

Chapter 1

Business Decisions and Financial Accounting

ANSWERS TO QUESTIONS

1. Accounting is a system of analyzing, recording, and summarizing the results of a business's activities and then reporting them to decision makers.
3. Financial accounting focuses on preparing and using the financial statements that are made available to owners and external users such as customers, creditors, and potential investors who are interested in reading them. Managerial accounting focuses on other accounting reports that are not released to the general public, but instead are prepared and used by employees, supervisors, and managers who run the company.
5. The business itself, not the individual shareholders who own the business, is viewed as owning the assets and owing the liabilities on its balance sheet. A business's balance sheet includes the assets, liabilities, and shareholders' equity of only that business and not the personal assets, liabilities, and equity of the shareholders. The financial statements of a company show the results of the business activities of only that company.
7. The heading of each of the four primary financial statements should include the following:
 - (a) Name of the business
 - (b) Name of the statement
 - (c) Date of the statement, or the period of time
9. The income statement, statement of retained earnings, and statement of cash flows would be dated "For the Year Ended December 31, 2014," because they report the inflows and outflows of resources during a period of time. In contrast, the balance sheet would be dated "At December 31, 2014," because it represents the assets, liabilities and shareholders' equity at a specific date.
11. The accounting equation for the balance sheet is: $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$. Assets are the economic resources controlled by the company. Liabilities are amounts owed by the business. Shareholders' equity is the owners' claims to the business. It includes amounts contributed to the business (by investors through purchasing the company's shares) and the amounts earned and accumulated through profitable business operations.

13. The equation for the statement of retained earnings is: Beginning Retained Earnings + Net Income - Dividends = Ending Retained Earnings. It begins with beginning-of-the-year retained earnings which is the prior year's ending retained earnings reported on the prior year's 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-year balance sheet.
15. Currently, the Chartered Professional Accountants of Canada (CPA) is given the primary responsibility for setting the detailed rules that become Generally Accepted Accounting Principles (GAAP) in Canada. (Internationally, the International Accounting Standards Board (IASB) has the responsibility for setting accounting rules known as International Financial Reporting Standards (IFRS).)
17. An ethical dilemma is a situation where following one moral principle would result in violating another. Three steps that should be considered when evaluating ethical dilemmas are:
- (a) Identify who will benefit from the situation (often, the manager or employee) and how others will be harmed (other employees, the company's reputation, owners, creditors, and the public in general).
 - (b) Identify the alternative courses of action.
 - (c) Choose the alternative that is the most ethical – that which you would be proud to have reported in the news media. Often, there is no one right answer and hard choices will need to be made. Following strong ethical practices is a key part of ensuring good financial reporting by businesses of all sizes.

**Authors' Recommended Solution Time
(Time in minutes)**

Mini-exercises		Exercises		Problems		Skills Development Cases*		Continuing Case	
No.	Time	No.	Time	No.	Time	No.	Time	No.	Time
1	3	1	10	CP1-1	45	1	20	1	45
2	11	2	10	CP1-2	10	2	20		
3	12	3	15	CP1-3	60	3	30		
4	6	4	25	PA1-1	45	4	30		
5	6	5	25	PA1-2	10	5	20		
6	6	6	10	PA1-3	50	6	30		
7	6	7	15	PB1-4	45	7	45		
8	4	8	10	PA1-5	50				
9	4	9	20	PB1-1	45				
10	3	10	10	PB1-2	10				
11	3	11	3	PB1-3	45				
12	6	12	3	PB1-4	10				
13	6			PB1-5	50				
14	6								
15	6								
16	12								

* Due to the nature of cases, it is very difficult to estimate the amount of time students will need to complete them. 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, and by offering suggestions (about how to research topics or what companies to select). The skills developed by these cases are indicated below.

