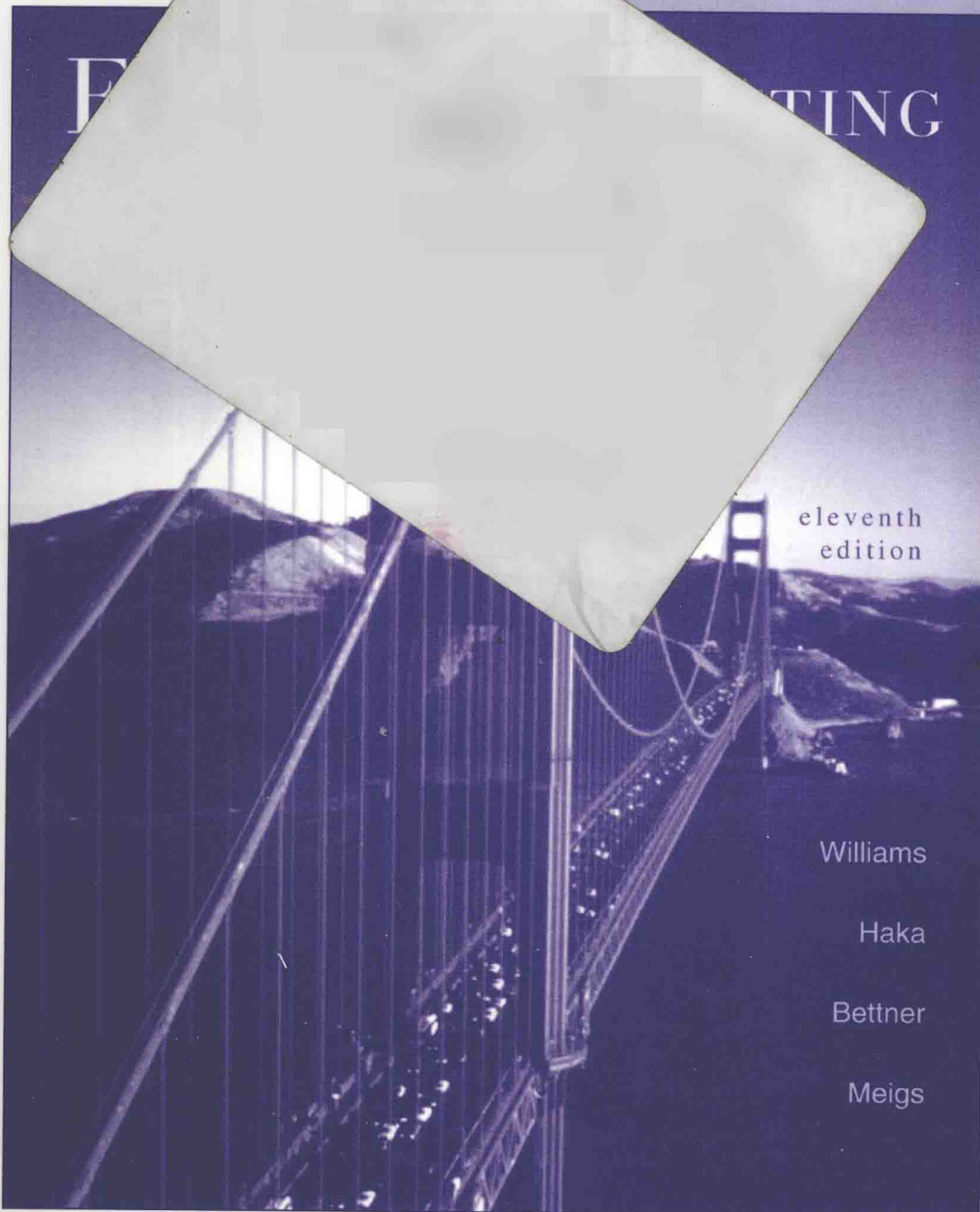


Study Guide

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eleventh
edition

Williams

Haka

Bettner

Meigs

Prepared by
Mark S. Bettner

Study Guide

for use with

Financial Accounting

Eleventh Edition

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Study Guide for use with
FINANCIAL ACCOUNTING
Williams, Haka, Bettner, and Meigs

