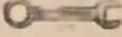


16. Which of these items are liabilities of White Glove Cleaning Service?
- (a) Cash. (f) Equipment.  
 (b) Accounts payable. (g) Salaries and wages payable.  
 (c) Dividends. (h) Service revenue.  
 (d) Accounts receivable. (i) Rent expense.  
 (e) Supplies.
17. How are each of the following financial statements interrelated? (a) Retained earnings statement and income statement. (b) Retained earnings statement and balance sheet. (c) Balance sheet and statement of cash flows.
18.  What is the purpose of the management discussion and analysis section (MD&A)?
19.  Why is it important for financial statements to receive an unqualified auditor's opinion?
20.  What types of information are presented in the notes to the financial statements?
21. The accounting equation is  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ . Appendix A, at the end of this textbook, reproduces Apple's financial statements. Replacing words in the equation with dollar amounts, what is Apple's accounting equation at September 27, 2014?

## ► BRIEF EXERCISES

Describe forms of business organization.

(LO 1), K

**BE1-1** Match each of the following forms of business organization with a set of characteristics: sole proprietorship (SP), partnership (P), corporation (C).

- (a) P Shared control, tax advantages, increased skills and resources.  
 (b) SP Simple to set up and maintains control with owner.  
 (c) C Easier to transfer ownership and raise funds, no personal liability.

Identify users of accounting information.

(LO 1), K



**BE1-2** Match each of the following types of evaluation with one of the listed users of accounting information.

- Trying to determine whether the company complied with tax laws.
  - Trying to determine whether the company can pay its obligations.
  - Trying to determine whether an advertising proposal will be cost-effective.
  - Trying to determine whether the company's net income will result in a stock price increase.
  - Trying to determine whether the company should employ debt or equity financing.
- (a) \_\_\_\_\_ Investors in common stock. (d) \_\_\_\_\_ Chief Financial Officer.  
 (b) \_\_\_\_\_ Marketing managers. (e) \_\_\_\_\_ Internal Revenue Service.  
 (c) \_\_\_\_\_ Creditors.

Classify items by activity.

(LO 2), K

**BE1-3** Indicate in which part of the statement of cash flows each item would appear: operating activities (O), investing activities (I), or financing activities (F).

- (a) O Cash received from customers.  
 (b) F Cash paid to stockholders (dividends).  
 (c) F Cash received from issuing new common stock.  
 (d) O Cash paid to suppliers.  
 (e) I Cash paid to purchase a new office building.

Determine effect of transactions on stockholders' equity.

(LO 3), C

**BE1-4** Presented below are a number of transactions. Determine whether each transaction affects common stock (C), dividends (D), revenues (R), expenses (E), or does not affect stockholders' equity (NSE). Provide titles for the revenues and expenses.

- Costs incurred for advertising.
- Cash received for services performed.
- Costs incurred for insurance.
- Amounts paid to employees.
- Cash distributed to stockholders.
- Cash received in exchange for allowing the use of the company's building.
- Costs incurred for utilities used.
- Cash purchase of equipment.
- Cash received from investors.

Prepare a balance sheet.

(LO 3), AP

**BE1-5** In alphabetical order below are balance sheet items for Karol Company at December 31, 2017. Prepare a balance sheet following the format of Illustration 1-7 (page 13).

Accounts payable	\$65,000
Accounts receivable	71,000
Cash	22,000
Common stock	18,000
Retained earnings	10,000

**BE1-6** Eskimo Pie Corporation markets a broad range of frozen treats, including its famous Eskimo Pie ice cream bars. The following items were taken from a recent income statement and balance sheet. In each case, identify whether the item would appear on the balance sheet (BS) or income statement (IS).

