Instructor Manual

Warren, Corporate Financial Accounting, 16e, 2022, 9780357510384, Chapter 1: Introduction to Accounting and Business

Table of Contents

[Purpose and Perspective of the Chapter 2](#_Toc75784810)

[Cengage Supplements 2](#_Toc75784811)

[Chapter Objectives 2](#_Toc75784812)

[Complete List of Chapter Activities and Assessments 3](#_Toc75784813)

[Key Terms 3](#_Toc75784814)

[What's New in This Chapter 8](#_Toc75784815)

[Chapter Outline 8](#_Toc75784816)

[Discussion Questions 12](#_Toc75784817)

[Additional Activities and Assignments 14](#_Toc75784818)

[Additional Resources 16](#_Toc75784819)

[Cengage Video Resources 16](#_Toc75784820)

# Purpose and Perspective of the Chapter

The purpose of this chapter is to introduce students to business and accounting. For many students, Chapter 1 of *Corporate Financial Accounting* is their first taste of the business or accounting disciplines. The teaching challenge is to get students to understand and accept the importance of learning business and accounting concepts. This will make the course more than just another requirement that students must complete to graduate. Because this chapter will set the tone for the entire course and the students’ business careers, avoid the temptation to rush through the material.

Chapter 1 begins with a discussion of the nature of business and accounting and the different types of businesses (service, retail, and manufacturing). Next, the chapter describes the role of accounting in business. The chapter then moves on to business ethics and discusses how individual character, firm culture, and laws and enforcement affect ethics as well as examples of accounting/business fraud. Opportunities in accounting professions/careers are discussed. Following this introductory information, the text explains generally accepted accounting principles (GAAP), the characteristics of financial information, and the assumptions that form the basis of GAAP. The forms of business entities (proprietorships, partnerships, corporations, and limited liability companies) are described. The four principles of financial accounting (measurement, historical cost, revenue recognition, and expense recognition) are defined. The accounting equation is introduced, and then the discussion of how business transactions affect accounts in the accounting equation begins. When transactions are analyzed, changes in assets, liabilities, and stockholders’ equity are stated as “increases” or “decreases”; the terms *debit* and *credit* are not introduced until Chapter 2. The components of the accounting equation are discussed using several transactions for a business called NetSolutions. Next are examples of how to prepare the four primary financial statements using the accounting equation information and explanations of how the four financial statements are interrelated. The chapter ends with an explanation of the ratio of liabilities to stockholders’ equity and how it is particularly important to creditors.

# Cengage Supplements

The following product-level supplements provide additional information that may help you in preparing your course. They are available in the Instructor Resource Center.

* Educator’s Guide
* PowerPoint® slides
* Test bank powered by Cognero®

# Chapter Objectives

The following objectives are addressed in this chapter:

Obj. 1 Describe the nature of business and the role of accounting and ethics in business.

Obj. 2 Describe generally accepted accounting principles, including the underlying assumptions and principles.

Obj. 3 State the accounting equation and define each element of the equation.

Obj. 4 Describe and illustrate how business transactions can be recorded in terms of the resulting change in the elements of the accounting equation.

Obj. 5 Describe the financial statements of a corporation and explain how they interrelate.

Obj. 6 Describe and illustrate the use of the ratio of liabilities to stockholders’ equity in evaluating a company’s financial condition.

# Complete List of Chapter Activities and Assessments

For additional guidance, refer to the Teaching Online Guide.

|  |  |  |
| --- | --- | --- |
| Chapter Objective | PPT Slide | Activity/Assessment |
| Obj. 1 | 2 | Icebreaker |
| Obj. 1 | 6–7 | Knowledge Check Activity 1 |
| Obj. 2 | 25–26 | Discussion Activity 1 |
| Obj. 3 | 28–29 | Discussion Activity 2 |
| Obj. 4 | 44–45 | Knowledge Check Activity 2 |
| Obj. 5 | 57–58 | Knowledge Check Activity 3 |

[[return to top]](#_top)

# Key Terms

**Account payable:** The liability created by a purchase on account.

**Account receivable:** An asset, which is a claim against the customer created by selling merchandise or services on credit.

