E1-1B  Briggs Company performs the following accounting tasks during the year.

- Summarizing economic events.
- Selecting economic activities relevant to the company.
- Reporting information in a standard format.
- Preparing accounting reports.
- Measuring events in dollars and cents.
- Keeping a systematic chronological chart of events.
- Explaining uses, meaning, and limitations of data.
- Classifying economic events.
- Analyzing and interpreting information.

Accounting is “an information system that identifies, records, and communicates the economic events of an organization to interested users.”

Instructions
Categorize the accounting tasks performed by Briggs as relating to either the identification (I), recording (R), or communication (C) aspects of accounting.

E1-2B  (a) The following are users of financial statements.

- Customers
- Securities and Exchange Commission
- Internal Revenue Service
- Investors
- Labor unions
- Suppliers
- Factory manager
- Human resource worker
- Vice-president of Finance

Instructions
Identify the users as being either external users or internal users.

(b) The following questions could be asked by an internal user or an external user.

- What price should we set for our product?
- Did the company earn a satisfactory income?
- Should we hire more employees?
- How does the company’s profitability compare to other companies?
- What does it cost us to manufacture each unit produced?
- Which product should we emphasize?
- Will the company be able to provide a return to its stockholders?

Instructions
Identify each of the questions as being more likely asked by an internal user or an external user.

E1-3B  Ron Turner, president of Bears Company, has instructed Rex Grossman, the head of the accounting department for Bears Company, to report the company’s land in the company’s accounting reports at its market value of $225,000 instead of its cost of $125,000. Turner says, “Showing the land at $225,000 will make our company look like a better investment when we try to attract new investors next month.”

Instructions
Explain the ethical situation involved for Rex Grossman, identifying the stakeholders and the alternatives.

E1-4B  The following situations involve accounting principles and assumptions.

1. Donkey Company owns land that is worth substantially more than it originally cost. In an effort to provide more relevant information, Donkey reports the land at market value in its accounting reports.
2. Benjamin Company includes in its accounting records only transaction data that can be expressed in terms of money.
3. Josh Borke, owner of Josh’s MovieHouse, records his personal living costs as expenses of the MovieHouse.

Instructions
Use accounting concepts.
Instructions

For each of the three situations, say if the accounting method used is correct or incorrect. If correct, identify which principle or assumption supports the method used. If incorrect, identify which principle or assumption has been violated.

E1-5B Muhammed Cleaners has the following balance sheet items.

<table>
<thead>
<tr>
<th>Accounts payable</th>
<th>Accounts receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Notes payable</td>
</tr>
<tr>
<td>Cleaning equipment</td>
<td>Rent payable</td>
</tr>
<tr>
<td>Cleaning supplies</td>
<td>Common stock</td>
</tr>
</tbody>
</table>

Instructions

Classify each item as an asset, liability, or stockholders’ equity.

E1-6B Selected transactions for Natural Lawn Care Company are listed below.

1. Made cash investment to start business.
2. Purchased equipment on account.
3. Paid salaries.
4. Billed customers for services performed.
5. Received cash from customers billed in (4).
7. Incurred advertising expense on account.
8. Purchased additional equipment for cash.
9. Received cash from customers when service was performed.

Instructions

List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and stockholders’ equity. For example, the first answer is: (1) Increase in assets and increase in stockholders’ equity.

E1-7B Alexis Computer Timeshare Company entered into the following transactions during May 2008.

1. Purchased computer terminals for $15,000 from Digital Daze on account.
2. Paid $3,000 cash for May rent on storage space.
3. Received $12,000 cash from customers for contracts billed in April.
4. Provided computer services to Johnson Construction Company for $2,500 cash.
5. Paid Northern Illinois Power Co. $7,000 cash for energy usage in May.
6. Stockholders invested an additional $25,000 in the business.
7. Paid Digital Daze for the terminals purchased in (1) above.
8. Incurred advertising expense for May of $900 on account.