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ACCOUNTING INFORMATION FOR DECISION MAKING

Highlights of the Chapter

1. The primary purpose of accounting information is to enhance financial decision making. Because accounting information is so widely used in business activities, it is sometimes called *the language of business*.
2. Accounting is a means by which economic events are measured. Users of accounting information must understand the general characteristics of economic activities, be familiar with the assumptions and techniques used in measuring economic activities, and correctly identify relevant information for each decision they make.
3. Just as there are many types of economic decisions, there are many types of accounting information. Three types of accounting information that are widely used in the business community are: (a) *financial accounting* information (b) *managerial accounting* information, and (c) *general-purpose* information.
4. *Financial accounting* refers to information describing the financial resources, obligations, and activities of an economic entity. Financial accounting information is used primarily by investors and creditors to help them assess an entity's financial position, its results of operations, and its ability to generate cash flow. Financial accounting information is so widely used that it is often called *general-purpose* information.
5. *Managerial accounting* involves the development and interpretation of accounting information intended *specifically to aid management*. Managers use accounting information in virtually every decision they make, including the setting of company goals, performance evaluation, and decisions whether to launch a new product line. Of course, managers must also consider many *nonfinancial* factors relevant to decision making, such as political and environmental considerations, product quality, customer satisfaction, and legal issues.
6. *Tax accounting* is a specialized field within the accounting profession. Tax accounting involves both the preparation of income tax returns and the planning of business activities to minimize the income tax burden. To a large extent, tax returns are based upon financial accounting information; however, the information is often adjusted or reorganized to comply with income tax regulations.
7. *Accounting systems* consist of the personnel, procedures, devices, and records used to develop accounting information and to communicate this information to decisions makers. Accounting systems can take many forms depending upon an organization's needs and the resources it has available for the operation of the system.
8. The design, installation, and maintenance of an accounting system may involve accountants, experts in management information systems, computer programmers, and many other individuals with specialized talents. Regardless of its complexity, an accounting system should be *cost effective*. In other words, the value of the information it provides should exceed the cost of producing the information.
9. *External users* of accounting system information have a financial interest in an enterprise, but are not involved in its day-to-day operations. These parties may include owners, creditors, regulatory agencies, suppliers, customers, and the general public. External parties are most interested in *financial accounting information*. However, providing financial accounting information to such a diverse group of users in a single format would be nearly impossible. Therefore, financial accounting reports are directed primarily to the information needs of *investors* and *creditors*.

