

Chapter 1 Handouts

1. Accounting is the information system that

- A. measures business activity.
 - B. communicates the results to decision makers.
 - C. processes information into reports.
 - D. All of the above
-

2. Which of the following is not an external user of a business's financial information?

- A. Taxing authorities
 - B. Customers
 - C. Employee
 - D. Investors
-

3. Generally Accepted Accounting Principles (GAAP) are currently formulated by the

- A. Financial Accounting Standards Board (FASB).
 - B. Securities and Exchange Commission (SEC).
 - C. Institute of Management Accountants (IMA).
 - D. American Institute of Certified Public Accountants (AICPA).
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4. Which type of business organization is owned by only one owner?

- A. Corporation
 - B. Partnership
 - C. Sole proprietorship
 - D. Items a, b, and c are all correct.
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5. Which of the following characteristics best describes a corporation?

- A. A business with a single owner
 - B. Is not taxed
 - C. Stockholders not personally liable for entity's debts
 - D. Not a separate taxable entity
-

6. Which of the following requires accounting information to be complete, neutral, and free from material error?

- A. Faithful representation concept
 - B. Cost principle
 - C. Economic entity assumption
 - D. Going concern assumption
-

7. At the end of a recent year, Global Cleaning Service, a full-service house and office cleaning service, had total assets of \$3,630 and equity of \$2,280. How much were Global Cleaning Service's liabilities?

Review Only

Click the icon to see the Worked Solution.

- A. \$5,910
- B. \$3,630
- C. \$1,350
- D. \$2,280

8. Consider the overall effects on Global Cleaning Service from selling and performing services on account for \$6,400 and paying expenses totaling \$2,500. What is Global Cleaning Service's net income or net loss?

Review Only

Click the icon to see the Worked Solution.

- A. Net income of \$3,900
- B. Net loss of \$3,900
- C. Net income of \$6,400
- D. Net income of \$8,900

9. Assume that Global Cleaning Services performed cleaning services for a department store on account for \$180. How would this transaction affect Global Cleaning Service's accounting equation?

- A. Increase both assets and liabilities by \$180
- B. Increase both assets and equity by \$180
- C. Increase both liabilities and equity by \$180
- D. Decrease liabilities by \$180, and increase equity by \$180

10. The balance sheet reports the

- A. financial position on a specific date.
- B. results of operations on a specific date.
- C. financial position for a specific period.
- D. results of operations for a specific period.

11. Assume Global Cleaning Service had net income of \$570 for the year. Global Cleaning Service's beginning and ending total assets were \$4,520 and \$4,180, respectively. Calculate Global Cleaning Service's return on assets (ROA).

Review Only

Click the icon to see the Worked Solution.

- A. 12.6%
- B. 13.6%
- C. 13.1%
- D. 7.63%

12. Compute the missing amount in the accounting equation for each entity from the financial information presented:

	Assets	Liabilities	Equity
Holly Maids	<input type="text"/>	\$ 36,000	\$ 35,000
Love Drycleaners	77,000	<input type="text"/>	37,000
Style Cuts	101,000	52,000	<input type="text"/>

13. Cameron Turnbull started a new business, Turnbull Gymnastics, and completed the following transactions during December:

¹(Click the icon to view the transactions.)

Analyze the effects of the transactions on the accounting equation of Turnbull Gymnastics.

Analyze the events chronologically, one transaction at a time. Beginning with the transaction on the 2nd, calculate the balance in each account after analyzing the effect of the transaction on the accounting equation. (Complete only the necessary answer boxes for your transaction lines. [Do *not* enter any zeros for your transaction lines.] Carry down all balances to the "Bal." line, including zero balance accounts, entering a "0" for any zero balances. Enter a decrease in an account with a minus sign or parentheses. Abbreviations used: A/P = Accounts Payable; A/R = Accounts Receivable; Adv. = Advertising; Com. = Common; Contr. = Contributed; Div. = Dividends; Exp. = Expense; Liab. = Liabilities; Off. Sup. = Office Supplies; Sal. = Salaries; Serv. Rev. = Service Revenue; Util. = Utility.)

