

# CHAPTER 1

## Accounting in Action

### ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>
1. Identify the activities and users associated with accounting.	1, 2, 3, 4, 5		1	1, 2	
2. Explain the building blocks of accounting: ethics, principles, and assumptions.	6, 7, 8, 9, 10		2	3, 4	
3. State the accounting equation, and define its components.	11, 12, 13, 14, 22	1, 2, 3, 4, 5, 8, 9	3	5	
4. Analyze the effects of business transactions on the accounting equation.	15, 16, 18	6, 7	4	6, 7, 8	1A, 2A, 4A, 5A
5. Describe the four financial statements and how they are prepared.	17, 19, 20, 21,	10, 11	5	8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18	2A, 3A, 4A, 5A

## ASSIGNMENT CHARACTERISTICS TABLE

<b>Problem Number</b>	<b>Description</b>	<b>Difficulty Level</b>	<b>Time Allotted (min.)</b>
1A	Analyze transactions and compute net income.	Moderate	40–50
2A	Analyze transactions and prepare income statement, retained earnings statement, and balance sheet.	Moderate	50–60
3A	Prepare income statement, retained earnings statement, and balance sheet.	Moderate	50–60
4A	Analyze transactions and prepare financial statements.	Moderate	40–50
5A	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50

**WEYGANDT FINANCIAL AND MANAGERIAL ACCOUNTING 3E**  
**CHAPTER 1**  
**ACCOUNTING IN ACTION**

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
BE1	3	AP	Easy	2–4
BE2	3	AP	Easy	3–5
BE3	3	AP	Easy	4–6
BE4	3	AP	Moderate	4–6
BE5	3	C	Easy	2–4
BE6	4	C	Easy	2–4
BE7	4	C	Easy	2–4
BE8	3	C	Easy	2–4
BE9	3	C	Easy	1–2
BE10	5	AP	Easy	3–5
BE11	5	C	Easy	2–4
DI1	1	K	Easy	2–4
DI2	2	K	Easy	2–4
DI3	3	K	Easy	2–4
DI4	4	AP	Easy	6–8
DI5	5	AP	Moderate	8–10
EX1	1	C	Easy	5–7
EX2	1	C	Easy	6–8
EX3	2	C	Moderate	6–8
EX4	2	C	Moderate	6–8
EX5	3	C	Easy	4–6
EX6	4	C	Easy	6–8
EX7	4	C	Easy	4–6
EX8	4, 5	AP	Moderate	12–15
EX9	5	AP	Easy	12–15
EX10	5	AP	Moderate	8–10
EX11	5	AN	Moderate	6–8
EX12	5	AP	Easy	8–10
EX13	5	AN	Moderate	8–10
EX14	5	AP	Easy	10–12
EX15	5	AP	Easy	6–8
EX16	5	AP	Moderate	6–8
EX17	5	AP	Moderate	8–10

**ACCOUNTING IN ACTION (Continued)**

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
P1A	4	AP	Moderate	40–50
P2A	4, 5	AP	Moderate	50–60
P3A	5	AP	Moderate	50–60
P4A	4, 5	AP	Moderate	40–50
P5A	4, 5	AP	Moderate	40–50
CT1	5	AN	Easy	10–15
CT2	5	AN, E	Easy	10–15
CT3	5	AN, E	Easy	10–15
CT4	6	C	Moderate	15–20
CT5	5	E	Moderate	15–20
CT6	5	AP, E	Moderate	12–15
CT7	2	E	Easy	10–12
CT8	2	E	Moderate	15–20
CT9	2, 5	E	Moderate	15–20
CT10	–	AP	Moderate	15–20
CT11	–	C	Easy	10–15

**Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems**

<b>Learning Objective</b>	<b>Knowledge</b>	<b>Comprehension</b>	<b>Application</b>	<b>Analysis</b>	<b>Synthesis</b>	<b>Evaluation</b>
<b>1. Identify the activities and users associated with accounting.</b>	DI1-1  Q1-1 Q1-2 Q1-3 Q1-4	Q1-5 E1-1 E1-2				
<b>2. Explain the building blocks of accounting: ethics, principles, and assumptions.</b>	Q1-7 Q1-8 Q1-9  DI1-2	Q1-6 E1-3 E1-4  Q1-10				
<b>3. State the accounting equation, and define its components.</b>	Q1-11 Q1-12 Q1-13 DI1-3	Q1-14  BE1-5 BE1-8	BE1-9 E1-5	Q1-22 BE1-1 BE1-2 BE1-4 BE1-3		
<b>4. Analyze the effects of business transactions on the accounting equation.</b>		Q1-15 Q1-16  Q1-18 BE1-6 BE1-7 E1-6 E1-7	DI1-4  E1-8	P1-1A P1-2A P1-4A P1-5A		
<b>5. Understand the four financial statements and how they are prepared.</b>		Q1-19 Q1-17 Q1-20 BE1-11 E1-18	Q1-21 BE1-10 DI1-5 E1-8 E1-9 E1-10  E1-12 E1-14 E1-15	E1-16 E1-17  P1-2A P1-3A P1-4A P1-5A	E1-11 E1-13 Q1-20	
<b>Expand Your Critical Thinking</b>		<b>Real-World Focus Considering People, Planet, and Profit</b>	<b>FASB Codification Communication Activity</b>	<b>Financial Reporting Comparative Analysis</b>		<b>All About You Comparative Analysis Decision-Making Across the Organization Communication Activity Ethics Case</b>

**BLOOM'S TAXONOMY TABLE**

# ANSWERS TO QUESTIONS

1. Yes, this is correct. Virtually every organization and person in our society uses accounting information. Businesses, investors, creditors, government agencies, and not-for-profit organizations must use accounting information to operate effectively.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

2. Accounting is the process of identifying, recording, and communicating the economic events of an organization to interested users of the information. The first step of the accounting process is therefore to identify economic events that are relevant to a particular business. Once identified and measured, the events are recorded to provide a history of the financial activities of the organization. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner. The information is communicated through the preparation and distribution of accounting reports, the most common of which are called financial statements. A vital element in the communication process is the accountant's ability and responsibility to analyze and interpret the reported information.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

3. (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.  
(b) To assist management, accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

4. (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell stock.  
(b) Creditors use accounting information to evaluate the risks of granting credit or lending money.

LO 1, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

5. No, this is incorrect. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.

LO 1, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

6. Harper Travel Agency should report the land at \$85,000 on its December 31, 2019 balance sheet. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use cost. Only in situations where assets are actively traded do companies apply the fair value principle. An important concept that accountants follow is the cost principle.

LO 2, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement, IMA: Reporting

7. The monetary unit assumption requires that only transaction data capable of being expressed in terms of money be included in the accounting records. This assumption enables accounting to quantify (measure) economic events.

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement, IMA: Reporting

8. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Measurement, IMA: Reporting

## Questions Chapter 1 (Continued)

9. The three basic forms of business organizations are (1) proprietorship, (2) partnership, and (3) corporation.

LO 2, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

10. One of the advantages would enjoy is that ownership of a corporation is represented by transferable shares of stock. This would allow Juana to raise money easily by selling a part of her ownership in the company. Another advantage is that because holders of the shares (stockholders) enjoy limited liability, they are not personally liable for the debts of the corporate entity. Also, because ownership can be transferred without dissolving the corporation, the corporation enjoys an unlimited life.

LO 2, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

11. The basic accounting equation is  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ .

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

12. (a) Assets are resources owned by a business. Liabilities are claims against assets—that is, existing debts and obligations. Stockholders' equity is the ownership claim on total assets.  
(b) Stockholders' equity is affected by stockholders' investments, dividends, revenues, and expenses.

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

13. The liabilities are (b) Accounts payable and (g) Salaries and Wages Payable.

LO 3, BT: K, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

14. Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the Equipment account which is offset by a decrease in the Cash account is a specific example.

LO 3, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

15. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic equation.

- (a) No, the death of the president of the company is not a business transaction as it does not affect the basic equation.  
(b) Yes, supplies purchased on account is a business transaction as it affects the basic equation.  
(c) No, an employee being fired is not a business transaction as it does not affect the basic equation.

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

16. (a) Decrease assets and decrease stockholders' equity.  
(b) Increase assets and decrease assets.  
(c) Increase assets and increase stockholders' equity.  
(d) Decrease assets and decrease liabilities.

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

17. (a) Income statement. (d) Balance sheet.  
(b) Balance sheet. (e) Balance sheet and retained earnings statement.  
(c) Income statement. (f) Balance sheet.