Case	Financial Analysis	Research	Ethical Reasoning	Critical Thinking	Technology	Writing	Teamwork
1	x						
2	x						
3	x	x			x	x	x
4	x		x	x			
5	x			x		x	
6	x			x		x	
7	x				x		

ANSWERS TO MINI-EXERCISES

M1-1

Abbreviation

Full Designation

- | | |
|---------|--|
| 1. CPA | Chartered Professional Accountant |
| 2. GAAP | Generally Accepted Accounting Principles |
| 3. IASB | International Accounting Standards Board |
| 4. CSA | Canadian Securities Administrators |
| 5. IFRS | International Financial Reporting Standards |
| 6. ASPE | Accounting Standards for Private Enterprises |

M1-3

	Term	Definition
<u>F</u>	(1) Relevance	A. The financial reports of a business are assumed to include the results of only that business's activities.
<u>I</u>	(2) Faithful Representation	B. The resources owned by a business.
<u>C</u>	(3) Comparability	C. Financial information that can be compared across businesses because similar accounting methods have been applied.
<u>A</u>	(4) Separate Entity	D. The total amounts invested and reinvested in the business by its owners.
<u>B</u>	(5) Assets	E. The costs of business necessary to earn revenues.
<u>H</u>	(6) Liabilities	F. A feature of financial information that allows it to influence a decision.
<u>D</u>	(7) Shareholders' Equity	G. Earned by selling goods or services to customers.
<u>G</u>	(8) Revenues	H. The amounts owed by the business.
<u>E</u>	(9) Expenses	I. Financial information that depicts the economic substance of business activities.
<u>J</u>	(10) Unit of Measure	J. The assumption that states that results of business activities should be reported in an appropriate monetary unit.

M1-5

<u>A (B/S)</u>	(1) Accounts Receivable
<u>R (I/S)</u>	(2) Sales Revenue
<u>A (B/S)</u>	(3) Equipment
<u>E (I/S)</u>	(4) Supplies Expense
<u>A (B/S)</u>	(5) Cash
<u>E (I/S)</u>	(6) Advertising Expense
<u>L (B/S)</u>	(7) Accounts Payable
<u>SE(B/S)</u>	(8) Retained Earnings

M1-7

<u>L (B/S)</u>	(1) Accounts Payable
<u>SE(B/S)</u>	(2) Contributed Capital
<u>A (B/S)</u>	(3) Equipment
<u>A (B/S)</u>	(4) Accounts Receivable
<u>L (B/S)</u>	(5) Notes Payable
<u>A (B/S)</u>	(6) Cash
<u>SE(B/S)</u>	(7) Retained Earnings
<u>E (I/S)</u>	(8) Selling and Administrative Expenses
<u>R (I/S)</u>	(9) Sales Revenue
<u>A (B/S)</u>	(10) Supplies

M1-9

	Element	Financial Statement
<u>D</u>	(1) Cash Flows from Financing Activities	A. Balance Sheet
<u>B</u>	(2) Expenses	B. Income Statement
<u>D</u>	(3) Cash Flows from Investing Activities	C. Statement of Retained Earnings
<u>A</u>	(4) Assets	D. Statement of Cash Flows
<u>C</u>	(5) Dividends	
<u>B</u>	(6) Revenues	
<u>D</u>	(7) Cash Flows from Operating Activities	
<u>A</u>	(8) Liabilities	

M1-11

<u>(I)</u>	(1) Cash paid to purchase equipment
<u>O</u>	(2) Cash collected from clients
<u>I</u>	(3) Cash received from selling equipment
<u>(F)</u>	(4) Cash paid for dividends
<u>(O)</u>	(5) Cash paid to suppliers
<u>F</u>	(6) Cash received from issuing shares

M1-13

	Apple, Inc.	Google, Inc.	Intel Corp.
Contributed Capital	\$11	\$18	\$17
Dividends	0	0	4
Net Income	(a) 14	(d) 9	(g) 11
Retained Earnings, Beginning of Year	23	20	26
Retained Earnings, End of Year	(b) 37	(e) 29	(h) 33
Total Assets	(c) 75	(f) 59	(i) 63
Total Expenses	51	20	33
Total Liabilities	27	12	13
Total Revenues	65	29	44

Net income = Revenues – Expenses

Retained Earnings, End of Year = Retained Earnings Beginning of Year + Net Income – Dividends

Total Assets = Total Liabilities and Shareholders' Equity

M1-15

(a) (300) (b) 70 (c) 3,900. Electronic Arts was not profitable because its expenses (\$3,900) were greater than its revenues (\$3,600), resulting in the net loss of \$300 reported on the income statement.

