems

### P1-1 (15–20 min)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | | | |
|  | Cash | + | Accounts receivable | + | Office supplies | + | Land | = | Accounts payable | + | Mansion, capital | – | Mansion, with-drawals | + | Service revenue | – | Rent expense | – | Advertising expense |
|  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |
| Bal | 2,400 | + | 2,600 |  |  | + | 15,000 | = | 3,000 | + | 14,400 |  |  |  | + 2,600 |  |  |  |  |
| a. | +8,000 |  |  |  |  |  |  |  |  |  | +8,000 |  |  |  |  |  |  |  |  |
| Bal | 10,400 | + | 2,600 |  |  | + | 15,000 | = | 3,000 | + | 22,400 |  |  |  | 2,600 |  |  |  |  |
| b. | +1,300 |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,300 |  |  |  |  |
| Bal | 11,700 | + | 2,600 |  |  | + | 15,000 | = | 3,000 | + | 22,400 |  |  |  | 3,900 |  |  |  |  |
| c. | –3,000 |  |  |  |  |  |  |  | –3,000 |  |  |  |  |  |  |  |  |  |  |
| Bal | 8,700 | + | 2,600 |  |  | + | 15,000 | = | 0 | + | 22,400 |  |  | + | 3,900 |  |  |  |  |
| d. |  |  |  |  | +400 |  |  |  | +400 |  |  |  |  |  |  |  |  |  |  |
| Bal | 8,700 | + | 2,600 | + | 400 | + | 15,000 | = | 400 | + | 22,400 |  |  | + | 3,900 |  |  |  |  |
| e. | +2,200 |  | –2,200 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal | 10,900 | + | 400 | + | 400 | + | 15,000 | = | 400 | + | 22,400 |  |  | + | 3,900 |  |  |  |  |
| f. | –1,800 |  |  |  |  |  |  |  |  |  |  |  | –1,800 |  |  |  |  |  |  |
| Bal | 9,100 | + | 400 | + | 400 | + | 15,000 | = | 400 | + | 22,400 | – | 1,800 | + | 3,900 |  |  |  |  |
| g. |  |  | +6,500 |  |  |  |  |  |  |  |  |  |  |  | +6,500 |  |  |  |  |
| Bal | 9,100 | + | 6,900 | + | 400 | + | 15,000 | = | 400 | + | 22,400 | – | 1,800 | + | 10,400 |  |  |  |  |
| h. | –1,750 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,400 |  | –350 |
| Bal | 7,350 | + | 6,900 | + | 400 | + | 15,000 | = | 400 | + | 22,400 | – | 1,800 | + | 10,400 | – | 1,400 | – | 350 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

