

CHAPTER 2**The Balance Sheet****SECTION 2.1 REVIEW QUESTIONS** (page 19)

- To calculate a person's financial position, list and total the assets, list and total the liabilities, and then subtract the total liabilities from the total assets.*
- An asset is something you own that has a dollar value.*
- A liability is a debt or money owed.*
- Owner's equity is the difference between a person's total assets and total liabilities.*
- Another term that means the same as equity is capital or net worth.*
- Two forms of the fundamental accounting equation are $A - L = OE$ and $A = L + OE$, where A represents assets, L represents liabilities, and OE represents owner's equity.*

SECTION 2.1 EXERCISES (page 20)**Exercise 1, p. 20**

office furniture	<i>asset</i>	an amount loaned to R. Jonas	<i>asset</i>
land	<i>asset</i>	automobile	<i>asset</i>
bank loan	<i>liability</i>	mortgage payable	<i>liability</i>
house and lot	<i>asset</i>	a bank deposit	<i>asset</i>
an unpaid heating bill	<i>liability</i>		

Exercise 2, p. 20

$$A - L = OE$$

$$\$150\,000 - \$65\,000 = \$85\,000$$

Karen Lipka's equity is \$85 000.

Exercise 3, p. 20

$$A - L = OE$$

$$\$37\,486.49 - \$11\,547.80 = \$25\,938.69$$

The owner's equity of the business is \$25 938.69.

Exercise 4, p. 20

$$A - L = OE$$

$$20-1: \$150\,000 - \$70\,000 = \$80\,000$$

$$20-2: (\$150\,000 + \$70\,000) - (\$70\,000 - \$20\,000)$$

$$= \$220\,000 - \$50\,000$$

$$= \$170\,000$$

The owner's equity on December 31, 20-2 is \$170 000.

SECTION 2.1 EXERCISES (continued)**Exercise 5, p. 20**

Assets

<i>Bank balance</i>	\$	3	6	5	0	–
<i>Home</i>		492	0	0	0	–
<i>Furniture and household equipment</i>		55	0	0	0	–
<i>Summer property</i>		225	0	0	0	–
		<u>\$775</u>	<u>6</u>	<u>5</u>	<u>0</u>	<u>–</u>

Liabilities

<i>Mortgage on home</i>	\$162	3	6	0	–
<i>Bank loan on summer property</i>	145	0	0	0	–
<i>Unpaid bills</i>	4	2	0	0	–
<i>Amount owed to M. Dupuis</i>	50	0	0	0	–
	<u>\$361</u>	<u>5</u>	<u>6</u>	<u>0</u>	<u>–</u>

Equity

$$\$775\ 650 - \$361\ 560 = \$414\ 090$$

Claude Pineau's equity is \$414 090.

Exercise 6, p. 20

A. Assets

<i>Bank balance</i>	\$	8	5	6	25
<i>House and lot</i>	185	0	0	0	–
<i>Cash on hand</i>			8	5	35
<i>Miscellaneous equipment</i>	1	8	5	0	–
<i>Household furniture and furnishings</i>	4	8	0	0	–
<i>Amount loaned to Phil Silva</i>	2	0	0	0	–
	<u>\$194</u>	<u>5</u>	<u>9</u>	<u>1</u>	<u>60</u>

B. Liabilities

<i>Bank loan</i>	\$	5	0	0	0	–
<i>Amount owed to Imperial Oil</i>		1	3	5	60	
<i>Amount owed to Weston Hydro</i>			8	5	50	
<i>Mortgage on house and lot</i>	90	0	0	0	–	
	<u>\$95</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>10</u>	

C. Equity

$$\$194\ 591.60 - \$95\ 221.10 = \$99\ 370.50$$

Paul Silva's equity is \$99 370.50.

SECTION 2.2 REVIEW QUESTIONS (page 28)

1. *A balance sheet is a statement showing the financial position of a person, business, or other organization.*
2. *The name of the business appears in the first line of the heading of the balance sheet.*
3. *The assets are listed on the left side of the balance sheet. The liabilities are listed on the right side of the balance sheet.*
4. *The full cost of the automobile is listed as an asset, and the amount owed on the automobile is listed as a liability.*
5. *Dollar signs are placed with the first amount in every column and beneath each single ruled line on a balance sheet.*
6. *A creditor appears under the liabilities on the right-hand side of the balance sheet.*
7. *A single ruled line drawn beneath a column of figures means that the column is to be totalled.*
8. *An accountant's work must be neat because the financial information prepared by an accountant must not be misinterpreted and therefore must be perfectly legible.*
9. *A double ruled line is drawn beneath a total in a column of figures to indicate a final total.*
10. *A short form or abbreviation may be used on financial statements when it is part of a company's formal name.*
11. *The most liquid asset is cash. Liquidity is based on how quickly and easily an asset can be converted to cash, so something that is already cash has the most liquidity.*
12. *Liabilities are listed on the balance sheet in the order in which they will be paid.*
13. *Assets are generally listed on the balance sheet in the order of their liquidity.*
14. *Accounts receivable are the debts owed to a business by its customers.*
15. *Accounts payable are the debts owed by a business to its suppliers.*
16. *Any supplier to whom the business owes money is called a creditor.*
17. *Any company or person who owes money to the business is called a debtor.*