Instructions

Indicate with the appropriate letter whether each of the transactions above results in:

(a) an increase in assets and a decrease in assets.
(b) an increase in assets and an increase in stockholders’ equity.
(c) an increase in assets and an increase in liabilities.
(d) a decrease in assets and a decrease in stockholders’ equity.
(e) a decrease in assets and a decrease in liabilities.
(f) an increase in liabilities and a decrease in stockholders’ equity.
(g) an increase in stockholders’ equity and a decrease in liabilities.

E1-8B An analysis of the transactions made by Nile & Co., a certified public accounting firm, for the month of August is shown on the next page. Each increase and decrease in stockholders’ equity is explained.
E1-9B An analysis of transactions for Nile & Co. was presented in E1–8B.

Instructions
(a) Describe each transaction that occurred for the month.
(b) Determine how much stockholders’ equity increased for the month.
(c) Compute the amount of net income for the month.

E1-10B Rose Company had the following assets and liabilities on the dates indicated.

<table>
<thead>
<tr>
<th>December 31</th>
<th>Total Assets</th>
<th>Total Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$400,000</td>
<td>$240,000</td>
</tr>
<tr>
<td>2008</td>
<td>$460,000</td>
<td>$280,000</td>
</tr>
<tr>
<td>2009</td>
<td>$590,000</td>
<td>$360,000</td>
</tr>
</tbody>
</table>

Rose began business on January 1, 2007, with an investment of $100,000.

Instructions
From an analysis of the change in stockholders’ equity during the year, compute the net income (or loss) for:
(a) 2007, assuming Rose paid dividends of $20,000 for the year.
(b) 2008, assuming stockholders made an additional investment of $55,000 and Rose paid no dividends in 2008.
(c) 2009, assuming stockholders made an additional investment of $10,000 and Rose paid dividends of $30,000 in 2009.

E1-11B Two items are omitted from each of the following summaries of balance sheet and income statement data for two corporations for the year 2008, Pat Montgomery and Syed Enterprises.

Prepare financial statements. (SO 8)
Determine net income (or loss). (SO 7)
Analyze financial statements items. (SO 6, 7)
Instructions
Determine the missing amounts.

E1-12B  The following information relates to Mildred Co. for the year 2008.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock, January 1, 2008</td>
<td>$48,000</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>$1,800</td>
</tr>
<tr>
<td>Dividends during 2008</td>
<td>7,000</td>
</tr>
<tr>
<td>Rent expense</td>
<td>$12,000</td>
</tr>
<tr>
<td>Service revenue</td>
<td>67,000</td>
</tr>
<tr>
<td>Utilities expense</td>
<td>3,100</td>
</tr>
<tr>
<td>Salaries expense</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Instructions
After analyzing the data, prepare an income statement and a retained earnings statement for the year ending December 31, 2008. Beginning retained earnings was $18,000.

E1-13B  Mary Valente is the bookkeeper for Hair Company. Mary has been trying to get the balance sheet of Hair Company to balance. Hair’s balance sheet is shown below.

**HAIR COMPANY**

**Balance Sheet**

**December 31, 2008**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Accounts payable $18,000</td>
</tr>
<tr>
<td>Supplies 7,000</td>
<td>Accounts receivable $(10,500)</td>
</tr>
<tr>
<td>Equipment 48,000</td>
<td>Common stock 45,000</td>
</tr>
<tr>
<td>Dividends 6,000</td>
<td>Retained earnings 19,500</td>
</tr>
<tr>
<td><strong>Total assets $72,000</strong></td>
<td><strong>Total liabilities and stockholders’ equity $72,000</strong></td>
</tr>
</tbody>
</table>

Instructions
Prepare a correct balance sheet.

