



TEXTBOOK TESTBANKS

# Solutions Manual for Financial Accounting 12th Libby

SOLUTIONS MANUAL SAMPLE PREVIEW

PUBLISHER

**MHHE**

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**2026**

RESOURCE TYPE

**Solutions Manual**

ISBN

**9781264608751**

*Solutions Manual for Financial  
Accounting 12<sup>th</sup> Edition by Libby,  
Libby, Hodge*

ISBN: 9781264608751

# Chapter 1

## Financial Statements and Business Decisions

### ANSWERS TO QUESTIONS

1. Accounting is a system that collects and processes (analyzes, measures, and records) financial information about an organization and reports that information to decision makers.
2. Financial accounting involves preparation of the four basic financial statements and related disclosures for external decision makers. Managerial accounting involves the preparation of detailed plans, budgets, forecasts, and performance reports for internal decision makers.
3. Financial reports are used by both internal and external groups and individuals. The internal groups are comprised of the various managers of the entity. The external groups include the owners, investors, creditors, governmental agencies, other interested parties, and the public at large.
4. Investors purchase all or part of a business and hope to gain by receiving part of what the company earns and/or selling their ownership interest in the company in the future at a higher price than they paid. Creditors lend money to a company for a specific length of time and hope to gain by charging interest on the loan.
5. In a society, each organization can be defined as a separate accounting entity. An accounting entity is the organization for which financial data are to be collected. Typical accounting entities are a business, a church, a governmental unit, a university, and other nonprofit organizations such as a hospital and a welfare organization. A business typically is defined and treated as a separate entity because the owners, creditors, investors, and other interested parties need to evaluate its performance and its potential separately from other entities and from its owners.
6. 

| <i>Name of Statement</i> | <i>Alternative Title</i>                                                |
|--------------------------|-------------------------------------------------------------------------|
| (a) Income statement     | (a) Statement of earnings; Statement of income; Statement of operations |
| (b) Balance sheet        | (b) Statement of financial position                                     |
| (c) Cash flow statement  | (c) Statement of cash flows                                             |

7. The heading of each of the four required financial statements should include the following:
  - (a) Name of the entity
  - (b) Name of the statement
  - (c) Date of the statement, or the period of time
  - (d) Unit of measure
8.
  - (a) The purpose of the income statement is to present information about the revenues, expenses, and net income of an entity for a specified period of time.
  - (b) The purpose of the balance sheet is to report the financial position of an entity at a given date, that is, to report information about the assets, liabilities and stockholders' equity of the entity as of a specific date.
  - (c) The purpose of the statement of cash flows is to present information about the flow of cash into the entity (sources), the flow of cash out of the entity (uses), and the net increase or decrease in cash during the period.
  - (d) The statement of stockholders' equity reports the changes in each of the company's stockholders' equity accounts during the accounting period, including the issue and repurchase of stock and the way that net income and distribution of dividends affected the retained earnings of the company during that period.
9. The income statement and the statement of cash flows are dated "For the Year Ended December 31" because they report the inflows and outflows of resources during a period of time. In contrast, the balance sheet is dated "At December 31" because it represents the resources, obligations, and stockholders' equity at a specific date.
10. Assets are important to creditors and investors because assets provide a basis for judging whether sufficient resources are available to operate the company. Assets are also important because they could be sold for cash in the event the company goes out of business. Liabilities are important to creditors and investors because the company must be able to generate sufficient cash from operations or further borrowing to meet the payments required by debt agreements. If a business does not pay its creditors, the law may give the creditors the right to force the sale of assets sufficient to meet their claims.
11. Net income is the excess of total revenues over total expenses. Net loss is the excess of total expenses over total revenues.
12. The equation for the income statement is  $\text{Revenues} - \text{Expenses} = \text{Net Income}$  (or  $\text{Net Loss}$  if the amount is negative). Thus, the three major items reported on the income statement are (1) revenues, (2) expenses, and (3) net income.

13. The equation for the balance sheet (also known as the basic accounting equation) is:  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ . Assets are the probable (expected) future economic benefits owned by the entity as a result of past transactions. They are the resources owned by the business at a given point in time such as cash, receivables, inventory, machinery, buildings, land, and patents. Liabilities are probable (expected) debts or obligations of the entity as a result of past transactions that will be paid with assets or services in the future. They are the obligations of the entity such as accounts payable, notes payable, and bonds payable. Stockholders' equity is financing provided by owners of the business and operations. It is the claim of the owners to the assets of the business after the creditors' claims have been satisfied. It may be thought of as the residual interest because it represents assets minus liabilities.
14. The equation for the statement of cash flows is:  $\text{Cash flows from operating activities} + \text{Cash flows from investing activities} + \text{Cash flows from financing activities} = \text{Change in cash for the period}$ . The net cash flows for the period represent the increase or decrease in cash that occurred during the period. Cash flows from operating activities are cash flows directly related to earning income (normal business activity including interest paid and income taxes paid). Cash flows from investing activities include cash flows that are related to the acquisition or sale of productive assets used by the company and investments. Cash flows from financing activities are directly related to the financing of the enterprise itself.
15. The retained earnings equation is:  $\text{Beginning Retained Earnings} + \text{Net Income} - \text{Dividends} = \text{Ending Retained Earnings}$ . It starts with beginning-of-the-year Retained Earnings which is the prior year's ending retained earnings reported on the balance sheet. The current year's Net Income reported on the income statement is added and the current year's Dividends are subtracted from this amount. The ending Retained Earnings amount is reported on the end-of-period balance sheet.
16. Marketing managers and credit managers use customers' financial statements to decide whether to extend them credit for their purchases. Purchasing managers use potential suppliers' financial statements to judge whether the suppliers have the resources necessary to meet current and future demand. Human resource managers use financial statements as a basis for contract negotiations, to determine what pay rates the company can afford. The net income figure even serves as a basis to pay bonuses not only to management, but to other employees through profit sharing plans.
17. The Securities and Exchange Commission (SEC) is the U.S. government agency which determines the financial statements that public companies must provide to stockholders and the measurement rules used in producing those statements. The Financial Accounting Standards Board (FASB) is the private sector body given the primary responsibility to work out the detailed rules which become generally accepted accounting principles (GAAP).

18. Management is responsible for preparing the financial statements and other information contained in the annual report and for the maintenance of a system of internal accounting policies, procedures, and controls. These measures are intended to provide reasonable assurance, at appropriate cost, that transactions are processed in accordance with company authorization as well as properly recorded and reported in the financial statements, and that assets are adequately safeguarded. Independent auditors examine the financial reports (prepared by management) and the underlying records to assure that the reports represent what they claim and conform with generally accepted accounting principles (GAAP).
19. A sole proprietorship is an unincorporated business owned by one individual. A partnership is an unincorporated association of two or more individuals to carry on a business. A corporation is a business that is organized under the laws of a particular state whereby a charter is granted and the entity is authorized to issue shares of stock as evidence of ownership by the owners (i.e., stockholders).
20. A CPA firm normally renders three services: auditing, management advisory services, and tax services. Auditing involves examination of the records and financial reports to determine whether they "fairly present" the financial position and results of operations of the entity. Management advisory services involve management advice to individual business enterprises and other entities, much like those provided by a consulting firm. Tax services involve providing tax planning advice to clients (both individuals and businesses) and preparation of their tax returns.

## ANSWERS TO MULTIPLE CHOICE

- |       |       |       |       |        |
|-------|-------|-------|-------|--------|
| 1. b) | 2. d) | 3. d) | 4. c) | 5. a)  |
| 6. d) | 7. a) | 8. a) | 9. c) | 10. b) |

## Authors' Recommended Solution Time

(Time in minutes)

| <i>Mini-exercises</i> |             | <i>Exercises</i> |             | <i>Problems</i> |             | <i>Alternate Problems</i> |             | <i>Cases and Projects</i> |             |
|-----------------------|-------------|------------------|-------------|-----------------|-------------|---------------------------|-------------|---------------------------|-------------|
| <i>No.</i>            | <i>Time</i> | <i>No.</i>       | <i>Time</i> | <i>No.</i>      | <i>Time</i> | <i>No.</i>                | <i>Time</i> | <i>No.</i>                | <i>Time</i> |
| 1                     | 5           | 1                | 12          | 1               | 45          | 1                         | 45          | 1                         | 20          |
| 2                     | 5           | 2                | 12          | 2               | 45          | 2                         | 45          | 2                         | 30          |
| 3                     | 5           | 3                | 12          | 3               | 45          | 3                         | 45          | 3                         | 30          |
| 4                     | 5           | 4                | 20          |                 |             |                           |             | 4                         | 45          |
| 5                     | 5           | 5                | 25          |                 |             |                           |             | 5                         | 60          |
| 6                     | 5           | 6                | 20          |                 |             |                           |             | 6                         | 30          |
|                       |             | 7                | 15          |                 |             |                           |             | 7                         | 20          |
|                       |             | 8                | 25          |                 |             | Continuing Problem        |             | 8                         | *           |
|                       |             | 9                | 25          |                 |             |                           |             |                           |             |
|                       |             | 10               | 25          |                 |             | 1                         | 45          |                           |             |
|                       |             | 11               | 30          |                 |             |                           |             |                           |             |

|  |  |    |    |  |  |  |  |  |  |
|--|--|----|----|--|--|--|--|--|--|
|  |  | 12 | 30 |  |  |  |  |  |  |
|  |  | 13 | 15 |  |  |  |  |  |  |
|  |  | 14 | 35 |  |  |  |  |  |  |
|  |  | 15 | 12 |  |  |  |  |  |  |

\* Due to the nature of these cases and projects, it is very difficult to estimate the amount of time students will need to complete the assignment. As with any open-ended project, it is possible for students to devote a large amount of time to these assignments. While students often benefit from the extra effort, we find that some become frustrated by the perceived difficulty of the task. You can reduce student frustration and anxiety by making your expectations clear. For example, when our goal is to sharpen research skills, we devote class time to discussing research strategies. When we want the students to focus on a real accounting issue, we offer suggestions about possible companies or industries.