SECTION 2.2 EXERCISES (page 28)**Exercise 1, p. 28**

A.

*THE KRAMER COMPANY**BALANCE SHEET**SEPTEMBER 30, 20–*

<i>Assets</i>							<i>Liabilities</i>						
<i>Cash</i>	\$	1	6	3	6	–	<i>Accounts Payable</i>						
<i>Accounts Receivable</i>							— <i>Able Supply Company</i>	\$	4	7	4	0	–
— <i>J. Crothers</i>		1	1	0	0	–	— <i>C.P. Gregg</i>		3	0	0	0	–
— <i>R. Zack</i>			3	7	0	–	<i>Bank Loan</i>		10	0	0	0	–
<i>Supplies</i>		1	2	0	0	–	<i>Total Liabilities</i>	\$	17	7	4	0	–
<i>Furniture and Equipment</i>		14	7	0	0	–							
<i>Delivery Equipment</i>		20	1	0	0	–	<i>Owner's Equity</i>						
							<i>Kate Kramer, Capital</i>		21	3	6	6	–
<i>Total Assets</i>	\$	39	1	0	6	–	<i>Total Liabilities and Equity</i>	\$	39	1	0	6	–

- B. *A retailing business buys goods and resells them at a higher price. Merchandise Inventory is the cost of the goods that will be resold. If sales are brisk, Merchandise Inventory is turned into cash quickly and is therefore quite liquid. So Merchandise Inventory should probably be listed right after Cash and Accounts Receivable.*

Exercise 2, p. 29*NEW WESTERN COMPANY**BALANCE SHEET**MARCH 31, 20–*

<i>Assets</i>							<i>Liabilities</i>						
<i>Cash</i>	\$	1	8	9	6	–	<i>Accounts Payable</i>						
<i>Accounts Receivable</i>							— <i>General Trading Company</i>	\$	2	3	5	6	–
— <i>Food Haven</i>			4	0	0	–	— <i>Household Finance Company</i>		19	3	4	5	–
— <i>Metro Mall</i>		1	2	3	5	–	— <i>Lightning Electronics</i>		3	3	7	8	–
— <i>Tasty Beverages</i>			7	5	0	–	<i>Bank Loan</i>		10	0	0	0	–
<i>Supplies</i>			8	5	0	–	<i>Mortgage Payable</i>		95	0	0	0	–
<i>Land</i>		90	0	0	0	–	<i>Total Liabilities</i>	\$	130	0	7	9	–
<i>Building</i>		140	0	0	0	–							
<i>Furniture and Equipment</i>		75	8	4	0	–	<i>Owner's Equity</i>						
<i>Trucks</i>		35	0	0	0	–	<i>Guy Albrecht, Capital</i>		215	8	9	3	–
<i>Total Assets</i>	\$	345	9	7	1	–	<i>Total Liabilities and Equity</i>	\$	345	9	7	1	–

SECTION 2.2 EXERCISES (continued)**Exercise 3, p. 29***TRAVIS AND COMPANY**BALANCE SHEET**MARCH 31, 20–*

<i>Assets</i>							<i>Liabilities</i>						
<i>Cash</i>	\$	4	9	4	6	03	<i>Accounts Payable</i>						
<i>Accounts Receivable</i>							— <i>Beacon Company</i>	\$	1	5	6	7	25
— <i>G. Fordham</i>		1	0	4	2	16	— <i>Gem Finance</i>		1	2	3	6	45
— <i>W. Gaines</i>			7	4	3	86	— <i>General Supply</i>		15	5	4	0	–
— <i>D. Samuelson</i>		1	3	4	6	95	— <i>Raymond and Company</i>			1	2	5	–
<i>Office Supplies</i>			3	2	6	40	<i>Bank Loan</i>		25	0	0	0	–
<i>Land</i>		146	0	0	0	–	<i>Mortgage Payable</i>		92	0	0	0	–
<i>Building</i>		135	0	0	0	–	<i>Total Liabilities</i>	\$	135	4	6	8	70
<i>Office Equipment</i>		11	9	6	0	–							
<i>Delivery Equipment</i>		14	2	4	0	–	<i>Owner's Equity</i>						
							<i>Michael Travis, Capital</i>		180	1	3	6	70
<i>Total Assets</i>	\$	315	6	0	5	40	<i>Total Liabilities and Equity</i>	\$	315	6	0	5	40