LO 5, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## Questions Chapter 1 (Continued)

- 18.** No, this treatment is not proper. While the transaction does involve a receipt of cash, it does not represent revenues. Revenues are the gross increase in stockholders' equity resulting from business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by one of the owners of the business.

LO 4, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

- 19.** Yes. Net income does appear on the income statement—it is the result of subtracting expenses from revenues. In addition, net income appears in the retained earnings statement—it is shown as an addition to the beginning-of-period retained earnings. Indirectly, the net income of a company is also included in the balance sheet. It is included in the Retained Earnings account which appears in the stockholders' equity section of the balance sheet.

LO 5, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

<b>20.</b> (a)	Ending stockholders' equity balance .....	\$198,000
	Beginning stockholders' equity balance .....	<u>158,000</u>
	Net income.....	<u>\$ 40,000</u>
(b)	Ending stockholders' equity balance .....	\$198,000
	Beginning stockholders' equity balance .....	<u>158,000</u>
		40,000
	Deduct: Investment.....	<u>16,000</u>
	Net income.....	<u>\$ 24,000</u>

LO 5, BT: AN, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

<b>21.</b> (a)	Total revenues (\$30,000 + \$70,000) .....	\$100,000
(b)	Total expenses (\$26,000 + \$38,000).....	\$64,000
(c)	Total revenues .....	\$100,000
	Total expenses.....	<u>64,000</u>
	Net income.....	<u>\$ 36,000</u>

LO 5, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

- 22.** Apple's accounting equation at September 26, 2015 was \$290,479,000,000 = \$171,124,000,000 + \$119,355,000,000.

LO 3, BT: AP, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting



# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 1-1

(a)  $\$78,000 - \$50,000 = \$28,000$  (Stockholders' Equity).

(b)  $\$45,000 + \$70,000 = \$115,000$  (Assets).

(c)  $\$94,000 - \$60,000 = \$34,000$  (Liabilities).

LO 3, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-2

(a)  $\$120,000 + \$232,000 = \$352,000$  (Total assets).

(Liabl. + Stock. equity = Assets)

(b)  $\$190,000 - \$86,000 = \$104,000$  (Total liabilities).

(Assets - Stock. equity = Liabl.)

(c)  $\$600,000 - 0.5(\$600,000) = \$300,000$  (Stockholders' equity).

[Assets - (0.5 x Assets) = Stck. Equity]

LO 3, BT: AP, Difficulty: Easy, TOT: 3 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-3

(a)  $(\$870,000 + \$150,000) - (\$500,000 - \$80,000) = \$600,000$   
(Stockholders' equity).

[(Beg. assets + incr.) - (Beg. liabl. - decrease) = Stock. equity]

(b)  $(\$500,000 + \$100,000) + (\$870,000 - \$500,000 - \$66,000) = \$904,000$   
(Assets).

[(Beg. liabl. + incr.) + (Beg. stock. equity - decr.) = Assets]

(c)  $(\$870,000 - \$80,000) - (\$870,000 - \$500,000 + \$120,000) = \$300,000$   
(Liabilities).

[(Beg. assets - decr.) - (Beg. stock. equity + incr.) = Liabl.]

LO 3, BT: AP, Difficulty: Easy, TOT: 5 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-4

		Stockholders' Equity				
Assets	=	Liabilities	+	Common Stock	+	Retained Earnings
				Revenues – Expenses – Dividends		
(a) X	=	\$90,000	+	\$150,000	+	\$450,000 – \$320,000 – \$40,000
X	=	\$90,000	+	\$240,000		
X	=	<u>\$330,000</u>				
(Assets	=	<u>Liabl.</u>	+	Com. stock	+	Rev.
						– Exp.
						– Div.)
(b) \$57,000	=	X	+	\$23,000	+	\$50,000 – \$35,000 – \$7,000
\$57,000	=	X	+	\$31,000		
X	=	<u>\$26,000</u>		(\$57,000 – \$31,000)		
(Liabl.	=	Assets	–	Com. stk.	–	Rev.
						+ Exp.
						+ Div.
(c) \$600,000	=	(\$600,000 x 2/3)	+	X (Stockholders' equity)		
\$600,000	=	\$400,000	+	X		
X	=	<u>\$200,000</u>				
(Stk. equity	=	<u>Assets</u>	–	(2/3 x Assets)		

LO 3, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-5

<u>A</u>	(a) Accounts receivable	<u>A</u>	(d) Supplies
<u>L</u>	(b) Salaries and wages payable	<u>SE</u>	(e) Owner's investment
<u>A</u>	(c) Equipment	<u>L</u>	(f) Notes payable

LO 3, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-6

	Assets	Liabilities	Stockholders' Equity
(a)	+	+	NE
(b)	+	NE	+
(c)	–	NE	–

LO 4, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-7

	<u>Assets</u>	<u>Liabilities</u>	<u>Stockholders' Equity</u>
(a)	+	NE	+
(b)	-	NE	-
(c)	NE	NE	NE

LO 4, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-8

<u>E</u>	(a) Advertising expense	<u>D</u>	(e) Dividends
<u>R</u>	(b) Service revenue	<u>R</u>	(f) Rent revenue
<u>E</u>	(c) Insurance expense	<u>E</u>	(g) Utilities expense
<u>E</u>	(d) Salaries and wages expense		

LO 3, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-9

<u>R</u>	(a) Received cash for services performed
<u>NSE</u>	(b) Paid cash to purchase equipment
<u>E</u>	(c) Paid employee salaries

LO 3, BT: C, Difficulty: Easy, TOT: 2 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-10

### ELLERBY COMPANY Balance Sheet December 31, 2020

Assets		
Cash .....		\$ 44,000
Accounts receivable .....		72,500
Total assets .....		<u>\$116,500</u>
Liabilities and Stockholders' Equity		
<b>Liabilities</b>		
Accounts payable .....		\$ 85,000
<b>Stockholders' equity</b>		
Common stock.....		<u>31,500</u>
Total liabilities and stockholders' equity .....		<u>\$116,500</u>

(Cash + Accts. rec. = Accts. pay. + Com. stk.)

LO 5, BT: AP, Difficulty: Easy, TOT: 4 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## BRIEF EXERCISE 1-11

<u>BS</u>	(a) Notes payable
<u>IS</u>	(b) Advertising expense
<u>BS</u>	(c) Common stock
<u>BS</u>	(d) Cash
<u>IS</u>	(e) Service revenue
<u>RE</u>	(f) Dividends

LO 5, BT: C, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

# SOLUTIONS FOR DO IT! EXERCISES

## DO IT! 1-1

1. **False.** The three steps in the accounting process are identification, recording, and communication.
2. **True**
3. **False.** Managerial accounting provides internal reports to help users make decisions about their companies.
4. **True**
5. **True**

LO 1, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## DO IT! 1-2

1. **False.** Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.
2. **False.** The standards of conduct by which actions are judged as right or wrong, honest or dishonest, fair or not fair, are ethics.
3. **False.** The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
4. **True.**
5. **True.**

LO 2, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## DO IT! 1-3

1. **Dividends is dividends (D); it decreases stockholders' equity.**
2. **Rent Revenue is revenue (R); it increases stockholders' equity.**
3. **Advertising Expense is an expense (E); it decreases stockholders' equity.**
4. **When stockholders pay cash into the business, they receive shares of stock (I); it increases stockholders' equity.**

LO 3, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## DO IT! 1-4

	Assets		=	Liabilities		+	Stockholders' Equity			
	Cash	Accounts Receivable	=	Accounts Payable	+	Common Stock	+	Retained Earnings		
								Revenues	- Expenses	- Dividends
(1)		+\$23,000						+\$23,000		
(2)	+\$23,000	-\$23,000								
(3)				+\$1,800					-\$1,800	
(4)	-\$ 5,000									-\$5,000

LO 4, BT: AP, Difficulty: Easy, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## DO IT! 1-5

(a) The total assets are \$51,500, comprised of Cash \$9,000, Accounts Receivable \$13,500, and Equipment \$29,000.

(Cash + Accts. rec. + Equip.)

(b) Net income is \$21,700, computed as follows:

<b>Revenues</b>		
Service revenue.....		\$54,000
<b>Expenses</b>		
Salaries and wages expense .....	\$16,500	
Rent expense .....	9,800	
Advertising expense .....	<u>6,000</u>	
Total expenses .....		<u>32,300</u>
Net income .....		<u>\$21,700</u>

(Serv. rev. – Tot. exp.)

