

Solutions Manual for Financial Accounting 14th Tietz

SOLUTIONS MANUAL SAMPLE PREVIEW

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RESOURCE TYPE

Solutions Manual

Chapter 1

Financial Statements

Ethics Check

(5-10 min.) EC 1-1

- a. Objectivity and independence
- b. Due care
- c. Integrity
- d. Integrity

Short Exercises

(10 min.) S 1-1

- a. ***Corporation, limited partners of a Limited-liability partnership (LLP) and Limited-liability company (LLC).*** If any of these businesses fails and cannot pay its liabilities, creditors cannot force the owners to pay the business's debts from the owners' personal assets. Creditors can go after the general partner of a limited liability partnership.
- b. ***Proprietorship.*** There is a single owner of the business, so the owner is answerable to no other owner.
- c. ***Partnership.*** If the partnership fails and cannot pay its liabilities, creditors can force the partners to pay the business's debts from their personal assets. A partnership affords more protection for creditors than a proprietorship because there are two or more owners to share this liability.

(5 min.) S 1-2

- 1. The ***entity assumption*** applies.
- 2. Application of the entity assumption will separate Osmond's personal assets from the assets of Simple Treats, Inc. This will help Osmond, investors, and lenders know how much assets, liabilities and equity the business has, and this knowledge will help all parties evaluate the business realistically.

(5-10 min.) S 1-3

- a. Stable-monetary-unit assumption
- b. Historical cost principle; \$300 is the accounting value of the laptop
- c. Historical cost principle; the sale price is the amount actually received from the sale
- d. Entity assumption

(10 min.) S 1-4

Computed amounts in boxes

	<u>Total Assets</u>	=	<u>Total Liabilities</u>	+	<u>Stockholders' Equity</u>
a.	\$660,000	=	\$300,000	+	\$360,000
b.	85,000	=	50,000	+	35,000
c.	350,000	=	75,000	+	275,000

(5 min.) S 1-5

1. Liabilities = Assets – Owners' Equity

2. Owners' Equity = Assets – Liabilities

This way of determining the amount of owners' equity applies to any company or your household.

(5-10 min.) S 1-6

- | | |
|--------------------------------------|-----------------------------------|
| a. Land <u>A</u> | g. Retained earnings <u>S</u> |
| b. Accrued expenses payable <u>L</u> | h. Prepaid expenses <u>A</u> |
| c. Supplies <u>A</u> | i. Accounts payable <u>L</u> |
| d. Equipment <u>A</u> | j. Accounts receivable <u>A</u> |
| e. Notes payable <u>L</u> | k. Merchandise inventory <u>A</u> |
| f. Long-term debt <u>L</u> | l. Common stock <u>S</u> |

(5-10 min.) S 1-7

1. **Assets** are the *economic resources* of a business that are expected to produce a benefit in the future.

Owners' (stockholders') equity represents the *insider claims* of a business, the owners' interest in its assets.

Assets and owners' equity *differ* in that assets are *resources* and owners' equity is a *claim to assets*.

Assets must be at least as large as owners' equity, so equity can be smaller than assets.

2. **Both liabilities and owners' (stockholders') equity** are *claims to assets*.

Liabilities are the *outsider* claims to the assets of a business; they are obligations to pay creditors.

Owners' equity represents the *insider* claims to the assets of the business; they are the owners' interest in its assets.

(5 min.) S 1-8

1. Revenues and expenses

2. Net income (or net loss)

(10 min.) S 1-9

- a. Salary expense I
- b. Dividends R, C
- c. Accounts payable B
- d. Net income I, R, C
- e. Common stock B
- f. Inventory B
- g. Interest revenue I
- h. Cash B, C
- i. Retained earnings R, B
- j. Long-term debt B
- k. Increase or decrease in cash C
- l. Net cash provided by operating activities C
- m. Sales revenue I
- n. Net cash used for financing activities C

(15-20 min.) S 1-10

- a. *Paying large dividends* will cause retained earnings to be low.
- b. Heavy *investing activity* and *paying off debts* can result in a cash shortage even if net income has been high.
- c. The single best source of cash for a business is operating activities. This source of cash is best because it results from the core operations of the business. Operating activities should be the main source of cash for a business.
- d. Borrowing, issuing stock, and selling land, buildings, and equipment can bring in cash even when the company has experienced losses. Reducing accounts receivable and inventory can also increase cash flow.

(5 min.) S 1-11

- | | |
|------|------|
| a. I | f. I |
| b. B | g. R |
| c. C | h. C |
| d. R | i. B |
| e. B | |

(5 min.) S 1-12

**Mackensie Services Corporation
Income Statement
Year Ended December 31, 2024**

	<i>(millions)</i>
Revenues	\$394
Expenses	<u>171</u>
Net income.....	<u><u>\$223</u></u>

(5 min.) S 1-13

**Journey Corporation
Statement of Retained Earnings
Year Ended December 31, 2024**

	<i>(millions)</i>
Retained earnings, December 31, 2023	\$270
Add: Net income (\$460 – \$380)	80
Less: Dividends declared	<u>(64)</u>
Retained earnings, December 31, 2024	<u><u>\$286</u></u>

(10-15 min.) S 1-14

**Jackson Corporation
Balance Sheet
December 31, 2024**

(in millions)

ASSETS

Current assets:

Cash \$ 52

Accounts receivable..... 23

Total current assets 75

Long-term assets 45

Total assets \$120

LIABILITIES

Current liabilities:

Accounts payable..... \$ 21

Total current liabilities 21

Long-term liabilities:

Long-term notes payable..... 31

Total liabilities 52

STOCKHOLDERS' EQUITY

Common stock..... 28

Retained earnings..... 40

Total stockholders' equity..... 68

Total liabilities and stockholders' equity \$120

**Sullivan Corporation
Balance Sheet
September 30, 2024**

	<i>(in millions)</i>
ASSETS	
Current assets:	
Cash	\$ 78
Accounts receivable.....	<u>27</u>
Total current assets	105
Property and equipment.....	27
Other long-term assets.....	<u>21</u>
Total assets	<u><u>\$153</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable.....	<u>\$ 34</u>
Total current liabilities	34
Long-term liabilities:	
Long-term notes payable.....	<u>17</u>
Total liabilities.....	<u>51</u>
STOCKHOLDERS' EQUITY	
Common stock.....	31
Retained earnings.....	<u>71*</u>
Total stockholders' equity.....	<u>102</u>
Total liabilities and stockholders' equity	<u><u>\$153</u></u>

*Computation of retained earnings: Total assets (\$153) – total liabilities (\$51) – common stock (\$31) = \$71

Or, total stockholders' equity (\$102) – common stock (\$31) = \$71

(10-15 min.) S 1-16

**Python Legal Services, Inc.
Statement of Cash Flows
Year Ended December 31, 2024**

Cash flows from operating activities:

Net income	\$115,000
Adjustments to reconcile net income to net cash provided by operating activities	<u>(9,000)</u>
Net cash provided by operating activities	106,000

Cash flows from investing activities:

Purchases of equipment	<u>\$(20,000)</u>
Net cash used for investing activities	(20,000)

Cash flows from financing activities:

Payment of dividends.....	<u>\$(15,000)</u>
Net cash used for financing activities.....	<u>(15,000)</u>
Net increase in cash.....	71,000
Cash balance, December 31, 2023	<u>16,000</u>
Cash balance, December 31, 2024	<u>\$ 87,000</u>

(10-15 min.) S 1-17

Solve in this order:

- a. \$82
- b. \$82
- c. \$149
- f. \$149
- g. \$182
- h. \$230
- e. \$230
- d. \$112

(5 min.) S 1-18

Ethics is a factor that should be included in every business and accounting decision, beyond the potential economic and legal consequences. Ideally, for each decision, honesty and truthfulness should prevail, considering the rights of others. The decision guidelines at the end of the chapter spell out the considerations we should take when making decisions. Simply, we might ask ourselves three questions: (1) Is the action legal? (2) Who will be affected by the decision? (3) How will the decision make me feel afterward?