- |                                   |                                    |
|-----------------------------------|------------------------------------|
| (a) <u>IS</u> Income tax expense. | (f) <u>IS</u> Sales revenue.       |
| (b) <u>BS</u> Inventory.          | (g) <u>IS</u> Cost of goods sold.  |
| (c) <u>BS</u> Accounts payable.   | (h) <u>BS</u> Common stock.        |
| (d) <u>BS</u> Retained earnings.  | (i) <u>BS</u> Accounts receivable. |
| (e) <u>BS</u> Equipment.          | (j) <u>IS</u> Interest expense.    |

Determine where items appear on financial statements.

(LO 3), K

**BE1-7** Indicate which statement you would examine to find each of the following items: income statement (IS), balance sheet (BS), retained earnings statement (RES), or statement of cash flows (SCF).

- Revenue during the period.
- Supplies on hand at the end of the year.
- Cash received from issuing new bonds during the period.
- Total debts outstanding at the end of the period.

Determine proper financial statement.

(LO 3), K



**BE1-8** Use the basic accounting equation to answer these questions.

- The liabilities of Lantz Company are \$90,000 and the stockholders' equity is \$230,000. What is the amount of Lantz Company's total assets?
- The total assets of Salley Company are \$170,000 and its stockholders' equity is \$80,000. What is the amount of its total liabilities?
- The total assets of Brandon Co. are \$800,000 and its liabilities are equal to one-fourth of its total assets. What is the amount of Brandon Co.'s stockholders' equity?

Use basic accounting equation.

(LO 3), AP

**BE1-9** At the beginning of the year, Morales Company had total assets of \$800,000 and total liabilities of \$500,000. (Treat each item independently.)

- If total assets increased \$150,000 during the year and total liabilities decreased \$80,000, what is the amount of stockholders' equity at the end of the year?
- During the year, total liabilities increased \$100,000 and stockholders' equity decreased \$70,000. What is the amount of total assets at the end of the year?
- If total assets decreased \$80,000 and stockholders' equity increased \$110,000 during the year, what is the amount of total liabilities at the end of the year?

Use basic accounting equation.

(LO 3), AP

**BE1-10** Indicate whether each of these items is an asset (A), a liability (L), or part of stockholders' equity (SE).

- |                                 |                    |
|---------------------------------|--------------------|
| (a) Accounts receivable.        | (d) Supplies.      |
| (b) Salaries and wages payable. | (e) Common stock.  |
| (c) Equipment.                  | (f) Notes payable. |

Identify assets, liabilities, and stockholders' equity.

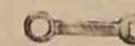
(LO 3), K

**BE1-11** Which is **not** a required part of an annual report of a publicly traded company?

- |  |   |
|--|---|
| (a) Statement of cash flows.           | (c) Management discussion and analysis. |
| (b) Notes to the financial statements. | (d) All of these are required.          |

Determine required parts of annual report.

(LO 3), K



## DO IT!

## EXERCISES

**DO IT! 1-1** Identify each of the following organizational characteristics with the business organizational form or forms with which it is associated.

- |                                   |                                  |
|-----------------------------------|----------------------------------|
| (a) Easier to transfer ownership. | (d) Tax advantages.              |
| (b) Easier to raise funds.        | (e) No personal legal liability. |
| (c) More owner control.           |                                  |

Identify benefits of business organization forms.

(LO 1), C

**DO IT! 1-2** Classify each item as an asset, liability, common stock, revenue, or expense.

- Issuance of ownership shares.
- Land purchased.
- Amounts owed to suppliers.
- Bonds payable.
- Amount earned from selling a product.
- Cost of advertising.

Classify financial statement elements.

(LO 2), K

Beeson Company  
Balance Sheet  
December 31, 2017

Assets

Cash	18,000
Supplies	9,500
Equipment	40,000
Dividends	8,000
Accounts Receivable	12,000
Total Assets	<u>\$ 87,500</u>

Liabilities and stockholders' Equity

Accounts payable	\$ 16,000
Common Stock	\$ 40,000
Retained Earnings	\$ 31,500

Total liabilities and  
Stockholders' Equity \$ 87,500