SECTION 2.3 REVIEW QUESTIONS (page 32)

- Two reasons why creditors have claims against the assets of a business are that they provided funds to acquire the assets (a banker) or they provided the assets themselves (a supplier).*
- You can quickly find out who has a claim against the assets of a business by looking at the right side of a balance sheet.*
- The creditors have first claim against the assets of a business.*
- The owner benefits from gains made in closing down a business.*
- The owner suffers primarily from losses incurred in closing down a business.*

SECTION 2.3 EXERCISES (page 32)**Exercise 1, p. 32**

<i>A. Cash Value of Assets</i>		<i>Liabilities</i>	
<i>Bank</i>	\$ 900	<i>Bank Loan</i>	\$ 18 000
<i>Accounts Receivable</i>	1 050	<i>Accounts Payable</i>	3 740
<i>Supplies</i>	500	<i>Mortgage Payable</i>	80 000
<i>Property</i>	180 000	<i>Liquidator's Charges</i>	1 500
<i>Equipment</i>	2 000		<u>\$103 240</u>
<i>Boats</i>	20 350		\$204 800 – \$103 240 = \$101 560
	<u>\$204 800</u>		<i>Mr. Litz will receive \$101 560 in cash.</i>

- An operating business is generally a profitable business and usually fetches a higher selling price than from simply selling off the assets and paying off the liabilities of a business that has been closed down.*

SECTION 2.3 EXERCISES (continued)**Exercise 2, p. 32**

A.

*CARLA'S INTERIOR DESIGN**BALANCE SHEET**JULY 31, 20–*

<i>Assets</i>						<i>Liabilities</i>					
<i>Cash</i>	\$11	9	0	0	–	<i>Bank Loan</i>	\$ 9	5	0	0	–
<i>Automobile</i>	17	5	0	0	–	<i>Accounts Payable</i>	1	2	5	0	–
						<i>Total Liabilities</i>	\$10	7	5	0	–
						<i>Owner's Equity</i>					
						<i>Carla Mann, Capital</i>	18	6	5	0	–
<i>Total Assets</i>	\$29	4	0	0	–	<i>Total Liabilities and Equity</i>	\$29	4	0	0	–

- B. *To dispose of the remaining assets and close the business, Carla could use the business's cash to pay off the creditors. She could then pay herself by taking the balance of the cash and the automobile.*

SECTION 2.4 REVIEW QUESTIONS (page 37)

- Over the years, the Canadian Institute of Chartered Accountants has established the standards of practice for all Canadian accountants.*
- Most of the rules of accounting are found in the CICA Handbook.*
- The AcSB stands for Accounting Standards Board.*
- IFRS stands for International Financial Reporting Standards. The International Accounting Standards Board (IASB) sets the IFRS.*
- Canadian public companies started using IFRS on January 1, 2011.*
- ASPE stands for Accounting Standards for Private Enterprises.*
- Private businesses may use ASPE. They started using ASPE on January 1, 2011. They use them instead of IFRS because ASPE involve fewer changes for private businesses than adopting IFRS.*
- The business entity concept states that the accounting for a business should be kept separate from the accounting for the owner or another business.*
- The cost principle states that assets should be valued at their historic cost price.*
- The continuing concern concept assumes the company will keep operating and will use all of its short-term assets. This means that assets can be valued at their cost price rather than current market value because the company will use them up and does not need to sell them for their market value.*

SECTION 2.4 REVIEW QUESTIONS (continued)

11. *The revaluation model is the IFRS procedure that gives a new perspective on the cost principle. The revaluation model allows accountants to value some assets at market value rather than historical cost price.*
12. *A current asset is an asset that can be converted to cash within a year, such as accounts receivable, or an asset that will be used up within a year, such as supplies.*
13. *A current liability is a liability that is due within a year, such as an account payable.*
14. *Property, plant and equipment are classified as long-term assets because they last longer than one year.*
15. *An example of a long-term liability is a liability that takes more than a year to pay off, such as a mortgage.*
16. *Traditionally, and under the Accounting Standards for Private Enterprises (ASPE), cash is listed first on the balance sheet because it is the most liquid asset. The International Financial Reporting Standards, however, invert the liquidity order of the traditional balance sheet. Long-term assets are listed first; liquid assets, like cash, are listed last.*
17. *Under IFRS, the balance sheet is called the statement of financial position.*

SECTION 2.4 EXERCISES (page 38)**Exercise I, p. 38**

A.