(10-15 min.) S 1-19

Asset (m)

Economic resources that are

	expected to produce a benefit in the future
Balance sheet (l)	Also called the statement of financial Position
Bookkeeping (k)	Mechanical part of accounting
Corporation (f)	Owned by stockholders whose liability is limited to the amount they have invested in the business
Equity (r)	Insider claims of a business
Ethical duties (d)	Responsibilities of the members of society to each other
Expenses (h)	Costs of doing business
Financial accounting (b)	Provides information for decision makers outside of the organization
Historical cost principle (j)	States that assets should be recorded at their actual cost on the date of purchase
Income statement (o)	Answers the question “How well did the company perform during the period?”
Investors and creditors (n)	Entities that provide money to finance a company’s operations
Liability (g)	A debt payable to an outsider

(continued) S 1-19

Managerial accounting (c)	Provides information for managers of the organization
Net income (a)	Total revenues minus total expenses
Partnership (q)	A business organization form with two or more owners who are each personally liable for all of the business's debts
Proprietorship (i)	A business organization form with a single owner who is personally liable for all of the business's debts
Revenues (e)	Inflows of resources resulting from delivering goods or services to customers
Statement of cash flows (p)	Reports cash flows from operating, investing, and financing activities

(10-15 min.) S 1-20

- 1. Triple bottom line**
- 2. Global Reporting Initiative**

3. Integrated reporting
4. Sustainability
5. Corporate social responsibility
6. United Nations Global Compact
7. Ratio analysis
8. Environment, social, and
governance
9. Global Reporting Initiative
10. Third-party assurance

(10-15 min.) S 1-21

- | | | | |
|----|---|-----|---|
| 1. | I | 8. | A |
| 2. | E | 9. | G |
| 3. | L | 10. | C |
| 4. | D | 11. | F |
| 5. | H | 12. | K |
| 6. | J | | |
| 7. | B | | |

(5-10 min.) S 1-22

- | | | |
|-------------------------|----------------------------|----------------|
| 1. | Insert Function dialog box | 6. |
| Artificial intelligence | | |
| 2. | Formula bar | 7. Spreadsheet |
| 3. | Spreadsheet | 8. Machine |
| learning | | |
| 4. | Data analytics | 9. Robotic |
| process automation | | |
| 5. | Active cell | 10. Ribbon |

(5-10 min.) S 1-23

- | | |
|---------------------------|------------------------------------|
| 1. Active cell (J) | 7. Column header letters (C) |
| 2. Insert Sheet icon (F) | 8. Zoom slider (A) |
| 3. Row header numbers (G) | 9. Ribbon tabs (H) |
| 4. Worksheet tabs (K) | 10. Quick Access toolbar (E) |
| 5. Ribbon (I) | 11. Insert Function dialog box (D) |
| 6. File name (B) | 12. Formula bar (L) |

Exercises

(10-15 min.) E 1-24A

Amounts in billions; (computed amounts in boxes)

	Assets	=	Liabilities	+	Stockholders' Equity
Smythe Real Estate	<u>\$73</u>		\$41		\$32
Odessa Florals	26		<u>11</u>		15
Hometown Bank	29		14		<u>15</u>

Odessa Florals appears to have the strongest financial position because its liabilities make up the smallest percentage of company assets ($\$11/\$26 = .42$). Stated differently, Odessa Florals' equity is the highest percentage of company assets ($\$15/\$26 = .58$).

Liabilities as a percent of total assets:

Smythe Real Estate: $\$41/\$73 = 0.56$

Odessa Florals: $\$11/\$26 = 0.42$

Hometown Bank: $\$14/\$29 = 0.48$

(10-15 min.) E 1-25A

Req. 1

(Amounts in millions)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
	\$220		\$160		
	320		380		
	<u>130</u>				
Total	\$670	=	\$540	+	\$130

Req. 2 **Resources
to work with**

Req. 3 **Amount
owed to
creditors**

Req. 4 **Actually
owned by company
stockholders**

(10-20 min.) E 1-26A

	Situation		
	1	2	3
	<i>(Millions)</i>		
Total stockholders' equity,			
January 31, 2024 (\$47 – \$19)	\$28	\$28	\$28
Add: Issuances of stock.....	11	-0-	15
Net income.....	13*	44*	84*
Less: Dividends declared.....	-0-	(20)	(75)
Net loss	-0-	-0-	-0-
Total stockholders' equity,			
January 31, 2025 (\$77 – \$25)	\$52	\$52	\$52

*Must solve for these amounts.

(10-15 min.) E 1-27A

- a. Income statement**
- b. Balance sheet**
- c. Balance sheet**
- d. Balance sheet**
- e. Statement of retained earnings, Statement of cash flows**
- f. Balance sheet, Statement of cash flows**
- g. Statement of cash flows**
- h. Statement of cash flows**
- i. Income statement**
- j. Balance sheet, Statement of retained earnings**
- k. Income statement**
- l. Balance sheet**
- m. Income statement, Statement of retained earnings, Statement of cash flows**
- n. Balance sheet**

**Landy Products
Balance Sheet
December 31, 2024**

ASSETS**Current assets:**

Cash.....	\$ 24,000
Receivables.....	18,000
Inventory	<u>80,000</u>
Total current assets	122,000

Equipment.....	<u>182,000</u>
Total assets	<u>\$304,000</u>

LIABILITIES**Current liabilities:**

Accounts payable	<u>\$ 22,000</u>
Total current liabilities	22,000

Long-term liabilities:

Long-term notes payable	<u>172,000</u>
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Total liabilities	<u>194,000</u>
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STOCKHOLDERS' EQUITY

Common stock	34,500
Retained earnings	<u>75,500*</u>
Total stockholders' equity	<u>110,000</u>
Total liabilities and stockholders' equity	<u>\$304,000</u>

***Computation of retained earnings:**

Total assets (\$304,000) – current liabilities (\$22,000) – long-term notes payable (\$172,000) – common stock (\$34,500) = \$75,500

Req. 1

Fernanda Carlson Realty Company
Balance Sheet
January 31, 2024

(Amounts in millions)

ASSETS		LIABILITIES	
Cash	\$ 57.2	Current liabilities	\$ 2.9
Receivables	0.5	Long-term liabilities	<u>102.6</u>
Investment assets (long-term)	79.4	Total liabilities	105.5
Property and equipment, net	1.6	STOCKHOLDERS'	
Other assets (long-term)	9.3	EQUITY	
		Common stock	39.2
		Retained earnings	<u>3.3*</u>
		Total stockholders' equity	42.5
		Total liabilities and	
Total assets	<u>\$148.0</u>	stockholders' equity	<u>\$148.0</u>

***Computation of retained earnings:**

Total assets (\$148.0) – Total liabilities (\$105.5) – Common stock (\$39.2) = \$3.3

Req. 1

**Fernanda Carlson Realty Company
Income Statement
Year Ended January 31, 2024**

(Amounts in millions)