## MINI-EXERCISES

### M1-1.

| Financial Statement                            | Information Reported                                                       |
|------------------------------------------------|----------------------------------------------------------------------------|
| <u>B</u> (1) Income statement                  | A. Economic resources and sources of financing for those resources         |
| <u>D</u> (2) Statement of stockholders' equity | B. Resources earned less resources used to produce and sell goods/services |
| <u>A</u> (3) Balance sheet                     | C. Receipts and payments of cash                                           |
| <u>C</u> (4) Statement of cash flows           | D. Amounts invested by and past earnings not distributed to stockholders   |

### M1-2.

| Element                                          | Financial Statement                  |
|--------------------------------------------------|--------------------------------------|
| <u>B</u> (1) Expenses                            | A. Balance sheet                     |
| <u>D</u> (2) Cash flow from investing activities | B. Income statement                  |
| <u>A</u> (3) Assets                              | C. Statement of stockholders' equity |
| <u>C*</u> (4) Dividends                          | D. Statement of cash flows           |
| <u>B</u> (5) Revenues                            |                                      |
| <u>D</u> (6) Cash flow from operating activities |                                      |
| <u>A</u> (7) Liabilities                         |                                      |
| <u>D</u> (8) Cash flow from financing activities |                                      |

\*Dividends paid in cash are also subtracted in the Financing section of the Statement of Cash Flows

### M1-3.

|                                             |
|---------------------------------------------|
| <u>SE</u> (1) Retained earnings             |
| <u>A</u> (2) Accounts receivable            |
| <u>R</u> (3) Sales revenue                  |
| <u>A</u> (4) Property, plant, and equipment |
| <u>E</u> (5) Cost of goods sold expense     |
| <u>A</u> (6) Inventories                    |
| <u>E</u> (7) Interest expense               |
| <u>L</u> (8) Accounts payable               |
| <u>A</u> (9) Land                           |



**M1-4.**

Assets = Liabilities + Stockholders' Equity  
 $\$90,000 = \$50,000 + \$40,000$

Revenues – Expenses = Net Income  
 $\$10,000 - \$4,000 = \$6,000$

**M1-5.**

|                             |                  |
|-----------------------------|------------------|
| Beginning Retained Earnings | \$100,000        |
| + Net Income                | 13,000           |
| - Dividends                 | <u>(7,000)</u>   |
| Ending Retained Earnings    | <u>\$106,000</u> |

**M1-6.**

|     | <b>Abbreviation</b> | <b>Full Designation</b>                  |
|-----|---------------------|------------------------------------------|
| (1) | CPA                 | Certified Public Accountant              |
| (2) | GAAP                | Generally Accepted Accounting Principles |
| (3) | SEC                 | Securities and Exchange Commission       |
| (4) | FASB                | Financial Accounting Standards Board     |

## EXERCISES

### E1-1.

|          | <b>Term or Abbreviation</b> | <b>Definition</b>                                                                                                                                            |
|----------|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>J</u> | (1) SEC                     | A. A system that collects and processes financial information about an organization and reports that information to decision makers.                         |
| <u>F</u> | (2) Audit                   | B. Information that helps evaluate the company's past behavior and predict its future.                                                                       |
| <u>H</u> | (3) Sole proprietorship     | C. An unincorporated business owned by two or more persons.                                                                                                  |
| <u>E</u> | (4) Corporation             | D. The organization for which financial data are to be collected (separate and distinct from its owners).                                                    |
| <u>A</u> | (5) Accounting              | E. An incorporated entity that issues shares of stock as evidence of ownership.                                                                              |
| <u>D</u> | (6) Accounting entity       | F. An examination of the financial reports to ensure that they represent what they claim and conform with generally accepted accounting principles.          |
| <u>I</u> | (7) Audit report            | G. Certified Public Accountant.                                                                                                                              |
| <u>L</u> | (8) Publicly traded         | H. An unincorporated business owned by one person.                                                                                                           |
| <u>C</u> | (9) Partnership             | I. A report that describes the auditor's opinion of the fairness of the financial statement presentations and the evidence gathered to support that opinion. |
| <u>K</u> | (10) FASB                   | J. Securities and Exchange Commission.                                                                                                                       |
| <u>G</u> | (11) CPA                    | K. Financial Accounting Standards Board.                                                                                                                     |
| <u>B</u> | (12) Relevant information   | L. A company with stock that can be bought and sold by investors on established stock exchanges.                                                             |
| <u>M</u> | (13) GAAP                   | M. Generally accepted accounting principles.                                                                                                                 |

**E1-2.**

|           |                                                  |
|-----------|--------------------------------------------------|
| <u>A</u>  | (1) Accounts receivable                          |
| <u>A</u>  | (2) Cash and cash equivalents                    |
| <u>R</u>  | (3) Net sales                                    |
| <u>L</u>  | (4) Debt due within one year                     |
| <u>L</u>  | (5) Taxes payable                                |
| <u>SE</u> | (6) Retained earnings                            |
| <u>E</u>  | (7) Cost of products sold                        |
| <u>E</u>  | (8) Selling, general, and administrative expense |
| <u>E</u>  | (9) Income taxes                                 |
| <u>L</u>  | (10) Accounts payable                            |
| <u>A</u>  | (11) Trademarks and other intangible assets      |
| <u>A</u>  | (12) Property, plant, and equipment              |
| <u>L</u>  | (13) Long-term debt                              |
| <u>A</u>  | (14) Inventories                                 |
| <u>E</u>  | (15) Interest expense                            |

**E1-3.**

|           |                                                     |          |                                       |
|-----------|-----------------------------------------------------|----------|---------------------------------------|
| <u>L</u>  | (1) Bank loans                                      | <u>A</u> | (10) Machinery and equipment          |
| <u>E</u>  | (2) Selling, marketing, and administrative expenses | <u>R</u> | (11) Net product sales                |
| <u>L</u>  | (3) Accounts payable                                | <u>A</u> | (12) Inventories                      |
| <u>L</u>  | (4) Dividends payable                               | <u>A</u> | (13) Trademarks                       |
| <u>SE</u> | (5) Retained earnings                               | <u>A</u> | (14) Buildings                        |
| <u>A</u>  | (6) Cash and cash equivalents                       | <u>A</u> | (15) Land                             |
| <u>A</u>  | (7) Accounts receivable                             | <u>L</u> | (16) Income taxes payable             |
| <u>E</u>  | (8) Provision for income taxes*                     | <u>E</u> | (17) Rental and royalty costs         |
| <u>E</u>  | (9) Product cost of goods sold                      | <u>A</u> | (18) Investments (in other companies) |

\*Note that "Provision for income taxes" is a common synonym for "Income tax expense."

**E1-4.**

Honda Motor Corporation  
Balance Sheet  
As of March 31, Current Year  
(in billions of Yen)

**Assets**

|                                              |                |
|----------------------------------------------|----------------|
| Cash and cash equivalents                    | ¥ 2,106        |
| Trade accounts, notes, and other receivables | 3,085          |
| Inventories                                  | 1,364          |
| Investments                                  | 597            |
| Net property, plant, and equipment           | 3,200          |
| Other assets                                 | <u>8,606</u>   |
| Total assets                                 | <u>¥18,958</u> |

**Liabilities**

|                                                |               |
|------------------------------------------------|---------------|
| Accounts payable and other current liabilities | ¥ 5,429       |
| Long-term debt                                 | 4,022         |
| Other liabilities                              | <u>1,938</u>  |
| Total liabilities                              | <u>11,389</u> |

**Stockholders' Equity**

|                                            |                |
|--------------------------------------------|----------------|
| Common stock                               | 231            |
| Retained earnings                          | <u>7,338</u>   |
| Total stockholders' equity                 | <u>7,569</u>   |
| Total liabilities and stockholders' equity | <u>¥18,958</u> |

**E1-5.**

Req. 1

COLE VALLEY BOOK STORE  
Balance Sheet  
At December 31, Current Year

**ASSETS**

|                            |               |
|----------------------------|---------------|
| Cash                       | \$ 75,600     |
| Accounts receivable        | 39,000        |
| Store and office equipment | <u>73,000</u> |

**LIABILITIES**

|                   |               |
|-------------------|---------------|
| Accounts payable  | \$ 12,000     |
| Note payable      | 3,000         |
| Interest payable  | <u>300</u>    |
| Total liabilities | <u>15,300</u> |

**STOCKHOLDERS' EQUITY**

|                            |                |
|----------------------------|----------------|
| Common stock               | 160,000        |
| Retained earnings          | <u>12,300</u>  |
| Total stockholders' equity | <u>172,300</u> |

|              |                  |                                            |                  |
|--------------|------------------|--------------------------------------------|------------------|
| Total assets | <u>\$187,600</u> | Total liabilities and stockholders' equity | <u>\$187,600</u> |
|--------------|------------------|--------------------------------------------|------------------|

Req. 2

Net income for the year was \$12,300. This is the first year of operations and no dividends were declared or paid to stockholders; therefore, the ending retained earnings of \$12,300 includes net income for one year.