**Accounting:** An information system that provides reports to stakeholders about the economic activities and condition of a business.

**Accounting assumptions:** Assumptions that provide the framework upon which accounting standards are constructed.

**Accounting equation:** The equation that shows the relationship among assets, liabilities, and equity; expressed as Assets = Liabilities + Equity.

**Accounting principles:** Principles that provide the framework upon which accounting standards are constructed.

**Accounting standards:** The rules that determine the accounting for individual business transactions.

**Accounting Standards Codification:** An electronic database maintained by the Financial Accounting Standards Board (FASB) that contains all of the accounting standards that make up the generally accepted accounting principles (GAAP).

**Accounting Standards Updates:** Published changes to accounting standards that are the source of updates to the Accounting Standards Codification.

**Arm’s-length transactions:** Transactions between two independent parties.

**Assets:** The resources owned by a business.

**Balance sheet:** A list of the assets, liabilities, and stockholders’ equity as of a specific date, usually at the close of the last day of a month or a year.

**Business:** An organization in which basic resources (inputs), such as materials and labor, are assembled and processed to provide goods or services (outputs) to customers.

**Business entity assumption:** A concept of accounting that limits the economic data in the accounting system to data related directly to the activities of the business.

**Business transaction:** An economic event or condition that directly changes an entity’s financial condition or directly affects its results of operations.

**Certified Public Accountant (CPA):** Public accountants who have met a state’s education, experience, and examination requirements.

**Common stock:** Certificates issued by a corporation to investors as proof of their ownership rights; an account representing the ownership rights of investors in a corporation; a class of stock issued by a corporation that bears no preference rights.

**Comparability:** A secondary characteristic of financial information; comparability includes consistent reporting, that allows users to identify similarities and differences among reported items.

**Corporation:** A business organized under state or federal statutes as a separate legal entity.

**Cost principle:** A concept of accounting that states that an asset should be recorded and maintained in the accounting records at its initial transaction price.

**Data analytics:** The science of analyzing raw data to discover patterns, identify anomalies, or gain other useful insights.

**Dividends:** Distributions of earnings to stockholders; an account representing the distribution of a corporation’s earnings to stockholders.

**Earnings:** The amount by which revenues exceed expenses.

**Equity:** The rights of the owners of a business.

**Ethics:** Moral principles that guide the conduct of individuals.

**Expense recognition principle:** A principle, sometimes called the matching principle, that requires expenses to be recorded in the same period as the related revenue; a concept of accounting in which expenses are matched with the revenue generated during a period by those expenses.

**Expenses:** Amounts used to generate revenue; assets used up or services consumed in the process of generating revenues.

**Faithful representation:** A characteristic of financial reports that pertains to information accurately reflecting an entity’s economic activity or condition.

**Fees earned:** Revenue from providing services.

**Financial accounting:** The branch of accounting that is concerned with recording transactions using generally accepted accounting principles (GAAP) for a business or other economic unit and with a periodic preparation of various statements from such records.

**Financial Accounting Standards Board (FASB):** The authoritative body that has the primary responsibility for developing accounting principles.

**Financial statements:** Financial reports that summarize the effects of events on a business.

**Financing activities:** Activities by which a company obtains funds to start and operate the company.

**Fiscal year:** The annual accounting period adopted by a business.

**Generally accepted accounting principles (GAAP):** Generally accepted guidelines for the preparation of financial statements.

**General-purpose financial statements:** A type of financial accounting report that is distributed to external users. The term “general purpose” refers to the wide range of decision-making needs that the reports are designed to serve.

**Going concern assumption:** An assumption that requires that financial reports be prepared assuming that the entity will continue operating in the future.

**Historical cost principle:** A concept of accounting that states that an asset should be recorded and maintained in the accounting records at its initial transaction price.

**Income statement:** A summary of the revenue and expenses for a specific period of time, such as a month or a year.

**Interest revenue:** Earnings received for interest.

**International Accounting Standards Board (IASB):** An organization that issues International Financial Reporting Standards for many countries outside the United States.