(c) The ending stockholders' equity balance of Garryowen Company is \$23,500. By rewriting the accounting equation, we can compute Stockholders' Equity as Assets minus Liabilities, as follows:

Total assets [as computed in (a)] .....		\$51,500
<b>Less: Liabilities</b>		
Notes payable.....	\$25,000	
Accounts payable.....	<u>3,000</u>	<u>28,000</u>
Stockholders' equity.....		<u>\$23,500</u>

**Note that it is not possible to determine the company's stockholders' equity in any other way, because the beginning balance for stockholders' equity is not provided.**

(Tot. assets – Tot. liabl.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

# SOLUTIONS TO EXERCISES

## EXERCISE 1-1

- C Analyzing and interpreting information.
- R Classifying economic events.
- C Explaining uses, meaning, and limitations of data.
- R Keeping a systematic chronological diary of events.
- R Measuring events in dollars and cents.
- C Preparing accounting reports.
- C Reporting information in a standard format.
- I Selecting economic activities relevant to the company.
- R Summarizing economic events.

LO 1, BT: C, Difficulty: Easy, TOT: 5 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-2

### (a) *Internal users*

- Marketing manager
- Production supervisor
- Store manager
- Vice-president of finance

### *External users*

- Customers
- Internal Revenue Service
- Labor unions
- Securities and Exchange Commission
- Suppliers

- ### (b)
- I Can we afford to give our employees a pay raise?
  - E Did the company earn a satisfactory income?
  - I Do we need to borrow in the near future?
  - E How does the company's profitability compare to other companies?
  - I What does it cost us to manufacture each unit produced?
  - I Which product should we emphasize?
  - E Will the company be able to pay its short-term debts?

LO 1, BT: C, Difficulty: Easy, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting



### EXERCISE 1-3

Sam Cresco, president of Cresco Company, instructed Sharon Gross, the head of the accounting department, to report the company's land in their accounting reports at its market value of \$170,000 instead of its cost of \$100,000, in an effort to make the company appear to be a better investment. Although we have an accounting system that permits various measurement approaches, cost should be used whenever there are questions regarding the reliability of a market value. In this case, valuation of land is too subjective and therefore the cost principle should be used.

The stakeholders include stockholders and creditors of Cresco Company, potential stockholders and creditors, other users of Cresco accounting reports, Sam Cresco, and Sharon Gross. All users of Cresco's accounting reports could be harmed by relying on information which violates accounting principles. Sam Cresco could benefit if the company is able to attract more investors, but would be harmed if the fraudulent reporting is discovered. Similarly, Sharon Gross could benefit by pleasing her boss, but would be harmed if the fraudulent reporting is discovered.

Sharon's alternatives are to report the land at \$100,000 or to report it at \$170,000. Reporting the land at \$170,000 is not appropriate since it would mislead many people who rely on Cresco's accounting reports to make financial decisions. Sharon should report the land at its cost of \$100,000. She should try to convince Sam Cresco that this is the appropriate course of action, but be prepared to resign her position if Cresco insists.

LO 2, BT: C, Difficulty: Moderate, TOT: 7 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

### EXERCISE 1-4

1. **Incorrect.** The *cost principle* requires that assets (such as buildings) be recorded and reported at their cost.
2. **Correct.** The *monetary unit assumption* requires that companies include in the accounting records only transaction data that can be expressed in terms of money.
3. **Incorrect.** The *economic entity assumption* requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

LO 2, BT: C, Difficulty: Moderate, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-5

<u>Asset</u>	<u>Liability</u>	<u>Stockholders' Equity</u>
Cash	Accounts payable	Common stock
Equipment	Notes payable	
Supplies	Salaries and wages payable	
Accounts receivable		

LO 3, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-6

1. Increase in assets and increase in stockholders' equity.
2. Decrease in assets and decrease in stockholders' equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in stockholders' equity.
5. Decrease in assets and decrease in stockholders' equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in stockholders' equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in stockholders' equity.

LO 4, BT: C, Difficulty: Easy, TOT: 6 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-7

- |        |        |
|--------|--------|
| 1. (c) | 5. (d) |
| 2. (d) | 6. (b) |
| 3. (a) | 7. (e) |
| 4. (b) | 8. (f) |

LO 4, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-8

- (a)
1. Stockholders invested \$15,000 cash in the business.
  2. Purchased office equipment for \$5,000, paying \$2,000 in cash and the balance of \$3,000 on account.
  3. Paid \$750 cash for supplies.
  4. Earned \$9,400 in revenue, receiving \$4,900 cash and \$4,500 on account.
  5. Paid \$1,500 cash on accounts payable.

## EXERCISE 1-8 (Continued)

6. Paid \$2,000 cash dividends to stockholders.
7. Paid \$850 cash for rent.
8. Collected \$450 cash from clients on account.
9. Paid salaries and wages of \$3,900.
10. Incurred \$500 of utilities expense on account.

(b) Investment.....	\$15,000
Service revenue .....	9,400
Dividends .....	(2,000)
Rent expense .....	(850)
Salaries and wages expense .....	(3,900)
Utilities expense .....	<u>(500)</u>
Increase in stockholders' equity .....	<u>\$17,150</u>

(Invest. + Serv. rev. – Div. – Exp.)

(c) Service revenue .....	\$9,400
Rent expense .....	(850)
Salaries and wages expense .....	(3,900)
Utilities expense .....	<u>(500)</u>
Net income .....	<u>\$4,150</u>

(Serv. rev. – Tot. exp.)

LO 4,5, BT: AP, Difficulty: Moderate, TOT: 12 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-9

### FOLEY & CO. Income Statement For the Month Ended August 31, 2020

<b>Revenues</b>	
Service revenue .....	\$9,400
<b>Expenses</b>	
Salaries and wages expense .....	\$3,900
Rent expense .....	850
Utilities expense .....	<u>500</u>
Total expenses .....	<u>5,250</u>
Net income .....	<u>\$4,150</u>

(Serv. rev. – Tot. exp.)

## EXERCISE 1-9 (Continued)

**FOLEY & CO.**  
**Retained Earnings Statement**  
**For the Month Ended August 31, 2020**

Retained earnings, August 1 .....	\$ 0
Add: Net income.....	<u>4,150</u>
	4,150
Less: Dividends.....	<u>2,000</u>
Retained earnings, August 31 .....	<u>\$ 2,150</u>

(Beg. ret. earn. + Net inc. – Div.)

**FOLEY & CO.**  
**Balance Sheet**  
**August 31, 2020**

<b>Assets</b>	
Cash .....	\$ 9,350
Accounts receivable.....	4,050
Supplies .....	750
Equipment.....	<u>5,000</u>
Total assets .....	<u>\$19,150</u>

**Liabilities and Stockholders' Equity**

<b>Liabilities</b>	
Accounts payable .....	\$ 2,000
<b>Stockholders' equity</b>	
Common stock.....	\$15,000
Retained earnings .....	<u>2,150</u>
Total liabilities and stockholders' equity .....	<u>\$19,150</u>

[(Cash + Accts. rec. + Supp. + Equip.) = Accts. pay. + (Com. stk. + Ret. earn)]

LO 5, BT: AP, Difficulty: Easy, TOT: 12 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-10

(a) Stockholders' equity—12/31/19 (\$400,000 – \$260,000).....	\$140,000
Less: Stockholders' equity—1/1/19 .....	<u>100,000</u>
Increase in stockholders' equity.....	40,000
Add: Dividends.....	<u>15,000</u>
Net income for 2019 .....	<u>\$ 55,000</u>

(End. stk. equity – Beg. stk. equity + Div.)

## EXERCISE 1-10 (Continued)

<b>(b) Stockholders' equity—12/31/20 (\$480,000 – \$300,000).....</b>	<b>\$180,000</b>
Less: Stockholders' equity—1/1/20—see (a) .....	<u>140,000</u>
<b>Increase in stockholders' equity.....</b>	<b>40,000</b>
Less: Additional investment .....	<u>50,000</u>
<b>Net loss for 2020 .....</b>	<b><u>\$ (10,000)</u></b>

(End. stk. equity – Beg. stk. equity – Add'l. invest.)