Total revenue.....		\$25.7
Expenses:		
Salary and other employee expenses	\$13.7	
Other expenses.....	7.6	
Interest expense	<u>1.5</u>	
Total expenses.....		<u>22.8</u>
Net income.....		<u>\$2.9</u>

Req. 2

The statement of retained earnings helps to compute dividends, as follows:

**Fernanda Carlson Realty Company
Statement of Retained Earnings
Year Ended January 31, 2024**

(Amounts in millions)

Retained earnings, beginning of year	\$2.6
Add: Net income for the year (Req. 1)	<u>2.9</u>
Subtotal	5.5
Less: Dividends declared**	<u>2.2</u>
Retained earnings, end of year (from Exercise 1-29A)	<u>\$3.3</u>

****(\$5.5 – \$3.3 = \$2.2)**

Req. 1

Giada Coffee Roasters Corp.
Income Statement
For the Month Ended August 31, 2025

Revenue:		
Service revenue		\$278,700
Expenses:		
Salary expense.....	\$78,500	
Utilities expense	5,100	
Rent expense	<u>1,800</u>	
Total expenses.....		<u>85,400</u>
Net income.....		<u><u>\$193,300</u></u>

Giada Coffee Roasters Corp.
Statement of Retained Earnings
For the Month Ended August 31, 2025

Retained earnings, August 1, 2025	\$ -0-	
Add: Net income for the month	<u>193,300</u>	←
Subtotal	193,300	
Less: Dividends declared	<u>(2,800)</u>	
Retained earnings, August 31, 2025	<u><u>\$190,500</u></u>	↓

Req. 1

**Giada Coffee Roasters Corp.
Balance Sheet
August 31, 2025**

Assets		Liabilities	
Cash	\$ 5,300	Accounts payable.....	\$ 8,800
Office supplies	7,400		
Equipment.....	201,500	Stockholders' Equity	
		Common stock	14,900
		Retained earnings	<u>190,500</u>
		Total stockholders' equity	205,400
		Total liabilities and	
Total assets	<u>\$214,200</u>	stockholders' equity	<u>\$214,200</u>

Req. 1

Giada Coffee Roasters Corp.
Statement of Cash Flows
For the Month Ended August 31, 2025

Cash flows from operating activities:

Net income	\$193,300
Adjustments to reconcile net income to net cash provided by operating activities	<u>1,400</u>
Net cash provided by operating activities	194,700

Cash flows from investing activities:

Acquisition of equipment	<u>\$(201,500)</u>
Net cash used for investing activities	(201,500)

Cash flows from financing activities:

Issuance (sale) of stock to owners	\$ 14,900
Payment of dividends	<u>(2,800)</u>
Net cash provided by financing activities	<u>12,100</u>

Net increase in cash	\$ 5,300
----------------------------	----------

Cash balance, August 1, 2025	<u>0</u>
------------------------------------	----------

→ Cash balance, August 31, 2025	<u><u>\$ 5,300</u></u>
---------------------------------------	------------------------

TO: Owner of Giada Coffee Roasters Corp.

FROM: Student Name

SUBJECT: Opinion of net income, dividends, financial position,
and cash flows

Your first month of operations was successful. Revenues totaled \$278,700 and net income was \$193,300. These operating results look very strong.

The company was able to pay a \$2,800 dividend, and this should make you happy with so quick a return on your investment. Your financial position looks secure, with assets of \$214,200 and liabilities of only \$8,800. Your stockholders' equity is \$205,400.

Operating activities generated cash of \$194,700, which is outstanding. Operating activities are the main source of cash, which is expected for a thriving company. You ended the month with cash of \$5,300. Based on the above facts, I believe you should stay in business.

Student responses may vary.

Req. 1

Edwin Company
Income Statement
For the Year Ended December 31, 2024

	<i>(millions)</i>
Revenue:	
Revenues.....	\$150
Expenses:	
Salary expense.....	\$34
Rent expense	23
Utilities expense	<u>16</u>
Total expenses.....	<u>73</u>
Net income.....	<u>\$ 77</u>

Req. 2

Edwin Company
Statement of Retained Earnings
Year Ended December 31, 2024

	<i>(millions)</i>
Retained earnings, December 31, 2023.....	\$ 73
Add: Net income (\$150 – \$73)	77
Less: Dividends declared.....	<u>(16)</u>
Retained earnings, December 31, 2024.....	<u>\$134</u>

Req. 3

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

ASSETS	<i>(in millions)</i>
Current assets:	
Cash	\$185
Accounts receivable.....	<u>70</u>
Total current assets	255
Property and equipment.....	35
Other long-term assets.....	<u>22</u>
Total assets	<u>\$312</u>
 LIABILITIES	
Current liabilities:	
Accounts payable.....	<u>\$ 56</u>
Total current liabilities	56
Long-term liabilities:	
Long-term notes payable	<u>26</u>
Total liabilities.....	<u>82</u>
 STOCKHOLDERS' EQUITY	
Common stock.....	96*
Retained earnings.....	<u>134</u>
Total stockholders' equity.....	<u>230</u>
Total liabilities and stockholders' equity	<u>\$312</u>

*Common stock = Total stockholders' equity (\$230) – Retained earnings (\$134) = \$96

(10-15 min.) E 1-36B

Amounts in billions; (computed amounts in boxes)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
Water Street Bank	<u>\$78</u>		\$43		\$35
Pufferbelly Restaurant	30		<u>7</u>		23
Blake Gift Shop	34		7		<u>27</u>

Blake Gift Shop appears to have the strongest financial position because its liabilities make up the smallest percentage of company assets ($\$7/\$34 = .21$). Stated differently, Blake Gift Shop's equity is the highest percentage of company assets ($\$27/\$34 = .79$).

Liabilities as a percent of total assets:

Water Street Bank: $\$43/\$78 = 0.55$

Pufferbelly Restaurant: $\$7/\$30 = 0.23$

Blake Gift Shop: $\$7/\$34 = 0.21$

(10-15 min.) E 1-37B

Req. 1

(Amounts in millions)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
	\$240		\$100		
	390		360		
	<u>130</u>				
Total	\$760	=	\$460	+	\$300

Req. 2 Resources
to work with

Req. 3 Amount
owed to
creditors

Req. 4 Actually
owned by company
stockholders

(10-20 min.) E 1-38B

	Situation		
	1	2	3
	<i>Millions</i>		
Total stockholders' equity,			
January 31, 2024 (\$49 – \$17).....	\$32	\$32	\$32
Add: Issuances of stock.....	3	-0-	20
Net income	14*	21*	5*
Less: Dividends declared.....	-0-	(4)	(8)
Net loss	-0-	-0-	-0-
Total stockholders' equity,			
January 31, 2025 (\$72 – \$23).....	\$49	\$49	\$49

*Must solve for these amounts.