### P1-2 (20–25 min)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | | | | | | | |
|  | Cash | + | Accounts receivable | + | Office supplies | = | Accounts payable | + | Turnbull, capital | – | Turnbull, with-drawals | + | Service revenue | – | Rent expense | – | Gas expense | – | Salaries expense | – | Advert-ising expense |
|
| Dec | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |
| 1 | +21,000 |  |  |  |  |  |  |  | +21,000 |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 | +2,400 |  |  |  |  |  |  |  |  |  |  |  | +2,400 |  |  |  |  |  |  |  |  |
| Bal | 23,400 |  |  |  |  | = |  | + | 21,000 |  |  | + | 2,400 |  |  |  |  |  |  |  |  |
| 5 | –350 |  |  |  | +350 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal | 23,050 |  |  | + | 350 | = |  | + | 21,000 |  |  | + | 2,400 |  |  |  |  |  |  |  |  |
| 9 |  |  | +1,500 |  |  |  |  |  |  |  |  |  | +1,500 |  |  |  |  |  |  |  |  |
| Bal | 23,050 | + | 1,500 | + | 350 | = |  | + | 21,000 |  |  | + | 3,900 |  |  |  |  |  |  |  |  |
| 10 |  |  |  |  |  |  | +100 |  |  |  |  |  |  |  |  |  | –100 |  |  |  |  |
| Bal | 23,050 | + | 1,500 | + | 350 | = | 100 | + | 21,000 |  |  | + | 3,900 |  |  | – | 100 |  |  |  |  |
| 15 | –300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –300 |
| Bal | 22,750 | + | 1,500 | + | 350 | = | 100 | + | 21,000 |  |  | + | 3,900 |  |  | – | 100 |  |  | – | 300 |
| 20 | –100 |  |  |  |  |  | –100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal | 22,650 | + | 1,500 | + | 350 | = | 0 | + | 21,000 |  |  | + | 3,900 |  |  | – | 100 |  |  | – | 300 |
| 25 | +1,500 |  | –1,500 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal | 24,150 | + | 0 | + | 350 | = |  | + | 21,000 |  |  | + | 3,900 |  |  | – | 100 |  |  | – | 300 |
| 28 | –2,800 |  |  |  |  |  |  |  |  |  |  |  |  |  | –2,800 |  |  |  |  |  |  |
| Bal | 21,350 |  |  | + | 350 | = |  | + | 21,000 |  |  | + | 3,900 | – | 2,800 | – | 100 |  |  | – | 300 |
| 28 | –1,100 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,100 |  |  |
| Bal | 20,250 |  |  | + | 350 | = |  | + | 21,000 |  |  | + | 3,900 | – | 2,800 | – | 100 | – | 1,100 | – | 300 |
| 30 | +2,800 |  |  |  |  |  |  |  |  |  |  |  | +2,800 |  |  |  |  |  |  |  |  |
| Bal | 23,050 |  |  | + | 350 | = |  | + | 21,000 |  |  | + | 6,700 | – | 2,800 | – | 100 | – | 1,100 | – | 300 |
| 31 | –4,500 |  |  |  |  |  |  |  |  |  | –4,500 |  |  |  |  |  |  |  |  |  |  |
| Bal | 18,550 | + | 0 | + | 350 | = | 0 | + | 21,000 | – | 4,500 | + | 6,700 | – | 2,800 | – | 100 | – | 1,100 | – | 300 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

### P1-3 (20–30 min)

#### Requirement 1

|  |  |  |
| --- | --- | --- |
| **GOLDEN CITY BARBERSHOP** | | |
| **Income statement** | | |
| for the year ended 30 June 2021 | | |
|  | $ | $ |
| Revenue: |  |  |
| Service revenue |  | 195,000 |
| Expenses: |  |  |
| Salaries expense | 61,000 |  |
| Advertising expense | 13,000 |  |
| Rent expense | 11,000 |  |
| Interest expense | 7,000 |  |
| Rates expense | 2,700 |  |
| Insurance expense | 2,500 |  |
| Total expenses |  | 97,200 |
| Profit |  | 97,800 |
|  |  |  |

#### Requirement 2

|  |  |
| --- | --- |
| **GOLDEN CITY BARBERSHOP** | |
| **Statement of changes in equity** | |
| for the year ended 30 June 2021 | |
|  | $ |
| Wilson, capital, 30 June 2020 | 49,000 |
| Owner contribution | 25,000 |
| Profit for the year | 97,800 |
|  | 171,800 |
| Owner withdrawal | (32,000) |
| Wilson, capital, 30 June 2021 | 139,800 |
|  |  |

### P1-3 (continued)

#### Requirement 3

|  |  |  |  |
| --- | --- | --- | --- |
| **GOLDEN CITY BARBERSHOP** | | | |
| **Balance sheet** | | | |
| as at 30 June 2021 | | | |
| $ | | $ | |
| Assets | | Liabilities | |
| Cash | 3,800 | Accounts payable | 17,000 |
| Accounts receivable | 900 | Loans payable | 37,000 |
| Office supplies | 9,000 | Salaries payable | 900 |
| Equipment | 19,000 | Total liabilities | 54,900 |
| Building | 157,000 |  | |
| Land | 5,000 | Owners’ equity | |
|  |  | Wilson, capital | 139,800 |
| Total assets | 194,700 | Total liabilities and owners’ equity | 194,700 |
|  |  |  |  |