	Assets			=	Liab.	+	Equity						
	Cash	+ A/R	+ Off. Sup.	=	A/P	+	Contr. Capital		Retained Earnings				
							Com.	- Div.	+ Serv. Rev.	- Rent Exp.	- Util. Exp.	- Sal. Exp.	- Adv. Exp.
12/1	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/2	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/5	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/9	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/10	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/15	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/20	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/25	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/28	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/28	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/30	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
12/31	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>
Bal.	<input type="text"/>	+ <input type="text"/>	+ <input type="text"/>	=	<input type="text"/>	+	<input type="text"/>	- <input type="text"/>	+ <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>	- <input type="text"/>

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- Dec. 1 Cameron contributed \$25,000 cash in exchange for common stock.
- 2 Received \$2,600 cash from customers for services performed.
- 5 Paid \$350 cash for office supplies.
- 9 Performed services for a customer and billed the customer for services rendered, \$4,000.
- 10 Received \$650 bill for utilities due in two weeks.
- 15 Paid for advertising in the local paper, \$300.
- 20 Paid utility bill received on Dec. 10.
- 25 Collected cash from customer billed on Dec. 9.
- 28 Paid rent for the month, \$2,800.
- 28 Paid \$1,550 to assistant for wages.
- 30 Received \$2,000 cash from customers for services performed.
- 31 Cash dividends of \$3,500 were paid to stockholders.
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14. Presented here are the accounts of
 Pembroke Bookkeeping Company for the year ended
 December 31, 2016.
²(Click the icon to view the accounts.)

Requirements

1. Prepare Pembroke Bookkeeping Company's income statement.
2. Prepare the statement of retained earnings.
3. Prepare the balance sheet.

Requirement 1. Prepare Pembroke Bookkeeping Company's income statement.

	(1)	
	(2)	
	(3)	
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		
(11)		
(12)		
(13)		
Net Income		

Requirement 2. Prepare the statement of retained earnings. (Use a minus sign or parentheses to show a decrease in retained earnings.)

	(14)
	(15)
	(16)
Retained Earnings, January 1, 2016	
(17)	
(18)	
Retained Earnings, December 31, 2016	

Requirement 3. Prepare the balance sheet. (If a box is not used in the table leave the box empty; do not select a label or enter a zero.)

(19)
(20)
(21)

Assets		Liabilities	
(22)		(23)	
(24)		(25)	
(26)		(27)	
(28)		(29)	
(30)		Stockholders' Equity	
(31)		(32)	
(33)		(34)	
(35)		(36)	
(37)		(38)	

2: Data Table

Land	\$ 6,000	Common Stock	\$ 30,000
Notes Payable	28,000	Accounts Payable	14,000
Property Tax Expense	3,300	Accounts Receivable	1,300
Dividends	30,000	Advertising Expense	21,000
Rent Expense	8,000	Building	177,700
Salaries Expense	69,000	Cash	2,800
Salaries Payable	1,300	Equipment	21,000
Service Revenue	240,000	Insurance Expense	1,800
Office Supplies	16,000	Interest Expense	7,400
Retained Earnings, 12/31/15	52,000		

1. D. All of the above

2. C. Employee

3. A. Financial Accounting Standards Board (FASB).

4. C. Sole proprietorship

5. C. Stockholders not personally liable for entity's debts

6. A. Faithful representation concept

7. C. \$1,350

8. A. Net income of \$3,900

9. B. Increase both assets and equity by \$180

10. A. financial position on a specific date.

11. C. 13.1%

12.

	Assets	Liabilities	Equity
Holly Maids	\$ 71,000	\$ 36,000	\$ 35,000
Love Drycleaners	77,000	40,000	37,000
Style Cuts	101,000	52,000	49,000

13.