(10-15 min.) E 1-39B

- a. Balance sheet, Statement of cash flows**
- b. Statement of cash flows**
- c. Balance sheet**
- d. Balance sheet**
- e. Income statement, Statement of retained earnings, Statement of cash flows**
- f. Income statement**
- g. Balance sheet**
- h. Income statement**
- i. Balance sheet**
- j. Statement of cash flows**
- k. Income statement**
- l. Balance sheet**
- m. Statement of retained earnings, Statement of cash flows**
- n. Balance sheet, Statement of retained earnings**

**Patterson Products
Balance Sheet
December 31, 2024**

ASSETS**Current assets:**

Cash.....	\$ 20,000
Receivables.....	17,600
Inventory	<u>78,000</u>
Total current assets	115,600

Equipment.....	<u>186,000</u>
Total assets	<u>\$301,600</u>

LIABILITIES**Current liabilities:**

Accounts payable	<u>\$ 22,000</u>
Total current liabilities	22,000

Long-term liabilities:

Long-term notes payable	<u>173,000</u>
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Total liabilities	<u>195,000</u>
-------------------------	----------------

STOCKHOLDERS' EQUITY

Common stock	28,500
--------------------	--------

Retained earnings	<u>78,100*</u>
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Total stockholders' equity	<u>106,600</u>
----------------------------------	----------------

Total liabilities and stockholders' equity	<u>\$301,600</u>
--	------------------

***Computation of retained earnings:**

Total assets (\$301,600) – current liabilities (\$22,000) – long-term notes payable (\$173,000) – common stock (\$28,500) = \$78,100

Req. 1

Reina Burke Realty Company
Balance Sheet
March 31, 2024

(Amounts in millions)

ASSETS		LIABILITIES	
Cash	\$ 1.6	Current liabilities	\$ 2.7
Receivables	.1	Long-term liabilities	<u>102.3</u>
Investment assets	135.1	Total liabilities	105.0
Property and equipment, net	1.4	STOCKHOLDERS'	
Other assets	10.3	EQUITY	
		Common stock	27.9
		Retained earnings	<u>15.6*</u>
		Total stockholders' equity	43.5
		Total liabilities and	
Total assets	<u>\$148.5</u>	stockholders' equity	<u>\$148.5</u>

*Computation of retained earnings:

Total assets (\$148.5) – Total liabilities (\$105.0) – Common stock (\$27.9) = \$15.6

Req. 1

**Reina Burke Realty Company
Income Statement
Year Ended March 31, 2024**

(Amounts in millions)

Total revenue.....	\$40.4
Expenses:	
Salary and other employee expenses	\$ 15.2
Other expenses.....	6.6
Interest expense	<u>0.4</u>
Total expenses.....	<u>22.2</u>
Net income.....	<u>\$18.2</u>

Req. 2

The statement of retained earnings helps to compute dividends, as follows:

**Reina Burke Realty Company
Statement of Retained Earnings
Year Ended March 31, 2024**

(Amounts in millions)

Retained earnings, beginning of year.....	\$17.2
Add: Net income for the year (Req. 1).....	<u>18.2</u>
Subtotal	35.4
Less: Dividends declared**	<u>19.8</u>
Retained earnings, end of year (from Exercise 1-41B).....	<u>\$15.6</u>

****(\$35.4 – \$15.6 = \$19.8)**

Req. 1

Island Coffee Roasters Corporation
Income Statement
For the Month Ended August 31, 2025

Revenue:		
Service revenue		\$279,300
Expenses:		
Salary expense	\$78,100	
Utilities expense	5,800	
Rent expense	<u>1,800</u>	
Total expenses		<u>85,700</u>
Net income		<u>\$193,600</u>

Island Coffee Roasters Corporation
Statement of Retained Earnings
For the Month Ended August 31, 2025

Retained earnings, August 1, 2025.....	\$ -0-	
Add: Net income	<u>193,600</u>	←
Subtotal	193,600	
Less: Dividends declared.....	<u>(2,700)</u>	
Retained earnings, August 31, 2025.....	<u>\$190,900</u>	↓

Req. 1

Island Coffee Roasters Corporation
Balance Sheet
August 31, 2025

Assets		Liabilities	
Cash	\$ 6,000	Accounts payable.....	\$ 8,900
Office supplies	7,500	Stockholders' Equity	
Equipment	200,000	Common stock	13,700
		Retained earnings	<u>190,900</u>
		Total stockholders' equity	204,600
		Total liabilities and	
Total assets	<u>\$213,500</u>	stockholders' equity	<u>\$213,500</u>

Req. 1

Island Coffee Roasters Corporation
Statement of Cash Flows
For the Month Ended August 31, 2025

Cash flows from operating activities:

Net income.....	\$193,600
-----------------	-----------

Adjustments to reconcile net income to net cash provided by operations	<u>1,400</u>
--	--------------

Net cash provided by operating activities	195,000
---	---------

Cash flows from investing activities:

Acquisition of equipment.....	<u>\$(200,000)</u>
-------------------------------	--------------------

Net cash used for investing activities	(200,000)
--	-----------

Cash flows from financing activities:

Issuance (sale) of stock to owners.....	\$ 13,700
---	-----------

Payment of dividends.....	<u>(2,700)</u>
---------------------------	----------------

Net cash provided by financing activities..	<u>11,000</u>
---	---------------

Net increase in cash.....	\$ 6,000
---------------------------	----------

Cash balance, August 1, 20225	<u>0</u>
-------------------------------------	----------

→ Cash balance, August 31, 20225	<u><u>\$ 6,000</u></u>
--	------------------------

(10-20 min.) E 1-46B

TO: Owner of Island Coffee Roasters Corporation
FROM: Student Name
SUBJECT: Opinion of net income, dividends, financial position, and cash flows

Your first month of operations was successful. Revenues totaled \$279,300 and net income was \$193,600. These operating results look very strong.

The company was able to pay a \$2,700 dividend, and this should make you happy with so quick a return on your investment. Your financial position looks secure, with assets of \$213,500 and liabilities of only \$8,900. Your stockholders' equity is \$204,600.

Operating activities generated cash of \$195,000, which is respectable. Operating activities are the main source of cash, which is expected for a thriving company. You ended the month with cash of \$6,000. Based on the above facts, I believe you should stay in business.

Student responses may vary.

Req. 1

**Brewster Company
Income Statement
For the Year Ended December 31, 2024**

	<i>(millions)</i>
Revenue:	
Revenues.....	\$146
Expenses:	
Salary expense.....	\$28
Rent expense	23
Utilities expense	<u>19</u>
Total expenses.....	<u>70</u>
Net income.....	<u><u>\$76</u></u>

Req. 2

**Brewster Company
Statement of Retained Earnings
Year Ended December 31, 2024**

	<i>(millions)</i>
Retained earnings, December 31, 2023.....	\$ 76
Add: Net income (\$146 – \$70)	76
Less: Dividends declared.....	<u>(15)</u>
Retained earnings, December 31, 2024.....	<u><u>\$137</u></u>

Req. 3

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

ASSETS	<i>(in millions)</i>
Current assets:	
Cash	\$175
Accounts receivable.....	<u>85</u>
Total current assets	260
Property and equipment.....	39
Other long-term assets.....	<u>25</u>
Total assets	<u>\$324</u>
 LIABILITIES	
Current liabilities:	
Accounts payable.....	<u>\$ 56</u>
Total current liabilities	56
Long-term liabilities:	
Long-term notes payable.....	<u>33</u>
Total liabilities.....	<u>89</u>
 STOCKHOLDERS' EQUITY	
Common stock.....	98*
Retained earnings.....	<u>137</u>
Total stockholders' equity.....	<u>235</u>
 Total liabilities and stockholders' equity	<u>\$324</u>

*Common stock = Total stockholders' equity (\$235) – Retained earnings (\$137) = \$98

Quiz

Q1-48 a

Q1-49 a

Q1-50 d

Q1-51 b

Q1-52 b

Q1-53 a

						Stockholders' Equity	
Assets	=	Liabilities	+		+		
+ \$83,000	=	+ \$23,000	+			+ \$60,000	

Q1-54 a

Q1-55 b

Q1-56 b

Q1-57 a

Q1-58 d

Q1-59 c $[\$260,000 - \$185,000 - \$81,000 - \$28,000 = \$(34,000)]$

Q1-60 b $(\$300,000 + \$200,000 - \$55,000 = \$445,000)$

Q1-61 d

Q1-62 c

Q1-63 c

						Stockholders' Equity	
Assets	=	Liabilities	+		+		
Beg. \$149,000	=	\$27,000*	+		+	\$122,000	
Changes		+ 69,000					
End. \$236,000*	=	\$96,000*	+		+	\$140,000	

*Must solve for these amounts.