E1-14B  Sunflower Inc., a public camping ground near the Lake Mead National Recreation Area, has compiled the following financial information as of December 31, 2008.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues during 2008—camping fees</td>
<td>$150,000</td>
</tr>
<tr>
<td>Revenues during 2008—general store</td>
<td>60,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>12,000</td>
</tr>
<tr>
<td>Cash on hand</td>
<td>21,000</td>
</tr>
<tr>
<td>Original cost of equipment</td>
<td>99,000</td>
</tr>
<tr>
<td>Common stock 40,000</td>
<td></td>
</tr>
<tr>
<td>Market value of equipment</td>
<td>$140,000</td>
</tr>
<tr>
<td>Notes payable</td>
<td>50,000</td>
</tr>
<tr>
<td>Expenses during 2008</td>
<td>145,000</td>
</tr>
<tr>
<td>Supplies on hand</td>
<td>3,500</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>?</td>
</tr>
</tbody>
</table>

Instructions
(a) Determine Sunflower’s net income for 2008.
(b) Prepare a balance sheet for Sunflower as of December 31, 2008.

E1-15B  Presented below is financial information related to the 2008 operations of Breezy Cruise Company.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance expense</td>
<td>$89,000</td>
</tr>
<tr>
<td>Property tax expense (on dock facilities)</td>
<td>11,000</td>
</tr>
<tr>
<td>Salaries expense</td>
<td>150,000</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>5,500</td>
</tr>
<tr>
<td>Ticket revenue</td>
<td>370,000</td>
</tr>
</tbody>
</table>

Instructions
Prepare the 2008 income statement for Breezy Cruise Company.
Presented below is information related to Kevin Carr, Attorney at Law Inc.

Retained earnings, January 1, 2008 $ 37,000
Legal service revenue—2008 340,000
Total expenses—2008 231,000
Assets, January 1, 2008 150,000
Liabilities, January 1, 2008 63,000
Assets, December 31, 2008 210,000
Liabilities, December 31, 2008 103,000
Dividends—2008 89,000

Instructions
Prepare the 2008 retained earnings statement for Kevin Carr’s legal practice.
On April 1, Vinnie’s Travel Agency was established. The following transactions were completed during the month.

1. Stockholders invested $15,000 cash to start the agency.
2. Paid $600 cash for April office rent.
3. Purchased office equipment for $3,000 cash.
4. Incurred $700 of advertising costs in the *Chicago Tribune*, on account.
5. Paid $800 cash for office supplies.
6. Earned $11,000 for services rendered: $3,000 cash is received from customers, and the balance of $8,000 is billed to customers on account.
7. Paid a $500 cash dividend.
8. Paid *Chicago Tribune* amount due in transaction (4).
10. Received $4,000 in cash from customers who have previously been billed in transaction (6).

Instructions

(a) Prepare a tabular analysis of the transactions using the following column headings: Cash, Accounts Receivable, Supplies, Office Equipment, Accounts Payable, Common Stock, and Retained Earnings.

(b) From an analysis of the column Retained Earnings, compute the net income or net loss for April.

Jenny Brown opened a law office Jenny Brown, Attorney at Law, on July 1, 2008. On July 31, the balance sheet showed Cash $5,000, Accounts Receivable $1,500, Supplies $500, Office Equipment $6,000, Accounts Payable $4,200, Common Stock $5,000, and Retained Earnings $3,800. During August the following transactions occurred.

1. Collected $1,200 of accounts receivable.
2. Paid $2,800 cash on accounts payable.
3. Earned revenue of $8,000 of which $3,000 is collected in cash and the balance is due in September.
4. Purchased additional office equipment for $2,000, paying $400 in cash and the balance on account.
5. Paid salaries $2,500, rent for August $900, and advertising expenses $400.
6. Paid a $700 cash dividend.
7. Received $1,500 from Standard Federal Bank—money borrowed on a note payable.
8. Incurred utility expenses for month on account $220.

Instructions

(a) Prepare a tabular analysis of the August transactions beginning with July 31 balances. The column headings should be as follows: Cash + Accounts Receivable + Supplies + Office Equipment = Notes Payable + Accounts Payable + Common Stock + Retained Earnings.