The above amounts are determined using the various relationships that exist in the financial statements. Because this exercise excludes two pieces of information from both the income statement and statement of retained earnings, students must first work backwards from the balance sheet to the statement of retained earnings to the income statement. Although not required, the following statements show the given and missing information. The ?s in the balance sheet are determined from $A = L + SE$.

**Electronic Arts, Inc.
Income Statement
For the Year Ended xxxx**

Revenues	\$3,600
Expenses	<u>(c)</u>
Net Income (Loss)	(a)

**Electronic Arts, Inc.
Statement of Retained Earnings
For the Year Ended xxxx**

RE, beginning	\$370
Net income (loss)	(a)
Dividends	<u>(0)</u>
RE, ending	(b)

Electronic Arts, Inc. Balance Sheet At xxxx	
Total Assets	<u>\$4,900</u>
Liabilities and Shareholders' Equity	
Total Liabilities	<u>\$2,400</u>
Shareholders' Equity	
Contributed capital	\$2,430
Retained earnings	(b)
Total SE	?
Total Liabilities & SE	?

ANSWERS TO EXERCISES

E1-1

- a) Assets = Liabilities + Shareholders' Equity
= \$13,750 + \$4,450
= \$18,200
= Assets reported on the balance sheet
- b) Net Income = Revenue – Expenses
= \$10,500 - \$9,200
= \$1,300
= Net income reported on the income statement
- c) Beginning Retained Earnings (R/E) + Net Income – Dividends = Ending R/E
\$3,500 + \$1,300 - \$500 = \$4,300
- d) Beginning Cash + Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities = Ending Cash
\$1,000 + \$1,600 + (\$1,000) + (\$900) = \$700

E1-3

Req. 1

Designer Footwear Inc.
Balance Sheet
At November 1, 2014
(in thousands)

Assets	
Cash	\$ 45,570
Accounts Receivable	11,888
Property, Plant, and Equipment	233,631
Other Assets	<u>494,294</u>
Total Assets	<u>\$785,383</u>
Liabilities	
Accounts Payable	\$136,405
Notes Payable	99,044
Other Liabilities	<u>79,148</u>
Total Liabilities	<u>314,597</u>
Shareholders' Equity	
Contributed Capital	291,248
Retained Earnings	<u>179,538</u>
Total Shareholders' Equity	<u>470,786</u>
Total Liabilities and Shareholders' Equity	<u>\$785,383</u>

Req. 2

Most of the financing as of November 1 came from shareholders. The shareholders have financed \$470,786 of the total assets and creditors have financed only \$314,597 of the total assets of the company.

E1-5

	Req. 1 <u>Label</u>	Req. 2 <u>Type</u>
a. Coins, bullion, and currency	Inventory	A
b. Amounts Collectibles Canada owes to suppliers of coins, bullion and currency	Accounts Payable	L
c. Amounts Collectibles Canada can collect from customers	Accounts Receivable	A
d. Amounts owed to bank for loan to buy building	Notes Payable	L
e. Property on which buildings will be built	Land	A
f. Amounts distributed from profits to shareholders	Dividends	SE
g. Earned by Collectibles Canada by selling coin collecting supplies	Revenue	R
h. Unused paper in Collectibles Canada head office	Supplies	A
i. Cost of paper used up during month	Supplies Expense	E
j. Amounts contributed to Collectibles Canada by shareholders	Contributed Capital	SE

E1-7

HOME REALTY, INCORPORATED
Income Statement
For the Year Ended December 31, 2014

Revenue:	
Sales Revenue	<u>\$166,000</u>
Expenses:	
Selling Expenses	97,000
Promotion and Advertising Expenses	9,025
Interest Expense	6,300
Income Tax Expense	<u>18,500</u>
Total Expenses	<u>130,825</u>
Net Income	<u>\$ 35,175</u>

Note that dividends declared are not an expense. As a distribution of the company's prior profits, they will be deducted from Retained Earnings.