**Investing activities:** Activities by which a company acquires long-term assets for use in the operating activities of the company.

**Liabilities:** The rights of creditors that represent debts of the business.

**Limited liability company (LLC):** A business form consisting of one or more persons or entities filing an operating agreement with a state to conduct business with limited liability to the owners, yet treated as a partnership for tax purposes.

**Managerial (or management) accounting:** The branch of accounting that uses both historical and estimated data in providing internal users (management) with information relevant to decision making.

**Manufacturing business:** A type of business that changes basic inputs into products that are sold to individual customers.

**Measurement principle:** A principle that requires that amounts be objective and verifiable.

**Monetary unit assumption:** An accounting assumption that requires that financial reports be expressed in a single monetary unit, or currency.

**Natural business year:** A fiscal year that ends when business activities have reached the lowest point in an annual operating cycle.

**Net income (or net profit):** The amount by which revenues exceed expenses.

**Net loss:** The amount by which expenses exceed revenues.

**Operating activities:** Activities by which a company generates revenues from customers.

**Owner’s equity:** The equity for a proprietorship, partnership, or a limited liability company.

**Partnership:** An unincorporated business form consisting of two or more persons conducting business as co-owners for profit.

**Prepaid expenses:** Assets created by making advanced payments for expense items, such as insurance premiums or supplies, that will be used in the business in the future.

**Private accounting:** The field of accounting whereby accountants are employed by a business firm or a not-for-profit organization.

**Profit:** The difference between the amounts received from customers for goods or services provided and the amounts paid for the inputs used to provide the goods or services.

**Proprietorship:** A business owned by one individual.

**Public accounting:** The field of accounting where accountants and their staff provide services on a fee basis.

**Public Company Accounting Oversight Board (PCAOB):** A new oversight body for the accounting profession that was established by the Sarbanes-Oxley Act.

**Ratio of liabilities to stockholders’ equity:** A comprehensive leverage ratio that measures the relationship of the claims of creditors to stockholders’ equity; a solvency ratio that measures how much of the company is financed by debt and equity, computed as total liabilities divided by total stockholders’ equity.

**Relevant:** A characteristic of financial reports that pertains to information having the potential to impact decision making.

**Rent revenue:** Earnings from property that is leased to others for use.

**Report form:** A form of balance sheet with the “Liabilities” and “Stockholders’ Equity” sections presented below the “Assets” section.

**Retail business:** A type of business that purchases products from other businesses and sells them to customers.

**Retained earnings:** The stockholders’ equity created from business operations through revenue and expense transactions; an account representing the net income retained in a corporation.

**Retained earnings statement:** A summary of the changes in the retained earnings in a corporation that have occurred during a specific period of time, such as a month or a year.

**Revenue:** Increases in owner’s equity as a result of providing services or selling goods to customers.

**Revenue recognition principle:** A concept of accounting that states that revenues are recorded when earned, which is when the services have been performed or products have been delivered to customers.

**Sales:** How revenue from the sale of merchandise is recorded; the total amount charged customers for merchandise sold, including cash sales and sales on account.

**Sarbanes-Oxley Act (SOX):** An act passed by Congress to restore public confidence and trust in the financial statements of companies.

**Securities and Exchange Commission (SEC):** An agency of the U.S. government that has authority over the accounting and financial disclosures for companies whose shares of ownership (stock) are traded and sold to the public.

**Service business:** A business providing services rather than products to customers.

**Statement of cash flows:** A summary of the cash receipts and cash payments for a specific period of time, such as a month or a year.

**Statement of stockholders’ equity:** A summary of the changes in the stockholders’ equity in a corporation that have occurred during a specific period of time, such as a month or a year.

**Stockholders’ equity:** The ownership rights of stockholders in a corporation; the stockholders’ rights to the assets in a corporation.

**Timeliness:** A secondary characteristic of financial information that requires distribution of financial reports in time to influence a user’s decision.

**Time period assumption:** An accounting assumption that allows a company to report its economic activities on a regular basis for a specific period of time.

**Understandability:** A secondary characteristic of financial information that requires clear and concise financial reports that facilitate user interpretation and analysis.