**E1-6.**

CAMPUS CONNECTION  
Income Statement  
For the Month of January, Current Year

## Revenues:

|                     |              |           |
|---------------------|--------------|-----------|
| Sales: Cash         | \$150,000    |           |
| On credit           | <u>2,500</u> |           |
| Total sales revenue |              | \$152,500 |

## Expenses:

|                                                             |            |                |
|-------------------------------------------------------------|------------|----------------|
| Cost of goods sold                                          | 70,000     |                |
| Salaries, rent, supplies, and other expenses (paid in cash) | 37,000     |                |
| Utilities                                                   | <u>900</u> |                |
| Total expenses                                              |            | <u>107,900</u> |

|            |                         |
|------------|-------------------------|
| Net Income | <u><u>\$ 44,600</u></u> |
|------------|-------------------------|

**E1-7.**

SYSCO CORP.  
Income Statement  
For the Year Ended June 30, Current Year  
(in millions)

|                                                |            |                 |
|------------------------------------------------|------------|-----------------|
| Revenues:                                      |            |                 |
| Sales                                          | \$55,371   |                 |
| Other revenues                                 | <u>16</u>  |                 |
| Total revenues                                 |            | \$55,387        |
| Expenses:                                      |            |                 |
| Cost of sales                                  | 44,814     |                 |
| Selling, general and<br>administration expense | 8,504      |                 |
| Interest expense                               | <u>303</u> |                 |
| Total expenses                                 |            | <u>53,621</u>   |
| Earnings before income taxes                   |            | 1,766           |
| Income taxes                                   |            | <u>371</u>      |
| Net earnings                                   |            | <u>\$ 1,395</u> |

**E1-8.**

NEIGHBORHOOD REALTY, INCORPORATED  
Income Statement  
For the Year Ended December 31, Current Year

|                                           |               |                  |
|-------------------------------------------|---------------|------------------|
| Revenues                                  |               |                  |
| Commissions earned (\$150,900 + \$16,800) | \$167,700     |                  |
| Rental service fees                       | <u>20,000</u> |                  |
| Total revenues                            |               | \$187,700        |
| Expenses                                  |               |                  |
| Salaries expense                          | 62,740        |                  |
| Commission expense                        | 35,330        |                  |
| Payroll tax expense                       | 2,500         |                  |
| Rent expense (\$2,475 + \$225)*           | 2,700         |                  |
| Utilities expense                         | 1,600         |                  |
| Promotion and advertising expense         | 7,750         |                  |
| Miscellaneous expenses                    | <u>500</u>    |                  |
| Total expenses (excluding income taxes)   |               | <u>113,120</u>   |
| Pretax income                             |               | 74,580           |
| Income tax expense                        |               | <u>15,660</u>    |
| Net Income                                |               | <u>\$ 58,920</u> |

\*\$2,475 has been paid for 11 months (\$225 per month) plus \$225 owed for December.

**E1-9.**

Net Income (or Loss) = Revenues - Expenses

Assets = Liabilities + Stockholders' Equity

- A. Net Income = \$93,500 - \$75,940 = \$17,560;  
Stockholders' Equity = \$140,200 - \$56,500 = \$83,700.
- B. Total Revenues = \$75,834 + \$14,740 = \$90,574;  
Total Liabilities = \$107,880 - \$77,500 = \$30,380.
- C. Net Loss = \$68,120 - \$76,430 = (\$8,310);  
Stockholders' Equity = \$98,200 - \$69,850 = \$28,350.
- D. Total Expenses = \$55,804 - \$21,770 = \$34,034;  
Total Assets = \$20,300 + \$78,680 = \$98,980.
- E. Net Income = \$84,840 - \$75,320 = \$9,520;  
Total Assets = \$25,520 + \$80,000 = \$105,520.

**E1-10.**

Net Income (or Loss) = Revenues - Expenses

Assets = Liabilities + Stockholders' Equity

- A. Net Income = \$242,300 - \$196,700 = \$45,600;  
Stockholders' Equity = \$253,500 - \$75,000 = \$178,500.
- B. Total Revenues = \$186,500 + \$29,920 = \$216,420;  
Total Liabilities = \$590,000 - \$350,600 = \$239,400.
- C. Net Loss = \$73,500 - \$91,890 = (\$18,390);  
Stockholders' Equity = \$260,400 - \$190,760 = \$69,640.
- D. Total Expenses = \$35,840 - \$9,840 = \$26,000;  
Total Assets = \$190,430 + \$97,525 = \$287,955.
- E. Net Income = \$224,130 - \$209,500 = \$14,630;  
Total Assets = \$173,650 + \$360,100 = \$533,750.

**E1-11.**

PAINTER CORPORATION  
Income Statement  
For the Month of January, Current Year

|                                             |                         |
|---------------------------------------------|-------------------------|
| Total revenues                              | \$305,000               |
| Less: Total expenses (excluding income tax) | <u>189,000</u>          |
| Pretax income                               | 116,000                 |
| Less: Income tax expense                    | <u>25,000</u>           |
| Net income                                  | <u><u>\$ 91,000</u></u> |

PAINTER CORPORATION  
Balance Sheet  
At January 31, Current Year

**Assets**

|                            |                         |
|----------------------------|-------------------------|
| Cash                       | \$ 65,150               |
| Receivables from customers | 44,700                  |
| Merchandise inventory      | <u>94,500</u>           |
| Total assets               | <u><u>\$204,350</u></u> |

**Liabilities**

|                       |               |
|-----------------------|---------------|
| Payables to suppliers | \$ 25,950     |
| Income taxes payable  | <u>25,000</u> |
| Total liabilities     | <u>50,950</u> |

**Stockholders' Equity**

|                                                          |                         |
|----------------------------------------------------------|-------------------------|
| Common stock                                             | 62,400                  |
| Retained earnings ( <i>from income statement above</i> ) | <u>91,000</u>           |
| Total stockholders' equity                               | <u>153,400</u>          |
| Total liabilities and stockholders' equity               | <u><u>\$204,350</u></u> |



**E1-12.****ANALYTICS CORPORATION****Income Statement**

For the Year Ended December 31, Current Year

|                                             |                         |
|---------------------------------------------|-------------------------|
| Total revenues                              | \$299,000               |
| Less: Total expenses (excluding income tax) | <u>184,000</u>          |
| Pretax income                               | 115,000                 |
| Less: Income tax expense                    | <u>34,500</u>           |
| Net income                                  | <u><u>\$ 80,500</u></u> |

**ANALYTICS CORPORATION****Balance Sheet**

At December 31, Current Year

**Assets**

|                            |                         |
|----------------------------|-------------------------|
| Cash                       | \$ 70,150               |
| Receivables from customers | 34,500                  |
| Merchandise inventory      | <u>96,600</u>           |
| Total assets               | <u><u>\$201,250</u></u> |

**Liabilities**

|                       |               |
|-----------------------|---------------|
| Payables to suppliers | \$ 26,450     |
| Income taxes payable  | <u>34,500</u> |
| Total liabilities     | 60,950        |

**Stockholders' Equity**

|                                                          |                         |
|----------------------------------------------------------|-------------------------|
| Common stock                                             | 59,800                  |
| Retained earnings ( <i>from income statement above</i> ) | <u>80,500</u>           |
| Total stockholders' equity                               | <u>140,300</u>          |
| Total liabilities and stockholders' equity               | <u><u>\$201,250</u></u> |

**E1-13.**

PLUMMER STONEWORK CORPORATION  
Statement of Stockholders' Equity  
For the Year Ended December 31, 2023

|                            | <u>Common Stock</u> | <u>Retained Earnings</u> |
|----------------------------|---------------------|--------------------------|
| Balance December 31, 2022* | \$100,000           | \$16,800                 |
| Net income                 |                     | 42,000                   |
| Dividends                  | <u>\$100,000</u>    | <u>(18,700)</u>          |
| Balance December 31, 2023  | <u>\$100,000</u>    | <u>\$40,100</u>          |

\* Beginning retained earnings + Net income – Dividends = Ending retained earnings  
For 2022: \$0 + \$31,000 – \$14,200 = \$16,800;  
Ending retained earnings for 2022 becomes beginning retained earnings for 2023.

**E1-14**

BENNETT INC.  
Income Statement  
For the Year Ended December 31, Current  
Year

|            |                      |
|------------|----------------------|
| Revenues   | \$1,401              |
| Expenses   | <u>1,301</u>         |
| Net income | <u><u>\$ 100</u></u> |

BENNETT INC.  
Statement of Stockholders' Equity  
For the Year Ended December 31, Current Year

|             | Common<br>Stock     | Retained<br>Earnings |
|-------------|---------------------|----------------------|
| Beginning   | \$120               | \$193                |
| +Net income | -                   | 100                  |
| -Dividends  | <u>-</u>            | <u>(20)</u>          |
| Ending      | <u><u>\$120</u></u> | <u><u>\$273</u></u>  |

BENNETT INC.  
Balance Sheet  
December 31, Current Year

|                                            |                      |
|--------------------------------------------|----------------------|
| Cash                                       | \$ 281               |
| Other assets                               | <u>443</u>           |
| Total assets                               | <u><u>\$ 724</u></u> |
| Liabilities                                | \$ 331               |
| Common stock                               | 120                  |
| Retained earnings                          | <u>273</u>           |
| Total liabilities and stockholders' equity | <u><u>\$ 724</u></u> |

**E1-15.**

- (I)   (1) Purchases of property, plant, and equipment  
    (O)   (2) Cash received from customers  
  (F)   (3) Cash paid for dividends to stockholders  
  (O)   (4) Cash paid to suppliers  
  (O)   (5) Income taxes paid  
  (O)   (6) Cash paid to employees  
    I   (7) Cash proceeds received from sale of investment in another company

(F) (8) Repayment of borrowings

## PROBLEMS

(Note to the instructor: Most students find the Problems in this chapter to be quite challenging.)

### P1-1.

Req. 1

**HIGHLIGHT CONSTRUCTION COMPANY**  
Income Statement  
For the Year Ended December 31, Current Year

|                                     |                         |
|-------------------------------------|-------------------------|
| Total sales revenue (given)         | \$128,400               |
| Total expenses (given)              | <u>80,200</u>           |
| Pretax income                       | 48,200                  |
| Income tax expense (\$48,200 x 30%) | <u>14,460</u>           |
| Net income                          | <u><u>\$ 33,740</u></u> |

Req. 2

**HIGHLIGHT CONSTRUCTION COMPANY**  
Statement of Stockholders' Equity  
For the Year Ended December 31, Current Year

|                                   | Common Stock            | Retained Earnings       |
|-----------------------------------|-------------------------|-------------------------|
| Balance January 1, Current year   | \$ 0                    | \$ 0                    |
| Stock issuance (given)            | 87,000                  |                         |
| +Net income (from req. 1)         |                         | 33,740                  |
| –Dividends (given)                | <u>\$ 87,000</u>        | <u>(10,000)</u>         |
| Balance December 31, Current year | <u><u>\$ 87,000</u></u> | <u><u>\$ 23,740</u></u> |