ARNOLD'S LANDSCAPING**BALANCE SHEET****OCTOBER 31, 20–**

Assets					Liabilities										
<i>Current Assets</i>					<i>Current Liabilities</i>										
Cash	\$	8	2	0	0	45	Accounts Payable								
Accounts Receivable							—Bev's Seed and Supply	\$1	5	1	5	88			
—P. Cannon		3	0	5	0	–	—Peter Power Equipment	3	3	5	6	–			
—T. Horvath			8	9	0	30	—ToughTurf Supplies		9	5	0	05			
Supplies			8	5	0	–	Loan Payable	6	0	0	0	–			
						\$12 9 9 0 75							\$11 8 2 1 93		
<i>Long-Term Assets</i>					<i>Long-Term Liabilities</i>										
Furniture	\$	5	1	2	75		Mortgage Payable						24 0 0 0 –		
Equipment		42	9	0	0	25									
Truck		32	1	6	0	50									
						75 5 7 3 50	<i>Owner's Equity</i>								
							A. Vroom, Capital						52 7 4 2 32		
Total Assets						\$88 5 6 4 25	Total Liabilities and Equity						\$88 5 6 4 25		

SECTION 2.4 EXERCISES (continued)**Exercise I, p. 38** (continued)

B. *The totals for current assets and current liabilities are very similar (\$12 990.75 and \$11 821.93). Therefore, Arnold's Landscaping should be able to pay its short-term liabilities with little difficulty. The cost value of the equipment is almost twice as much as the mortgage against it, which is also a healthy sign.*

C.

ARNOLD'S LANDSCAPING
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 20–

Assets					Equity and Liabilities									
<i>Long-Term Assets</i>					<i>Equity</i>									
<i>Furniture</i>	\$	5	1	2	75	<i>A. Vroom, Capital</i>								
<i>Equipment</i>		42	9	0	0	25								
<i>Truck</i>		32	1	6	0	50	<i>Long-Term Liabilities</i>							
					\$75	5	7	3	50	<i>Mortgage Payable</i>				
										24 0 0 0 –				
<i>Current Assets</i>					<i>Current Liabilities</i>									
<i>Supplies</i>	\$	8	5	0	–	<i>Loan Payable</i>								
<i>Accounts Receivable</i>						\$6 0 0 0 00								
— <i>P. Cannon</i>		3	0	5	0	–	<i>—Bev's Seed and Supply</i>							
— <i>T. Horvath</i>			8	9	0	30	1 5 1 5 88							
<i>Cash</i>		8	2	0	0	45	<i>—Peter Power Equipment</i>							
							3 3 5 6 –							
							<i>—ToughTurf Supplies</i>							
							9 5 0 05							
					12	9	9	0	75	11 8 2 1 93				
<i>Total Assets</i>					\$88	5	6	4	25	<i>Total Equity and Liabilities</i>				
										\$88 5 6 4 25				

D. *The business has long-term assets of \$75 573.50, which is over three times the total of long-term liabilities. The business and the owner provided most of the funds for these important assets, not outside creditors.*

SECTION 2.4 EXERCISES (continued)**Exercise 2, p. 38**

A. to C.

Assets	Amount	Business	Personal
Accounts Receivable	\$ 27 460	\$ 27 460	
Boat and Motor	16 520		\$ 16 520
Business Bank Balance	1 852	1 852	
Business Automobiles	48 054	48 054	
Furniture and Appliances	6 528		6 528
Government Bonds of Owner	20 000		20 000
House and Lot	599 600		599 600
Office Furniture and Equipment	18 324	18 324	
Office Supplies	3 545	3 545	
Owner's Automobiles	18 657		18 657
Paving Materials	55 326	55 326	
Personal Bank Balance	10 258		10 258
Plant Property and Buildings	725 358	725 358	
Summer Cottage	265 874		265 874
Trucks and Equipment	285 657	285 657	
Total Assets		\$1 165 576	\$937 437
Liabilities			
Accounts Payable	\$ 3 500	\$ 3 500	
Business Bank Loan	156 000	156 000	
Mortgage on Plant Property	375 000	375 000	
Mortgage on House and Lot	260 000		\$260 000
Mortgage on Summer Cottage	92 300		92 300
Owed to Finance Co.—Business Equipment	136 522	136 522	
Total Liabilities		\$ 671 022	\$352 300
Owner's Equity/Personal Net Worth			
		\$ 494 554	\$585 137

SECTION 2.4 COMMUNICATE IT (page 39)

Answers will vary depending on the year research is done. Students should use the CICA or the AcSB websites as their source for information about IFRS and ASPE.