### P1-4

#### Requirement a

|  |  |  |
| --- | --- | --- |
| **CLICK A PIX PHOTOGRAPHY** | | |
| **Income statement** | | |
| for the year ended 30 June 2021 | | |
|  | $ | $ |
| Revenue: |  |  |
| Service revenue |  | 95,000 |
| Expenses: |  |  |
| Salaries expense | 20,000 |  |
| Insurance expense | 11,000 |  |
| Advertising expense | 3,200 |  |
| Total expenses |  | 34,200 |
| Profit |  | 60,800 |
|  |  |  |

### P1-4 (continued)

#### Requirement b

|  |  |
| --- | --- |
| **CLICK A PIX PHOTOGRAPHY** | |
| **Statement of changes in equity** | |
| for the year ended 30 June 2021 | |
|  | $ |
| Adams, capital, 30 June 2020 | 26,000 |
| Owner contribution | 34,000 |
| Profit for the year | 60,800 |
|  | 120,800 |
| Owner withdrawal | (10,000) |
| Adams, capital, 30 June 2021 | 110,800 |
|  |  |

#### Requirement c

|  |  |  |  |
| --- | --- | --- | --- |
| **CLICK A PIX PHOTOGRAPHY** | | | |
| **Balance sheet** | | | |
| as at 30 June 2021 | | | |
| $ | | $ | |
| Assets | | Liabilities | |
| Cash | 40,000 | Accounts payable | 6,000 |
| Accounts receivable | 12,000 | Loans payable | 9,000 |
| Equipment | 73,800 | Total liabilities | 15,000 |
|  |  | Owner’s equity | |
|  |  | Adams, capital | 110,800 |
| Total assets | 125,800 | Total liabilities and owner’s equity | 125,800 |
|  |  |  |  |

### P1-5 (15 min)

|  |  |  |  |
| --- | --- | --- | --- |
| **SOUTHERN STAR LANDSCAPING** | | | |
| **Balance sheet** | | | |
| as at 30 November 2021 | | | |
| $ | | $ | |
| Assets | | Liabilities | |
| Cash | 4,900 | Accounts payable | 2,800 |
| Accounts receivable | 2,100 | Loans payable | 24,200 |
| Office supplies | 300 | Total liabilities | 27,000 |
| Office furniture | 6,000 | Owner’s equity | |
| Land | 33,800 | Tow, capital | 20,100 |
| Total assets | 47,100 | Total liabilities and owner’s equity | 47,100 |
|  |  |  |  |

### P1-6 (30–40 min)

#### Requirement 1

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | | | |
|  | Cash | + | Accounts receivable | + | Office supplies | + | Furniture | = | Accounts payable | + | Sheen, capital | – | Sheen, with-drawals | + | Service revenue | – | Rent expense | – | Electricity expense |
| Feb | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $` |
| 5 | +70,000 |  |  |  |  |  |  |  |  |  | +70,000 |  |  |  |  |  |  |  |  |
| 6 | –350 |  |  |  | +350 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal | 69,650 |  |  | + | 350 |  |  | = |  | + | 70,000 |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  | +7,000 |  | +7,000 |  |  |  |  |  |  |  |  |  |  |
| Bal | 69,650 |  |  | + | 350 | + | 7,000 | = | 7,000 | + | 70,000 |  |  |  |  |  |  |  |  |
| 10 | +1,800 |  |  |  |  |  |  |  |  |  |  |  |  |  | +1,800 |  |  |  |  |
| Bal | 71,450 |  |  | + | 350 | + | 7,000 | = | 7,000 | + | 70,000 |  |  | + | 1,800 |  |  |  |  |
| 11 | –400 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –400 |
| Bal | 71,050 |  |  | + | 350 | + | 7,000 | = | 7,000 | + | 70,000 |  |  | + | 1,800 |  |  | – | 400 |
| 12 |  |  | +11,000 |  |  |  |  |  |  |  |  |  |  |  | +11,000 |  |  |  |  |
| Bal | 71,050 | + | 11,000 | + | 350 | + | 7,000 | = | 7,000 | + | 70,000 |  |  | + | 12,800 |  |  | – | 400 |
| 18 | –1,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,000 |  |  |
| Bal | 70,050 | + | 11,000 | + | 350 | + | 7,000 | = | 7,000 | + | 70,000 |  |  | + | 12,800 | – | 1,000 | – | 400 |
| 25 | +11,000 |  | –11,000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal | 81,050 |  | 0 | + | 350 | + | 7,000 | = | 7,000 | + | 70,000 |  |  | + | 12,800 | – | 1,000 | – | 400 |
| 27 | –7,000 |  |  |  |  |  |  |  | –7,000 |  |  |  |  |  |  |  |  |  |  |
| Bal | 74,050 |  |  | + | 350 | + | 7,000 | = | 0 | + | 70,000 |  |  | + | 12,800 | – | 1,000 | – | 400 |
| 29 | –4,500 |  |  |  |  |  |  |  |  |  |  |  | –4,500 |  |  |  |  |  |  |
| Bal | 69,550 | + | 0 | + | 350 | + | 7,000 | = | 0 | + | 70,000 | – | 4,500 | + | 12,800 | – | 1,000 | – | 400 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