<b>(c) Stockholders' equity—12/31/21 (\$590,000 – \$400,000).....</b>	<b>\$190,000</b>
Less: Stockholders' equity—1/1/21—see (b) .....	<u>180,000</u>
<b>Increase in stockholders' equity.....</b>	<b>10,000</b>
Less: Additional investment .....	<u>15,000</u>
	<b>(5,000)</b>
<b>Add: Dividends .....</b>	<b>30,000</b>
<b>Net income for 2021 .....</b>	<b><u>\$ 25,000</u></b>

(End. stk. equity – Beg. stk. equity – Add'l. invest. + Div.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 10 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-11

<b>(a) Total assets (beginning of year) .....</b>	<b>\$ 97,000</b>
Less: Total liabilities (beginning of year) .....	<u>85,000</u>
<b>Total stockholders' equity (beginning of year).....</b>	<b><u>\$ 12,000</u></b>

(Beg. assets – Beg. liabl.)

<b>(b) Total stockholders' equity (end of year) .....</b>	<b>\$ 40,000</b>
Less: Total stockholders' equity (beginning of year).....	<u>12,000</u>
<b>Increase in stockholders' equity.....</b>	<b><u>\$ 28,000</u></b>

<b>Total revenues .....</b>	<b>\$215,000</b>
Less: Total expenses.....	<u>175,000</u>
<b>Net income .....</b>	<b><u>\$ 40,000</u></b>

<b>Increase in stockholders' equity.....</b>	<b>\$ 28,000</b>
Less: Net income .....	<u>\$(40,000)</u>
<b>Add: Dividends .....</b>	<b>15,000</b>
<b>Additional investment .....</b>	<b><u>\$ 3,000</u></b>

[(End. stk. equity – Beg. stk. equity) – (Rev. – Exp.) + Div.]

<b>(c) Total assets (beginning of year) .....</b>	<b>\$122,000</b>
Less: Total stockholders' equity (beginning of year).....	<u>75,000</u>
<b>Total liabilities (beginning of year) .....</b>	<b><u>\$ 47,000</u></b>

(Beg. assets – Beg. stk. equity)

## EXERCISE 1-11 (Continued)

(d) Total stockholders' equity (end of year) .....		<b>\$130,000</b>
Less: Total stockholders' equity (beginning of year).....		<u>75,000</u>
Increase in stockholders' equity.....		<b><u>\$ 55,000</u></b>
Total revenues .....		<b>\$100,000</b>
Less: Total expenses.....		<u>55,000</u>
Net income .....		<b><u>\$ 45,000</u></b>
Increase in stockholders' equity.....		<b>\$ 55,000</b>
Less: Net income .....	<b>\$45,000</b>	
Additional investment .....	<u>25,000</u>	<u>70,000</u>
Dividends .....		<b><u>\$ 15,000</u></b>

[(End. stk. equity – Beg. stk. equity) – (Rev. – Exp.) – Add'l. invest.]

LO 5, BT: AN, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-12

### LA GRECA CO. Income Statement For the Year Ended December 31, 2020

<b>Revenues</b>		
Service revenue .....		<b>\$62,500</b>
<b>Expenses</b>		
Salaries and wages expense.....	<b>\$28,000</b>	
Rent expense .....	<b>10,400</b>	
Utilities expense .....	<b>3,100</b>	
Advertising expense.....	<u>1,800</u>	
Total expenses .....		<u><b>43,300</b></u>
<b>Net income</b> .....		<b><u>\$19,200</u></b>

(Serv. rev. – Tot. exp.)

### LA GRECA CO. Retained Earnings Statement For the Year Ended December 31, 2020

Retained earnings, January 1 .....	<b>\$48,000</b>
Add: Net income.....	<u>19,200</u>
	<b>67,200</b>
Less: Dividends .....	<u>5,000</u>



**Retained earnings, December 31 ..... \$62,200**

(Beg. ret. earn. + Net inc. – Div.)

LO 5, BT: AP, Difficulty: Easy, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-13

### MADISON COMPANY Balance Sheet December 31, 2020

Assets	
Cash .....	\$14,000
Accounts receivable .....	8,500
Supplies .....	3,000
Equipment .....	<u>48,000</u>
<b>Total assets</b> .....	<b><u>\$73,500</u></b>

### Liabilities and Stockholders' Equity

<b>Liabilities</b>	
Accounts payable .....	\$15,000
<b>Stockholders' equity</b>	
Common stock .....	\$50,000
Retained earnings (\$17,500 – \$9,000) .....	<u>8,500</u>
<b>Total liabilities and stockholders' equity</b> .....	<b><u>\$73,500</u></b>

[(Cash + Accts. rec. + Supp. + Equip. = Accts. pay. + (Com. stk. + End. ret. earn.)]

LO 5, BT: AN, Difficulty: Moderate, TOT: 8 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-14

(a) Camping fee revenues .....	\$140,000
General store revenues .....	<u>47,000</u>
<b>Total revenue</b> .....	<b>187,000</b>
<b>Expenses</b> .....	<u>150,000</u>
<b>Net income</b> .....	<b><u>\$ 37,000</u></b>

(Tot. rev. – Tot. exp.)

### (b) WYCO PARK Balance Sheet December 31, 2020

Assets	
Cash .....	\$ 20,000
Supplies .....	2,500
Equipment .....	<u>105,500</u>
<b>Total assets</b> .....	<b><u>\$128,000</u></b>

## EXERCISE 1-14 (Continued)

### WYCO PARK Balance Sheet (Continued) December 31, 2020

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Liabilities and Stockholders' Equity		
<b>Liabilities</b>		
Notes payable.....	\$ 60,000	
Accounts payable .....	<u>11,000</u>	
Total liabilities.....		\$ 71,000
<b>Stockholders' equity</b>		
Common stock.....	20,000	
Retained earnings .....	<u>37,000</u>	<u>57,000</u>
Total liabilities and stockholders' equity ...		<u>\$128,000</u>

[(Cash + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 5, BT: AP, Difficulty: Easy, TOT: 10 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-15

### LOUISA CRUISE COMPANY Income Statement For the Year Ended December 31, 2020

---

<b>Revenues</b>		
Ticket revenue .....		\$328,000
<b>Expenses</b>		
Salaries and wages expense .....	\$142,000	
Maintenance and repairs expense.....	92,000	
Utilities expense .....	10,000	
Advertising expense.....	<u>3,500</u>	
Total expenses .....		<u>247,500</u>
Net income.....		<u>\$ 80,500</u>

(Ticket rev. – Tot. exp.)

LO 5, BT: AP, Difficulty: Easy, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-16

### ALEXIS AND RYAN, ATTORNEYS AT LAW Retained Earnings Statement For the Year Ended December 31, 2020

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Retained earnings, January 1 .....	\$ 23,000
Add: Net income.....	<u>129,000*</u>
	152,000
Less: Dividends .....	<u>64,000</u>
Retained earnings, December 31 .....	<u>\$ 88,000</u>

*Legal service revenue.....	\$340,000
Total expenses .....	<u>211,000</u>
Net income .....	<u>\$129,000</u>

[Beg. ret. earn. + (Legal serv. rev. – Tot. exp.) – Div.]

LO 5, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## EXERCISE 1-17

### PAULO COMPANY Statement of Cash Flows For the Year Ended December 31, 2020

---

<b>Cash flows from operating activities</b>		
Cash receipts from revenues .....		\$600,000
Cash payments for expenses .....		<u>(430,000)</u>
Net cash provided by operating activities		170,000
<b>Cash flows from investing activities</b>		
Purchase of equipment .....		(115,000)
<b>Cash flows from financing activities</b> .....		
Sale of common stock.....	\$280,000	
Payment of cash dividends.....	<u>(18,000)</u>	<u>262,000</u>
Net increase in cash.....		317,000
Cash at the beginning of the period.....		<u>30,000</u> End
of the period.....		<u>\$347,000</u>

LO 5, BT: AP, Difficulty: Moderate, TOT: 6 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

## **EXERCISE 1-18**

**Transactions 4, 5, and 7 are operating activities.**

**Transaction 3 is an investing activity.**

**Transactions 1, 2, and 6 are financing activities.**

LO 5, BT: C, Difficulty: Easy, TOT: 4 min., AACSB: None, AICPA FC: Reporting, IMA: Reporting

PROBLEM 1-1A

(a)

