Part 1

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Part 2

- Question 1: What is the accounting equation? Why is this important to the practice of accounting? Please provide an example of how the accounting equation works with recording transactions within a business.
- Question 2: Is there a difference between bookkeeping and accounting? Discuss.
- Question 3: Accounting reports past performance. How can this be useful when planning future operations?

Describe the general requirements for attaining these certifications.

LO 1-1

Exercise 1-3A *Identifying the reporting entities*

Karen White helped organize a charity fund to help cover the medical expenses of a friend of hers who was seriously injured in a bicycle accident. The fund was named Vicky Hill Recovery Fund (VHRF). Karen contributed $1,000 of her own money to the fund. The $1,000 was paid to WKUX, a local radio station that designed and played an advertising campaign to educate the public as to the need for help. The campaign resulted in the collection of $20,000 cash. VHRF paid $12,000 to Mercy Hospital to cover Vicky's outstanding hospital cost. The remaining $8,000 was contributed to the National Cyclist Fund.

Required

Identify the entities that were mentioned in the scenario and explain what happened to the cash accounts of each entity that you identify.

LO 1-2

Exercise 1-4A *Missing information in the accounting equation*

Required

Calculate the missing amounts in the following table.

					Stockholders' Equity		
Company	Assets	=	Liabilities	+	Company Stock	+	Retained Earnings
A	$?		$25,000		48,000		$50,000
B	40,000		?		7,000		30,000
C	75,000		15,000		?		42,000
D	125,000		45,000		60,000		?

LO 1-2

Exercise 1-5A *Effect of events on the accounting equation*

Olive Enterprises experienced the following events during 2016:

1. Acquired cash from the issue of common stock.
2. Paid cash to reduce the principal on a bank note.
3. Sold land for cash at an amount equal to its cost.
4. Provided services to clients for cash.
5. Paid utilities expenses with cash.
6. Paid a cash dividend to the stockholders.

Required

Explain how each of the events would affect the accounting equation by writing the letter I for increase, the letter D for decrease, and NA for does not affect under each of the components of the accounting equation. The first event is shown as an example.

					Stockholders' Equity		
Event Number	Assets	=	Liabilities	+	Common Stock	+	Retained Earnings
1	I		NA		I		NA

Exercise 1-6A *Effect of transactions on general ledger accounts*

LO 1-2

At the beginning of 2016, Better Corp.'s accounting records had the following general ledger accounts and balances.

BETTER CORP.
Accounting Equation

Event	Assets		=	Liabilities	+	Stockholders' Equity		Acct. Titles for RE
	Cash	Land		Notes Payable		Common Stock	Retained Earnings	
Balance 1/1/2016	10,000	20,000		12,000		7,000	11,000	

Better Corp. completed the following transactions during 2016:

1. Purchased land for $5,000 cash.
2. Acquired $25,000 cash from the issue of common stock.
3. Received $75,000 cash for providing services to customers.
4. Paid cash operating expenses of $42,000.
5. Borrowed $10,000 cash from the bank.
6. Paid a $5,000 cash dividend to the stockholders.
7. Determined that the market value of the land purchased in event 1 is $35,000.

Required

a. Record the transactions in the appropriate general ledger accounts. Record the amounts of revenue, expense, and dividends in the Retained Earnings column. Provide the appropriate titles for these accounts in the last column of the table.

b. As of December 31, 2016, determine the total amount of assets, liabilities, and stockholders' equity and present this information in the form of an accounting equation.

c. What is the amount of total assets, liabilities, and stockholders' equity as of January 1, 2017?

Exercise 1-7A *Missing information and recording events*

LO 1-2

As of December 31, 2016, Moss Company had total cash of $195,000, notes payable of $90,500, and common stock of $84,500. During 2017, Moss earned $42,000 of cash revenue, paid $24,000 for cash expenses, and paid a $3,000 cash dividend to the stockholders.

Required

a. Determine the amount of retained earnings as of December 31, 2016.

b. Create an accounting equation and record the beginning account balances under the appropriate elements.

c. Record the revenue, expense, and dividend events under the appropriate elements of the accounting equation created in Requirement *b*.

d. Prove the equality of the accounting equation as of December 31, 2017.

e. Identify the beginning and ending balances in the Cash and Common Stock accounts. Explain why the beginning and ending balances in the Cash account are different but the beginning and ending balances in the Common Stock account remain the same.

Exercise 1-8A *Account titles and the accounting equation*

LO 1-2

The following account titles were drawn from the general ledger of Holt Food Supplies, Incorporated (HFSI): Computers, Operating Expenses, Rent Revenue, Building, Cash, Notes Payable, Land, Utilities Payable, Utilities Expense, Trucks, Gasoline Expense, Retained Earnings, Supplies, Accounts Payable, Office Furniture, Salaries Expense, Common Stock, Service Revenue, Interest Expense, Dividends, Supplies Expense.

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Required

a. Create an accounting equation using the elements assets, liabilities, and stockholders' equity. List each account title under the element of the accounting equation to which it belongs.
b. Will all businesses have the same number of accounts? Explain your answer.

LO 1-3

Exercise 1-9A *Components of the accounting equation*

Jones Enterprises was started when it acquired $6,000 cash from creditors and $10,000 from owners. The company immediately purchased land that cost $12,000.

Required

a. Record the events under an accounting equation.
b. After all events have been recorded, Jones's obligations to creditors represent what percent of total assets?
c. After all events have been recorded, Jones's stockholders' equity represents what percent of total assets?
d. Assume the debt is due. Given that Jones has $10,000 in stockholders' equity, can the company repay the creditors at this point? Why or why not?

LO 1-3

Exercise 1-10A *Components of the accounting equation*

	Assets	=	Liabilities	+	Common Stock	+	Retained Earnings
Allen	$10,000	=	$7,500	+	$2,000	+	$ 500
White	$12,000	=	$3,000	+	$7,200	+	$1,800

Required

a. Based on this information alone, can you determine whether White can pay a $2,000 cash dividend? Why or why not?
b. Reconstruct the accounting equation for each company using percentages on the right side of the equation instead of dollar values. Which company is more financially stable? Why?
c. Assume Allen incurs a $3,500 operating loss. The remaining assets are sold for the value shown on the books, and the cash proceeds are distributed to the creditors and investors. How much money will be paid to creditors and how much will be paid to investors?
d. Assume White incurs a $3,500 operating loss. The remaining assets are sold for the value shown on the books, and the cash proceeds are distributed to the creditors and investors. How much money will be paid to creditors and how much will be paid to investors?

LO 1-3

Exercise 1-11A *Differences between interest and dividends*

The following account balances were drawn from the financial records of Kent Company (KC) as of January 1, 2016. Assets, $35,000; Liabilities, $6,000; Common Stock, $12,000; and Retained Earnings, $17,000. KC has agreed to pay the creditors $400 of interest per year. Further, KC agrees that for the 2016 fiscal year any annual earnings remaining after the interest charges will be paid out as dividends to the owners.