E1-9

Req. 1

MONCTON CLAY CORPORATION
Income Statement
For the Month Ended January 31, 2014

Total Revenues	\$131,000
Operating Expenses	<u>90,500</u>
Net Income	<u>\$ 40,500</u>

MONCTON CLAY CORPORATION
Balance Sheet
At January 31, 2014

Assets:	
Cash	\$30,800
Accounts Receivable	25,300
Supplies	<u>40,700</u>
Total Assets	<u>\$96,800</u>
Liabilities:	
Accounts Payable	<u>\$25,700</u>
Total Liabilities	<u>25,700</u>
Shareholders' Equity:	
Contributed Capital (2,600 shares)	30,600
Retained Earnings (from the income statement above)	<u>40,500</u>
Total Shareholders' Equity	<u>71,100</u>
Total Liabilities and Shareholders' Equity	<u>\$96,800</u>

Req. 2

Moncton Clay Corporation should have no problem paying its liabilities since it has more total assets than total liabilities. In fact, it has over three times as many total assets as liabilities ($\$96,800/\$25,700 = 3.77$ times). This means that Moncton Clay Corporation could pay its liabilities more than three times over if all assets on hand at January 31, 2014, were converted to cash. Of course, not all assets will be converted into cash right away. Even so, looking only at the amount of cash at the end of January, we see that Moncton Clay has enough cash to cover all its liabilities. This is a very strong financial position.

E1-11

- (O) 1. Cash paid to suppliers and employees
- O 2. Cash received from customers
- F 3. Cash received from borrowing long-term debt
- F 4. Cash received from issuing shares
- (I) 5. Cash paid to purchase equipment

ANSWERS TO COACHED PROBLEMS

CP1-1

Req. 1

NUCLEAR COMPANY	
Income Statement	
For the Year Ended December 31, 2014	
Sales Revenue	<u>\$ 88,000</u>
Expenses	
Operating Expenses	57,200
Other Expenses	<u>8,850</u>
Total Expenses	<u>66,050</u>
Net Income	<u><u>\$ 21,950</u></u>

Req.2

NUCLEAR COMPANY	
Statement of Retained Earnings	
For the Year Ended December 31, 2014	
Retained Earnings, January 1, 2014	\$ 0
Add: Net Income	21,950
Subtract: Dividends	<u>(200)</u>
Retained Earnings, December 31, 2014	<u><u>\$ 21,750</u></u>

Req. 3

NUCLEAR COMPANY	
Balance Sheet	
At December 31, 2014	
Assets	
Cash	\$ 12,000
Accounts Receivable	59,500
Supplies	8,000
Equipment	<u>36,000</u>
Total Assets	<u><u>\$115,500</u></u>
Liabilities	
Accounts Payable	\$ 30,297
Notes Payable	<u>1,470</u>
Total Liabilities	<u>31,767</u>
Shareholders' Equity	
Contributed Capital	61,983
Retained Earnings	<u>21,750</u>
Total Shareholders' Equity	<u>83,733</u>
Total Liabilities and Shareholders' Equity	<u><u>\$115,500</u></u>

CP1-3

Req. 1

FITNESS AND FUN, INC.
Income Statement
For the Nine Months Ended September 30, 2014
(in thousands)

Gym Revenues	<u>\$575,667</u>
Expenses	
Gym Operating Expenses	350,835
General, Selling and Administrative Expense	83,207
Advertising and Marketing Expense	23,608
Interest and Other Expenses	20,316
Income Tax Expense	<u>38,895</u>
Total Expenses	<u>516,861</u>
Net Income	<u>\$ 58,806</u>

CP1-3 (continued)

Req. 2

FITNESS AND FUN, INC.
Statement of Retained Earnings
For the Nine Months Ended September 30, 2014
(in thousands)

Retained Earnings, January 1, 2014	\$199,890
Add: Net Income	58,806
Subtract: Dividends	<u>0</u>
Retained Earnings, September 30, 2014	<u><u>\$258,696</u></u>

Req. 3

FITNESS AND FUN, INC.
Balance Sheet
At September 30, 2014
(in thousands)

Assets	
Cash	\$ 7,119
Accounts Receivable	5,318
Supplies	14,739
Property and Equipment	1,451,641
Other Assets	<u>117,108</u>
Total Assets	<u><u>\$1,595,925</u></u>
 Liabilities	
Accounts Payable	\$ 102,665
Accrued Liabilities	119,482
Notes Payable	647,120
Other Liabilities	<u>86,234</u>
Total Liabilities	<u><u>955,501</u></u>
 Shareholders' Equity	
Contributed Capital	381,728
Retained Earnings	<u>258,696</u>
Total Shareholders' Equity	<u><u>640,424</u></u>
Total Liabilities and Shareholders' Equity	<u><u>\$1,595,925</u></u>