Quiz (continued)

		Assets – Liabilities = Stockholders' equity			
Q1-64	b	Beg. bal.	\$350,000	–	\$23,000 = \$327,000
		+ Net income			+ X
		– Dividends			<u>– 75,000</u>
		End. bal.	\$530,000	–	\$36,000 = \$494,000

$$\$327,000 + X - \$75,000 = \$494,000; X = \$242,000$$

Q1-65 d

Problems

(30 min.) P 1-66A

Computed amounts in boxes.

	Kennedy Corp.	Caring Co.	Childress, Inc.
	<i>(Millions)</i>		
BALANCE SHEET			
<i>Beginning:</i>			
Assets	\$76	\$30	\$17
Liabilities.....	51	21	1
Common stock	7	7	6
Retained earnings	18	2	10
<i>Ending:</i>			
Assets	\$86	\$48	\$20
Liabilities.....	53	32	0
Common stock	7	12	8
Retained earnings	26	4	12
INCOME STATEMENT			
Revenues	\$227	\$165	\$22
Expenses	218	157	18
Net income.....	\$ 9	\$ 8	\$ 4
STATEMENT OF RETAINED EARNINGS			
Beginning RE.....	\$18	\$ 2	\$ 10
+ Net income.....	9	8	4
- Dividends declared	(1)	(6)	(2)
= Ending RE	\$26	\$ 4	\$ 12

(continued) P 1-66A

	Kennedy Corp.	Caring Co.	Childress, Inc.
	<i>Millions</i>		
Net income	\$9 <i>Highest</i>	\$8	\$4
% of net income to revenues	$\frac{\$9}{\$227} = 4.0\%$	$\frac{\$8}{\$165} = 4.8\%$	$\frac{\$4}{\$22} = 18.2\%$ <i>Highest</i>

Req. 1

**City News, Inc.
Balance Sheet
May 31, 2024**

ASSETS		LIABILITIES	
Cash	\$ 10,000	Accounts payable	\$ 6,500
Accounts receivable	2,600	Note payable	<u>50,000</u>
Notes receivable	15,800	Total liabilities	56,500
Office supplies	700	STOCKHOLDERS'	
Land	81,000	EQUITY	
Equipment	35,600	Stockholders' equity	89,200*
		Total liabilities and	
Total assets	<u>\$145,700</u>	stockholders' equity	<u>\$145,700</u>

*Total assets (\$145,700) – Total liabilities (\$56,500) = Stockholders' equity (\$89,200).

Req. 2

City News, Inc. is in *better (not worse)* financial position than the erroneous balance sheet reports. Total assets (\$145,700) are \$7,800 higher than originally reported (\$137,900), liabilities are \$14,700 lower than originally reported, and stockholders' equity is \$22,500 higher than reported originally.

Req. 3

The following accounts are not reported on the balance sheet because they are expenses. These accounts are reported on the *income statement*.

Utilities expense
Advertising expense
Salary expense
Interest expense

Req. 1

Roberto Hilton Realtor, Inc.
Balance Sheet
June 30, 2025

ASSETS		LIABILITIES	
Cash	\$ 55,000	Accounts payable	\$ 16,000
Office supplies	8,000	Note payable	<u>112,000</u>
Land	165,000	Total liabilities	128,000
Furniture	30,000	STOCKHOLDERS'	
Franchise	20,000	EQUITY	
		Common stock	65,000
		Retained earnings	<u>85,000*</u>
		Total stockholders' equity	150,000
		Total liabilities and	
Total assets	<u>\$278,000</u>	stockholders' equity	<u>\$278,000</u>

*Total assets (\$278,000) – Total liabilities (\$128,000) – Common stock (\$65,000) = Retained earnings (\$85,000).

Req. 2

It appears that the business can pay its debts. Total assets exceed total liabilities.

Req. 3

Personal items not reported on the *balance sheet* of the business:

- a. Personal cash (\$15,000)
- b. Personal account payable (\$3,400)
- g. Personal residence (\$334,000) and mortgage payable (\$182,000)

Req. 1

**Oak Hill Garden Supply, Inc.
Income Statement
Year Ended December 31, 2024**

Revenue		
Service revenue		\$452,600
Expenses		
Salary expense	\$108,400	
Rent expense	41,200	
Interest expense	10,300	
Utilities expense	8,800	
Property tax expense	<u>7,400</u>	
Total expenses.....		<u>176,100</u>
Net income		<u>\$276,500</u>

Req. 2

**Oak Hill Garden Supply, Inc.
Statement of Retained Earnings
Year Ended December 31, 2024**

Retained earnings, December 31, 2023.....	\$ 364,600
Add: Net income	<u>276,500</u>
Subtotal	641,100
Less: Dividends declared.....	<u>(107,000)</u>
Retained earnings, December 31, 2024.....	<u>\$ 534,100</u>

Req. 3

Oak Hill Garden Supply, Inc.
Balance Sheet
December 31, 2024

ASSETS		LIABILITIES	
Cash	\$ 44,000	Accounts payable	\$ 26,000
Accounts receivable	84,900	Interest payable	2,700
Supplies	6,300	Note payable	<u>99,600</u>
Land	25,000	Total liabilities	128,300
Building	406,000	STOCKHOLDERS'	
Equipment	110,000	EQUITY	
		Common stock	13,800
		Retained earnings	<u>534,100</u>
		Total stockholders' equity	547,900
		Total liabilities and	
Total assets	<u>\$676,200</u>	stockholders' equity	<u>\$676,200</u>

Req. 4

- a. Oak Hill Garden Supply was profitable; net income was \$276,500.
- b. Retained earnings increased by \$169,500 — from \$364,600 to \$534,100.
- c. Stockholders' equity (\$547,900) exceeds liabilities (\$128,300).

The stockholders have a greater claim against Oak Hill Garden Supply's assets than do the company's creditors.

Req. 1

Mitchell Company
Statement of Cash Flows
Year Ended March 31, 2025

	<i>Millions</i>
Cash flows from operating activities:	
Net income.....	\$ 3,020
Adjustments to reconcile net income to net cash provided by operating activities	<u>2,420</u>
Net cash provided by operating activities	5,440
 Cash flows from investing activities:	
Purchases of property, plant, and equipment.....	\$(2,640)
Sales of property, plant, and equipment	25
Other investing cash payments	<u>(195)</u>
Net cash used for investing activities	(2,810)
 Cash flows from financing activities:	
Issuance of common stock	\$ 190
Payment of dividends	<u>(265)</u>
Net cash used for financing activities	<u>(75)</u>
 Net increase in cash	\$ 2,555
Cash, beginning	<u>220</u>
Cash, ending	<u>\$ 2,775</u>

Req. 2

Operating activities provided the largest amount of cash. This signals financial strength because operations should be the main source of cash.