FREDONIA REPAIR INC.										
Assets				=	Liabilities +		Stockholders' Equity			
Accounts				=	Accounts		Retained Earnings			
Cash	+ Receivable	+ Supplies	+ Equipment	=	Payable	+ Common Stock	+ Revenues	- Expenses	- Dividends	
1.	<u>+\$10,000</u>					<u>+\$10,000</u>				
	10,000			=		10,000				
2.	<u>-5,000</u>		<u>+\$5,000</u>							
	5,000		+ 5,000	=		+ 10,000				
3.	<u>-400</u>								<u>-\$400</u>	(a)
	4,600		+ 5,000	=		+ 10,000			-400	
4.	<u>-300</u>	<u>+\$300</u>								
	4,300	+ 300	+ 5,000	=		+ 10,000			-400	
5.					<u>+\$250</u>				<u>-250</u>	(b)
	4,300	+ 300	+ 5,000	=	250	+ 10,000			-650	
6.	<u>+4,700</u>						<u>+\$4,700</u>			(c)
	9,000	+ 300	+ 5,000	=	250	+ 10,000	+ 4,700		-650	
7.	<u>-700</u>								<u>-\$700</u>	(d)
	8,300	+ 300	+ 5,000	=	250	+ 10,000	+ 4,700		-650	
8.	<u>-1,000</u>								<u>-1,000</u>	(e)
	7,300	+ 300	+ 5,000	=	250	+ 10,000	+ 4,700		-1,650	
9.	<u>-140</u>								<u>-140</u>	(f)
	7,160	+ 300	+ 5,000	=	250	+ 10,000	+ 4,700		-1,790	
10.		<u>+\$1,100</u>					<u>+1,100</u>			(g)
	7,160	+ 1,100	+ 300	+ 5,000	=	250	+ 10,000	+ 5,800	-1,790	-700
11.	<u>+120</u>	<u>-120</u>								
	<u>\$ 7,280</u>	<u>+ \$980</u>	<u>+ \$300</u>	<u>+ \$5,000</u>	=	<u>\$250</u>	<u>+ \$10,000</u>	<u>+ \$5,800</u>	<u>- \$1,790</u>	<u>- \$700</u>
	\$13,560					\$13,560				

## PROBLEM 1-1A (Continued)

### Key to Retained Earnings Column

- (a) Rent expense
- (b) Advertising expense
- (c) Service revenue
- (d) Dividends
- (e) Salaries and wages expense
- (f) Utilities expense
- (g) Service revenue

(b) Service revenue(\$4,700 + \$1,100) .....			<b>\$5,800</b>
Expenses			
Salaries and wages .....	<b>\$1,000</b>		
Rent.....	<b>400</b>		
Advertising .....	<b>250</b>		
Utilities.....	<b>140</b>		
Net income .....		<b><u>1,790</u></b>	<b><u>\$4,010</u></b>

(Serv. rev. – Tot. exp.)

LO 4, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

**PROBLEM 1-2A**

(a)

**LA BRAVA VETERINARY CLINIC**

	Assets				=	Liabilities		+	Stockholders' Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Notes Payable	+ Accounts Payable	+ Common Stock	+ Retained Earnings	+ Revenues	- Expenses	- Dividends
Bal.	\$ 9,000	+ \$1,700	+ \$600	+ \$ 6,000	=		\$3,600	+ \$13,000	+ \$700			
1.	<u>-2,900</u>				=		<u>-2,900</u>					
	6,100	+ 1,700	+ 600	+ 6,000	=		700	+ 13,000	+ 700			
2.	<u>+1,300</u>	<u>-1,300</u>			=							
	7,400	+ 400	+ 600	+ 6,000	=		700	+ 13,000	+ 700			
3.	<u>-800</u>			<u>+2,100</u>	=		<u>+1,300</u>					
	6,600	+ 400	+ 600	+ 8,100	=		2,000	+ 13,000	+ 700			
4.	<u>+2,500</u>	<u>+4,800</u>			=					<u>+7,300</u>		
	9,100	+ 5,200	+ 600	+ 8,100	=		2,000	+ 13,000	+ 700	7,300		
5.	<u>-400</u>				=							<u>-\$400</u>
	8,700	+ 5,200	+ 600	+ 8,100	=		2,000	+ 13,000	+ 700	7,300		-400
					=						-\$1,700	
					=						-900	
6.	<u>-2,800</u>				=						<u>-200</u>	
	5,900	+ 5,200	+ 600	+ 8,100	=		2,000	+ 13,000	+ 700	7,300	-2,800	-400
7.					=		<u>+170</u>				<u>-170</u>	
	5,900	+ 5,200	+ 600	+ 8,100	=		2,170	+ 13,000	+ 700	7,300	-2,970	-400
8.	<u>+10,000</u>				=	<u>+\$10,000</u>						
	<u>\$15,900</u>	<u>+ \$5,200</u>	<u>+ \$600</u>	<u>+ \$ 8,100</u>	=	<u>\$10,000</u>	<u>+ \$2,170</u>	<u>+ \$13,000</u>	<u>+ \$700</u>	<u>+ \$7,300</u>	<u>- \$ 2,970</u>	<u>- \$400</u>



**PROBLEM 1-2A (Continued)**

**(b)**

**LA BRAVA VETERINARY CLINIC**  
**Income Statement**  
**For the Month Ended September 30, 202X**

---

<b>Revenues</b>	
Service revenue.....	<b>\$7,300</b>
<b>Expenses</b>	
Salaries and wages expense .....	<b>\$1,700</b>
Rent expense.....	<b>900</b>
Advertising expense .....	<b>200</b>
Utilities expense.....	<b><u>170</u></b>
Total expenses.....	<b>2,970</b>
<b>Net income .....</b>	<b><u><u>4,330</u></u></b>

(Serv. rev. – Tot. exp.)

**LA BRAVA VETERINARY CLINIC**  
**Retained Earnings Statement**  
**For the Month Ended September 30, 202X**

---

<b>Retained earnings, September 1 .....</b>	<b>\$ 700</b>
<b>Add: Net income .....</b>	<b><u>4,330</u></b>
	<b>5,030</b>
<b>Less: Dividends .....</b>	<b><u>400</u></b>
<b>Retained earnings, September 30 .....</b>	<b><u><u>4,630</u></u></b>

(Beg. ret. earn. + Net inc. – Div.)

**PROBLEM 1-2A (Continued)**

**LA BRAVA VETERINARY CLINIC**  
**Balance Sheet**  
**September 30, 202X**

---

<b>Assets</b>		
Cash.....		<b>\$15,900</b>
Accounts receivable.....		<b>5,200</b>
Supplies.....		<b>600</b>
Equipment.....		<b><u>8,100</u></b>
<b>Total assets</b> .....		<b><u>\$29,800</u></b>
 <b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Notes payable.....	<b>\$10,000</b>	
Accounts payable.....	<b><u>2,170</u></b>	
<b>Total liabilities</b> .....		<b>\$12,170</b>
<b>Stockholders' equity</b>		
Common stock .....	<b>13,000</b>	
Retained earnings .....	<b><u>4,630</u></b>	<b><u>17,630</u></b>
<b>Total liabilities and stockholders' equity</b> ..		<b><u>\$29,800</u></b>

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 50 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

**PROBLEM 1-3A**

(a)

**NIMBUS FLYING SCHOOL  
Income Statement  
For the Month Ended May 31, 2020**

<b>Revenues</b>		
Service revenue.....		<b>\$6,800</b>
<b>Expenses</b>		
Gasoline expense.....	\$2,500	
Rent expense.....	900	
Advertising expense .....	500	
Utilities expense.....	400	
Maintenance and repairs expense .....	<u>350</u>	
Total expenses.....		<u><b>4,650</b></u>
<b>Net income</b> .....		<u><b>\$2,150</b></u>

(Serv. rev. – Tot. exp.)

**NIMBUS FLYING SCHOOL  
Retained Earnings Statement  
For the Month Ended May 31, 2020**

Retained Earnings, May 1 .....	\$ 0
Add: Net income.....	<u>2,150</u>
	2,150
Less: Dividends .....	<u>500</u>
Retained earnings, May 31 .....	<u><b>\$1,650</b></u>

(Beg. ret. earn. + Net inc. – Div.)

**NIMBUS FLYING SCHOOL  
Balance Sheet  
May 31, 2020**

<b>Assets</b>	
Cash.....	\$ 4,650
Accounts receivable.....	7,400
Equipment.....	<u>64,000</u>
Total assets .....	<u><b>\$76,050</b></u>

**PROBLEM 1-3A (Continued)**

**NIMBUS FLYING SCHOOL  
Balance Sheet (Continued)  
May 31, 2020**

Liabilities and Stockholders' Equity		
<b>Liabilities</b>		
Notes payable.....	\$28,000	
Accounts payable.....	<u>1,400</u>	
Total liabilities.....		\$29,400
<b>Stockholders' equity</b>		
Common stock .....	45,000	
Retained earnings .....	<u>1,650</u>	<u>46,650</u>
Total liabilities and stockholders' equity ..		<u>\$76,050</u>

[(Cash + Accts. rec. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

**(b) NIMBUS FLYING SCHOOL  
Income Statement  
For the Month Ended May 31, 2020**

<b>Revenues</b>		
Service revenue (\$6,800 + \$900).....		\$7,700
<b>Expenses</b>		
Gasoline expense (\$2,500 + \$1,500).....	\$4,000	
Rent expense .....	900	
Advertising expense .....	500	
Utilities expense .....	400	
Maintenance and repairs expense .....	<u>350</u>	
Total expenses.....		<u>6,150</u>
Net income .....		<u>\$1,550</u>

(Adj. serv. rev. – Adj. tot. exp.)