**Verifiability:** A secondary characteristic of financial information that allows users to agree on the meaning of reported items.

[[return to top]](#_top)

# What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

* Why It Matters boxes from the previous edition have been relabeled as Business Insight boxes.
* New section on Business Activities has been added including a related exhibit.
* Exhibit 3 has been updated with new and more current examples of accounting and business frauds.
* New Business Insight box on “Business Strategies” has been added.
* Exhibit 11 is new and illustrates the interrelationships of the financial statements with the balance sheet as the connecting link.
* A new *Using Data Analytics* feature has been added. This feature box describes an application of data analytics to the chapter’s content.

[[return to top]](#_top)

# Chapter Outline

*In the outline below, each element includes references (in parentheses) to related content. “CH.##” refers to the chapter objective; “PPT Slide #” refers to the slide number in the PowerPoint deck for this chapter (provided in the PowerPoints section of the Instructor Resource Center); and, as applicable for each discipline, accreditation or certification standards (“BL 1.3.3”). Introduce the chapter and use the Ice Breaker in the PPT if desired, and if one is provided for this chapter. Review learning objectives for Chapter 1. (PPT Slide 3).*

1. Nature of Business and Accounting (1-1, PPT Slides 4–15, BUSPROG: Analytic, AICPA: FN-Research)
2. **Icebreaker:** *How does a business use accounting information?* (Slide 2)

The class will be broken up into small groups (2-5 depending on the number of students in total). Each group will select a large, well-known business that most of them regularly patronize.

* Within each group, students will discuss how this business may use accounting information to make strategic decisions. For example, how can tracking their sales help them determine what products or services to sell? Use specific examples related to demographics or regions.
* Each group will select a spokesperson to introduce the group members to the class and share their findings.