	Assets			=	Liab.	+	Equity										
	Cash	+ A/R	+ Off. Sup.	=	A/P	+	Contr. Capital		Retained Earnings								
							Com. Stock	- Div.	+ Serv. Rev.	- Rent Exp.	- Util. Exp.	- Sal. Exp.	- Adv. Exp.				
12/1	25,000	+		=		+	25,000	-		+		-		-		-	
12/2	<u>2,600</u>	+		=		+		-		+	<u>2,600</u>	-		-		-	
Bal.	27,600	+	0	=	0	+	25,000	-	0	+	2,600	-	0	-	0	-	0
12/5	<u>(350)</u>	+		=		+		-		+		-		-		-	
Bal.	27,250	+	0	=	0	+	25,000	-	0	+	2,600	-	0	-	0	-	0
12/9		+	<u>4,000</u>	=		+		-		+	<u>4,000</u>	-		-		-	
Bal.	27,250	+	4,000	=	0	+	25,000	-	0	+	6,600	-	0	-	0	-	0
12/10		+		=	<u>650</u>	+		-		+		-		-	<u>650</u>	-	
Bal.	27,250	+	4,000	=	650	+	25,000	-	0	+	6,600	-	0	-	650	-	0
12/15	<u>(300)</u>	+		=		+		-		+		-		-		-	<u>300</u>
Bal.	26,950	+	4,000	=	650	+	25,000	-	0	+	6,600	-	0	-	650	-	300
12/20	<u>(650)</u>	+		=	<u>(650)</u>	+		-		+		-		-		-	
Bal.	26,300	+	4,000	=	0	+	25,000	-	0	+	6,600	-	0	-	650	-	300
12/25	<u>4,000</u>	+	<u>(4,000)</u>	=		+		-		+		-		-		-	
Bal.	30,300	+	0	=	0	+	25,000	-	0	+	6,600	-	0	-	650	-	300
12/28	<u>(2,800)</u>	+		=		+		-		+		-	<u>2,800</u>	-		-	
Bal.	27,500	+	0	=	0	+	25,000	-	0	+	6,600	-	2,800	-	650	-	300
12/28	<u>(1,550)</u>	+		=		+		-		+		-		-	<u>1,550</u>	-	
Bal.	25,950	+	0	=	0	+	25,000	-	0	+	6,600	-	2,800	-	650	-	1,550
12/30	<u>2,000</u>	+		=		+		-		+	<u>2,000</u>	-		-		-	
Bal.	27,950	+	0	=	0	+	25,000	-	0	+	8,600	-	2,800	-	650	-	1,550
12/31	<u>(3,500)</u>	+		=		+		-	<u>3,500</u>	+		-		-		-	
Bal.	<u>24,450</u>	+	<u>0</u>	=	<u>0</u>	+	<u>25,000</u>	-	<u>3,500</u>	+	<u>8,600</u>	-	<u>2,800</u>	-	<u>650</u>	-	<u>300</u>

14.

Pembroke Bookkeeping Company**Income Statement****Year Ended December 31, 2016**

Revenues:

Service Revenue	\$	240,000
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Expenses:

Salaries Expense	\$	69,000
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Advertising Expense	21,000
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Rent Expense	8,000
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Interest Expense	7,400
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Property Tax Expense	3,300
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Insurance Expense	1,800
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Total Expenses	<u>110,500</u>
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Net Income	<u><u>\$ 129,500</u></u>
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Pembroke Bookkeeping Company**Statement of Retained Earnings****Year Ended December 31, 2016**

Retained Earnings, January 1, 2016	\$ 52,000
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Net income for the year	<u>129,500</u>
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181,500

Dividends	<u>(30,000)</u>
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Retained Earnings, December 31, 2016	<u><u>\$ 151,500</u></u>
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Pembroke Bookkeeping Company**Balance Sheet****December 31, 2016**

Assets		Liabilities	
Cash	\$ 2,800	Accounts Payable	\$ 14,000
Accounts Receivable	1,300	Notes Payable	28,000
Office Supplies	16,000	Salaries Payable	<u>1,300</u>
Equipment	21,000	Total Liabilities	43,300
Building	177,700	Stockholders' Equity	
Land	6,000	Common Stock	30,000
		Retained Earnings	<u>151,500</u>
		Total Stockholders' Equity	<u>181,500</u>
Total Assets	<u><u>\$ 224,800</u></u>	Total Liabilities and Stockholders' Equity	<u><u>\$ 224,800</u></u>