Req. 3

**HIGHLIGHT CONSTRUCTION COMPANY**  
Balance Sheet  
At December 31, Current Year

|                                    |                         |
|------------------------------------|-------------------------|
| Assets                             |                         |
| Cash (given)                       | \$ 25,600               |
| Receivables from customers (given) | 10,800                  |
| Inventory of merchandise (given)   | 81,000                  |
| Equipment (given)                  | <u>42,000</u>           |
| Total assets                       | <u><u>\$159,400</u></u> |
| Liabilities                        |                         |
| Accounts payable (given)           | \$46,140                |
| Salary payable (given)             | <u>2,520</u>            |
| Total liabilities                  | \$ 48,660               |

|                                            |               |                  |
|--------------------------------------------|---------------|------------------|
| Stockholders' Equity                       |               |                  |
| Common stock (given)                       | 87,000        |                  |
| Retained earnings (from req. 2)            | <u>23,740</u> |                  |
| Total stockholders' equity                 |               | <u>110,740</u>   |
| Total liabilities and stockholders' equity |               | <u>\$159,400</u> |

**P1-2.**

Req. 1

JAMES COOK LAWN SERVICE  
Income Statement  
For the Three Months Ended August 31

|                                             |            |                        |
|---------------------------------------------|------------|------------------------|
| Revenues from Services                      |            |                        |
| Lawn service—cash                           | \$15,000   |                        |
| —credit                                     | <u>700</u> |                        |
| Total revenues                              |            | \$15,700               |
| Expenses                                    |            |                        |
| Gas, oil, and lubrication (\$1,050 + \$180) | 1,230      |                        |
| Pickup repairs                              | 250        |                        |
| Mower repair                                | 110        |                        |
| Miscellaneous supplies used                 | 80         |                        |
| Helpers (wages)                             | 5,400      |                        |
| Payroll taxes                               | 190        |                        |
| Preparation of payroll tax forms            | 25         |                        |
| Insurance                                   | 125        |                        |
| Telephone                                   | 110        |                        |
| Interest expense on note paid               | 78         |                        |
| Equipment use cost (depreciation)           | <u>600</u> |                        |
| Total expenses                              |            | <u>8,198</u>           |
| Net Income                                  |            | <u><u>\$ 7,502</u></u> |

Req. 2

Because the above report reflects only revenues, expenses, and net income, it is reasonable to suppose that James would need the following:

- (1) A balance sheet—that is, a statement that reports for the business, at the end of August, each asset (name and amount, such as Cash, \$XX), each liability (such as Wages Payable, \$XX), and stockholders' equity.
- (2) A statement of stockholders' equity that shows how income and dividends (if any) affect retained earnings on the balance sheet.

**P1-3.**

| <b>Req. 1</b>            |                  |             | <b>Req. 2—Explanation</b>                                                                                                                                                       |
|--------------------------|------------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Transaction</u>       | <u>Income</u>    | <u>Cash</u> |                                                                                                                                                                                 |
| (a)                      | +\$66,000        | +\$55,000   | All services performed increase income; cash received during the period:<br>$\$66,000 - \$11,000 = \$55,000$ .                                                                  |
| (b)                      | –0–              | +56,000     | Cash borrowed is not income.                                                                                                                                                    |
| (c)                      | –0–              | –12,500     | Purchase of the truck does not represent an expense until the truck is used (it is an asset); cash outflow was \$12,500.                                                        |
| (d)                      | –25,000          | –12,500     | All of the wages incurred reduce income, \$25,000; cash paid during the quarter:<br>$\$25,000 \times 1/2 = \$12,500$ . The \$12,500 owed will be paid on the next payroll date. |
| (e)                      | –2,900           | –3,800      | Not all of the supplies were used; expense is the amount used: $\$3,800 - \$900 = \$2,900$ . Cash paid during the quarter was \$3,800.                                          |
| (f)                      | –38,000          | –31,500     | All expenses incurred reduce income; cash expended: $\$38,000 - \$6,500 = \$31,500$ .                                                                                           |
| (g)                      |                  |             |                                                                                                                                                                                 |
| Based only on the above: |                  |             |                                                                                                                                                                                 |
| Income (loss)            | <u>\$ 100</u>    |             |                                                                                                                                                                                 |
| Cash inflow (outflow)    | <u>\$ 50,700</u> |             |                                                                                                                                                                                 |

## ALTERNATE PROBLEMS

### AP1-1.

Req. 1

INFLUENCE CORPORATION  
Income Statement  
For the Year Ended December 31, Current Year

|                                     |                  |
|-------------------------------------|------------------|
| Total sales revenue (given)         | \$100,000        |
| Total expenses (given)              | <u>68,500</u>    |
| Pretax income                       | 31,500           |
| Income tax expense (\$31,500 x 30%) | <u>9,450</u>     |
| Net income                          | <u>\$ 22,050</u> |

Req. 2

INFLUENCE CORPORATION  
Statement of Stockholders' Equity  
For the Year Ended December 31, Current Year

|                                    | Common Stock     | Retained Earnings |
|------------------------------------|------------------|-------------------|
| Balance, January 1, Current year   | \$ 0             | \$ 0              |
| Common stock issuance (given)      | 62,000           |                   |
| +Net income (from req. 1)          |                  | 22,050            |
| –Dividends (given)                 | <u>\$ 62,000</u> | <u>0</u>          |
| Balance, December 31, Current year | <u>\$ 62,000</u> | <u>\$ 22,050</u>  |

Req. 3

INFLUENCE CORPORATION  
Balance Sheet  
At December 31, Current Year

|                                    |                  |
|------------------------------------|------------------|
| Assets                             |                  |
| Cash (given)                       | \$ 13,150        |
| Receivables from customers (given) | 10,900           |
| Inventory of merchandise (given)   | 27,000           |
| Equipment (given)                  | <u>66,000</u>    |
| Total assets                       | <u>\$117,050</u> |
| Liabilities                        |                  |
| Accounts payable (given)           | \$31,500         |
| Salary payable (given)             | <u>1,500</u>     |
| Total liabilities                  | \$ 33,000        |
| Stockholders' Equity               |                  |
| Common stock (given)               | 62,000           |
| Retained earnings (from req. 2)    | <u>22,050</u>    |
| Total stockholders' equity         | <u>84,050</u>    |



Total liabilities and stockholders' equity

\$117,050



**AP1-3.**

| <b>Req. 1</b>                         |               |             | <b>Req. 2—Explanation</b>                                                                                                                                                       |
|---------------------------------------|---------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Transaction</u>                    | <u>Income</u> | <u>Cash</u> |                                                                                                                                                                                 |
| (a)                                   | +\$85,000     | +\$70,000   | All services performed increase income; cash received during the period was: $\$85,000 - \$15,000 = \$70,000$ .                                                                 |
| (b)                                   | –0–           | +25,000     | Cash borrowed is not income.                                                                                                                                                    |
| (c)                                   | –0–           | –8,000      | Purchase of the truck does not represent an expense until the truck is used (it is an asset); cash outflow was \$8,000.                                                         |
| (d)                                   | –36,000       | –30,000     | All of the wages incurred reduce income, \$36,000; cash paid during the quarter was: $\$36,000 \times 5/6 = \$30,000$ . The \$6,000 owed will be paid on the next payroll date. |
| (e)                                   | –3,000        | –4,000      | Not all of the supplies were used; expense is the amount used: $\$4,000 - \$1,000 = \$3,000$ . Cash paid during the quarter was \$4,000.                                        |
| (f)                                   | –31,000       | –15,500     | All expenses incurred reduce income; cash expended was: $\$31,000 - \$15,500 = \$15,500$ .                                                                                      |
| (g)                                   |               |             |                                                                                                                                                                                 |
| Based only on the above:              |               |             |                                                                                                                                                                                 |
| Income (loss) <u>\$15,000</u>         |               |             |                                                                                                                                                                                 |
| Cash inflow (outflow) <u>\$37,500</u> |               |             |                                                                                                                                                                                 |

## CONTINUING PROBLEM

### CON1-1.

Req. 1

Penny's Pool Service & Supply, Inc.  
Income Statement  
For the Year Ended December 31, Current Year

|                               |                        |
|-------------------------------|------------------------|
| Revenues                      |                        |
| Sales revenue                 | \$ 60,000              |
| Expenses                      |                        |
| Cost of supplies used         | 8,200                  |
| Wage expense                  | 24,000                 |
| Other administrative expenses | <u>4,500</u>           |
| Total expenses                | <u>36,700</u>          |
| Pretax income                 | 23,300                 |
| Income tax expense            | <u>4,000</u>           |
| Net income                    | <u><u>\$19,300</u></u> |

Req. 2

Penny's Pool Service & Supply, Inc.  
Statement of Stockholders' Equity  
For the Year Ended December 31, Current Year

|                                   | Common<br>Stock         | Retained<br>Earnings   |
|-----------------------------------|-------------------------|------------------------|
| Balance January 1, Current Year   | \$ 0                    | \$ 0                   |
| Issue common stock                | 20,000                  |                        |
| Net income for Current Year       |                         | 19,300                 |
| Dividends for Current Year        |                         | <u>(10,000)</u>        |
| Balance December 31, Current Year | <u><u>\$ 20,000</u></u> | <u><u>\$ 9,300</u></u> |

**CON1-1. (continued)**

Req. 3

Penny's Pool Service & Supply, Inc.  
Balance Sheet  
At December 31, Current Year

|                                            |                  |
|--------------------------------------------|------------------|
| Assets:                                    |                  |
| Cash                                       | \$ 2,900         |
| Accounts receivable                        | 2,300            |
| Inventories                                | 4,600            |
| Equipment                                  | 28,000           |
| Total assets                               | <u>\$ 37,800</u> |
| Liabilities and Stockholders' Equity:      |                  |
| Liabilities                                |                  |
| Accounts payable                           | \$ 3,500         |
| Note payable to bank                       | 5,000            |
| Total liabilities                          | <u>8,500</u>     |
| Stockholders' equity                       |                  |
| Common stock (1,000 shares)                | 20,000           |
| Retained earnings                          | 9,300            |
| Total stockholders' equity                 | <u>29,300</u>    |
| Total liabilities and stockholders' equity | <u>\$ 37,800</u> |

## **CASES AND PROJECTS**

### **CP1-1.**

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

### **CP1-2.**

**(dollars in millions)**

1. Consolidated net income was \$16,270.
2. Revenue was \$648,125.
3. Inventories is \$54,892.
4. Cash and cash equivalents increased by \$1,242.
5. The auditor is Ernst & Young LLP.