**NIMBUS FLYING SCHOOL  
Retained Earnings Statement  
For the Month Ended May 31, 2020**

Retained Earnings, May 1.....	\$ 0
Add: Net income .....	<u>1,550</u>
	1,550
Less: Dividends .....	<u>500</u>
Retained Earnings, May 31 .....	<u>\$1,050</u>

(Beg. ret. earn. + Net inc. – Div.)

LO 5, BT: AP, Difficulty: Moderate, TOT: 50 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

**PROBLEM 1-4A**

Date	TERCEK DELIVERIES												
	Assets				=	Liabilities			+	Stockholders' Equity			
	Cash	+ Receivable	+ Supplies	+ Equipment	=	Notes Payable	+ Accounts Payable	+ Common Stock	+ Revenues	- Expenses	- Dividends		
June 1	\$10,000							+\$10,000					
June 2	<u>-2,000</u>			+\$14,000		+\$12,000							
	8,000 +			14,000	=	12,000 +		10,000					
June 3	<u>-500</u>												
	7,500 +			14,000	=	12,000 +		10,000				-\$ 500 (a)	
June 5		+\$4,800							+	\$4,800			
	7,500 +	4,800 +		14,000	=	12,000 +		10,000 +	4,800			-500 (b)	
June 9	<u>-300</u>												
	7,200 +	4,800 +		14,000	=	12,000 +		10,000 +	4,800 -			-500 -300 (c)	
June 12			+\$150										
	7,200 +	4,800 +	150 +	14,000	=	12,000 +	150 +	10,000 +	4,800 -			-500 -300	
June 15	<u>+1,250</u>	<u>-1,250</u>											
	8,450 +	3,550 +	150 +	14,000	=	12,000 +	150 +	10,000 +	4,800 -			-500 -300	
June 17													
	8,450 +	3,550 +	150 +	14,000	=	12,000 +	250 +	10,000 +	4,800 -			-600 -300 (d)	
June 20	<u>+1,500</u>												
	9,950 +	3,550 +	150 +	14,000	=	12,000 +	250 +	10,000 +	6,300 -			-600 -300 (e)	
June 23	<u>-500</u>												
	9,450 +	3,550 +	150 +	14,000	=	11,500 +	250 +	10,000 +	6,300 -			-600 -300	
June 26	<u>-250</u>												
	9,200 +	3,550 +	150 +	14,000	=	11,500 +	250 +	10,000 +	6,300 -			-850 -300 (f)	
June 29	<u>-100</u>												
	9,100 +	3,550 +	150 +	14,000	=	11,500 +	150 +	10,000 +	6,300 -			-850 -300	
June 30	<u>-1,000</u>												
	<u>\$ 8,100</u> +	<u>\$3,550</u> +	<u>\$150</u> +	<u>\$14,000</u>	=	<u>\$ 11,500</u> +	<u>\$150</u> +	<u>\$10,000</u> +	<u>\$6,300</u> -	<u>\$1,850</u> -	<u>\$300</u>	(g)	
	\$25,800					\$25,800							

**PROBLEM 1-4A (Continued)**

**Key to Retained Earnings Column**

- |                      |                                |
|----------------------|--------------------------------|
| (a) Rent expense     | (e) Service revenue            |
| (b) Service revenue  | (f) Utilities expense          |
| (c) Dividends        | (g) Salaries and wages expense |
| (d) Gasoline expense |                                |

(b) **TERCEK DELIVERIES**  
**Income Statement**  
**For the Month Ended June 30, 2020**

<b>Revenues</b>		
Service revenue (\$4,800 + \$1,500).....		\$6,300
<b>Expenses</b>		
Salaries and wages expense .....	\$1,000	
Rent expense.....	500	
Utilities expense.....	250	
Gasoline expense.....	<u>100</u>	
Total expenses.....		<u>1,850</u>
Net income .....		<u>\$4,450</u>

(Serv. rev. – Tot. exp.)

(c) **TERCEK DELIVERIES**  
**Balance Sheet**  
**June 30, 2020**

<b>Assets</b>		
Cash.....		\$ 8,100
Accounts receivable .....		3,550
Supplies .....		150
Equipment.....		<u>14,000</u>
Total assets .....		<u>\$25,800</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Notes payable.....	\$11,500	
Accounts payable .....	<u>150</u>	
Total liabilities.....		\$11,650
<b>Stockholders' equity</b>		
Common stock .....	10,000	
Retained earnings (\$4,450 – \$300) .....	<u>4,150</u>	<u>14,150</u>
Total liabilities and stockholders' equity..		<u>\$25,800</u>

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

**PROBLEM 1-5A**

(a)	<b>Donatello Company</b>	<b>Leonardo Company</b>	<b>Michelangelo Company</b>	<b>Raphael Company</b>
	(a) \$ 27,000	(d) \$50,000	(g) \$120,000	(j) \$ 50,000
	(b) 95,000	(e) 62,000	(h) 70,000	(k) 220,000
	(c) 4,000	(f) 51,000	(i) 431,000	(l) 465,000

[(c): Beg. ret. earn. + Net inc. – Div. + Add'l. invest. = End. ret. earn.]; [\$27,000 + (\$350,000 - \$335,000 - \$6,000 + Add'l. invest. = \$40,000]

[(f): Beg. ret. earn. + Net inc. + Add'l. invest. = Div. = End. ret. earn.]; [\$60,000 + \$38,000 + \$15,000 – Div. = \$62,000]

[(i): Beg. ret. earn. + (Rev. Exp.) + Add'l. invest. = Div = End. ret. earn.]; [\$45,000 + (Rev. - \$342,000) + \$10,000 = \$14,000 = \$130,000]

[(l): Beg. ret. earn. + (Rev. – Exp.) + Add'l. invest. – Div. = End. ret. earn.]; [\$100,000 + (\$500,000 – Exp.) + \$15,000 - \$10,000 = \$140,000]

**(b) LEONARDO COMPANY**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2020**

Retained earnings, January 1.....	\$20,000
Add: Net income .....	38,000
	58,000
Less: Dividends .....	51,000
Retained earnings, December 31.....	\$ 7,000

(Beg. ret. earn. + Net inc. – Div.)

- (c) The sequence of preparing financial statements is income statement, retained earnings statement, and balance sheet. The interrelationship of the retained earnings statement to the other financial statements results from the fact that net income from the income statement is reported in the retained earnings statement and ending retained earnings reported in the retained earnings statement is the amount reported for retained earnings on the balance sheet.

LO 4, 5, BT: AP, Difficulty: Moderate, TOT: 45 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting



- (a) Apple's total assets at September 26, 2015 were \$290,479 million and at September 27, 2014 were \$231,839 million.
- (b) Apple had \$21,120 million of cash and cash equivalents at September 26, 2015.
- (c) Apple had accounts payable totaling \$35,490 million on September 26, 2015 and \$30,196 million on September 27, 2014.
- (d) Apple reports net sales for three consecutive years as follows:
- |      |                   |
|------|-------------------|
| 2013 | \$170,910 million |
| 2014 | \$182,795 million |
| 2015 | \$233,715 million |
- (e) From 2014 to 2015, Apple's net income increased \$13,884 million from \$39,510 million to \$53,394 million.

LO 5, BT: AN, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

(a)	(in millions)	PepsiCo	Coca-Cola
1.	Total assets	\$69,667	\$90,093
2.	Accounts receivable (net)	\$6,437	\$3,941
3.	Net revenue (sales)	\$63,056	\$44,294
4.	Net income	\$5,501	\$7,366

- (b) Coca-Cola's total assets were approximately 29% greater than PepsiCo's total assets, but PepsiCo's net sales were approximately 42% greater than Coca-Cola's net sales. PepsiCo's accounts receivable were 63% greater than Coca-Cola's and represent 10% of its net sales. Coca-Cola's accounts receivable amount to 9% of its net sales. Both PepsiCo's and Coca-Cola's accounts receivable are at satisfactory levels.