The four questions should be answered.

- 1. As of August 01, 2012, 120 countries have adopted the IFRS.*
- 2. ASPE are still used by many private Canadian enterprises since they mean little change in current Canadian accounting policies and practices.*
- 3. Currently, the data for the percentage of Canadian companies adopting ASPE is not available.*
- 4. Since 120 countries adopted the IFRS, one could say IFRS adoption is a success, with more companies adopting these standards as businesses become international.*

SECTION 2.5 REVIEW QUESTIONS (page 43)

- 1. In a spreadsheet, cells are formed by the intersection of columns and rows.*
- 2. A cell in row 52 and in column C is identified as cell C52.*
- 3. In a spreadsheet, words and titles are called labels.*
- 4. Labels are words and values are numbers. Values can be manipulated mathematically but labels cannot.*
- 5. The contents of a cell are what is actually typed into a cell. They can be seen in the formula bar of a spreadsheet.*
- 6. If you forget to enter a prefix symbol, such as =, for the sum function the spreadsheet would interpret the sum function as a label rather than a formula.*
- 7. The contents of a cell could be different from what is displayed in the worksheet area for that cell if the contents are a function or a formula. The result of the function or formula will be displayed in the worksheet area rather than the formula itself.*
- 8. The formula =SUM(B3:B50) instructs a spreadsheet to add the amounts of cells B3 to B50 and show the total.*
- 9. The formula =A7-A5 instructs a spreadsheet to subtract the contents in cell A5 from the contents in cell A7 and show the result.*
- 10. A main advantage of spreadsheets is their ability to instantly update many totals just by changing one amount.*

SECTION 2.5 EXERCISES (page 44)**Exercise 1, p. 44**

This is a spreadsheet exercise.

A. to D.

	A	B	C	D	E	F
2			Balance Sheet			
3			December 31, 20—			
4						
5	Assets			Liabilities		
6	Cash		400	Owed to Alisha		80
7	Clothes		1,425	Owed to Mom		40
8	Music Collection		240	Total Liabilities		120
9	Electronic Equipment		725			
10	Books		300	Owner's Equity		
11	Laptop		900	A. Beck, Capital		4,445
12	Jewellery		375			
13	Miscellaneous		200			
14				Total Liabilities		
15	Total Assets		4,565	and Equity		4,565

- E. The amount of Amy's cash has dropped from \$1100 to \$400. Some of this decrease can be attributed to her reducing debts owed to Alisha and her mother. She apparently used some cash to buy more clothes, as well. Her other uses of cash in December cannot be explained by the information given, but she likely bought some Christmas gifts. Overall, her claim on assets (equity) has declined by \$270 (\$4715 – \$4445), so her financial position has worsened slightly.

Exercise 2, p. 44

This is a spreadsheet exercise.

Students should try to reproduce the spreadsheet model shown on page 44 of the student textbook.

Most of the formatting can be done by selecting the shortcut buttons that appear in the Home tab.

Different versions of Excel have slightly different methods of formatting. Notice that the

non-printing gridlines are turned off in the image shown on page 44.

SECTION 2.5 PERSONALIZE IT (page 45)

This is a spreadsheet exercise.

Answers will vary for these personal balance sheets.

SECTION 2.5 COMMUNICATE IT (page 46)

This is a spreadsheet exercise.

A., B.

	A	B	C	D	E
1			Amy Beck		
2			Balance Sheet		
3			December 31, 20-		
4					
5		Assets		Liabilities	
6		Cash	\$ 400	Owed to Alisha	\$ 80
7		Hockey Tickets	2,500	Owed to Mom	40
8		Clothes	1,425	Total Liabilities	\$ 120
9		Music Collection	240		
10		Electronic Equipment	725	Owner's Equity	
11		Books	300	A. Beck, Capital	6,945
12		Laptop	900		
13		Jewellery	375		
14		Miscellaneous	200		
15		Total Assets	\$ 7,065	Total Liabilities and Equity	\$ 7,065

- C. When discussing the value of the hockey tickets, beginning accounting students can provide a basic comparison of the traditional cost principle to the revaluation model of IFRS. The cost principle will give a solid value to the tickets, even though the value is somewhat rooted in the past. By design, the revaluation model is more forward-looking and will respond to changing market conditions. In this case, however, students will find it impossible to agree on a reliable revaluation of the tickets. (Financial statement reliability is also a major tenet of IFRS, as students will learn in Chapter 8.) Therefore, it is best to leave the tickets at their cost price.