### P1-6 (continued)

#### Requirement 2a

|  |  |  |
| --- | --- | --- |
| **ALFONSO SHEEN, ACCOUNTANT** | | |
| **Income statement** | | |
| for the month ended 28 February 2021 | | |
|  | $ | $ |
| Revenue: |  |  |
| Service revenue |  | 12,800 |
| Expenses: |  |  |
| Rent expense | 1,000 |  |
| Electricity expense | 400 |  |
| Total expenses |  | 1,400 |
| Profit |  | 11,400 |
|  |  |  |

#### Requirement 2b

|  |  |
| --- | --- |
| **ALFONSO SHEEN, ACCOUNTANT** | |
| **Statement of changes in equity** | |
| for the month ended 28 February 2021 | |
|  | $ |
| Sheen, capital, 1 February 2021 | 0 |
| Owner contribution | 70,000 |
| Net profit for the month | 11,400 |
|  | 81,400 |
| Owner withdrawal | (4,500) |
| Sheen, capital, 28 February 2021 | 76,900 |
|  |  |

#### Requirement 2c

|  |  |  |  |
| --- | --- | --- | --- |
| **ALFONSO SHEEN, ACCOUNTANT** | | | |
| **Balance sheet** | | | |
| as at 28 February 2021 | | | |
| $ | | $ | |
| Assets | | Liabilities | |
| Cash | 69,550 |  |  |
| Office supplies | 350 |  |  |
| Furniture | 7,000 | Owners’ equity | |
|  |  | Sheen, capital | 76,900 |
| Total assets | 76,900 | Total liabilities and owners’ equity | 76,900 |
|  |  |  |  |