### **CP1-3.**

1. b. Walmart.
2. b. Walmart
3. d. Inventory or Inventories

## FINANCIAL REPORTING AND ANALYSIS CASES

### **CP1–4.**

#### Req. 1

The personal residences of the organizers are not resources of the business entity. Therefore, they should be excluded.

#### Req. 2

What do the amounts for service trucks (\$57,000) and service equipment (\$30,000) represent? It is not indicated whether the \$87,000 is their cost when acquired or the current market value on December 31 of the current year.

#### Req. 3

The lists of company resources (i.e., assets) and company obligations suggests the following areas of concern:

#### Company resources:

- (1) Cash, inventories, and bills due from customers (i.e., accounts receivable)—these items tend to fluctuate; they may be significantly more or less at the date of the loan and during the term of the loan.
- (2) Service trucks and equipment—as noted above, it is not indicated whether the \$87,000 is cost when acquired or current market value on December 31 of the current year.
- (3) Personal residences—as noted above, these items are not resources of the business entity and should be excluded.

#### Company obligations:

- (4) Unpaid wages of \$19,000, which are now due, pose a serious problem because only \$12,000 of cash is currently available.
- (5) Unpaid taxes and accounts payable to suppliers—it is not clear when these payments of \$8,000 and \$10,000, respectively, are due (cash needed to pay them is a problem).
- (6) The \$45,000 owed on the service trucks probably is long term; however, short-term installments may be required—these details are very important to the bank.
- (7) Loan from organizer—the expected payment date and interest rate are important issues for which details are not provided. This is a major cash demand.

In general, the bank should request more details about the specific resources and debts. The personal residences are not a part of the resources of the business entity.

The bank should request that the owners provide audited information about the entity's assets and debts.

**CP1–4. (continued)**

Req. 4

The amount of stockholders' equity (i.e., assets minus liabilities) for Northwest Company, assuming the amounts provided by the owners are acceptable, would be:

|                                |                  |
|--------------------------------|------------------|
| Assets (\$311,000 – \$190,000) | \$121,000        |
| Liabilities                    | <u>92,000</u>    |
| Stockholders' equity           | <u>\$ 29,000</u> |

**CP1–5.**

Req. 1–Deficiencies:

- (1) Heading: titles of the reports are missing and dates are not in proper form.
- (2) Income statement should show revenues and expenses separately and provide the amount of net income.
- (3) Income from sales of merchandise should be "Sales revenue" or "Merchandise sales revenue."
- (4) Balance sheet should separately report assets, liabilities, and stockholders' equity. Resources and Debts are not appropriate captions for the balance sheet.
- (5) Retained earnings, \$32,250, and Common stock, \$65,000, should be reported under stockholders' equity.
- (6) Due from customers, \$13,000, should be reported under assets.
- (7) Supplies on hand, \$15,000, should be reported under assets.
- (8) Accumulated depreciation, \$12,000, should be subtracted from service vehicles.



**CP1–5. (continued)**

Req. 2–Financial Statements:

PRECISION CORPORATION  
Income Statement  
For the Year Ended December 31, 2023

|                                       |               |                  |
|---------------------------------------|---------------|------------------|
| Revenues:                             |               |                  |
| Sales                                 | \$180,000     |                  |
| Services                              | <u>52,000</u> |                  |
| Total revenues                        |               | \$232,000        |
| Expenses:                             |               |                  |
| Cost of goods sold                    | 90,000        |                  |
| Selling expenses                      | 25,000        |                  |
| Depreciation expense                  | 12,000        |                  |
| Salaries and wages                    | <u>62,000</u> |                  |
| Total expenses (excluding income tax) |               | <u>189,000</u>   |
| Pretax income                         |               | 43,000           |
| Income tax expense                    |               | <u>10,750</u>    |
| Net income                            |               | <u>\$ 32,250</u> |

PRECISION CORPORATION  
Balance Sheet  
At December 31, 2023

|                                                    |                 |                  |
|----------------------------------------------------|-----------------|------------------|
| <b>Assets</b>                                      |                 |                  |
| Cash                                               |                 | \$ 32,000        |
| Accounts receivable (from customers)               |                 | 13,000           |
| Merchandise inventory (for resale)                 |                 | 42,000           |
| Supplies inventory (for use in rendering services) |                 | 15,000           |
| Service vehicles                                   | \$50,000        |                  |
| Less accumulated depreciation                      | <u>(12,000)</u> | <u>38,000</u>    |
| Total assets                                       |                 | <u>\$140,000</u> |
| <b>Liabilities</b>                                 |                 |                  |
| Accounts payable (to suppliers)                    |                 | \$ 17,750        |
| Note payable (to bank)                             |                 | <u>25,000</u>    |
| Total liabilities                                  |                 | 42,750           |
| <b>Stockholders' equity</b>                        |                 |                  |
| Common stock, 6,500 shares                         | \$65,000        |                  |
| Retained earnings                                  | <u>32,250</u>   |                  |
| Total stockholders' equity                         |                 | <u>97,250</u>    |
| Total liabilities and stockholders' equity         |                 | <u>\$140,000</u> |

## CRITICAL THINKING CASES

### **CP1–6.**

Req. 1 You should forcefully assert the need for an independent audit of the financial statements each year because this is the best way to assure credibility—conformance with GAAP, completeness and absence of bias.

You should firmly reject “Uncle Ray” as the auditor because there is no evidence about his competence as an accountant or auditor. Also, he is related to the partner who prepares the financial statements; there is a conflict of interest.

Req. 2 You should strongly recommend the selection of an independent CPA in public practice because the financial statements should be audited by a competent and independent professional who must follow prescribed accounting and auditing standards on a strictly independent basis. An audit by “Uncle Ray” would not meet any of these requisites, particularly the important one in this case— independence (and absence of bias).

## CP1-7.

The textbook does not explicitly cover the elements of independence. The case is designed to permit the students to develop their own values. We have found that it is useful to emphasize the difference between independence in fact and in appearance during these discussions.

1. Most students feel that there is no problem with independence if the stock held is immaterial in amount. When asked about a possible headline that might read "Auditor who was shareholder is accused of fraud," most students see a problem with the appearance. In fact, the AICPA does not apply a materiality threshold where there is a direct financial interest. Any holding of stock is a problem.
2. This is an example of an indirect holding of stock. A materiality threshold is applied in these situations. There could be a question of independence if the auditor held a material interest in the mutual fund (relative to her net worth) and the mutual fund held a material interest in the company that she audited.
3. The AICPA Code of Professional Conduct applies only to audit professionals who are members (though most state laws incorporate similar rules). Bob's employers may want to assign him to a different company but there is no conflict with the Code.
4. Clearly there is an ethics violation in this case because she would audit statements that covered a period of time where she was responsible for the accounting operations of the company. This is a problem both in appearance and in fact.
5. The Code indicates that a mortgage loan made to the partner in charge would be an ethics violation unless all of the following four conditions were met: (1) that the loan was made under normal lending procedures, terms, and requirements, (2) it was obtained before the bank became an audit client, (3) the loan is kept current at all times, and (4) the fair value of the collateral equals or exceeds the outstanding balance. This issue is an excellent example of how ethics rules can change over time. The savings and loan debacle and the banking crisis caused the profession to reconsider the issue of loans to auditors.

*YOU AS ANALYST: ONLINE COMPANY RESEARCH (an individual or team project)*

**CP1–8.**

The solutions to this case will depend on the company(ies) and/or accounting periods selected for analysis.

***BUSINESS ANALYTICS AND DATA VISUALIZATION WITH EXCEL AND TABLEAU***

The solutions to these exercises are auto graded on Connect, as assigned by the instructor.

# CHAPTER 1

## FINANCIAL STATEMENTS AND BUSINESS DECISIONS

### Learning Objectives and Related Assignment Materials

| <i>Learning Objectives</i>                                                                                                                                                                                                           | <i>Mini-Exercises</i> | <i>Exercises</i>                                  | <i>Problems</i> | <i>Alternate Problems</i> | <i>Cont. Prob.</i> | <i>Cases and Projects</i> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------------------------------------|-----------------|---------------------------|--------------------|---------------------------|
| 1-1 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).                                                 | 1, 2                  | 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 | 1, 2, 3         | 1, 2, 3                   | 1                  | 1, 2, 3, 4, 5, 8          |
| 1-2 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and managers', directors', and auditors' responsibilities for ensuring the accuracy of the financial statements. | 3                     | 1                                                 |                 |                           |                    | 1, 2, 6, 7, 8             |
| Chapter Supplement A: Types of Business Entities                                                                                                                                                                                     |                       |                                                   |                 |                           |                    |                           |
| Chapter Supplement B: Employment in the Accounting Profession Today                                                                                                                                                                  |                       |                                                   |                 |                           |                    |                           |

## Synopsis of Chapter Revisions

- *New* simplified mini-exercises providing early practice with the structure and content of the income statement, statement of stockholders' equity, and balance sheet.
- *New* Guided Help video on the structure of the income statement, statement of stockholders' equity, and balance sheet.

## PowerPoint Slides

| <i>Learning Objectives</i>                                                                                                                                                           | <i>PowerPoint® Slides</i> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| 1-1 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers). | 1-8 through 1-29          |
| 1-2 Identify the role of generally accepted accounting principles (GAAP) in determining the content of financial statements.                                                         | 1-30 through 1-39         |
| Chapter Supplement A: Types of Business Entities                                                                                                                                     | 1-40                      |
| Chapter Supplement B: Employment in the Accounting Profession Today                                                                                                                  | 1-41                      |

## Chapter Take-Aways

### 1-1 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

The **balance sheet** is a statement of financial position that reports dollar amounts for the assets, liabilities, and stockholders' equity at a specific point in time.

The **income statement** is a statement of operations that reports revenues, expenses, and net income for a stated period of time.

The **statement of stockholders' equity** explains changes in stockholders' equity accounts (common stock and retained earnings) that occurred during a specific period of time.

The **statement of cash flows** reports inflows and outflows of cash for a stated period of time.

The statements are used by investors and creditors to evaluate different aspects of the firm's financial position and performance.

### 1-2 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and managers', directors', and auditors' responsibilities for ensuring the accuracy of the financial statements.