CHAPTER 2**REVIEW EXERCISES** (page 47)**Using Your Knowledge****Exercise I, p. 47**

Circle the best answer to each question.

- A. The financial position of a business is
- the difference between total assets and total liabilities.
 - represented by the assets, the liabilities, and the capital.
 - the same as the net worth of the business.

CHAPTER 2 REVIEW EXERCISES (continued)**Exercise I, p. 47** (continued)

- B.** If the total assets increase by \$10 000 and the total liabilities decrease by \$10 000, the capital will
- a. increase by \$20 000.
 - b. be unchanged.
 - c. decrease by \$20 000.
- C.** Which one of the following is not true?
- a. $A - E = L$
 - b. $A - L = E$
 - c. $A + L = E$
 - d. $A = L + E$
- D.** A balance sheet shows
- a. all of the owner's assets and liabilities.
 - b. a financial picture of the business on a certain date.
 - c. the progress of the business over a period of time.
- E.** Which one of the following is not true?
- a. The heading of a balance sheet shows the date as of which it was prepared.
 - b. Assets are listed in the order of their liquidity (under ASPE).
 - c. Accounts receivable are considered to be a liquid asset.
 - d. Personal assets have no place on the business balance sheet.
 - e. A truck that cost \$10 000 and for which \$6000 is owed is listed on the balance sheet at \$4000.
- F.** Abbreviations may be used on financial statements
- a. when it is necessary to crowd things to conserve space.
 - b. to save time in preparing the statements.
 - c. in a company name if the abbreviation is a formal part of the name.
- G.** Which one of the following is not true? Ruled lines are
- a. used to underline headings.
 - b. used to indicate that columns of numbers are to be totalled.
 - c. necessary to separate sections of the balance sheet.
 - d. doubled to indicate a final total.
- H.** Before a business is closed down, the equation for it is
- $$\text{Assets } (\$125\ 000) = \text{Liabilities } (\$37\ 000) + \text{Equity } (\$88\ 000)$$
- If assets of \$70 000 are sold for \$20 000, assets of \$50 000 are sold for \$90 000, and the remaining assets stay the same, the equation will become
- a. $\$55\ 000 = \$37\ 000 + \$18\ 000$
 - b. $\$115\ 000 = \$37\ 000 + \$78\ 000$
 - c. $\$75\ 000 = \$37\ 000 + \$38\ 000$
 - d. $\$135\ 000 = \$47\ 000 + \$88\ 000$
 - e. $\$115\ 000 = \$27\ 000 + \$88\ 000$

CHAPTER 2 REVIEW EXERCISES (continued)**Exercise 1, p. 47** (continued)

- I. Which of the following is not true?
- In the liability section on a balance sheet, accounts payable may be listed first.
 - On a balance sheet, there are three main totals.
 - On a balance sheet, the owner's name appears only in the heading.
 - On a balance sheet, the final totals are always on the same line.
- J. Which of the following is true?
- IFRS must be used by all businesses in Canada.
 - In many countries using IFRS, the liquidity order of assets is inverted.
 - Canadian GAAP has replaced ASPE.
 - The IASB controls the AcSB.

Exercise 2, p. 48

Jason's liabilities decreased by \$16 000. (+26 000 = -16 000 + 42 000)

Exercise 3, p. 48

Fatima's liabilities increased by \$7000. (+10 000 = +7000 + 3000)

Exercise 4, p. 48

Ravi's assets increased by \$10 000. (+10 000 = +15 000 - 5000)

Exercise 5, p. 49

- A. *1. In the heading, the order of the second and third rows is wrong. It should be "Who, What, and When."*
-
- 2. The sub-heading Assets is missing.*
-
- 3. Cash should be listed first in the Assets section (liquidity).*
-
- 4. No need to underline Accounts Receivable.*
-
- 5. The accounts receivable customers should be listed in alphabetical order.*
-
- 6. Supplies should be listed before Equipment.*
-
- 7. Equipment and Supplies should be capitalized.*
-
- 8. The single rule in the Assets section should be just above the Total Assets amount.*
-
- 9. Accounts Payable title is missing.*
-
- 10. The presentation of the vendors should be consistent with the presentation of the customers—indent and precede with a dash.*
-
- 11. The Total Liabilities amount should not be double-underlined.*
-
- 12. For consistency, underline Owner's Equity.*
-
- 13. In the Owner's Equity section, capital should be represented by C. Ing, Capital instead of Carmen's Web Creations.*
-
- 14. The final totals of the balance sheet should be on the same line.*
-
- 15. Columnar paper should be used and decimal points omitted.*
-
-
-

CHAPTER 2 REVIEW EXERCISES (continued)**Exercise 5, p. 49** (continued)

B.