(40-50 min.) P 1-71A

INCOME STATEMENT

		2025	2024		
Revenues.....	13,920	= \$ k	\$14,750		
Cost of goods sold		(11,100)	A	=	(11,680)
Other expenses		<u>(1,300)</u>	<u>(1,200)</u>		
Income before income taxes		1,520	1,870		
Income taxes (35% tax rate)	532	= <u>l</u>	<u>(655)</u>		
Net income	988	= \$ <u>m</u>	\$ <u>b</u>	=	1,215

STATEMENT OF RETAINED EARNINGS

Beginning balance	3,825	= \$ n	\$ 2,680		
Net income	988	= o	C	=	1,215
Dividends declared		<u>(92)</u>	<u>(70)</u>		
Ending balance	4,721	= \$ <u>p</u>	\$ <u>d</u>	=	3,825

BALANCE SHEET

Assets:

Cash.....	1,020	= \$ q	\$ e	=	1,180
Property, plant and equipment		1,547	1,316		
Other assets	11,959	= <u>r</u>	<u>11,104</u>		
Total assets	14,526	= \$ <u>s</u>	\$ <u>13,600</u>		

Liabilities:

Current liabilities	4,815	= \$ t	\$ 5,660		
Long-term debt		4,350	3,370		
Other liabilities.....		<u>35</u>	<u>180</u>		
Total liabilities		9,200	F	=	9,210

Stockholders' Equity:

Common stock.....		\$ 425	\$ 425		
Retained earnings.....	4,721	= u	G	=	3,825
Other stockholders' equity.....		<u>180</u>	<u>140</u>		
Total stockholders' equity	5,326	= <u>v</u>	<u>4,390</u>		
Total liabilities and stockholders' equity	14,526	= \$ <u>w</u>	\$ <u>h</u>	=	13,600

STATEMENT OF CASH FLOWS

Net cash provided by operating activities	630	= \$ x	\$ 875		
Net cash used for investing activities		(270)	(425)		
Net cash used for financing activities.....		<u>(520)</u>	<u>(520)</u>		
Increase (decrease) in cash.....		(160)	I	=	(70)
Cash at beginning of year	1,180	= <u>y</u>	<u>1,250</u>		
Cash at end of year.....	1,020	= \$ <u>z</u>	\$ <u>j</u>	=	1,180

Computed amounts in boxes

	Babble Co.	Floralties, Inc.	Drake Co.
	<i>Millions</i>		
Balance Sheet			
<i>Beginning:</i>			
Assets	\$ 79	\$ 35	\$ 13
Liabilities	51	15	5
Common stock	1	5	2
Retained earnings	27	15	6
<i>Ending:</i>			
Assets	\$ 88	\$ 53	\$ 15
Liabilities	52	27	4
Common stock	1	12	5
Retained earnings	35	14	6
INCOME STATEMENT			
Revenues	\$227	\$163	\$ 27
Expenses	218	153	23
Net income	\$ 9	\$ 10	\$ 4
STMT. OF RETAINED EARNINGS			
Beginning RE	\$ 27	\$ 15	\$ 6
+ Net income	9	10	4
- Dividends declared	(1)	(11)	(4)
= Ending RE	\$ 35	\$ 14	\$ 6

(continued) P 1-72B

	<u>Babble Co.</u>	<u>Floralties, Inc.</u>	<u>Drake Co.</u>
	<i>Millions</i>		
Net income	\$9	\$10 <i>Highest</i>	\$4
% of net income to revenues.....	$\frac{\$9}{\$227} = 4.0\%$	$\frac{\$10}{\$163} = 6.1\%$	$\frac{\$4}{\$27} = 14.8\%$ <i>Highest</i>

Req. 1

**Parker Design, Inc.
Balance Sheet
March 31, 2024**

ASSETS		LIABILITIES	
Cash	\$ 8,000	Accounts payable	\$ 3,500
Accounts receivable	3,900	Note payable	<u>53,000</u>
Notes receivable	13,000	Total liabilities	56,500
Office supplies	1,400	STOCKHOLDERS'	
Land	86,000	EQUITY	
Equipment	39,000	Stockholders' equity	94,800*
		Total liabilities and	
Total assets	<u>\$151,300</u>	stockholders' equity	<u>\$151,300</u>

*Total assets (\$151,300) – Total liabilities (\$56,500) = Stockholders' equity (\$94,800).

Req. 2

Parker Design, Inc. is in a *better* financial position than the erroneous balance sheet reports. Assets are \$9,800 greater and liabilities are \$16,300 less than originally reported, and equity is \$26,100 greater than reported originally.

Req. 3

The following accounts are not reported on the balance sheet because they are expenses. Expenses are reported on the *income statement*.

Utilities expense
Advertising expense
Salary expense
Interest expense

Req. 1

**Hudson Alvarez Realtor, Inc.
Balance Sheet
June 30, 2025**

ASSETS		LIABILITIES	
Cash	\$ 44,000	Accounts payable	\$ 9,000
Office supplies	4,000	Note payable	<u>102,000</u>
Land	162,000	Total liabilities	111,000
Furniture	17,600	STOCKHOLDERS'	
Franchise	16,000	EQUITY	
		Common stock	75,000
		Retained earnings	<u>57,600*</u>
		Total stockholders' equity	<u>132,600</u>
Total assets	<u>\$243,600</u>	Total liabilities and stockholders' equity	<u>\$243,600</u>

*Total assets (\$243,600) – Total liabilities (\$111,000) – Common stock (\$75,000) = Retained earnings (\$57,600).

Req. 2

It appears that Hudson Alvarez's business can pay its debts. Total assets far exceed total liabilities.

Req. 3

Personal items not reported on the *balance sheet* of the business:

- a. Personal cash (\$17,000)
- b. Personal account payable (\$6,500)
- g. Personal residence (\$419,000) and personal mortgage (\$179,000)

Req. 1

**Full Moon Products, Inc.
Income Statement
Year Ended December 31, 2024**

Revenue:	
Service revenue	\$451,600
Expenses:	
Salary expense	\$108,900
Rent expense	41,000
Interest expense	10,000
Utilities expense	8,100
Property tax expense	<u>7,300</u>
Total expenses.....	<u>175,300</u>
Net income	<u>\$276,300</u>

Req. 2

**Full Moon Products, Inc.
Statement of Retained Earnings
Year Ended December 31, 2024**

Retained earnings, December 31, 2023.....	\$364,800
Add: Net income	<u>276,300</u>
Subtotal	641,100
Less: Dividends declared.....	<u>(108,000)</u>
Retained earnings, December 31, 2024.....	<u>\$533,100</u>

Req. 3

**Full Moon Products, Inc.
Balance Sheet
December 31, 2024**

ASSETS		LIABILITIES	
Cash	\$ 46,000	Accounts payable	\$ 25,000
Accounts receivable	85,000	Interest payable	2,800
Supplies	6,200	Note payable	<u>99,200</u>
Land	29,000	Total liabilities	127,000
Building	405,000	STOCKHOLDERS'	
Equipment	115,000	EQUITY	
		Common stock	26,100
		Retained earnings	<u>533,100</u>
		Total stockholders' equity	559,200
		Total liabilities and	
Total assets	<u>\$686,200</u>	stockholders' equity	<u>\$686,200</u>

Req. 4

- a. Full Moon Products was profitable; net income was \$276,300.
- b. Retained earnings increased by \$168,300 — from \$364,800 to \$533,100.
- c. Total equity (\$559,200) exceeds total liabilities (\$127,000).