1. The first objective starts with a list of the three types of businesses: service, retail, and manufacturing. It defines each type of business and gives examples.
2. **Knowledge Check Activity 1:** *Which of the following businesses would be considered a service business?* (Slides 6–7)
   * Southwest Airlines would be considered a service business.
   * Walmart and Starbucks would be considered retail businesses, and Ford Motor Company would be a manufacturer.
3. The role of accounting in business is discussed along with the two types of users: internal and external. Exhibit 1 (PPT Slide 8) shows the various users and the data they require.
4. Accounting can be defined as an information system that provides reports to users about the economic activities and condition of a business as shown in Exhibit 2 (PPT Slide 10).
5. Internal users require information from managerial accounting, while external users require information from financial accounting. To be useful, accounting information must be relevant, timely, and trustworthy.
6. The failure of individual character and a culture of corporate greed and ethical indifference led to the accounting and business frauds as shown in Exhibit 3 (PPT Slides 12 and 13). The Sarbanes-Oxley Act (SOX) was enacted in 2002 as a countermeasure to the fraud that was being committed. One of the many regulations that SOX established was a new oversight body for the accounting profession called the Public Company Accounting Oversight Board (PCAOB).
7. Opportunities for accountants are increasing as regulations increase, and people are beginning to realize the importance and value of accounting information. Exhibit 4 (PPT Slides 14 and 15) provides a list of accounting career paths and salaries.
8. Generally Accepted Accounting Principles (GAAP) (1-2, PPT Slides 16–26, BUSPROG: Analytic, AICPA: FN-Measurement)
   1. Generally accepted accounting principles (GAAP) are used to prepare financial reports. This allows users to compare one company to another. In the United States, these principles are the responsibility of the Financial Accounting Standards Board (FASB). Companies that are publicly traded are also guided by the Securities and Exchanges Commission (SEC).
   2. The FASB works with the International Accounting Standards Board (IASB) to reduce differences between international and U.S. standards. This helps make global investment and business easier. Financial accounting and GAAP are based on assumptions regarding the monetary unit, time period, business entity, and going concern.
   3. This chapter also introduces the four forms of business entities: sole proprietorship, partnership, corporation, and limited liability company (LLC). Exhibit 5 (PPT Slides 21 and 22) lists the types of business entities and the characteristics and advantages of each.
   4. Financial accounting relies on principles regarding measurement, historical cost, revenue recognition, and expense recognition.
   5. **Discussion Activity 1:** *In the following scenarios, which form of business entity do you think would be the best choice? Explain your reasons.* (Slides 25–26)
      * A group of three dentists opening a full-service dental office
      * A graphic design artist specializing in digital marketing
      * Five entrepreneurs opening a chain of hair salons
      * There are advantages and disadvantages for each type of business formation. Small businesses often select a sole proprietorship, although it does expose them to liability issues, including potential lawsuits.
      * For each of these scenarios, the answers may vary. Legal and medical professionals often select a form of partnership or LLC. An individual, such as the graphic artist, may choose to be a sole proprietor. When there are more people involved and the potential exists for shares to be issued, a corporation would be the best choice (likely for the hair salons).
      * What did you choose for each, and why? If you opened a business, which would you choose?
   6. More companies are relying on data analytics, whichis the science of analyzing raw data to discover patterns and identify anomalies, in their operations. Because of accounting’s role in providing useful information, accountants are increasingly using data analytics to help businesses make better decisions or gain other useful insights.
9. The Accounting Equation (1-3, PPT Slides 27–29, BUSPROG: Analytic, AICPA: FN-Measurement)
   1. This objective defines assets, liabilities, and stockholders’ equity and uses the accounting equation (Assets = Liabilities + Equity) to explain their relationship.
   2. **Discussion Activity 2:** *Give an example of what a company might have as an asset and a liability. Then consider what an individual might have as an asset and a liability.* (Slides 28–29)
   * How would a business asset differ from an individual asset?
   * How would a business liability differ from an individual liability?
   * Can an individual calculate their net worth using the same accounting equation as a business?
10. Business Transactions and the Accounting Equation (1-4, PPT Slides 30–45, BUSPROG: Analytic, AICPA: FN-Measurement)
    1. Using a sample company called NetSolutions, this objective demonstrates how business transactions affect a company’s financial condition.
    2. Transactions, such as depositing cash, purchasing assets, selling services, and paying bills, affect the accounting equation. This shows students that through each transaction the two sides of the accounting equation must always be equal.
    3. **Knowledge Check Activity 2:** *Hampshire Havens buys an adjoining piece of land to expand their golf course. They pay $89,000 in cash to acquire this land. Based on the accounting equation, what would be the effect of this transaction?* (Slides 44–45)
       * Cash would decrease by $89,000, and Land would increase by $89,000
11. Financial Statements (1-5, PPT Slides 46–58, BUSPROG: Analytic, AICPA: FN-Reporting)
    1. This objective shows the income statement, statement of stockholders’ equity, balance sheet, and statement of cash flows. Exhibit 8 (PPT Slide 47) shows the order in which the financial statements are prepared.
    2. Using the same NetSolutions example as the previous objective, the order, preparation, and relationship among the four financial statements is demonstrated. Each statement is prepared for a specific period of time, except the balance sheet; it is prepared for a point in time.
    3. The income statement is the first one prepared: revenue minus expenses is known as net income; if expenses are greater than revenue, the excess is a net loss. The statement of stockholders’ equity reports the changes in common stock and retained earnings; the balance sheet reports the amount of assets, liabilities, and stockholders’ equity and must follow the accounting equation. The statement of cash flows has three sections: operating, investing, and financing activities. Exhibit 9 (PPT Slides 48 and 49) shows the four financial statements for NetSolutions. Exhibit 10 (PPT Slides 54 and 55) explains the interrelationships between the financial statements. The balance sheet is the connecting link between the financial statements, and this is shown in Exhibit 11 (PPT Slide 56).
    4. **Knowledge Check Activity 3:** *Which financial statement would a stockholder want to review if they are interested in the company’s sales and expenses?* (Slides 57–58)
    * The income statement would list a company’s sales, expenses, and net loss.
12. Ratio of Liabilities to Stockholders’ Equity (1-6, PPT Slides 59–61, BUSPROG: Analytic, AICPA: FN-Measurement)
    1. Using the financial statements prepared in the previous objective, the use of the ratio of liabilities to stockholders’ equity is examined. The total liabilities amount is divided by the total stockholders’ equity amount to calculate this ratio.
    2. Because creditors have rights to a business’s assets before the owner, this ratio is important to both owners and creditors. This ratio can affect how a business pays its creditors and foretells how well a business will do in poor economic conditions. As this ratio increases, the creditors and the business become more at risk. Examples of the ratio for Twitter and Alphabet are shown on PPT Slides 60 and 61.