CP1-3 (continued)

Req. 4

FITNESS AND FUN, INC.	
Statement of Cash Flows	
For the Nine Months Ended September 30, 2014	
(in thousands)	
Cash Flows from Operating Activities:	
Cash received from customers	\$574,824
Cash paid to suppliers and employees	<u>(472,265)</u>
Cash Provided by Operating Activities	<u>102,559</u>
Cash Flows from Investing Activities:	
Cash paid to purchase equipment	(354,255)
Cash received from sale of long-term assets	<u>161,885</u>
Cash Used in Investing Activities	<u>(192,370)</u>
Cash Flows from Financing Activities:	
Cash received from issuing common shares	9,061
Repayments of borrowings	(13,043)
Cash received from borrowings	<u>95,558</u>
Cash Provided by Financing Activities	<u>91,576</u>
Change in Cash	1,765
Beginning Cash Balance, January 1, 2014	<u>5,354</u>
Ending Cash Balance, September 30, 2014	<u>\$ 7,119</u>

ANSWERS TO GROUP A PROBLEMS

PA1-1

Req. 1

HIGH POWER CORPORATION
Income Statement
For the Year Ended December 31, 2014

Sales Revenue	\$91,000
Expenses	
Operating Expenses	58,700
Other Expenses	<u>8,850</u>
Total Expenses	<u>67,550</u>
Net Income	<u>\$23,450</u>

Req.2

HIGH POWER CORPORATION
Statement of Retained Earnings
For the Year Ended December 31, 2014

Retained Earnings, January 1, 2014	\$ 0
Add: Net Income	23,450
Subtract: Dividends	<u>(1,950)</u>
Retained Earnings, December 31, 2014	<u>\$ 21,500</u>

Req. 3

HIGH POWER CORPORATION
Balance Sheet
At December 31, 2014

Assets	
Cash	\$ 13,300
Accounts Receivable	9,550
Supplies	5,000
Equipment	<u>86,000</u>
Total Assets	<u>\$113,850</u>
Liabilities	
Accounts Payable	\$ 32,087
Notes Payable	<u>1,160</u>
Total Liabilities	<u>33,247</u>
Shareholders' Equity	
Contributed Capital	59,103
Retained Earnings	<u>21,500</u>
Total Shareholders' Equity	<u>80,603</u>
Total Liabilities and Shareholders' Equity	<u>\$113,850</u>

PA1-3

Req. 1

COLLEGE PARK VETERINARY CLINIC
Income Statement
For the Year Ended June 30, 2014

Sales Revenue	\$250,000
Expenses	
Operating Expenses	185,700
General, Selling and Administrative Expenses	53,400
Advertising and Marketing Expenses	27,800
Interest Expense	<u>5,000</u>
Total Expenses	<u>271,900</u>
Net Loss	<u>(\$21,900)</u>

Req.2

COLLEGE PARK VETERINARY CLINIC
Statement of Retained Earnings
For the Year Ended June 30, 2014

Retained Earnings, July 1, 2013	\$ 50,000
Add: Net Loss	(21,900)
Subtract: Dividends	<u>(27,500)</u>
Retained Earnings, June 30, 2014	<u>\$ 600</u>

Req. 3

COLLEGE PARK VETERINARY CLINIC
Balance Sheet
At June 30, 2014

Assets	
Cash	\$ 5,000
Accounts Receivable	125,600
Supplies	25,000
Property and Equipment	242,500
Other Assets	<u>13,500</u>
Total Assets	<u>\$411,600</u>
Liabilities	
Accounts Payable	\$ 87,000
Notes Payable	150,000
Other Liabilities	<u>37,000</u>
Total Liabilities	<u>274,000</u>

Shareholders' Equity	
Contributed Capital	137,000
Retained Earnings	<u>600</u>
Total Shareholders' Equity	<u>137,600</u>
Total Liabilities and Shareholder's Equity	<u><u>\$411,600</u></u>

PA1-5

Req. 1

OSI RESTAURANT PARTNERS, INC.
Income Statement
For the Year Ended December 31, 2014
(in millions)