### P1-7 (30–40 min)

#### Requirement 1

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | | | | | **=** | **Liabilities** | **+** | **Equity** | | | | | | | | |
|  | Cash | + | Accounts receivable | + | Office supplies | + | Computer | = | Accounts payable | + | Patel, capital | − | Patel, with-drawals | + | Service revenue | – | Elec. expense | – | Misc. expense |
|  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |  | $ |
| 3 | +72,000 |  |  |  |  |  |  |  |  |  | +72,000 |  |  |  |  |  |  |  |  |
| 5 | –350 |  |  |  | +350 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal | 71,650 |  |  | + | 350 |  |  | = |  | + | 72,000 |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  | +5,500 |  | +5,500 |  |  |  |  |  |  |  |  |  |  |
| Bal | 71,650 |  |  | + | 350 | + | 5,500 | = | 5,500 | + | 72,000 |  |  |  |  |  |  |  |  |
| 9 | +2,500 |  |  |  |  |  |  |  |  |  |  |  |  |  | +2,500 |  |  |  |  |
| Bal | 74,150 |  |  | + | 350 | + | 5,500 | = | 5,500 | + | 72,000 |  |  | + | 2,500 |  |  |  |  |
| 15 |  |  |  |  |  |  |  |  | +340 |  |  |  |  |  |  |  |  |  | –340 |
| Bal | 74,150 |  |  | + | 350 | + | 5,500 | = | 5,840 | + | 72,000 |  |  | + | 2,500 | – |  | – | 340 |
| 23 |  |  | +18,000 |  |  |  |  |  |  |  |  |  |  |  | +18,000 |  |  |  |  |
| Bal | 74,150 | + | 18,000 | + | 350 | + | 5,500 | = | 5,840 | + | 72,000 |  |  | + | 20,500 | – |  | – | 340 |
| 28 | –340 |  |  |  |  |  |  |  | –340 |  |  |  |  |  |  |  |  |  |  |
| Bal | 73,810 | + | 18,000 | + | 350 | + | 5,500 | = | 5,500 | + | 72,000 |  |  | + | 20,500 | – |  | – | 340 |
| 30 | –1,300 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | –1,300 |  |  |
| Bal | 72,510 | + | 18,000 | + | 350 | + | 5,500 | = | 5,500 | + | 72,000 |  |  | + | 20,500 | – | 1,300 | – | 340 |
| 31 | +1,800 |  | –1,800 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bal | 74,310 | + | 16,200 | + | 350 | + | 5,500 | = | 5,500 | + | 72,000 |  |  | + | 20,500 | – | 1,300 | – | 340 |
| 31 | –2,000 |  |  |  |  |  |  |  |  |  |  |  | –2,000 |  |  |  |  |  |  |
| Bal | 72,310 | + | 16,200 | + | 350 | + | 5,500 | = | 5,500 | + | 72,000 | – | 2,000 | + | 20,500 | – | 1,300 | – | 340 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

### P1-7 (continued)

#### Requirement 2a

|  |  |  |
| --- | --- | --- |
| **ANGELA PATEL, SOLICITOR** | | |
| **Income statement** | | |
| for the month ended 31 March 2021 | | |
|  | $ | $ |
| Revenue: |  |  |
| Service revenue |  | 20,500 |
| Expenses: |  |  |
| Electricity expense | 1,300 |  |
| Miscellaneous expense | 340 |  |
| Total expenses |  | 1,640 |
| Profit |  | 18,860 |
|  |  |  |

#### Requirement 2b

|  |  |
| --- | --- |
| **ANGELA PATEL, SOLICITOR** | |
| **Statement of changes in equity** | |
| for the month ended 31 March 2021 | |
|  | $ |
| Patel, capital, 1 March 2021 | 0 |
| Owner contribution | 72,000 |
| Net profit for the month | 18,860 |
|  | 90,860 |
| Owner withdrawal | (2,000) |
| Patel, capital, 31 March 2021 | 88,860 |
|  |  |

#### Requirement 2c

|  |  |  |  |
| --- | --- | --- | --- |
| **ANGELA PATEL, SOLICITOR** | | | |
| **Balance sheet** | | | |
| as at 31 March 2021 | | | |
|  | | $ | |
| Assets | | Liabilities | |
| Cash | 72,310 | Accounts payable | 5,500 |
| Accounts receivable | 16,200 |  |  |
| Office supplies | 350 | Owners’ equity | |
| Computer | 5,500 | Patel, capital | 88,860 |
| Total assets | 94,360 | Total liabilities and owners’ equity | 94,360 |
|  |  |  |  |