Coca-Cola's net income is 34% greater than PepsiCo's. It appears that these two companies' operations are comparable in some ways, with Coca-Cola's operations significantly more profitable.

LO 5, BT: AN, E, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

(a)	(in millions)	Amazon	Wal-Mart
	1. Total assets	\$65,444	\$199,581
	2. Accounts receivable (net)	\$6,423	\$5,624
	3. Net sales	\$107,006	\$478,614
	4. Net income	\$596	\$15,080

- (b) Wal-Mart's total assets were approximately 305% greater than Amazon's total assets, and Wal-Mart's net sales were over 4.47 times greater than Amazon's net sales. Wal-Mart's accounts receivable were 87.6% of Amazon's and represent 1.2% of its net sales. Amazon's accounts receivable amount to 6% of its net sales. Both Amazon's and Wal-Mart's accounts receivable are at satisfactory levels.

Wal-Mart's net income was 25 times greater than Amazon's. It appears that these two companies' operations are comparable in some ways, but Wal-Mart's operations are substantially more profitable.

LO 5, BT: AN, E, Difficulty: Easy, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

(a) The field is normally divided into three broad areas: auditing, financial/tax, and management accounting.

(b) The skills required in these areas:

People skills, sales skills, communication skills, analytical skills, ability to synthesize, creative ability, initiative, computer skills.

(c) The skills required in these areas differ as follows:

	Auditing	Financial and Tax	Management Accounting
People skills	Medium	Medium	Medium
Sales skills	Medium	Medium	Low
Communication skills	Medium	Medium	High
Analytical skills	High	Very High	High
Ability to synthesize	Medium	Low	High
Creative ability	Low	Medium	Medium
Initiative	Medium	Medium	Medium
Computer skills	High	High	Very High

(d) Some key job options in accounting:

**Audit:** Work in audit involves checking accounting ledgers and financial statements within corporations and government. This work is becoming increasingly computerized and can rely on sophisticated random sampling methods. Audit is the bread-and-butter work of accounting. This work can involve significant travel and allows you to really understand how money is being made in the company that you are analyzing. It's great background!

**Budget Analysis:** Budget analysts are responsible for developing and managing an organization's financial plans. There are plentiful jobs in this area in government and private industry. Besides quantitative skills many budget analyst jobs require good people skills, because of negotiations involved in the work.

## CT 1-4 (Continued)

**Financial:** Financial accountants prepare financial statements based on general ledgers and participate in important financial decisions involving mergers and acquisitions, benefits/ERISA planning, and long-term financial projections. This work can be varied over time. One day you may be running spreadsheets. The next day you may be visiting a customer or supplier to set up a new account and discuss business. This work requires a good understanding of both accounting and finance.

**Management Accounting:** Management accountants work in companies and participate in decisions about capital budgeting and line of business analysis. Major functions include cost analysis, analysis of new contracts, and participation in efforts to control expenses efficiently. This work often involves the analysis of the structure of organizations. Is responsibility to spend money in a company at the right level of our organization? Are goals and objectives to control costs being communicated effectively? Historically, many management accountants have been derided as “bean counters.” This mentality has undergone major change as management accountants now often work side by side with marketing and finance to develop new business.

**Tax:** Tax accountants prepare corporate and personal income tax statements and formulate tax strategies involving issues such as financial choice, how to best treat a merger or acquisition, deferral of taxes, when to expense items and the like. This work requires a thorough understanding of economics and the tax code. Increasingly, large corporations are looking for persons with both an accounting and a legal background in tax. A person, for example, with a JD and a CPA would be especially desirable to many firms.

**(e) Junior Staff Accountant                      \$40,000–\$80,000**

LO 6, BT: C, Difficulty: Easy, TOT: 20 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

- (a) The estimate of the \$6,100 loss was based on the difference between the \$25,000 invested in the driving range and the bank balance of \$18,900 at March 31. This is not a valid basis for determining income because it only shows the change in cash between two points in time.
- (b) The balance sheet at March 31 is as follows:

**CHIP-SHOT DRIVING RANGE COMPANY**  
**Balance Sheet**  
**March 31, 2020**

Assets		
Cash.....		\$18,900
Buildings .....		8,000
Equipment .....		<u>800</u>
<b>Total assets .....</b>		<b><u>\$27,700</u></b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Accounts payable (\$150 + \$100) .....		\$ 250
<b>Stockholders' equity</b>		
Common stock .....	\$25,000	
Retained earnings .....	<u>2,450</u>	<u>27,450</u>
<b>Total liabilities and stockholders' equity ....</b>		<b><u>\$27,700</u></b>

As shown in the balance sheet, the stockholders' equity at March 31 is \$27,450. The estimate of \$2,450 of net income is the difference between the initial investment of \$25,000 and \$27,450. This was not a valid basis for determining net income because changes in stockholders' equity between two points in time may have been caused by factors unrelated to net income. For example, there may be dividends and/or additional capital investments by the stockholders.

[(Cash + Bldgs. + Equip.) = Accts. pay. + (Com. stk. + (Tot. assets – Accts. Pay – Com. stk))]

**CT 1-5 (Continued)**

- (c) **Actual net income for March can be determined by adding dividends to the change in stockholders' equity during the month as shown below:**

Stockholders' equity, March 31, per balance sheet .....	\$27,450
Less: Stockholders' equity, March 1 .....	<u>25,000</u>
Increase in stockholders' equity .....	2,450
Add: Dividends .....	<u>1,000</u>
Net income .....	<u>\$ 3,450</u>

**Alternatively, net income can be found by determining the revenues earned [described in (d) below] and subtracting expenses.**

(End. stk. equity – Beg. stk. equity + Div.)

- (d) **Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, \$1,000; Wages, \$400; Advertising, \$750; and Utilities, \$100 for a total of \$2,250. Revenues earned, therefore, were \$5,700 (\$2,250 + \$3,450). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:**

Beginning cash balance .....	\$25,000
Less: Cash payments	
Caddy shack .....	\$8,000
Golf balls and clubs .....	800
Rent .....	1,000
Advertising.....	600
Wages.....	400
Dividends .....	<u>1,000</u>
Cash balance before revenues .....	<u>13,200</u>
Cash balance, March 31 .....	<u>18,900</u>
Revenues .....	<u>\$ 5,700</u>

(End. cash bal. + Tot. cash pmts. – Beg. cash bal.)

LO 5, BT: E, Difficulty: Moderate, TOT: 20 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

To: Ashley Hirano  
From: Student

I have received the balance sheet of New York Company as of December 31, 2020. A number of items in this balance sheet are not properly reported. They are:

1. The balance sheet should be dated as of a specific date, not for a period of time. Therefore, it should be dated "December 31, 2019."
2. Equipment should be shown as an asset and reported below Supplies on the balance sheet.
3. Accounts receivable should be shown as an asset, not a liability, and reported between Cash and Supplies on the balance sheet.
4. Accounts payable should be shown as a liability, not an asset. The note payable is also a liability and should be reported in the liability section.
5. Liabilities and stockholders' equity should be shown on the balance sheet. Common stock is not a liability.
6. Common stock and retained earnings are part of stockholders' equity.



CT 1-6 (Continued)

A correct balance sheet is as follows:

**NEW YORK COMPANY**  
**Balance Sheet**  
**December 31, 2020**

<b>Assets</b>		
Cash .....		\$ 9,000
Accounts receivable .....		6,000
Supplies .....		2,000
Equipment.....		<u>25,500</u>
<b>Total assets</b> .....		<u><b>\$42,500</b></u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Notes payable .....	\$10,500	
Accounts payable .....	<u>8,000</u>	
<b>Total liabilities</b> .....		<b>\$18,500</b>
<b>Stockholders' equity</b>		
Common stock .....	26,000	
Retained earnings.....	<u>(2,000)</u>	<u>24,000</u>
<b>Total liabilities and stockholders' equity</b> .....		<u><b>\$42,500</b></u>

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + (Com. stk. + Ret. earn.)]