Revenues:	
Restaurant Sales Revenue	\$ 3,920
Other Revenues	<u>21</u>
Total Revenues	<u>3,941</u>
Expenses:	
Food and Supplies Expenses	1,415
Utilities and Other Expenses	1,104
Wages Expense	1,087
General, Selling and Administrative Expenses	<u>235</u>
Total Expenses	<u>3,841</u>
Net Income	<u><u>\$ 100</u></u>

PA1-5 (continued)

Req. 2

OSI RESTAURANT PARTNERS, INC.
Statement of Retained Earnings
For the Year Ended December 31, 2014
(in millions)

Retained Earnings, January 1, 2014	\$1,074
Add: Net Income	100
Less: Dividends	(39)
Retained Earnings, December 31, 2014	\$ 1,135

Req. 3

OSI RESTAURANT PARTNERS, INC.
Balance Sheet
At December 31, 2014
(in millions)

Assets	
Cash	\$ 94
Food and Supply Inventories	87
Property, Fixtures, and Equipment	1,549
Other Assets	529
Total Assets	\$ 2,259
 Liabilities and Owners' Equity	
Liabilities	
Accounts Payable	\$ 166
Notes Payable	235
Wages and Taxes Payable	120
Other Liabilities	517
Total Liabilities	1,038
Shareholders' Equity	
Contributed Capital	86
Retained Earnings	1,135
Total Shareholders' Equity	1,221
Total Liabilities and Shareholders' Equity	\$ 2,259

PA1-5 (continued)

Req. 4

OSI RESTAURANT PARTNERS, INC.
Statement of Cash Flows
For the Year Ended December 31, 2014
(in millions)

Cash Flows from Operating Activities	
Cash received from customers	\$ 2,946
Cash paid to suppliers and employees	<u>(2,578)</u>
Cash Provided by Operating Activities	<u>368</u>
Cash Flows from Investing Activities	
Cash paid to purchase equipment	(384)
Cash received from sale of fixtures and equipment	32
Other cash outflows used for investing activities	<u>(2)</u>
Cash Used in Investing Activities	<u>(354)</u>
Cash Flows from Financing Activities	
Cash received from bank borrowings	375
Common shares issued to owners	16
Repayments of bank borrowings	(294)
Dividends paid in cash	(39)
Other cash outflows used for financing activities	<u>(62)</u>
Cash Used in Financing Activities	<u>(4)</u>
Change in Cash	10
Cash at January 1, 2014	<u>84</u>
Cash at December 31, 2014	<u>\$ 94</u>

ANSWERS TO GROUP B PROBLEMS

PB1-1

Req. 1

AEROSPACE EXPLORATIONS
Income Statement
For the Year Ended December 31, 2014

Sales Revenue	\$ 94,000
Expenses	
Operating Expenses	60,000
Other Expenses	<u>8,850</u>
Total Expenses	<u>68,850</u>
Net Income	<u><u>\$ 25,150</u></u>

Req. 2

AEROSPACE EXPLORATIONS
Statement of Retained Earnings
For the Year Ended December 31, 2014

Retained Earnings, January 1, 2014	\$ 0
Add: Net Income	25,150
Subtract: Dividends	<u>(1,100)</u>
Retained Earnings, December 31, 2014	<u><u>\$ 24,050</u></u>

Req. 3

AEROSPACE EXPLORATIONS
Balance Sheet
At December 31, 2014

Assets	
Cash	\$ 13,900
Accounts Receivable	9,500
Supplies	9,000
Equipment	<u>86,000</u>
Total Assets	<u><u>\$118,400</u></u>
Liabilities	
Accounts Payable	\$ 30,277
Notes Payable	<u>1,220</u>
Total Liabilities	<u>31,497</u>
Shareholders' Equity	
Contributed Capital	62,853
Retained Earnings	<u>24,050</u>
Total Shareholders' Equity	<u>86,903</u>
Total Liabilities and Shareholders' Equity	<u><u>\$118,400</u></u>

PB1-3

Req. 1

ROCK POINT ADVENTURES INC.
Income Statement
For the Year Ended June 30, 2014

Revenue	
Sales Revenue	\$ 143,098
Rental Revenue	34,986
Concessions Revenue	<u>25,873</u>
Total Revenue	<u>203,957</u>
Expenses	
Operating Expenses	74,390
Rent Expense	25,198
Concessions Expense	21,985
Other Expenses	<u>4,278</u>
Total Expenses	<u>125,851</u>
Net Income	<u><u>\$ 78,106</u></u>