[[return to top]](#_top)

# Discussion Questions

You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. Discussion: Importance of Accounting (Nature of Business and Role of Accounting, 1-1, PPT Slide 9) Duration 10 minutes.
   1. The role of accounting is to provide information to businesses about their activities, including operating, investing, and financing. Why is “accounting” so important?
      1. Answer: Accounting is the language of business. Without an organized system that provides information to users about the economic activities and condition of a business, there would no guarantee of a company being profitable or continuing in existence.
   2. Why do I need to know about accounting if I am not going to be an accountant?
      1. Answer: Any business professional needs to be aware of the functions and information provided by an accounting system. Without these vital data, such as information on sales, expenses, assets, liabilities, and equity, a business cannot survive, nor can its owners be assured of its profitability. Basic financial statements, such as the income statement and balance sheet, provide useful information for all users, internal and external, regarding a business. For example, if you are a marketing manager, it is important to know the expenses of the company’s product or service to ensure the items are sold at a price that will provide a profit. Every employee of a business has a responsibility to uphold the company’s mission to attain and sustain profitability.
2. Discussion: Recording Financial Transactions (Business Transactions and the Accounting Equation, 1-4) Duration 10 minutes.
   1. Why can’t I just use a computer program to do all my accounting? Isn’t that what technology is for?
      1. Answer: Technology and software are extremely useful tools in all areas of business. Today’s accounting software allows companies to record and process transactions very quickly and has lots of safeguards to protect against errors such as incorrect account numbers, math mistakes, unbalanced journal entries, and confusion in creating financial statements. However, financial and accounting systems are maintained by humans who need to provide directions and “rules” within the software programs. Accounting rules can change, and in certain areas, such as payroll processing, they vary from year to year or even more often—think of tax rate changes and employment laws. So while technology and accounting software are superb tools, it is important for trained employees to monitor the input and output carefully and to know how accounting works to use their judgment in processing data.
3. Discussion: Items Listed on Financial Statements (Financial Statements, 1-5, PPT Slides 50 and 52) Duration 15 minutes.
   1. The accounting system classifies different items into categories to help group similar items together for reporting and analysis. What is the difference between revenues and assets? Give examples of these items.
   2. Answer: Revenues are income derived from the sales of a company’s products or services. These will change over time as the company grows or has seasonal activity. For example, a company such as Hershey’s Food Corporation has increased sales prior to major holidays. A company’s assets are resources that a company owns to provide the ability to earn revenues. For example, FedEx owns many delivery trucks and planes to earn revenues from delivering packages. Examples of assets include property, plant, and equipment, as well as cash, accounts receivable, and inventory.
   3. What is the difference between expenses and liabilities? Give examples of these items.
4. Answer: Expenses are costs incurred by a company to make a product or provide a service. Examples of expenses include rent, payroll costs, raw materials, shipping, travel, and many others. Liabilities are amounts owed by the company to another entity. Examples of liabilities include mortgages, accounts payable to vendors, bond interest payable to bondholders, etc.

[[return to top]](#_top)

# Additional Activities and Assignments

* + - 1. **Class Discussion Activity:** *Types of Businesses* (Reflective Thinking, Critical Thinking, 1-1, PPT Slide 5) Duration 15 minutes.