10. **Investors** actually “own” the reporting enterprise. Examples of investors include stockholders of a giant corporation, the partners in a law firm, or the sole operator of a snow removal service. **Creditors**, on the other hand, are those parties that have provided resources to the enterprise in the form of credit, but have no ownership interest in the enterprise. Banks or individuals that have “loaned” money to a business are examples of creditors.
11. Investors and creditors share some common interests. Both are concerned about the future cash flow prospects of the company in which they have invested or loaned resources. Specifically, they want information about the company’s ability to: (a) eventually *pay back* the amount invested or loaned at a future date, and (b) provide adequate *additional payments* for the use of the resources invested or loaned.
12. The repayment of the initial amount invested or loaned to an organization is commonly referred to as the *return of investment*. The additional amount earned for the use of these resources is often referred to as the *return on investment*. Providing information to investors about potential return of, and return on, investment is essentially what financial accounting is all about.
13. Meeting the objectives of investors requires that financial accounting reports provide: (a) information about economic resources, claims to resources, and changes in resources and claims, (b) information useful in assessing the amount, timing, and uncertainty of future cash flows, and (c) information useful in making investment and credit decisions. This information is provided via a “set” of *primary financial statements*.
14. The primary financial statements (reports) include: (a) *the balance sheet* (or *statement of financial position*), (b) *the income statement*, and (c) *the statement of cash flows*. A balance sheet reports a company’s resources, and the claims to those resources at a particular point in time. An income statement reports detailed results of a company’s profit-related activities for a specific period of time, such as a month or year. A statement of cash flows reports all cash received, and all cash disbursed for a specific period of time.
15. The information reported to external parties via the primary financial statements is *historical* in nature. That is, it looks back in time, as opposed to forward in time. However, we will discover in later chapters of this text that much of the information reported to external parties is based, in large part, upon certain *estimates and assumptions* pertaining to future performance.
16. **Internal users** of accounting systems are interested in *managerial accounting* information. Internal users of managerial accounting information include plant managers, supervisors, chief executive officers, vice presidents, controllers, and members of the Board of Directors. Each of these users requires information specifically designed to help them achieve unique financial *goals and objectives*.
17. Enterprises design and use management accounting information in three primary ways: (a) to help them achieve their *goals and objectives*, (b) to help support *decision making activities* among a variety of internal users, and (c) to *evaluate the effectiveness* of the decision making process.
18. Managerial accounting information must possess the following general characteristics in order for it to be useful: (a) it must be *timely*, (b) it must clearly establish who within the organization has *decision making authority*, (c) it must be *oriented toward the future*, (d) it must provide measures of *efficiency and effectiveness*, and (e) it must be viewed as a means of helping an organization *accomplish its goals and objectives*.
19. The accounting information used by both external and internal parties must have *integrity*. That is it must be reliable, complete, and honest. The integrity of accounting information is enhanced in three primary ways: (a) through *compliance with generally accepted accounting principles*, (b) through *sound systems of internal control*, (c) through the *support of several organizations concerned with maintaining ethical responsibility and integrity throughout the profession*, such as the *AICPA*, the *IMA*, the *IIA*, and the *AAA*, and (d) by requiring professional accounts to *be competent and to demonstrate sound judgment and ethical behavior*.

20. The accounting information communicated externally to investors and creditors must be prepared in accordance with *generally accepted accounting principles* (GAAP). Two organizations are particularly important in establishing GAAP: (a) the *Financial Accounting Standards Board* (FASB), and (b) the *Securities and Exchange Commission* (SEC).
21. *The FASB* issues authoritative statements addressing the principles of financial reporting. The FASB's official statements are intended to resolve accounting problems in a logical consistent manner. The FASB is part of the private sector of our economy – *it is not a governmental agency*.
22. *The SEC* is a governmental agency with the legal power to establish accounting principles and reporting requirements for publicly owned corporations. In the past, however, the SEC has generally adopted the recommendations of the FASB. The GAAP developed by the FASB are given the *force of law* when they are adopted by the SEC.
23. A company's *internal control structure* includes all measures used by an organization to (a) guard against errors, waste, and fraud, (b) assure the reliability of accounting information, (c) promote compliance with management with management policies, and (d) evaluate the performance of the entire organization. *Audits* help to ensure that adequate systems of internal control are in place. An audit is an *investigation* of a company's financial statements performed by independent certified public accountants (CPAs). The intent of the audit is to provide reasonable assurance of the integrity of the information reported. Auditors do not guarantee accuracy of financial statements. They do, however, express an *opinion* on the statements' *fairness of presentation*.
24. Various organizations issue professional accounting designations in the form of licenses and certifications. Examples include: (a) *Certified Public Accountant* (or CPA license), (b) *Certificate in Management Accounting* (CMA), and (c) *Certificate in Internal Auditing* (CIA).
25. Beginning in the year 2000, the *American Institute of Certified Public Accountants* (AICPA) required its new members to have completed 150 semester hours of college work. This represents about one additional year beyond a bachelor's degree. One can be a CPA without belonging to the AICPA. Therefore, in some states it may be possible to be licensed as a CPA without having 150 semester hours of college education. However, many states are changing (or have already changed) their licensing requirements to make the 150 hour requirement mandatory.
26. Careers in accounting may be divided into four broad areas: (a) public accounting careers, (b) managerial accounting careers, (c) governmental accounting careers, and (d) careers in accounting education.
27. *Public accountants* (often CPAs) engage in audit services, tax services, and management advisory services.
28. *Management accountants* are employed by business and are often involved in financial reporting, system design, budgeting, cost accounting, income tax reporting, and internal audit processes.
29. *Governmental accountants* provide services at the federal, state, and local levels. Many governmental accounts are employed by the General Accounting Office (GAO), the Internal Revenue Service (IRS), and the Federal Bureau of Investigation (FBI).
30. *Accounting education* also provides many rewarding career opportunities. At many institutions, accounting faculty must have an earned doctorate to be considered for a full-time teaching position. A career as a faculty member allows an individual great freedom to pursue his or her specific professional interests.