PB1-3 (continued)

Req. 2

ROCK POINT ADVENTURES INC.
Statement of Retained Earnings
For the Year Ended June 30, 2014

Retained Earnings, July 1, 2013	\$ 53,456
Add: Net Income	78,106
Subtract: Dividends	<u>(50,000)</u>
Retained Earnings, June 30, 2014	<u><u>\$ 81,562</u></u>

Req. 3

ROCK POINT ADVENTURES INC.
Balance Sheet
At June 30, 2014

Assets	
Accounts Receivable	\$ 124,579
Supplies	14,356
Property and Equipment	136,897
Other Assets	<u>3,857</u>
Total Assets	<u><u>\$279,689</u></u>
Liabilities	

Bank Overdraft	\$ 2,058
Accounts Payable	58,973
Notes Payable	74,985
Other Liabilities	<u>3,765</u>
Total Liabilities	<u>139,781</u>
Shareholders' Equity	
Contributed Capital	58,346
Retained Earnings	<u>81,562</u>
Total Shareholders' Equity	<u>139,908</u>
Total Liabilities and Shareholders' Equity	<u><u>\$279,689</u></u>

PB1-5

Req. 1

THE CHEESECAKE FACTORY
Income Statement
For the Year Ended January 2, 2014
 (in thousands)

Revenues:	
Restaurant Sales Revenue	\$1,315,325
Other Revenues	8,171
Total Revenues	<u>1,323,496</u>
Expenses:	
Wages Expenses	420,957
Utilities and Other Expenses	414,978
Food and Supplies Expense	333,528
Selling and Administrative Expenses	72,751
Total Expenses	<u>1,242,214</u>
Net Income	<u><u>\$ 81,282</u></u>

Req. 2

THE CHEESECAKE FACTORY
Statement of Retained Earnings
For the Year Ended January 2, 2014
 (in thousands)

Retained Earnings, Beginning	\$ 440,510
Add: Net Income	81,282
Less: Dividends	<u>(49,994)</u>
Retained Earnings, Ending	<u><u>\$ 471,798</u></u>

PB1-5 (continued)

Req. 3

THE CHEESECAKE FACTORY
Balance Sheet
At January 2, 2014
(in thousands)

Assets:	
Cash	\$ 44,790
Accounts Receivable	11,639
Food and Supply Inventories	20,775
Prepaid Rent	43,870
Property and Equipment	732,204
Other Assets	<u>186,453</u>
Total Assets	<u><u>\$1,039,731</u></u>
Liabilities and Shareholders' Equity:	
Liabilities:	
Accounts Payable	\$ 45,570
Notes Payable	39,381
Wages Payable	117,226
Other Liabilities	<u>126,012</u>
Total Liabilities	<u>328,189</u>
Shareholders' Equity:	
Contributed Capital	239,744
Retained Earnings	<u>471,798</u>
Total Shareholders' Equity	<u>711,542</u>
Total Liabilities and Shareholders' Equity	<u><u>\$1,039,731</u></u>

PB1-5 (continued)

Req. 4

THE CHEESECAKE FACTORY
Statement of Cash Flows
For the Year Ended January 2, 2014
(in thousands)

Cash Flows from Operating Activities	
Cash received from customers	\$ 1,276,008
Cash paid to suppliers and employees	<u>(1,123,353)</u>
Cash Provided by Operating Activities	<u>152,655</u>
Cash Flows from Investing Activities	
Cash paid to purchase equipment	(243,211)
Cash received from sale of long-term assets	<u>115,975</u>
Cash Used in Investing Activities	<u>(127,236)</u>
Cash Flows from Financing Activities	
Additional investments by shareholders	33,555
Cash received from borrowings	175,000
Repayments of borrowings	(170,242)
Dividends paid to shareholders	<u>(49,994)</u>
Cash Used in Financing Activities	<u>(11,681)</u>
Change in Cash	13,738
Cash at January 3, 2013	<u>31,052</u>
Cash at January 2, 2014	<u>\$ 44,790</u>

ANSWERS TO SKILLS DEVELOPMENT CASES

S1-1

Req. 1

Rona's income statement shows a net loss of \$153,014 (thousand), which is labeled net (loss) income. Note that the amounts on the financial statements are rounded to the nearest thousand, so this is actually \$153,014,000.

