Financial Accounting For Decision Makers 1st edition Tietz Solutions Manual

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Chapter 1

Fundamentals of Accounting and Financial Statements

Real-World Reporting

RW 1-1

Target Corporation (ticker NYSE: TGT)

Using EDGAR (Electronic Data Gathering, Analysis, and Retrieval system) at www.sec.gov/search-filings, search for the company's ticker symbol of TGT and retrieve the Target Corporation Form 10-K (annual report) for the year ended January 28, 2023. Locate Item 8, Financial Statements and Supplementary Data (the link to Item 8 is usually on the second page of the Form 10-K.) Answer the following questions:

1. **How is Target's year-end date determined? (*Hint:* See Note 1 to Consolidated Financial Statements.) Why do you think Target uses this year-end rather than a calendar year-end?**

   Answer:

   Target's fiscal year ends on the Saturday nearest January 31. Target probably chose that year-end because it coincides with the end of the holiday shopping season, which is the lowest point in the business cycle. Holiday returns and offering after-holiday sales typically occur between the holidays and prior to the end of January.

2. **What was the accounting equation for Target as of January 28, 2023? On which financial statement do you find this information?**

Answer:

The accounting equation: Assets = Liabilities + Equity. It shows the relationship among the company's assets, liabilities, and equity. These three amounts can be found on the balance sheet. Target calls that statement the Consolidated Statement of Financial Position.

Target's accounting equation as of:

In millions	Assets	=	Liabilities	+	Equity
January 28, 2023	$53,335	=	$42,103	+	$11,232

3. **What were Target's total assets as of January 28, 2023? Did Target's total assets increase or decrease as compared to the prior year total assets? What are the three largest assets that Target owns as of January 28, 2023, and what were their balances on that date?**

Answer:

a. Target's total assets as of the date listed below and b. the change from the prior year total:

	a.	b.
In millions	Assets	Change from prior year total
January 28, 2023	$53,335	decrease
January 29, 2022	$53,811	increase

c. The three largest assets that Target owns as of the date below and d. the balances on those dates:

c.	d.
January 28, 2023	
Property and equipment, net	$31,512
Inventory	$13,499
Operating lease assets	$2,657

4. **What were Target's total liabilities as of January 28, 2023? Did Target's total liabilities increase or decrease as compared to the prior year total liabilities? What was Target's largest liability as of January 28, 2023, and what was its balance on that date?**

Answer:

a. Target's total liabilities as of the date listed below and b. the change from the prior year total:

	a.	b.
In millions	Total Liabilities	Change from prior year total
January 28, 2023	$42,103	Increase
January 29, 2022	$40,984	Increase

c. Target's largest liability as of the date listed below and d. the balance on that date:

c.	d.
<u>January 28, 2023</u>	
Long-term debt and borrowings	$16,009

5. Which is larger as of January 28, 2023: Target's total assets or its total liabilities? Which should normally be larger and why?

Answer:

In millions	Assets	Liabilities	Which is larger?
January 28, 2023	$53,335	$42,103	Assets

Total assets are normally larger than total liabilities. Most companies operate under the continuity (or going-concern) assumption. It assumes that the entity will continue to operate long enough to sell its assets, such as inventories, convert any receivables to cash, use other existing assets (such as land, buildings, equipment, and supplies) for their intended purposes, and settle its obligations (or liabilities) in the ordinary course of business and to continue this process operating into the future.

Best Buy Co., Inc. (ticker NYSE: BBY)

Using EDGAR (Electronic Data Gathering, Analysis, and Retrieval system) at www.sec.gov/search-filings, search for the company's ticker symbol of BBY and retrieve the Best Buy Co., Inc., Form 10-K (annual report) for the year ended February 3, 2024. Locate Item 8, Financial Statements and Supplementary Data (the link to Item 8 is usually on the second page of the Form 10-K.) Answer the following questions:

1. **On which financial statements would you find Best Buy's net income listed? What does Best Buy call each of those statements?**

   Answer:

   Net income appears on the:
   a. **Consolidated statement of earnings (or consolidated statements of earnings)**
   b. **Consolidated statement of comprehensive income (or consolidated statements of comprehensive income)**
   c. **Consolidated statement of cash flows (or consolidated statements of shareholders' equity)**
   d. **Consolidated statement of changes in shareholders' equity (or consolidated statements of changes in shareholders' equity)**

2. **a. What is the name of the statement upon which you would find Best Buy's revenues, expenses, and net income? b. What term does Best Buy use rather than "net income"?**

   Answer:

   a. **Consolidated statements of earnings (or consolidated statements of earnings)**
   b. **Net earnings**

3. a. What was Best Buy's net income for the year ended February 3, 2024? b. What was its revenue for that year? c. Given its net income and its revenue for the year ended February 3, 2024, calculate its total expenses.

Answer:

In millions	a.	b.	c.
year ended:	Net Income	Revenue	Expenses
February 3, 2024	$1,241	$43,452	$42,211

4. Compare Best Buy's net income for the year ended February 3, 2024, with its net income for the year ended January 28, 2023. Has its net income increased or decreased?