Therefore, the stockholders have a greater claim against the company's assets than do the creditors.

Req. 1

**Tidal Wave Company
Statement of Cash Flows
Year Ended March 31, 2025**

	<i>Millions</i>
Cash flows from operating activities:	
Net income.....	\$ 3,050
Adjustments to reconcile net income to net cash provided by operating activities	<u>2,380</u>
Net cash provided by operating activities	5,430
 Cash flows from investing activities:	
Purchases of property, plant, and equipment.....	\$(3,500)
Sales of property, plant, and equipment	60
Other investing cash payments	<u>(200)</u>
Net cash used for investing activities	(3,640)
 Cash flows from financing activities:	
Issuance of common stock	\$ 200
Payment of dividends	<u>(360)</u>
Net cash used for financing activities.....	<u>(160)</u>
 Net increase in cash	\$1,630
Cash, beginning	<u>270</u>
Cash, ending	<u><u>\$ 1,900</u></u>

Req. 2

Operating activities provided the bulk of Tidal Wave Company's cash. This is a sign of strength because operations should be the main source of cash.

(40-50 min.) P 1-77B

(Thousands)

INCOME STATEMENT

		2025	2024	
Revenues.....	13,800 =	\$ k	\$16,175	
Cost of goods sold.....		(11,020)	a	= (13,115)
Other expenses		<u>(1,250)</u>	<u>(1,220)</u>	
Income before income taxes		1,530	1,840	
Income taxes (35% tax rate)	536 =	<u>l</u>	<u>644</u>	
Net income.....	994 =	<u>\$ m</u>	<u>\$ b</u>	= 1,196

STATEMENT OF RETAINED EARNINGS

Beginning balance	3,726 =	\$ n	\$ 2,670	
Net income	994 =	o	c	= 1,196
Dividends declared		<u>(98)</u>	<u>(140)</u>	
Ending balance	4,622 =	<u>\$ p</u>	<u>\$ d</u>	= 3,726

BALANCE SHEET

Assets:

Cash	980 =	\$ q	\$ e	= 1,090
Property, plant and equipment.....		1,487	1,316	
Other assets	12,205 =	<u>r</u>	<u>12,060</u>	
Total assets.....	14,672 =	<u>\$ s</u>	<u>\$14,466</u>	

Liabilities:

Current liabilities	3,955 =	\$ t	\$ 5,610	
Long-term debt		4,450	3,360	
Other liabilities		<u>995</u>	<u>1,140</u>	
Total liabilities.....		9,400	f	= 10,110

Stockholders' Equity:

Common stock		\$ 450	\$ 450	
Retained earnings	4,622 =	u	g	= 3,726
Other stockholders' equity		<u>200</u>	<u>180</u>	
Total stockholders' equity.....	5,272 =	<u>v</u>	<u>4,356</u>	
Total liabilities and stockholders' equity	14,672 =	<u>\$ w</u>	<u>\$ h</u>	= 14,466

STATEMENT OF CASH FLOWS

Net cash provided by operating activities	700 =	\$ x	\$ 875	
Net cash used for investing activities.....		(300)	(575)	
Net cash used for financing activities.....		<u>(510)</u>	<u>(500)</u>	
Increase (decrease) in cash		(110)	i	= (200)
Cash at beginning of year.....	1,090 =	<u>y</u>	<u>1,290</u>	
Cash at end of year	980 =	<u>\$ z</u>	<u>\$ j</u>	= 1,090

(15-20 min) C1-78

1. The Cheesecake Factory is organized as a corporation, per the name of the business (“Incorporated”).
2. Net income flows from the Income Statement to the Statement of Retained Earnings.
3. Ending retained earnings flows from the Statement of Retained Earnings to the Balance Sheet.
4. Ending cash and cash equivalents flows from the Statement of Cash Flows to the Balance Sheet.
5. The Cheesecake Factory earned net income of \$43,123 (in thousands) in fiscal 2022 (year ended January 3, 2023). This income was earned from December 29, 2021 to January 3, 2023.
6. The Cheesecake Factory’s accounting equation (in thousands) as of January 3, 2023:

$$\begin{array}{rclcl} \text{Assets} & = & \text{Liabilities} & + & \text{Shareholders' Equity} \\ \$2,775,220 & = & \$2,483,217^* & + & \$292,003 \end{array}$$

7. Cheesecake Factory had \$2,775,220 (Total Assets) to work with and owes \$2,483,217* (Total Liabilities) to creditors. (Numbers in thousands)

$$*(\$656,678 + 1,826,539 = \$2,483,217)$$

Decision Cases

(30-40 min.) C1-79

Req. 1

Based solely on these balance sheets, Insley Sales Co. appears to be the better credit risk because:

- 1. Queens Service has more assets (\$150,000) than Insley Sales (\$65,000), but Queens Service owes much more in liabilities (\$130,000 versus \$15,000 for Insley Sales). Insley Sales' stockholders' equity is far greater than that of Queens Service (\$50,000 compared to \$20,000). Insley Sales is not heavily in debt, but Queens Service is.**
- 2. You would be better off granting the loan to Insley Sales. You should consider what will happen if the borrower cannot pay you back as planned. Queens Service has far more liabilities to pay, and it may be hard for Queens Service to come up with the money to pay you. On the other hand, Insley Sales has little debt to pay to others before paying you.**

Student responses may vary.

Req. 1

Flowers Unlimited, Inc. Income Statement Year Ended Dec. 31, 2024		Flowers Unlimited, Inc. Balance Sheet Dec. 31, 2024	
Revenue.....	\$140,000 ¹	Cash.....	\$ 6,000
Expenses.....	<u>140,000</u> ²	Other assets....	<u>90,000</u> ³
Net income.....	<u>\$ -0-</u>	Total assets.....	<u>\$96,000</u>
		Liabilities.....	\$70,000 ⁴
		S/H Equity.....	<u>26,000</u> ⁵
		Total liabilities and S/H equity	<u>\$96,000</u>

$$^1\$100,000 + \$40,000 = \$140,000$$

$$^2\$80,000 + \$50,000 + \$10,000 = \$140,000$$

$$^3\$100,000 - \$50,000 + \$40,000 = \$90,000$$

$$^4\$60,000 + \$10,000 = \$70,000$$

$$^5\$96,000 - \$70,000 = \$26,000$$

Req. 2

The company's *financial position* is much *weaker* than originally reported. Assets and stockholders' equity are lower and liabilities are higher. *Results of operations* are *worse* than reported. The company did not earn any profit.

Req. 3

Based on the actual figures, I would *not* invest in Flowers Unlimited for reasons given in *Req. 2*.

Ethical Issue

(40-50 min) C1-81

Note to instructor: student responses will vary on this problem. Keep the discussion pointed toward use of the multiple-criteria model for making good ethical decisions, pointing out elements of students' reasoning that may be faulty or incomplete. It might be useful to have a debate or role play, assigning students to different sides of the issue (for or against accepting a copy of the exam).

Req. 1

The fundamental ethical issue in this situation is whether you should accept a copy of the old exam from your friend.

Req. 2

The stakeholders are:

- a. You**
- b. Your friend**
- c. The remainder of the students in the class**
- d. The professor**
- e. The University**
- f. Your family**

(This may not be a complete list; you may think of more.)

Consequences are discussed in requirement 3.