## Continuing exercise

### CE-1 (10–15 min)

Analysis of transactions for Lawlor Lawn Service

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | = LIABILITIES + OWNERS' EQUITY | |  |
| DATE | CASH + | ACCOUNTS  RECEIVABLE + | LAWN  SUPPLIES + | EQUIPMENT | = ACCOUNTS  PAYABLE + | | LAWLOR, CAPITAL | Type of owners’ equity transaction |
|  | $ | $ | $ | $ | $ | | $ |  |
| May 1 | 1,700 |  |  |  |  | | 1,700 | Owners’ investment |
| Bal | 1,700 | 0 | 0 | 0 | 0 | | 1,700 |  |
| 3 | \_\_\_\_\_ | \_\_\_\_ | \_\_\_ | 1,440 | 1,440 | | \_\_\_\_\_ |  |
| Bal | 1,700 | 0 | 0 | 1,440 | 1,440 | | 1,700 |  |
| 5 | –30 | \_\_\_\_ | \_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | | 30 | Fuel expense |
| Bal | 1,670 | 0 | 0 | 1,440 | 1,440 | | 1,670 |  |
| 6 | \_\_\_\_\_ | 150 | \_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | | 150 | Service revenue |
| Bal | 1,670 | 150 | 0 | 1,440 | 1,440 | | 1,820 |  |
| 8 | 150 | \_\_\_\_ | 150 | \_\_\_\_\_ | \_\_\_\_\_ | | \_\_\_\_\_ |  |
| Bal | 1,520 | 150 | 150 | 1,440 | 1,440 | | 1,820 |  |
| 17 | 800 | \_\_\_\_ | \_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | | 800 | Service revenue |
| Bal | 2,320 | 150 | 150 | 1,440 | 1,440 | | 2,620 |  |
| 31 | 100 | –100 | \_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | | \_\_\_\_\_ |  |
| Bal | 2,420 | 50 | 150 | 1,440 | 1,440 | | 2,620 |  |

$4,060 $4,060

## Continuing problem

### CP-1 (20–25 min)

#### Requirement 1

Analysis of transactions for Draper Consulting

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ASSETS | | | | | = LIABILITIES + OWNERS'  EQUITY | |  |
| DATE | CASH + | ACCOUNTS  RECEIVABLE + | SUPPLIES + | EQUIPMENT + | FURNITURE | = ACCOUNTS   PAYABLE + | CARL DRAPER, CAPITAL | Type of owners’ equity transaction |
|  | $ | $ | $ | $ | $ | $ | $ |  |
| Dec 2 | 18,000 | \_\_\_\_\_ | \_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | 18,000 | Owners’ investment |
| Bal | 18,000 | 0 | 0 | 0 | 0 | 0 | 18,000 |  |
| 2 | –550 | \_\_\_\_\_ | \_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | –550 | Rent expense |
| Bal | 17,450 | 0 | 0 | 0 | 0 | 0 | 17,450 |  |
| 3 | –1,800 | \_\_\_\_\_ | \_\_\_ | 1,800 | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_\_ |  |
| Bal | 15,650 | 0 | 0 | 1,800 | 0 | 0 | 17,450 |  |
| 4 | \_\_\_\_\_\_ | \_\_\_\_\_ | \_\_\_ | \_\_\_\_\_ | 4,200 | 4,200 | \_\_\_\_\_\_ |  |
| Bal | 15,650 | 0 |  | 1,800 | 4,200 | 4,200 | 17,450 |  |
| 5 | \_\_\_\_\_\_ | \_\_\_\_\_ | 900 | \_\_\_\_\_ | \_\_\_\_\_ | 900 | \_\_\_\_\_\_ |  |
| Bal | 15,650 | 0 | 900 | 1,800 | 4,200 | 5,100 | 17,450 |  |
| 9 | \_\_\_\_\_\_ | 1,500 | \_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | 1,500 | Service revenue |
| Bal | 15,650 | 1,500 | 900 | 1,800 | 4,200 | 5,100 | 18,950 |  |
| 12 | –250 | \_\_\_\_\_ | \_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | –250 | Rates expense |
| Bal | 15,400 | 1,500 | 900 | 1,800 | 4,200 | 5,100 | 18,700 |  |
| 18 | 1,100 | \_\_\_\_\_ | \_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ | 1,100 | Service revenue |
| Bal | 16,500 | 1,500 | 900 | 1,800 | 4,200 | 5,100 | 19,800 |  |

$24,900 $24,900

### CP-1 (continued)

#### Requirement 2

|  |  |  |
| --- | --- | --- |
| **DRAPER CONSULTING** | | |
| **Income statement** | | |
| for the month ended 18 December 2021 | | |
|  | $ | $ |
| Revenue: |  |  |
| Service revenue ($1,500 + $1,100) |  | 2,600 |
| Expenses: |  |  |
| Rent expense | 550 |  |
| Rates expense | 250 |  |
| Total expenses |  | 800 |
| Profit |  | 1 800 |