GAAP refers to the measurement rules used to develop the information in financial statements. Knowledge of GAAP is necessary for accurate interpretation of the numbers in financial statements.

Management has primary responsibility for the accuracy of a company's financial information. Auditors are responsible for expressing an opinion on the fairness of the financial statement presentations based on their examination of the reports and records of the company.

Users will have confidence in the accuracy of financial statement numbers only if the people associated with their preparation and audit have reputations for ethical behavior and competence. Management and auditors can also be held legally liable for fraudulent financial statements.

## Finding Financial Information

### Balance Sheet

Assets = Liabilities + Stockholders' Equity

### Income Statement

Revenues

– Expense

Net Income

### Statement of Stockholders' Equity

Beginning balance

+ Increases

– Decreases

Ending balance

### Statement of Cash Flows

+/- Cash Flow from Operating Activities

+/- Cash Flow from Investing Activities

+/- Cash Flow from Financing Activities

Net Change in Cash



## **Chapter Outline**

## **Teaching Notes**

*Provide a learning strategy:*

*Overview of the textbook:*

☒ *Marginal information*

☒ *Pause for Feedback (Self-Study Quizzes)*

☒ *Demonstration Case*

☒ *Chapter Take-Aways*

☒ *Guided Help Step-by-Step Video Instruction*

☒ *Finding Financial Information*

☒ *Key Ratio(s)*

☒ *Key Terms*

*See also the instructor resources in the Connect library*

***LO 1-1 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).***

- I. Understanding the Business
  - A. Accounting System—collects and processes financial information about an organization and reports that information to decision makers:
    1. Business activities
      - a. Financing Activities—borrowing or paying back money to lenders and receiving additional funds from stockholders or paying them dividends.
      - b. Investing Activities—buying or selling items such as plant and equipment used in the production.
      - c. Operating Activities—the day-to-day process of purchasing from suppliers, manufacturing, delivering to customers, collecting cash from customers, and paying suppliers.
    2. Managerial accounting—accounting for internal decision makers.
    3. Financial accounting—accounting for external decision makers (focus of this text).
  - B. Why Study Financial Accounting?

*Illustrated in Exhibit 1.1*

1. Regardless of the functional area of management in which business professionals are employed, they will use financial statement data.
- C. Goals for Chapter 1—Areas of Focus:
  1. Content (i.e., categories of items or elements) reported on each of the four statements.
  2. Structure (the equations that organize and relate the elements in each statement).
  3. Use (how the information is used by stockholders and creditors to make investment and lending decisions).
- II. The Four Basic Financial Statements: An Overview
  - A. Balance Sheet—reports the financial position (assets, liabilities, and stockholders' equity) of an accounting entity at a point in time.
    1. Structure
      - a. Heading includes: name of the entity, title of the statement, specific date of the statement, and unit of measure.
      - b. Accounting entity—organization for which financial data are to be collected; must be precisely defined.
      - c. Basic accounting equation:  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ .
    2. Elements
      - a. Assets—the economic resources owned by the company; initially measured at total cost incurred to acquire it.
      - b. Liabilities—amount of financing provided by creditors; the company's debts or obligations.
      - c. Stockholders' equity—the amount of financing provided by the owners or the business and reinvested earnings.
        - i. Common stock—the investment of cash and other assets in the business by the owners.
        - ii. Retained earnings—the amount of earnings (profits) reinvested in the business (and thus not distributed to stockholders in the form of dividends).
  - B. Income Statement (statement of income, statement of earnings, or statement of operations)—reports the revenues less the expenses of the accounting period.
    1. Structure
      - a. Heading includes: name of the entity, title of the statement, specific period of time covered by the statement, and unit of measure.
      - b. Accounting period—time period covered by the financial statements.
      - c. Income statement equation:  $\text{Revenues} - \text{Expenses} = \text{Net Income}$ .
    2. Elements

*Use Supplemental  
Enrichment Activity #1*

*Illustrated in Exhibit 1.2*

*Use Supplemental  
Enrichment Activity #2*

*See Financial Analysis  
feature "Interpreting Assets,  
Liabilities, and Stockholders'  
Equity on the Balance Sheet"*

*Refer students to Pause for  
Feedback – Self-Study Quiz*

*Illustrated in Exhibit 1.3*

- a. Revenues—earned from sale of goods or services to customers, whether or not the customer has paid for the goods or services.
  - b. Expenses—dollar amount of resources the entity used to earn revenues during the period.
  - c. Net income (or net earnings or the “bottom line”)—excess of total revenues over total expenses.
    - i. Net loss reported if total expenses exceed total revenues.
    - ii. Net income does not normally equal the net cash generated by operations.
- C. Statement of Stockholders’ Equity—reports the changes in each of the company’s stockholders’ equity accounts during that period.
- 1. Structure
    - a. Heading includes: name of the entity, title of the statement, specific period of time covered by the statement, and unit of measure.
    - b. Same time period as income statement.
    - c. Statement of stockholders’ equity equation: Beginning balance + Increases – Decreases = Ending balance.
  - 2. Elements
    - a. Starts with beginning balances in the stockholders’ equity accounts, lists the increases and decreases, and reports the resulting ending balances.
    - b. Retained earnings portion:
      - i. Begins with beginning-of-the year retained earnings.
      - ii. Current year net income reported on the income statement is added.
      - iii. Current year dividends are subtracted.
      - iv. Ending retained earnings is same as that reported on balance sheet.
- D. Statement of Cash Flows—reports inflows and outflows of cash during the accounting period in the categories of operations, investing, and financing.
- 1. Structure
    - a. Heading includes: name of the entity, title of the statement, specific period of time covered by the statement, and unit of measure.
    - b. Same time period as income statement.
    - c. Prepared because the income statement does not provide information concerning cash flows.
    - d. Statement of cash flows equation:  $\text{+/- Cash Flows from Operating Activities} \pm \text{Cash Flows from Investing Activities} \pm \text{Cash Flows from Financing Activities} = \text{Change in Cash} + \text{Beginning Cash Balance} = \text{Ending Cash Balance}.$
  - 2. Elements

*See Financial Analysis feature “Analyzing the Income Statement: Beyond the Bottom Line”*

*Refer students to Pause for Feedback – Self-Study Quiz*

*Illustrated in Exhibit 1.4*

*See Financial Analysis feature “Interpreting Retained Earnings”*

*Refer students to Pause for Feedback – Self-Study Quiz*

*Refer students to Guided Help 1-1*

*Illustrated in Exhibit 1.5*

*See Financial Analysis feature “Interpreting the Cash Flow Statement”*

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>a. Cash Flows from Operating Activities—cash flows that are directly related to earning income.</li> <li>b. Cash Flows from Investing Activities—cash flows related to the acquisition or sale of the company’s plant and equipment and investments.</li> <li>c. Cash Flows from Financing Activities—cash flows directly related to the financing of the enterprise itself; they involve the receipt or payment of money to investors and creditors (except for suppliers).</li> </ul> <p>E. Relationship Among the Statements</p> <ul style="list-style-type: none"> <li>1. Net income from the income statement results in an increase in ending retained earnings on the statement of stockholders’ equity.</li> <li>2. Ending retained earnings from the statement of stockholders’ equity is one of the two components of stockholders’ equity on the balance sheet.</li> <li>3. The change in cash on the cash flow statement added to the beginning-of-the-year balance in cash equals the end-of-year balance in cash on the balance sheet.</li> </ul> <p>F. Notes and Financial Statement Formats</p> <ul style="list-style-type: none"> <li>1. Notes provide supplemental information about the financial condition of a company without which the financial statements cannot be fully understood.</li> <li>2. Additional formatting conventions for all four basic financial statements: <ul style="list-style-type: none"> <li>i. Assets are listed on the balance sheet by ease of conversion to cash; liabilities are listed by their maturity (due date).</li> <li>ii. A monetary unit sign (in the U.S., the \$) is included beside the first dollar amount in a group of items.</li> <li>iii. It is common to place a single underline below the last item in a group before the total or subtotal</li> <li>iv. A dollar sign is also placed beside group totals and a double underline below.</li> </ul> </li> </ul> <p>G. Summary of the Four Basic Financial Statements</p> | <p><i>Use Supplemental Enrichment Activity #3</i></p> <p><i>Refer students to Pause for Feedback – Self-Study Quiz</i></p> <p><i>Illustrated in Exhibit 1.6</i></p> <p><i>Refer students to Pause for Feedback – Self-Study Quiz</i></p> |
| <p><b>LO 1-2 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and managers’, directors’, and auditors’ responsibilities for ensuring the accuracy of the financial statements.</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                          |
| <p>III. Responsibilities for the Accounting Communication Process</p> <p>A. Generally Accepted Accounting Principles (GAAP)—measurement and disclosure rules used to develop the information in financial statements.</p> <ul style="list-style-type: none"> <li>1. How Are Generally Accepted Accounting Principles Determined? <ul style="list-style-type: none"> <li>a. Securities and Exchange Commission (SEC)—the U.S. government agency that determines the financial statements that public companies must provide to stockholders and the measurement rules that they must use in producing those statements.</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <p><i>Summarized in Exhibit 1.7</i></p> <p><i>Use Supplemental Enrichment Activity #4</i></p> <p><i>See International Perspective feature “The International Accounting Standards Board and Global Accounting Standards”</i></p>         |

- b. Financial Accounting Standards Board (FASB)—the private sector body given the primary responsibility to work out the detailed rules that become generally accepted accounting principles.
    - c. The official pronouncements of the FASB are called the FASB Accounting Standards Codification.
  - 2. What Concepts Guide the Setting of Accounting Standards?
    - a. The primary objective of financial reporting is to provide useful information to investors, lenders, and creditors.
    - b. Fundamental characteristics of useful information include relevance and faithful representation with enhancing characteristics of timeliness, verifiability, comparability, and understandability.
  - 3. Why is GAAP Important to Managers and External Users?
    - a. Companies incur the cost of preparing the statements.
    - b. Companies bear the major economic consequences of their publication including:
      - i. Effects on the selling price of a company's stock.
      - ii. Effects on the amount of bonuses received by management and employees.
      - iii. Loss of competitive information to other companies.
    - c. Changes in GAAP are actively debated, political lobbying takes place, and final rules are a compromise among the wishes of interested parties.
- B. Ensuring the Accuracy of Financial Statements
  - 1. What if the Numbers are Wrong?
  - 2. Ethical Conduct
    - a. Ethics are standards of conduct for judging right from wrong, honest from dishonest, and fair from unfair.
    - b. Three step process to be followed when you are faced with an ethical dilemma.
      - i. Identify the benefits of a decision and who will be harmed.
      - ii. Identify alternative courses of action.
      - iii. Choose the one you would like your family and friends to see reported on your local news; this is usually the ethical choice.
  - 3. Responsibility and the Need for Internal Controls
    - a. Primary responsibility for the information in the financial statements lies with management (represented by the highest officer of the company and the highest financial officer).
    - b. Three important steps to assure investors that the company's records are accurate:
      - i. Maintain a system of controls over both the records and the assets of the company.