CARMEN'S WEB CREATIONSBALANCE SHEETSEPTEMBER 30, 20-

<i>Assets</i>						<i>Liabilities</i>							
<i>Cash</i>	\$	3	6	5	2	80	<i>Accounts Payable</i>						
<i>Accounts Receivable</i>							— <i>Drive Computer Co.</i>	\$	6	7	6	98	
— <i>Nina's Creations</i>			4	6	0	50	— <i>Wilson's Supply</i>		1	0	0	90	
— <i>Tse Networks</i>		1	7	8	0	—	— <i>Zip Software</i>		4	1	2	—	
<i>Supplies</i>			9	0	0	25	<i>Bank Loan</i>		3	5	0	0	—
<i>Equipment</i>		6	5	0	0	30	<i>Total Liabilities</i>	\$	4	6	8	9	88
							<i>Owner's Equity</i>						
							<i>C. Ing, Capital</i>		8	6	0	3	97
<i>Total Assets</i>	\$	13	2	9	3	85	<i>Total Liabilities and Equity</i>	\$	13	2	9	3	85

Exercise 6, p. 49

A.

SMA CONSULTANTSBALANCE SHEETSEPTEMBER 30, 20-

<i>Assets</i>						<i>Liabilities</i>							
<i>Current Assets</i>						<i>Current Liabilities</i>							
<i>Cash</i>	\$	6	0	0	0	—	<i>Accounts Payable</i>	\$	35	0	0	0	—
<i>Accounts Receivable</i>		14	0	0	0	—							
						\$ 20 0 0 0 0 —	<i>Long-Term Liabilities</i>						
<i>Long-Term Assets</i>						<i>Mortgage Payable</i>		160	0	0	0	—	
<i>Land</i>	\$	240	8	5	0	—	<i>Total Liabilities</i>						\$195 0 0 0 —
<i>Buildings</i>		195	0	0	0	—							
<i>Equipment</i>		25	0	0	0	—	<i>Owner's Equity</i>						
						460 0 0 0 0 —	<i>S. Magbool, Capital</i>						285 0 0 0 —
<i>Total Assets</i>	\$	480	0	0	0	—	<i>Total Liabilities and Equity</i>	\$	480	8	0	0	—

B. *Magbool does have a financial problem. The business is in a poor position to pay its debts.*

As shown by the balance sheet, the business had cash of \$6000 and accounts receivable (near cash) of \$14 000 for a current asset total of \$20 000. This is considerably less than the accounts payable figure of \$35 000, which is likely due in 30 days. In addition, there is a monthly installment of the mortgage to be paid.

CHAPTER 2 REVIEW EXERCISES (continued)**Exercise 7, p. 49**

- A. *The bank manager would probably grant the loan for two reasons. First, the profit record of the business is good. Second, the company does have sufficient cash and near cash to pay its immediate debts, even after deducting the value of the overdue accounts.*
- B. *The manager would be concerned about the overdue accounts receivable. Such a high proportion of overdue accounts indicates that credit is being granted much too easily.*

Exercise 8, p. 50

Statement headings will vary. Students will discover variations in statement headings. For example, they may encounter terms like Consolidated Statement of Financial Position, Non-Current Assets, Intangible Assets, Non-Current Liabilities, Shareholders' Equity, Capital and Reserves, and so on.

Questions for Further Thought, p. 50

- The balance sheet is thought of as being a snapshot of the business because it shows the financial position of the business at a point in time.*
- Equity is the difference between assets and liabilities. It is a number that is the result of a calculation and is therefore not a physical thing that can be seen or touched.*
- The number of sales a business can make increases if it sells on credit. Knowing this, businesses are willing to take the risk that the increased sales will be greater than any bad debts.*
- Another definition for a balance sheet is a document displaying the assets, liabilities, and equity of a person, group, or company at a certain point in time.*
- The information contained in the heading of the balance sheet can be described as who, what, and when.*
- Secured creditors have a better chance of getting their money back if the borrowing company goes out of business. The bank becomes a secured creditor by receiving a signed document that gives it specific, legal claims on the borrowing company's cash or other assets (buildings, equipment, etc.). The legal document puts the bank at the front of the line when it comes time for the borrowing company to settle debts with creditors. Other creditors, such as suppliers, are competing with each other and get business by offering favourable, unsecured credit terms.*
- If the owner did not contribute or withdraw funds or other assets from the business, then the earnings of the business could be determined by finding the difference in the owner's equity on the balance sheets from two consecutive years.*