LO 5, BT: AP, E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

- (a) The students should identify all of the stakeholders in the case; that is, all the parties that are affected, either beneficially or negatively, by the action or decision described in the case. The list of stakeholders in this case are:
- ▶ Greg Thorpe, interviewee.
  - ▶ Both Baltimore firms.
  - ▶ Great Northern College.
- (b) The students should identify the ethical issues, dilemmas, or other considerations pertinent to the situation described in the case. In this case the ethical issues are:
- ▶ Is it proper that Greg charged both firms for the total travel costs rather than split the actual amount of \$296 between the two firms?
  - ▶ Is collecting \$592 as reimbursement for total costs of \$296 ethical behavior?
  - ▶ Did Greg deceive both firms or neither firm?
- (c) Each student must answer the question for himself/herself. Would you want to start your first job having deceived your employer before your first day of work? Would you be embarrassed if either firm found out that you double-charged? Would your school be embarrassed if your act was uncovered? Would you be proud to tell your professor that you collected your expenses twice?

LO 2, BT: E, Difficulty: Easy, TOT: 12 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

- (a) Answers to the following will vary depending on students' opinions.
- (1) This does not represent the hiding of assets, but rather a choice as to the order of use of assets. This would seem to be ethical.
  - (2) This does not represent the hiding of assets, but rather is a change in the nature of assets. Since the expenditure was necessary, although perhaps accelerated, it would seem to be ethical.
  - (3) This represents an intentional attempt to deceive the financial aid office. It would therefore appear to be both unethical and potentially illegal.
  - (4) This is a difficult issue. By taking the leave, actual net income would be reduced. The form asks the applicant to report actual net income. However, it is potentially deceptive since you do not intend on taking unpaid absences in the future, thus future income would be higher than reported income.
- (b) Companies might want to overstate net income in order to potentially increase the stock price by improving investors' perceptions of the company. Also, a higher net income would make it easier to receive debt financing. Finally, managers would want a higher net income to increase the size of their bonuses.
- (c) Sometimes companies want to report a lower income if they are negotiating with employees. For example, professional sports teams frequently argue that they cannot increase salaries because they aren't making enough money. This also occurs in negotiations with unions. For tax accounting (as opposed to the financial accounting in this course) companies frequently try to minimize the amount of reported taxable income.
- (d) Unfortunately many times people who are otherwise very ethical will make unethical decisions regarding financial reporting. They might be driven to do this because of greed. Frequently it is because their superiors have put pressure on them to take an unethical action, and they are afraid to not follow directions because they might lose their job. Also, in some instances top managers will tell subordinates that they should be a team player, and do the action because it would help the company, and therefore would help fellow employees.

LO 2, BT: E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

In this chapter, you saw that there are very specific rules governing the recording of assets, liabilities, revenues, and expenses. However, within these rules there is a lot of room for judgment. It would not be at all unusual for two experienced accountants, when faced with identical situations, to arrive at different results.

Similarly, in reporting your financial situation for financial aid there is a lot of room for judgment. The question is, what kinds of actions are both permissible and ethical, and what kinds of actions are illegal and unethical? It might be argued that paying off your credit card debt to reduce your assets in order to improve your chances of getting aid is unethical. You did so, however, through a legitimate transaction. In fact, given the high interest rates charged on credit card bills, it would probably be a good idea to use the cash to pay off your bills even if you aren't applying for aid.

Now, consider an alternative situation. Suppose that you have \$10,000 in cash, and you have a sibling who is five years younger than you. Should you "give" the cash to your sibling while you are being considered for financial aid? This would give the appearance of substantially reducing your assets, and thus increase the likelihood that you will receive aid. Most people would argue that this is unethical, and it is probably illegal.

When completing your FAFSA form, don't ignore the following warning on the front of the form: "If you get Federal student aid based on incorrect information, you will have to pay it back; you may also have to pay fines and fees. If you purposely give false or misleading information on your application, you may be fined \$20,000, sent to prison, or both."

LO 2, 5, BT: E, Difficulty: Moderate, TOT: 15 min., AACSB: Analytic, AICPA FC: Reporting, IMA: Reporting

**No solution necessary**

LO N/A, BT: AP, Difficulty: Moderate, TOT: 15min., AACSB: Technology, AICPA FC: Measurement, IMA: Reporting

- (a) The 5 aspirations relate to the company's goals related to sustaining its brands, its business, its people, its community and the planet.
- (b) **Red vs. White Road Journeys.** Taking "white road" journeys denotes small rural routes on the European maps of Erickson's adventure travels, instead of the "red roads" which indicate major thoroughfares. The main idea is that our purpose in life shouldn't be to simply reach our destinations as quickly as possible; we should take time to enjoy the scenic, unpredictable route, & appreciate the entire journey, wherever it may end up leading us.

LO N/A, BT: C, Difficulty: Easy, TOT: 10 min., AACSB: Analytic, Technology, AICPA FC: Reporting, IMA: Reporting

## IFRS EXERCISES

### IFRS1-1

**The International Accounting Standards Board, IASB, and the Financial Accounting Standards Board, FASB, are two key players in developing international accounting standards. The IASB releases international standards known as International Financial Reporting Standards (IFRS). The FASB releases U.S. standards, referred to as Generally Accepted Accounting Principles or GAAP.**

LO 7, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: Diversity, AICPA FC: Measurement, AICPA BB: International/Global Perspective IMA: Reporting

### IFRS1-2

**A single set of high-quality accounting standards is needed because of increases in multinational corporations, mergers and acquisitions, use of information technology, and international financial markets.**

LO 7, BT: K, Difficulty: Easy, TOT: 3 min., AACSB: Diversity, AICPA FC: Measurement, AICPA BB: International/Global Perspective IMA: Reporting

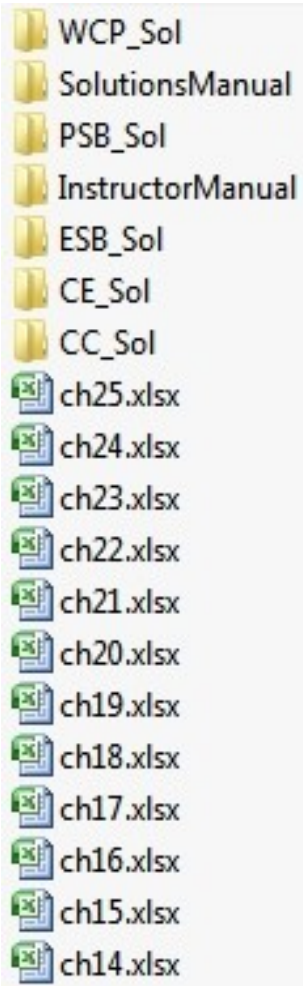
## IFRS1-3 INTERNATIONAL FINANCIAL REPORTING PROBLEM

- (a) Deloitte & Associés and Ernst & Young et Autres**
- (b) LVMH 22, avenue Montaigne – 75008 Paris, France**
- (c) The company reports in pounds.**

LO 7, BT: AN, Difficulty: Easy, TOT: 10 min., AACSB: Diversity, AICPA FC: Reporting, AICPA BB: International/Global Perspective IMA: Reporting



## Solution Manual Files



SolutionsManul Folder

Name	Size	Packed	Type
..			File folder
ch25.doc	369,664	72,946	Microsoft Office Word ...
ch24.doc	484,864	97,577	Microsoft Office Word ...
ch23.doc	685,056	125,451	Microsoft Office Word ...
ch22.doc	640,000	114,382	Microsoft Office Word ...
ch21.doc	416,768	83,580	Microsoft Office Word ...
ch20.doc	456,704	85,828	Microsoft Office Word ...
ch19.doc	523,776	115,651	Microsoft Office Word ...
ch18.doc	615,936	173,675	Microsoft Office Word ...
ch17.doc	558,592	103,316	Microsoft Office Word ...
ch16.doc	757,248	126,431	Microsoft Office Word ...
ch15.doc	419,840	74,005	Microsoft Office Word ...
ch14.doc	331,264	72,256	Microsoft Office Word ...
ch13.doc	768,000	190,545	Microsoft Office Word ...
ch12.docx	88,476	83,678	Microsoft Office Word ...
ch11.doc	879,104	134,618	Microsoft Office Word ...
ch10.doc	603,136	104,849	Microsoft Office Word ...
ch09.doc	444,416	97,719	Microsoft Office Word ...
ch08.doc	523,264	142,225	Microsoft Office Word ...
ch07.doc	437,248	78,074	Microsoft Office Word ...
ch06.doc	964,096	136,816	Microsoft Office Word ...
ch05.docx	228,765	223,667	Microsoft Office Word ...
ch04.doc	1,374,720	184,306	Microsoft Office Word ...
ch03.doc	694,784	107,367	Microsoft Office Word ...
ch02.doc	844,288	101,267	Microsoft Office Word ...
ch01.doc	431,104	84,056	Microsoft Office Word ...