- ii. Hire outside independent auditors to verify the fairness of the financial statements.
- iii. Form a committee of the board of directors to oversee the integrity of these other safeguards.

*Refer students to Best Buy Co. Inc. Demonstration Case*

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| <p><b>IV. Chapter Supplement A: Types of Business Entities</b></p> <p>A. Sole proprietorship—an unincorporated business owned by one person; usually small in size and common in service, retailing, and farming industries.</p> <ul style="list-style-type: none"> <li>1. Legally, the business and the owner are not separate entities.</li> <li>2. Business is a separate entity for accounting purposes.</li> </ul> <p>B. Partnership—an unincorporated business owned by two or more persons known as partners.</p> <ul style="list-style-type: none"> <li>1. Agreements between the owners are specified in a partnership contract, which deals with division of income and distribution upon termination of operations.</li> <li>2. Partnership is not legally separate from its owners.</li> <li>3. Each partner in a general partnership is responsible for the debts of the business (unlimited liability).</li> <li>4. Partnership is a separate entity for accounting purposes.</li> </ul> <p>C. Corporation—business incorporated under the laws of a particular state.</p> <ul style="list-style-type: none"> <li>1. Ownership is represented by shares of capital stock.</li> <li>2. Stockholders enjoy limited liability and are liable for the corporation's debts only to the extent of their investments.</li> <li>3. Stockholders elect a board of directors, which in turn employs managers and exercises general supervision of the corporation.</li> <li>4. Corporation is a separate entity for accounting purposes.</li> <li>5. Dominant form of business organization in the U.S. <ul style="list-style-type: none"> <li>a. Advantages include: <ul style="list-style-type: none"> <li>i. Limited liability for the stockholders.</li> <li>ii. Continuity of life.</li> <li>iii. Ease in transferring ownership (stock).</li> <li>iv. Opportunities to raise large amounts of money by selling shares to a large number of people.</li> </ul> </li> <li>b. Primary disadvantage is income may be subject to double taxation (it is taxed when it is earned and again when it is distributed to stockholders as dividends).</li> </ul> </li> </ul> |                                                       |
| <p><b>V. Chapter Supplement B: Employment in the Accounting Profession Today</b></p> <p>A. Professional designations:</p> <ul style="list-style-type: none"> <li>1. Certified Public Accountant (CPA). <ul style="list-style-type: none"> <li>a. CPA designation is granted only on completion of requirements specified by the state that issues the license.</li> <li>b. Requirements generally include college degree with a specified number of accounting courses, good character, one to five years of professional experience, and successful completion of the CPA exam.</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p><i>Use Supplemental Enrichment Activity #5</i></p> |

2. Certified Management Accountant (CMA).
3. Certified Internal Auditor (CIA).

*Use Supplemental  
Enrichment Activity #6*

B. Practice of Public Accounting

1. Audit or assurance services—independent professional services that improve the quality of information, or its content, for decision makers.
2. Management consulting services—usually accounting based
  - a. Encompass such activities as the design and installation of accounting, data processing, and profit-planning and control systems; financial advice; forecasting; inventory controls; cost-effectiveness studies; and operational analysis.
  - b. To maintain independence, CPAs are prohibited from performing certain consulting services for the public companies they audit.
3. Tax services.

C. Employment by Organizations

1. Depending on size and complexity, an organization may employ from a few to hundreds of accountants.
2. Accountants are typically engaged in a wide variety of activities; primary function is to provide data useful for internal managerial decision making and for controlling operations.

D. Employment in the Public and Not-for-Profit Sector

1. Perform functions similar to those performed by those in private organizations.
2. Government Accountability Office (GAO) and regulatory agencies also use the services of accountants.

## Supplemental Enrichment Activities

Note: These activities would be suitable for individual or group activities.

1. Handout 1-1

Use this handout for an in-class activity designed to review the individual financial statements and the relationships among the financial statements. The solution follows the handout master.

2. Handout 1-2

Use this handout for an in-class activity designed to review the classification of various account names on the balance sheet. The solution follows the handout master.

3. Handout 1-3

Use this handout for an in-class activity designed to review the classification of various transactions on the statement of cash flows. The solution follows the handout master.

4. Handout 1-4

Use this handout for an in-class activity designed to review the classification of various accounts, elements, or transactions on the financial statements. The solution follows the handout master.

5. Handouts 1-5 and 1-6

"Acronym" Game – The business and accounting arenas are inundated with acronyms. Use Handout 1-5, which contains the list of names/terms, and ask them to derive the acronyms. During the next class, use handout 1-6, which lists the acronyms and ask them to give the name/term represented by each. This may help them learn these important terms and acronyms without just sitting down to memorize them. The solution follows the handout masters.



## **HANDOUT 1 – 1**

### **TEAM PROJECT – OVERVIEW OF FINANCIAL STATEMENTS**

Complete the following table.

| <b><u>Financial Statement</u></b>        | <b><u>Purpose</u></b> | <b><u>Equation</u></b> |
|------------------------------------------|-----------------------|------------------------|
| <b>Income Statement</b>                  |                       |                        |
| <b>Statement of Stockholders' Equity</b> |                       |                        |
| <b>Balance Sheet</b>                     |                       |                        |
| <b>Statement of Cash Flows</b>           |                       |                        |

### **RELATIONSHIPS AMONG FINANCIAL STATEMENTS**

Then, answer the following questions:

1. How does the income statement tie into the statement of stockholders' equity?
2. How does the statement of stockholders' equity tie into the balance sheet?
3. How does the balance sheet tie into the statement of cash flows?

**HANDOUT 1 – 1 SOLUTION****TEAM PROJECT – OVERVIEW OF FINANCIAL STATEMENTS**

Complete the following table.

| <b><u>Financial Statement</u></b>        | <b><u>Purpose</u></b>                                                                                               | <b><u>Equation</u></b>                                                                                                                                                                    |
|------------------------------------------|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Income Statement</b>                  | Reports the financial performance of the business during the current accounting period.                             | Revenues<br>– Expenses<br>= Net Income                                                                                                                                                    |
| <b>Statement of Stockholders' Equity</b> | Explains changes in stockholders' equity accounts (common stock and retained earnings) for a stated period of time. | Beginning balance<br>+ Increases<br>– Decreases<br>= Ending balances                                                                                                                      |
| <b>Balance Sheet</b>                     | Reports the financial position of a business at a point in time.                                                    | Assets = Liabilities + Stockholders' Equity                                                                                                                                               |
| <b>Statement of Cash Flows</b>           | Reports the inflows (receipts) and outflows (payments) for a stated period of time.                                 | +/- Cash Flows from Operating Activities<br>+/- Cash Flows from Investing Activities<br>+/- Cash Flows from Financing Activities<br>= Change in Cash<br>+ Beginning Cash<br>= Ending Cash |

**RELATIONSHIPS AMONG FINANCIAL STATEMENTS**

Then, answer the following questions:

1. How does the income statement tie into the statement of stockholders' equity?

Net income, from the income statement, is a component in determining ending retained earnings on the statement of stockholders' equity.

2. How does the statement of stockholders' equity tie into the balance sheet?

The amount of ending retained earnings is then reported on the balance sheet.

3. How does the balance sheet tie into the statement of cash flows?

Cash on the balance sheet is equal to the ending cash reported on the statement of cash flows.

## **HANDOUT 1 – 2**

### **BASIC BALANCE SHEET ELEMENTS**

Match each account to its classification on the balance sheet:

| <b>Account</b>                  | <b>Asset</b> | <b>Liability</b> | <b>Stockholders' Equity</b> |
|---------------------------------|--------------|------------------|-----------------------------|
| a. Notes Payable                |              |                  |                             |
| b. Cash                         |              |                  |                             |
| c. Common Stock                 |              |                  |                             |
| d. Inventories                  |              |                  |                             |
| e. Accounts Receivable          |              |                  |                             |
| f. Accounts Payable             |              |                  |                             |
| g. Property, Plant, & Equipment |              |                  |                             |
| h. Notes Payable                |              |                  |                             |
| i. Retained Earnings            |              |                  |                             |

## **HANDOUT 1 – 2 SOLUTION**

### **BASIC BALANCE SHEET ELEMENTS**

Match each account to its classification on the balance sheet:

| <b>Account</b>                  | <b>Asset</b> | <b>Liability</b> | <b>Stockholders' Equity</b> |
|---------------------------------|--------------|------------------|-----------------------------|
| a. Notes Payable                |              | X                |                             |
| b. Cash                         | X            |                  |                             |
| c. Common Stock                 |              |                  | X                           |
| d. Inventories                  | X            |                  |                             |
| e. Accounts Receivable          | X            |                  |                             |
| f. Accounts Payable             |              | X                |                             |
| g. Property, Plant, & Equipment | X            |                  |                             |
| h. Notes Payable                |              | X                |                             |
| i. Retained Earnings            |              |                  | X                           |

**HANDOUT 1 – 3****STATEMENT OF CASH FLOWS**

Match each activity to its classification on the statement of cash flows:

| <b>Activity</b>                                                    | <b>Operating</b> | <b>Investing</b> | <b>Financing</b> |
|--------------------------------------------------------------------|------------------|------------------|------------------|
| a. Cash paid to suppliers and employees                            |                  |                  |                  |
| b. Cash paid to purchase equipment and other assets                |                  |                  |                  |
| c. Cash paid for dividends                                         |                  |                  |                  |
| d. Cash collected from customers                                   |                  |                  |                  |
| e. Cash received from selling equipment and other long-term assets |                  |                  |                  |
| f. Cash paid on notes payable and other financing                  |                  |                  |                  |