#### Requirement 3

|  |  |
| --- | --- |
| **DRAPER CONSULTING** | |
| **Statement of changes in owners' equity** | |
| For the month ended 18 December 2021 | |
|  | $ |
| Carl Draper, capital, 1 December 2021 | 0 |
| Owner investment | 18,000 |
| Profit | 1,800 |
|  | 19,800 |
| Less: Drawings | 0 |
| Retained earnings, 18 December 2021 | 19 800 |

#### Requirement 4

|  |  |  |  |
| --- | --- | --- | --- |
| **DRAPER CONSULTING** | | | |
| **Balance sheet** | | | |
| as at 18 December 2021 | | | |
| $ | | $ | |
| Assets | | Liabilities | |
| Cash | 16,500 | Accounts payable | 5 100 |
| Accounts receivable | 1,500 | Total liabilities | 5 100 |
| Supplies | 900 |  |  |
| Equipment | 1,800 |  |  |
| Furniture | 4,200 |  |  |
|  |  | Owners' equity |  |
| Total assets | 24,900 | Carl Draper, capital | 19 800 |
|  |  | Total liabilities and owners’ equity | 24 900 |

## Decision Case

#### Requirement 1

Greg's Tunes has more assets.

Sal’s $23,000, Greg’s $25,000 ($10,000 + $6,000 + $9,000)

#### Requirement 2

Greg's Tunes owes more to creditors.

Sal’s $2,000 ($23,000 – ($8,000 + $35,000 – $22,000)), Greg’s $10,000

#### Requirement 3

Sal’s Silly Songs has more owner’s equity.

Sal’s $21,000 ($8,000 + $35,000 – $22,000) Greg’s $15,000 ($6,000 + $9,000)

#### Requirement 4

Greg’s Tunes earned more revenue.

Sal’s $35,000, Greg’s $53,000 ($9,000 + $44,000)

#### Requirement 5

Sal’s Silly Songs is more profitable.

Sal’s $13,000 ($35,000 – $22,000), Greg’s $9,000

#### Requirement 6

This question is opinion based. More profit is good, which means Sal’s has the advantage. Greg’s also owes more to creditors which is risky. Sal’s has much more equity, which minimises risk.

#### Requirement 7

Sal’s looks financially better, because Sal earned more profit on less total revenue. Sal also owes less to creditors and has more equity.

## focus on ethics

#### Requirement 1

The chief financial officer (CFO) of Philip Morris would be torn between addressing the fact that the payments are related to illnesses caused by the company’s products, or alternatively, omitting or concealing this fact. The ethical course of action for the CFO is to be open, honest and forthcoming about the reasons for the payments.

### Focus on ethics (continued)

#### Requirement 2

Negative consequences of not telling the truth are as follows: If users of the financial statements feel they are only getting part of the truth, or that the reports are distorting the information, this will damage the credibility of the company, and damage the company’s reputation.

Negative consequences of telling the truth include painting so bleak a picture of the effects of smoking that investors will view Philip Morris as too risky and stop buying the company’s shares. Another negative consequence would be to create the impression that the company is engaged in unethical behavior by selling a product that damages people’s health.

## Fraud Case

#### Requirement 1

The proposed action would increase profit by increasing revenues. It would distort the balance sheet by understating liabilities and overstating equity.

#### Requirement 2

By making the company’s financial situation look better than it actually was, the company's creditors would likely be more willing to extend credit to the company, and offer the credit at a lower interest rate.

## Financial Statement Case

*Answers will depend on the year chosen.*

## Solutions to Try It! Activities

### Try it! 1.1

Under the accrual basis the revenue is $110 whether or not the sale is received in cash or some is acknowledged as an amount still owing

### Try it! 1.2

The form of organisation chosen depends upon many factors, including those stated in the text and others, such as the ease of transferring ownership