(b) Prepare an income statement for August, a retained earnings statement for August, and a balance sheet at August 31.

Divine Creations Co., a company that provides craft opportunities was started on June 1 with an investment of $15,200 cash in the business. Following are the assets and liabilities of the company at June 30 and the revenues and expenses for the month of June.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$13,750</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>3,000</td>
</tr>
<tr>
<td>Service Revenue</td>
<td>7,000</td>
</tr>
<tr>
<td>Craft Supplies</td>
<td>2,000</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>400</td>
</tr>
<tr>
<td>Equipment</td>
<td>10,000</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>$9,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>1,200</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>1,600</td>
</tr>
<tr>
<td>Gas and Oil Expense</td>
<td>200</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>150</td>
</tr>
</tbody>
</table>

Stockholders made no additional investments in June, but a dividend of $1,300 in cash was paid during the month.

Instructions

(a) Prepare an income statement and a retained earnings statement for the month of June and a balance sheet at June 30, 2008.
(b) Prepare an income statement and a retained earnings statement for June assuming the following data are not included above: (1) $900 of revenue was earned and billed but not collected at June 30, and (2) $150 of gas and oil expense was incurred but not paid.

P1-4C Michelle Rodriguez started her own consulting firm, Rodriguez Consulting, on May 1, 2008. The following transactions occurred during the month of May.

May 1 Michelle invested $7,000 cash in the business.
2 Paid $900 for office rent for the month.
3 Purchased $600 of supplies on account.
5 Paid $125 to advertise in the County News.
9 Received $4,000 cash for services provided.
12 Paid a $1,000 cash dividend.
15 Performed $6,400 of services on account.
17 Paid $2,500 for employee salaries.
20 Paid for the supplies purchased on account on May 3.
23 Received a cash payment of $4,000 for services provided on account on May 15.
26 Borrowed $5,000 from the bank on a note payable.
29 Purchased office equipment for $3,100 on account.
30 Paid $175 for utilities.

Instructions
(a) Show the effects of the previous transactions on the accounting equation using the following format.

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash</th>
<th>Accounts Receivable</th>
<th>Supplies</th>
<th>Office Equipment</th>
<th>Notes Payable</th>
<th>Accounts Payable</th>
<th>Common Stock</th>
<th>Retained Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Include explanations for any changes in the Retained Earnings account in your analysis.

(b) Prepare an income statement for the month of May.
(c) Prepare a balance sheet at May 31, 2008.

P1-5C Financial statement information about four different companies is as follows.

<table>
<thead>
<tr>
<th></th>
<th>Donatello Company</th>
<th>Raphael Company</th>
<th>Michelangelo Company</th>
<th>Leonardo Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2008</td>
<td>$ 80,000</td>
<td>$90,000</td>
<td>(g)</td>
<td>$150,000</td>
</tr>
<tr>
<td></td>
<td>Liabilities</td>
<td></td>
<td>80,000</td>
<td>(j)</td>
</tr>
<tr>
<td></td>
<td>Stockholders’ equity</td>
<td>(a)</td>
<td>49,000</td>
<td>90,000</td>
</tr>
<tr>
<td>December 31, 2008</td>
<td>(b) 112,000</td>
<td>72,000</td>
<td>180,000</td>
<td>(k)</td>
</tr>
<tr>
<td></td>
<td>Liabilities</td>
<td></td>
<td>(h)</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>Stockholders’ equity</td>
<td>40,000</td>
<td>70,000</td>
<td>145,000</td>
</tr>
</tbody>
</table>

Stockholders’ equity changes in year

- Additional investment (c) 8,000
- Dividends (f) 12,000
- Total revenues (i) 500,000
- Total expenses (l) 350,000

Instructions
(a) Determine the missing amounts. (*Hint: For example, to solve for (a), Assets – Liabilities = Stockholders’ equity = $32,000.*

(b) Write a memorandum explaining the sequence for preparing financial statements and the interrelationship of the retained earnings statement to the income statement and balance sheet.