**HANDOUT 1 – 3 SOLUTION****STATEMENT OF CASH FLOWS**

Match each activity to its classification on the statement of cash flows:

| <b>Activity</b>                                                    | <b>Operating</b> | <b>Investing</b> | <b>Financing</b> |
|--------------------------------------------------------------------|------------------|------------------|------------------|
| a. Cash paid to suppliers and employees                            | X                |                  |                  |
| b. Cash paid to purchase equipment and other assets                |                  | X                |                  |
| c. Cash paid for dividends                                         |                  |                  | X                |
| d. Cash collected from customers                                   | X                |                  |                  |
| e. Cash received from selling equipment and other long-term assets |                  | X                |                  |
| f. Cash paid on notes payable and other financing                  |                  |                  | X                |

**HANDOUT 1 – 4****COMPONENTS OF FINANCIAL STATEMENTS**

Match each account, element, or transaction to the financial statement(s) on which it would be reported.

| <b>Account or Element</b>                      | <b>Income Statement</b> | <b>Statement of Stockholders' Equity</b> | <b>Balance Sheet</b> | <b>Statement of Cash Flows</b> |
|------------------------------------------------|-------------------------|------------------------------------------|----------------------|--------------------------------|
| a. The amount of cash paid for equipment       |                         |                                          |                      |                                |
| b. Cash                                        |                         |                                          |                      |                                |
| c. Notes Payable                               |                         |                                          |                      |                                |
| d. Common Stock                                |                         |                                          |                      |                                |
| e. Inventories                                 |                         |                                          |                      |                                |
| f. Cost of Goods Sold                          |                         |                                          |                      |                                |
| g. The amount of cash collected from customers |                         |                                          |                      |                                |
| h. Accounts Receivable                         |                         |                                          |                      |                                |
| i. Notes Payable                               |                         |                                          |                      |                                |
| j. Marketing Expense                           |                         |                                          |                      |                                |
| k. Property, Plant, & Equipment                |                         |                                          |                      |                                |
| l. Dividends paid to stockholders              |                         |                                          |                      |                                |
| m. Net Income                                  |                         |                                          |                      |                                |

**HANDOUT 1 – 4 SOLUTION****COMPONENTS OF FINANCIAL STATEMENTS**

Match each account, element, or transaction to the financial statement(s) on which it would be reported.

| <b>Account or Element</b>                      | <b>Income Statement</b> | <b>Statement of Stockholders' Equity</b> | <b>Balance Sheet</b> | <b>Statement of Cash Flows</b> |
|------------------------------------------------|-------------------------|------------------------------------------|----------------------|--------------------------------|
| a. The amount of cash paid for equipment       |                         |                                          |                      | X                              |
| b. Cash                                        |                         |                                          | X                    | X                              |
| c. Notes Payable                               |                         |                                          | X                    |                                |
| d. Common Stock                                |                         | X                                        | X                    |                                |
| e. Inventories                                 |                         |                                          | X                    |                                |
| f. Cost of Goods Sold                          | X                       |                                          |                      |                                |
| g. The amount of cash collected from customers |                         |                                          |                      | X (1)                          |
| h. Accounts Receivable                         |                         |                                          | X                    |                                |
| i. Notes Payable                               |                         |                                          | X                    |                                |
| j. Marketing Expense                           | X                       |                                          |                      |                                |
| k. Property, Plant, & Equipment                |                         |                                          | X                    |                                |
| l. Dividends paid to stockholders              |                         | X                                        |                      | X                              |
| m. Net Income                                  | X                       | X                                        |                      | X (2)                          |

(1) Reported on the statement of cash flows when the direct method is used.

(2) Reported on the statement of cash flows when the indirect method is used.



**HANDOUT 1 – 5****ACRONYMS**

| <b>Professional Organizations</b>                                 | <b>Acronyms</b> |
|-------------------------------------------------------------------|-----------------|
| American Accounting Association                                   |                 |
| American Institute of Certified Public Accountants                |                 |
| Financial Accounting Foundation                                   |                 |
| Financial Accounting Standards Board                              |                 |
| Governmental Accounting Standards Board                           |                 |
| Internal Accounting Standards Board                               |                 |
| Institute of Management Accountants                               |                 |
| National Association of State Boards of Accountancy               |                 |
| <b>Federal Government Agencies</b>                                |                 |
| Federal Communications Commission                                 |                 |
| Federal Deposit Insurance Corporation                             |                 |
| Federal Trade Commission                                          |                 |
| General Accounting Office                                         |                 |
| Internal Revenue Service                                          |                 |
| Public Company Accounting Oversight Board                         |                 |
| Small Business Administration                                     |                 |
| Securities & Exchange Commission                                  |                 |
| <b>Standards</b>                                                  |                 |
| Accounting Principles Board (1959-1973)                           |                 |
| Accounting Research Bulletins (1939-1959)                         |                 |
| Accounting Series Release (SEC)                                   |                 |
| Generally Accepted Accounting Principles                          |                 |
| Generally Accepted Auditing Standards                             |                 |
| International Financial Reporting Standards                       |                 |
| Statement on Auditing Standards (AICPA)                           |                 |
| Statement of Financial Accounting Concepts (FASB)                 |                 |
| Statement of Financial Accounting Standards (FASB)                |                 |
| <b>Selected Professional Certifications</b>                       |                 |
| Certified Public Accountant                                       |                 |
| Certified Fraud Examiner                                          |                 |
| Certified Internal Auditor                                        |                 |
| Certified Management Accountant                                   |                 |
| Certified Public Accountant                                       |                 |
| <b>Miscellaneous Terms in Accounting, Business, and Economics</b> |                 |
| Consumer Price Index                                              |                 |
| Continuing Professional Education                                 |                 |
| Earnings Per Share                                                |                 |
| Federal Insurance Contributions Act                               |                 |
| Federal Unemployment Tax Act                                      |                 |
| Gross National Product                                            |                 |

**HANDOUT 1 – 6****ACRONYMS**

| <b>Professional Organizations</b>                                 | <b>Acronyms</b> |
|-------------------------------------------------------------------|-----------------|
|                                                                   | AAA             |
|                                                                   | AICPA           |
|                                                                   | FAF             |
|                                                                   | FASB            |
|                                                                   | GASB            |
|                                                                   | IASB            |
|                                                                   | IMA             |
|                                                                   | NASBA           |
| <b>Federal Government Agencies</b>                                |                 |
|                                                                   | FCC             |
|                                                                   | FDIC            |
|                                                                   | FTC             |
|                                                                   | GAO             |
|                                                                   | IRS             |
|                                                                   | PCAOB           |
|                                                                   | SBA             |
|                                                                   | SEC             |
| <b>Standards</b>                                                  |                 |
|                                                                   | APB             |
|                                                                   | ARBs            |
|                                                                   | ASR             |
|                                                                   | GAAP            |
|                                                                   | GAAS            |
|                                                                   | IFRS            |
|                                                                   | SAS             |
|                                                                   | SFAC            |
|                                                                   | SFAS            |
| <b>Selected Professional Certifications</b>                       |                 |
|                                                                   | CPA             |
|                                                                   | CFE             |
|                                                                   | CIA             |
|                                                                   | CMA             |
|                                                                   | CPA             |
| <b>Miscellaneous Terms in Accounting, Business, and Economics</b> |                 |
|                                                                   | CPI             |
|                                                                   | CPE             |
|                                                                   | EPS             |
|                                                                   | FICA            |
|                                                                   | FUTA            |
|                                                                   | GNP             |

**HANDOUTS 1 – 5 and 1 – 6 SOLUTIONS****ACRONYMS**

| <b>Professional Organizations</b>                                 | <b>Acronyms</b> |
|-------------------------------------------------------------------|-----------------|
| American Accounting Association                                   | AAA             |
| American Institute of Certified Public Accountants                | AICPA           |
| Financial Accounting Foundation                                   | FAF             |
| Financial Accounting Standards Board                              | FASB            |
| Governmental Accounting Standards Board                           | GASB            |
| Internal Accounting Standards Board                               | IASB            |
| Institute of Management Accountants                               | IMA             |
| National Association of State Boards of Accountancy               | NASBA           |
| <b>Federal Government Agencies</b>                                |                 |
| Federal Communications Commission                                 | FCC             |
| Federal Deposit Insurance Corporation                             | FDIC            |
| Federal Trade Commission                                          | FTC             |
| General Accounting Office                                         | GAO             |
| Internal Revenue Service                                          | IRS             |
| Public Company Accounting Oversight Board                         | PCAOB           |
| Small Business Administration                                     | SBA             |
| Securities & Exchange Commission                                  | SEC             |
| <b>Standards</b>                                                  |                 |
| Accounting Principles Board (1959-1973)                           | APB             |
| Accounting Research Bulletins (1939-1959)                         | ARBs            |
| Accounting Series Release (SEC)                                   | ASR             |
| Generally Accepted Accounting Principles                          | GAAP            |
| Generally Accepted Auditing Standards                             | GAAS            |
| International Financial Reporting Standards                       | IFRS            |
| Statement on Auditing Standards (AICPA)                           | SAS             |
| Statement of Financial Accounting Concepts (FASB)                 | SFAC            |
| Statement of Financial Accounting Standards (FASB)                | SFAS            |
| <b>Selected Professional Certifications</b>                       |                 |
| Certified Public Accountant                                       | CPA             |
| Certified Fraud Examiner                                          | CFE             |
| Certified Internal Auditor                                        | CIA             |
| Certified Management Accountant                                   | CMA             |
| Certified Public Accountant                                       | CPA             |
| <b>Miscellaneous Terms in Accounting, Business, and Economics</b> |                 |
| Consumer Price Index                                              | CPI             |
| Continuing Professional Education                                 | CPE             |
| Earnings Per Share                                                | EPS             |
| Federal Insurance Contributions Act                               | FICA            |
| Federal Unemployment Tax Act                                      | FUTA            |
| Gross National Product                                            | GNP             |

