

SURVEY OF ACCOUNTING · CHAPTER 1 · LO 1-10

Interactive Assessment — LO 1-10

Work these on your own, then we'll go through them together on the screen.

Name _____ Date _____ Section _____

LO 1-10 Record business events using a horizontal financial statements model.

1 Magnolia Movers in the horizontal model

Magnolia Movers was formed on January 1, Year 1. Record each event in the horizontal financial statements model. Write the amount in every cell the event affects and NA where it does not; label each cash flow OA, IA, or FA.

- Magnolia acquired \$75,000 cash by issuing common stock.
- Magnolia borrowed \$40,000 cash.
- Magnolia paid \$90,000 cash to purchase land for a truck yard.
- Magnolia received \$64,000 cash from customers for moving services.
- Magnolia paid \$37,000 cash for fuel, wages, and other operating expenses.
- Magnolia paid an \$8,000 cash dividend to its owners.
- On December 31 the land was appraised at \$105,000.

EVENT	BALANCE SHEET									INCOME STATEMENT					STATEMENT OF CASH FLOWS
	Assets			=	Liabilities + Stockholders' Equity										
	Cash	+	Land	=	N. Pay.	+	Com. Stk.	+	Ret. Earn.	Rev.	-	Exp.	=	Net Inc.	
1	75,000	+	NA	=	NA	+	75,000	+	NA	NA	-	NA	=	NA	75,000 FA
2	40,000	+	NA	=	40,000	+	NA	+	NA	NA	-	NA	=	NA	40,000 FA
3	(90,000)	+	90,000	=	NA	+	NA	+	NA	NA	-	NA	=	NA	(90,000) IA
4	64,000	+	NA	=	NA	+	NA	+	64,000	64,000	-	NA	=	64,000	64,000 OA
5	(37,000)	+	NA	=	NA	+	NA	+	(37,000)	NA	-	37,000	=	(37,000)	(37,000) OA
6	(8,000)	+	NA	=	NA	+	NA	+	(8,000)	NA	-	NA	=	NA	(8,000) FA
7	NA	+	NA	=	NA	+	NA	+	NA	NA	-	NA	=	NA	NA
Tot.	44,000	+	90,000	=	40,000	+	75,000	+	19,000	64,000	-	37,000	=	27,000	44,000 NC

EVENT	BALANCE SHEET									INCOME STATEMENT					STATEMENT OF CASH FLOWS
	Assets			=	Liabilities + Stockholders' Equity										
	Cash	+	Land	=	N. Pay.	+	Com. Stk.	+	Ret. Earn.	Rev.	-	Exp.	=	Net Inc.	Cash Flow

Label each cash flow OA (operating), IA (investing), or FA (financing). Write NA where an account is not affected. Decreases in parentheses.

FOR THE INSTRUCTOR

Same seven-event shape as the chapter's RCS model with new figures. Expenses are entered positive in their own column (the column goes up) while retained earnings and net income go down. Event 6 is the classic miss: the dividend is FA and never touches the income statement.

2 Magnolia's totals row

Magnolia Movers was formed on January 1, Year 1. Events: acquired \$75,000 cash by issuing common stock; borrowed \$40,000 cash; paid \$90,000 cash to purchase land for a truck yard; received \$64,000 cash from customers for moving services; paid \$37,000 cash for fuel, wages, and other operating expenses; paid an \$8,000 cash dividend to its owners; on December 31 the land was appraised at \$105,000. Complete the totals row of the horizontal model.

Ending cash

\$44,000

Ending retained earnings

\$19,000

Net income

\$27,000

SHOW YOUR WORK

FOR THE INSTRUCTOR

Cash: $75,000 + 40,000 - 90,000 + 64,000 - 37,000 - 8,000 = 44,000$. Retained earnings: $64,000 - 37,000 - 8,000 = 19,000$. Net income: 27,000. Check: $44,000 + 90,000 = 40,000 + 75,000 + 19,000 = 134,000$.

3 The missing statement

The horizontal financial statements model shows three statements side by side. Which statement is left out, and what reason does the chapter give? Circle one.

- ☐ A The statement of cash flows, because Chapter 1 has only cash events
- ☐ B The balance sheet, because it is a point-in-time statement
- ☐ C The income statement, because net income already appears in retained earnings
- ☒ D **The statement of changes in stockholders' equity, because equity effects can be read from the balance sheet columns and space is limited**

FOR THE INSTRUCTOR

The model runs Balance Sheet, then Income Statement, then Statement of Cash Flows. The equity statement is omitted because the Common Stock and Retained Earnings columns already show its effects, and the page is only so wide.

4 Reading a row

One row of Magnolia's model shows Rev. 64,000, Net Inc. 64,000, and Cash Flow 64,000. Which label must appear beside the cash flow, and why? Circle one.

- ☐ A FA, because the cash came from outside the company
- ☒ B **OA, because cash received from revenue is an operating activity**
- ☐ C IA, because the money will be invested in the business
- ☐ D NC, because it changed the cash balance

FOR THE INSTRUCTOR

A row that moves revenue is an operating event. NC is the label for the net change in cash on the totals row, not for a single event; that is the intended trap.