1. Have the class provide the names of businesses they have patronized in the past week. Include places they have shopped, eating establishments, products they use every day, and services they have used. When listing products, name the manufacturer; for iPod, for example, the manufacturer would be Apple. List these on the board or overhead.
2. Answer: Student answers will vary.
3. Have the students identify each listed business as service, retail, or manufacturing. Some will cross over categories. Nike, for example, manufactures products and owns retail outlets.
4. Answer: Student answers will vary.
5. **Class Discussion Activity:** *Role of Ethics in Accounting and Business* (Reflective Thinking, Critical Thinking, 1-1, PPT Slide 11) Duration 20 minutes.
   1. Lauren Smith is the controller for Sports Central, a chain of sporting goods stores. She has been asked to recommend a site for a new store. Lauren has an uncle who owns a shopping plaza in the area of town where the new store is to be located, so she decides to contact her uncle about leasing space in his plaza. Lauren also contacted several other shopping plazas and malls, but her uncle’s store turned out to be the most economical place to lease. Therefore, Lauren recommended locating the new store in her uncle’s shopping plaza. In making her recommendation to management, she did not disclose that her uncle owns the shopping plaza. Discuss whether or not the accountant acted ethically.
      1. Answer: Lauren has a conflict of interest in recommending her uncle’s shopping plaza as a site for the new store. After reviewing the data, management at Sports Central may agree with Lauren that her uncle’s plaza is the most economical place to lease; however, Lauren should not make that recommendation without disclosing the family relationship. By hiding the conflict of interest, Lauren appears to lack integrity.
   2. John Jones is the chief accountant for the southwest district office of Security Life Insurance Company. While preparing the fourth-quarter sales report, John overheard the company president say that he would close Security’s Phoenix office if it did not meet its fourth-quarter sales quota. John’s best friend from college works at the Phoenix office. Anxious to find out whether the office was in jeopardy, John immediately finished the Phoenix office’s report, only to find that it showed sales 25% below the quota. Later that afternoon, the company president called John for Phoenix’s sales results. John told the president that he had not finished preparing the sales report for the Phoenix office. John wanted time to compile data that might convince the president to continue operations in Phoenix, despite lagging sales. Discuss whether or not the accountant acted ethically.
      1. Answer: Management accountants must communicate all information, both good and bad, fairly and objectively. It is not ethical to mislead management by withholding available information.
6. **Writing Exercises Activity:** *Business Entity and Cost Concept* (Reflective Thinking, Measurement, 1-2, PPT Slides 21 and 23) Duration 20 minutes.
   * 1. Sally Vertrees purchased a personal computer for use at home. Sally owns a dental practice. She occasionally uses the computer for a task related to her dental practice; however, the computer is used primarily by Sally’s children. Can the computer be recorded as an asset in the accounting records of Sally’s dental office? Why or why not?
7. Answer: This is not the proper use of the business entity assumption. Purchasing items for personal use from business funds will affect the reporting of how successful or unsuccessful a business purports to be for a financial period.
8. Jason Thompson purchased an office building 10 years ago for $780,000. The building was just appraised at $1.25 million. What value should be used for the building in Jason’s accounting records? Support your answer.
9. Answer: This is a clear example of the cost principle. Assets are recorded at cost and remain on the business books at cost until they are disposed of. Future economic conditions may change this appraised value; therefore, no adjustment is made until the asset is sold.
10. **Class Discussion and Online Activity:** *Types of Business Organizations* (Reflective Thinking, Critical Thinking, 1-2, PPT Slides 21 and 22) Duration 20 minutes.
    1. Ask students to name examples of businesses in the business entity categories of proprietorship, partnership, corporation, and limited liability corporation. Explain that they will be learning about accounting concepts related to businesses organized as corporations. Have them look online to find examples of each type.
       1. Answer: Student answers will vary. It may be a challenge to find businesses that fall under the category of limited liability corporation. Ask students what the advantages would be for each category.

[[return to top]](#_top)

# Additional Resources

## Cengage Video Resources

A new, assignable Video Library is available in CNOWv2 for this title. To access the video library, login to CNOWv2, navigate to the Assignment Creation Wizard, and select Homework. The video library is shown within the expanded list of available homework items for each chapter. This chapter includes the following videos:

* 2 Quick Lessons videos
* 6 Tell Me More videos (1 for each learning objective)
* 25 Show Me How videos

[[return to top]](#_top)