Req. 3

Analysis of the problem:

Economic perspective: If use of the old exam turns out to help you (it may not) you might improve your grade and allow you to retain your scholarship. This might help you and your family financially. If you use the exam to your unfair advantage, and you are reported, you and possibly your friend might receive grades of F in the class although you might otherwise have passed. This could cause adverse economic consequences to you, your friend and your families.

Legal perspective: Although it may not violate local or federal law, giving or accepting copies of old exams may violate the university's honor code, which serves the same purpose as a legal code in this case. If you use the old exam and it turns out that you violated the University's honor code, both you and your friend could be in trouble. Your family and your friend's family could also be impacted by any adverse consequences to you or her. Academic institutions establish policies against academic dishonesty because cheating hurts everyone—the student who commits the act, the other students in the class whose rights to fair treatment are violated by cheating, and the professor who must endure hours of investigating, reporting, and perhaps testifying.

Ethical perspective: Receiving questionable help from others in the face of policies that prohibit it is, at best, risky, and at worst, downright wrong. Cheating is similar to stealing, since it is stealing

the work of another without their permission. It is usually accompanied by lying to cover it up, or at least, not revealing the truth. Cheating violates other students' rights to fair and equal treatment. It violates the instructor's rights to run a course as a "fair game" for all participants. Because the students and faculty are hurt by cheating, the university is hurt too. If cheating goes unpunished, grades are inflated, ultimately damaging the academic reputation of the institution and eroding the value of its degrees. Parents of students who are caught cheating have to endure the agony of working through the problem with their son or daughter, and perhaps the social stigma that comes from adverse publicity.

These are just some of the arguments against cheating. Of course, there is a question in this case as to whether taking the test actually violates the professor's or the university's policies.

Req. 4

It would be helpful to find out what the professor's policies are with respect to the use of fraternity and sorority test files. The university might have a blanket policy on this. (Some students might spend a little time researching this by reading the university's honor code on their web site; just reading the honor code will be an eye-opening experience for most students). Advise your students to research the use of fraternity and sorority test files on the university web site, or to

discuss the issue with the head of the department or the chair of the university honor council.

Unfortunately, in this case, there is not much time. Researching the issue in the university's honor code takes valuable time away from studying for the exam, which, if you do, could help you raise your grade and solve the whole problem!

Probably the best solution to this problem is "when in doubt, don't." You may not do well on the test, but at least you won't have to live with the terrible consequences of being accused as a cheater. It should make you feel better in the long run that, although you may not make the highest grades in the class, at least you are not a cheater.

Req. 5

Cheating is very closely related to stealing, which is a form of fraud. When employees steal from their companies, they steal property that belongs to others. There are economic, legal, and ethical consequences to the company, the employee and their families, and customers (who ultimately have to pay for fraud through higher prices). We will study fraud in depth in Chapter 4.

Focus on Financials: Apple Inc.

(20-30 min.) C1-82

- 1. Students can emphasize a variety of points regarding Apple Inc., and its industry. For example, a discussion on the product innovation and competitive changes in technology would be appropriate. Additionally, discussing recent news articles related to Apple or its competitors would also be appropriate. Student answers will vary.**
- 2. Some important information in this portion of the financials is the description of their distribution channels (third-party resellers), competitors (product innovation, market opportunities, etc.), and supply chain (shortages, component availability, outsourcing, etc). Additionally, the seasonality of Apple's business is important to note given that it has higher sales in its first quarter relative to the last three. Lastly, it may come as a surprise that Apple employs approximately 164,000 full-time employees. (Student answers will vary.)**
- 3. Samsung, Google, Sony, or HP are some of Apple Inc.'s competitors. It is important to identify competitors because competitors tend to have similar business dynamics to one another, meaning that their financial statements can be compared to and benchmarked against each other. Student answers will vary.**

(continued) C1-82

4. **Net income**, because it shows the overall result of all the revenues minus all the expenses for a period. In effect, net income gives the results of operations in a single figure and shows whether the company has been profitable. Apple's net income after taxes increased from \$94.7 billion in 2021 to \$99.8 billion in 2022, which is favorable
5. Apple Inc.'s largest expense is cost of sales. The company has cost of sales for products and cost of sales for services. The former is the cost of the products that the company sells, such as iPhones, iPads, Apple TVs, software, and Mac desktops. The cost of sales for services pertains to the cost of services that Apple provides such as iCloud, Siri, and Maps. Another title of this account is *cost of goods sold*. In this chapter, The Walt Disney Company called this account cost of products and cost of services.

6. Total resources (total assets) at September 24, 2022.....	\$352,755 million	Assets
Amount owed (total liabilities) at September 24, 2022....	\$302,083 million	\$352,755
Portion of the company's assets owned by the stockholders (stockholders' equity) at September 24, 2022.....	\$50,672 million	

Apple Inc.'s accounting equation (*in millions*):

**(continue
d) C1-82**

- 7. At September 24, 2022, Apple Inc. had \$23,646 million of cash and cash equivalents. At September 28, 2021, Apple Inc. had \$34,940 million of cash and cash equivalents.**

Focus on Analysis: Under Armour, Inc.

(30 min.) C1-83

- 1. Under Armour, Inc. is an athletic apparel company. Students can emphasize a variety of points regarding Under Armour, Inc. and its industry. For example, a discussion on the brand, new product development, etc. would be appropriate. Additionally, discussing recent news articles related to Under Armour or its competitors would also be appropriate. (Student answers will vary.)**

- 2. Note 1 states Under Armour is a developer, marketer and distributor of branded performance apparel, footwear, and accessories. These products are sold worldwide and worn by athletes of all levels and consumers with active lifestyles.**

- 3. Nike, Adidas, and Columbia Sportswear are some of Under Armour, Inc.'s competitors. It is important to identify competitors because competitors tend to have similar business dynamics to one another, meaning that their financial statements can be compared to and benchmarked against each other. (Student answers will vary.)**

4. Under Armour, Inc.'s Accounting Equation (*in thousands*):

$$\begin{array}{rclcl} \text{Assets} & = & \text{Liabilities} & + & \text{Shareholders' Equity} \\ \$4,991,3096 & = & \$2,902,402 & + & \$2,088,904 \end{array}$$

If we express the numbers in millions:

$$\begin{array}{rclcl} \text{Assets} & = & \text{Liabilities} & + & \text{Shareholders' Equity} \\ \$4,991 & = & \$2,902 & + & \$2,089 \end{array}$$

Under Armour, Inc. appears to be in solid financial condition. Total assets are significantly higher than the amount of total liabilities. This suggests that the company will have no difficulty paying its debts and will have money to expand.

5. The result of operations for 2021 was a net income of \$360,060 thousand, following a year (2020) of significant losses. Because of the global impact of COVID-19 on business in 2020, this result is not unusual. 2021 was good news for Under Armour, Inc. Revenue exceeded expenses for, and there appears to be a reversal of the company's fortunes from the previous year. The long-term trend for Under Armour has been rather unstable, though, so it is too early to tell whether the company will remain profitable.

6. According to Under Armour, Inc.'s Consolidated Statements of Stockholders' Equity, the cause of the company's increase in retained earnings during 2021 was comprehensive income of

\$360,060 thousand. (Comprehensive income is closely related to net income.)

(continued) C1-83

7. The Consolidated Balance Sheets report cash and cash equivalents as part of the company's financial position. The Consolidated Statements of Cash Flows tell why cash and cash equivalents increased or decreased. Operating activities provided \$664,829 thousand, investing activities used \$368,346 thousand, and financing activities used \$418,737 thousand.

Group Projects

Student responses will vary.