CASE STUDIES (page 51)**Case 1** *Is Money Better?* (p. 51)

A person's equity is calculated from the formula $Assets - Liabilities = Equity$. Of the assets, cash is the most useful and most convenient, but it is not otherwise more valuable. Consider Aysha's purchase of a laptop computer. When the computer is purchased for \$500, it has a dollar value of \$500. Here, the cash is not better or more valuable than the computer. So, from this point of view, Aysha is better off financially because she has more assets to claim (larger equity). However, the make-up of the assets is also important. Hannah has the bigger bank account, allowing her to make a great many financial choices. Aysha, on the other hand, is frozen financially. In fact, her cash total is so low, she may be forced to sell some of her assets in order to pay back the \$200 she owes.

Case 2 *Can you Spend the Equity?* (p. 52)

The accountant will explain to Raj that equity is calculated from the formula $A - L = E$, or $Assets - Liabilities = Equity$. To spend the equity, all assets would have to be sold and all liabilities paid. To sell all of the assets and pay all of the liabilities, however, would mean that the business has been liquidated.

Case 3: Challenge *Are the Assets Always Worth What the Balance Sheet Says?* (p. 52)

- The bank manager would be concerned about repayment of the bank loan because of the company's relatively small amount of easily liquidated assets.*
- The bank manager should know that the company has earnings of \$135 000, \$110 000 from scaffolding and \$25 000 from the machine shop, and that the specialized machinery will not be worth \$155 000 when offered for sale.*
- The Machinery and Equipment and the Owner's Equity on the balance sheet should be updated to reflect a truer value of the specialized machinery.*
- If a buyer is found, Cash on the balance sheet will increase by \$35 000, Machinery and Equipment will decrease by \$155 000, and Owner's Equity will decrease by \$120 000 (\$155 000 - \$35 000).*

CASE STUDIES (continued)**Case 3: Challenge** Are the Assets Always Worth What the Balance Sheet Says? (continued)

5.

*CUSTOM-MADE PRODUCTS**BALANCE SHEET**APRIL 6, 20–*

<i>Assets</i>						<i>Liabilities</i>							
<i>Cash</i>	\$	36	5	0	0	–	<i>Bank Loan</i>	\$	105	0	0	0	–
<i>Accounts Receivable</i>		20	5	4	0	–	<i>Accounts Payable</i>		11	8	5	0	–
<i>Supplies</i>		1	8	2	1	–	<i>Mortgage Payable</i>		285	0	0	0	–
<i>Land and Building</i>		302	5	0	0	–	<i>Total Liabilities</i>		\$401	8	5	0	–
<i>Machinery and Equipment</i>		50	3	6	5	–							
<i>Automotive Equipment</i>		65	3	8	5	–	<i>Owner's Equity</i>						
							<i>Hilda Lahti, Capital</i>		75	2	6	1	–
<i>Total Assets</i>		\$477	1	1	1	–	<i>Total Liabilities and Equity</i>		\$477	1	1	1	–

Case 4: Co-operative Learning Should Your Friends Purchase This Business? (p. 54)*Answers may vary. These are some good questions to ask.**1. What condition is the equipment in and is it really worth \$67 000?**2. What condition are the buildings in? What are they really worth?**3. Has the land value been verified by a real estate company?**4. How has the figure of \$200 000 representing gravel deposits been determined?**5. Is Mr. Vako willing to provide an audited statement, one prepared by a professional public accountant?**6. What part of the accounts receivable are unlikely to be collected?**7. Are debts being paid on time?**8. When is the bank loan due? What is the interest rate?**9. When is the mortgage due? How does the interest rate compare with current mortgage rates?**10. What was the profit for the latest year?**11. Have profits been rising or falling?*

CAREER**Michael Tam/University Student** (page 55)**Discussion (p. 56)**

1. *Michael's parents use leadership, communication, teamwork, and analytical skills every day.*

2. *Michael had already learned a lot of the first-year university material in his high school courses, which made its rapid and advanced post-secondary presentation less confusing.*

3. *Michael is not qualified to be an accountant yet but he can be an accounting clerk, which gives him experience in his chosen field. Understanding the tasks of an accounting clerk will help him later when he is an accountant.*

Research and Writing Questions (p. 56)

4. *Answers will vary.*

5. Attach a copy of your report to your Workbook.
Answers will vary.