Req. 2

The income statement shows that the amount of sales was \$4,192,192 (thousand) for the year ended December 29, 2013.

Req. 3

The Statement of Financial Position shows that inventory costing \$738,752 (thousand) was on hand at December 29, 2013.

Req. 4

The balance sheet and statement of cash flows show Cash totaling \$8,245 (thousand) at December 29, 2013.

Req. 5

Because Rona's shares are traded on the Toronto Stock Exchange, Rona Inc. must be a public company.

S1-3

The solutions to this case will depend on the company and/or accounting period selected for analysis.

S1-5

Req. 1

You should take the position that an *independent* annual audit of the financial statements is an absolute must. This is the best way to ensure that the financial statements are complete, are free from bias, and conform with GAAP. You should be prepared to reject the partner's uncle as the auditor because there is no evidence about his competence as an accountant or auditor. Also, he does not appear independent because he is related to the partner who prepares the financial statements, resulting in a potential 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 an uncle would not meet these requirements.

S1-7

A	B	C	D
1	Electronic Arts		
2	Balance Sheet		
3	As of September 30		
4	(in millions)		
5			
6	ASSETS		
7	Cash	\$ 2,412	
8	Accounts Receivable	328	
9	Inventories	367	
10	Property and Equipment	364	
11	Other Assets	283	
12	<i>Total Assets</i>	\$ 3,754	
13			
14	LIABILITIES		
15	Accounts Payable	\$ 171	
16	Notes Payable	12	
17	Other Liabilities	587	
18	<i>Total Liabilities</i>	770	
19	SHAREHOLDERS' EQUITY		
20	Contributed Capital	986	
21	Retained Earnings	1,998	
22	<i>Total Shareholders' Equity</i>	2,984	
23	<i>Total Liabilities and Shareholders' Equity</i>	\$ 3,754	
24			

S1-7 (continued)

	A	B	C
1		Electronic Arts	
2		Income Statement	
3		For the Period Ending September 30	
4		(in millions)	
5			
6		Revenue	
7		Sales	\$ 675
8		Expenses	
9		Cost of Goods Sold Expense	284
10		Selling Expense	223
11		Promotion Expense	107
12		Income Tax Expense	9
13		Other Expenses	1
14		Total Expenses	624
15		Net Income	\$ 51
16			

ANSWERS TO CONTINUING CASE

CC1-1

Req. 1

NICOLE'S GETAWAY SPA
Income Statement (forecasted)
For the Year Ended December 31, 2014

Sales Revenue	<u>\$ 40,000</u>
Expenses:	
Wages Expense	24,000
Supplies Expense	7,000
Selling and Administrative Expenses	5,000
Income Tax Expense	<u>1,600</u>
Total Expenses	<u>37,600</u>
Net Income	<u><u>\$ 2,400</u></u>

CC1-1 (continued)

Req. 2

NICOLE'S GETAWAY SPA
Statement of Retained Earnings (forecasted)
For the Year Ended December 31, 2014

Retained Earnings, January 1, 2014	\$ 0
Add: Net Income	2,400
Subtract: Dividends	<u>(2,000)</u>
Retained Earnings, December 31, 2014	<u>\$ 400</u>

Req. 3

NICOLE'S GETAWAY SPA
Balance Sheet (forecasted)
At December 31, 2014

Assets:	
Cash	\$ 2,150
Accounts Receivable	1,780
Property, Plant and Equipment	<u>70,000</u>
Total Assets	<u>\$73,930</u>
Liabilities:	
Accounts Payable	\$ 4,660
Notes Payable	<u>38,870</u>
Total Liabilities	<u>43,530</u>
Shareholders' Equity:	
Contributed Capital	30,000
Retained Earnings	<u>400</u>
Total Shareholders' Equity	<u>30,400</u>
Total Liabilities and Shareholders' Equity	<u>\$73,930</u>

Req. 4

As of December 31, 2014, more financing is expected to come from creditors (\$43,530) than from shareholders (\$30,400).