Answer:

In millions	a.	b.
year ended:	Net income	Change from prior year total
February 3, 2024	$1,241	decrease
January 28, 2023	$1,419	decrease

The Procter & Gamble Company (ticker NYSE: PG)

Using EDGAR (Electronic Data Gathering, Analysis, and Retrieval system) at www.sec.gov/search-filings, search for the company's ticker symbol of PG and retrieve the Procter & Gamble Company Form 10-K (annual report) for the year ended June 30, 2023. Locate Item 8, Financial Statements and Supplementary Data (the link to Item 8 is usually on the second page of the Form 10-K.) Answer the following questions:

1. **What are the amounts that Procter & Gamble reports for total assets, total liabilities, and total stockholders' equity in the balance sheet for the year ended June 30, 2023? What would Procter & Gamble's accounting equation be?**

   Answer:

In millions	2023
Total assets	$120,829
Total liabilities	$73,764
Total shareholders' equity	$47,065

	Assets	=	Liabilities	+	Equity
June 30, 2023	$120,829	=	$73,764	+	$47,065

2. **Procter & Gamble uses a different name for its income statement. What is that name?**

   Answer:

   Consolidated Statements of Earnings

3. **What amounts does Procter & Gamble report for net sales revenue and net income in its income statement for the year ended June 30, 2023?**

   Answer:

   Net sales revenue = "Net Sales" on Consolidated Statements of Earnings for the year ended June 30, 2023, is $82,006 million.

   Net income = "Net Earnings Attributable to Procter & Gamble" on Consolidated Statements of Earnings for the year ended June 30, 2023, is $14,653 million.

4. **View Procter & Gamble's statement of cash flows for the year ended June 30, 2023. Of the three types of cash flow activities (operating, investing, and financing), which are positive net cash flows? Which are negative cash flows? What do these three cash flow activities indicate about the health of Procter & Gamble?**

   Answer:

   a. **Operating cash flows are positive (June 30, 2023)**

   b. **Investing cash flows are negative (June 30, 2023)**

   c. **Financing cash flows are negative (June 30, 2023)**

   d. **All these cash flows taken together indicate that Procter & Gamble is generating positive cash flows from its earnings and using that cash to fund investments in capital projects and to pay dividends to shareholders and to buy back its own stock. This cash flow pattern appears to indicate a healthy company for the year ended June 30, 2023.**

Short Exercises

(10 min.) S 1-1

(Learning Objective 1: Explain and differentiate between business organizations) **Hudson Signs, Inc., needs funds, and Alley Hudson, the president, has asked you to consider investing in the business. Answer the following questions about the different ways that Hudson might organize the business. Explain each answer.**

a. What forms of organization will enable the owners of Hudson Signs, Inc., to limit their risk of loss to the amounts they have invested in the business?

Answer:

Corporation, limited partners of a Limited-liability partnership (LLP) and Limited-liability company (LLC). **If any of these businesses fails and cannot pay its liabilities, creditors cannot force the owners to pay the business's debts from the owners' personal assets. Creditors can go after the general partner of a limited liability partnership.**

b. What form of business organization will give Alley Hudson the most freedom to manage the business as she wishes?

Answer:

***Proprietorship*. There is a single owner of the business, so the owner is answerable to no other owner.**

c. What form of organization will give creditors the maximum protection in the event that Hudson Signs, Inc., fails and cannot pay its debts?

Answer:

***Partnership*. If the partnership fails and cannot pay its liabilities, creditors can force the partners to pay the business's debts from their personal assets. A partnership affords more protection for creditors than a proprietorship because there are two or more owners to share this liability.**

(5-10 min.) S 1-2

(Learning Objective 2: Identify income statement components)

1. **Identify the two basic categories of items on an income statement.**

   Answer:

   Revenues and expenses

2. **What do we call the bottom line of the income statement?**

   Answer:

   Net income (or net loss)

(5 min.) S 1-3

(Learning Objective 2: Prepare an income statement) **Kent Clean Car Company, a small business operating a chain of touchless car washes, completed its financial year on August 31, 2025. Its total revenue for the year was $250,700, and its total expenses were $121,300. The company declared dividends of $5,000 during the year. Prepare the company's income statement for the year. Use proper headings.**

Answer:

Kent Clean Car Company
Income Statement
Year Ended August 31, 2025

Total revenues..	**$250,700**
Total expenses...	**121,300**
Net income..	**$129,400**

(10 min.) S 1-4

(Learning Objective 3: Calculate impacts on stockholders' equity: Retained earnings) **The Brimfield Cocoa Bliss Confections Company produces and sells specialty chocolates. Selected financial data for its fiscal year ending March 31, 2025 follows:**

Cash dividends declared	$ 5,200
Total expenses	$ 67,400
Beginning retained earnings	$ 51,400
Total revenues	$ 92,200

Answer the following questions:

Req. 1

What was the company's net income for the year?

Answer:

Brimfield Cocoa Bliss Confections Company
Income Statement
Year Ended March 31, 2025

Total revenues...	**$92,200**
Total expenses..	**67,400**
Net income...	**$24,800**

Req. 2

How did the company's net income for the year impact its stockholders' equity?

Answer:

Net income flows from the Income Statement to the Statement of Retained Earnings. The company's net income for the year was positive and therefore, it will increase retained earnings, which increases stockholders' equity.

Req. 3

How did the cash dividends declared impact the company's stockholders' equity?

Answer:

Dividends declared reduces retained earnings, which decreases stockholders' equity.

Req. 4

What was the company ending retained earnings as of March 31, 2025?

Answer:

Brimfield Cocoa Bliss Confections Company
Partial Statement of Stockholders' Equity: Retained Earnings
Year Ended March 31, 2025

Beginning retained earnings	$	51,400
Net income		24,800
Dividends declared	(5,200)	
Ending retained earnings	$	71,000