TEST YOURSELF ON ACCOUNTING INFORMATION

True or False

For each of the following statements, circle the T or the F to indicate whether the statement is true or false.

- T F 1. Bookkeeping is often referred to as the language of business.
- T F 2. Financial accounting information is the term used to describe the reports used by an organization's investors and creditors.
- T F 3. Accounting systems may be defined as the computer software used to store, retrieve, and communicate accounting information to internal and external parties.
- T F 4. The primary external users of financial accounting information include the Board of Directors, regulatory agencies, and the Securities and Exchange Commission (SEC).
- T F 5. Investors and creditors learn about the financial condition of an enterprise from a variety of sources other than the enterprise's financial statements.
- T F 6. The financial statements issued to external parties lack a "historical" focus.
- T F 7. Externally reported financial information contains very little, if any, approximations or inexact measures.
- T F 8. Internal users of accounting information depend heavily upon general-purpose financial statements in making day-to-day decisions.
- T F 9. Virtually all managerial accounting information is oriented toward historical events and performance.
- T F 10. Information integrity is important only to external users of accounting information.
- T F 11. The Securities and Exchange Commission (SEC) is primarily responsible for developing generally accepted accounting principles (GAAP) and other authoritative accounting pronouncements.
- T F 12. The Financial Accounting Standards Board (FASB) does not require the support of the SEC in developing new accounting standards.
- T F 13. A company's internal control structure is intended to ensure that the entire organization operates according to the plans of management.
- T F 14. Managerial accountants are required to earn a Certificate in Management Accounting (CMA) in order to be licensed in a particular state.
- T F 15. By the year 2000, only a few states had made 150 semester hours of college course work a mandatory requirement for becoming a licensed CPA.

- T F 16. The American Institute of Certified Public Accountants (AICPA) does not have a "formal" code of ethics for its members.
- T F 17. Public accounting is often referred to as governmental accounting.
- T F 18. Bookkeepers are often responsible for evaluating efficiency of operations, resolving complex financial reporting issues, forecasting the results of future operations, tax planning, auditing, and for designing accounting information systems.

Completion Statements

Fill in the necessary word to complete the following statements:

1. Accounting is not an _____, but rather a _____ to an end.
2. Because accounting is widely used to describe all types of business activity, it is sometimes referred to as _____.
3. _____ accounting information is used primarily by external decision-makers, whereas _____ accounting is used primarily by internal decision-makers.
4. An _____ consists of the personnel, procedures, devices, and records used by an organization to (a) develop accounting information, and (b) communicate this information to decisions makers.
5. Investors and creditors are concerned about an enterprise's ability to generate both a _____ investment and an adequate _____ investment.
6. External financial reporting is directed primarily toward the information needs of _____ and _____.
7. Management accounting information is used primarily for _____ and _____ purposes.
8. The _____ of accounting information is often enhanced by strong systems of internal control, compliance with accounting principles, involvement by professional organizations, and ethical professional behavior.
9. Certified Public Accountants (CPAs) are _____ by the states in which they practice.
10. Working as an accountant for the FBI is an example of a _____ accounting career.

Multiple Choice

Choose the best answer for each of the following questions and enter the identifying letter in the space provided.

- 1. An accountant licensed by a state after meeting rigorous education, experience, and examination requirements is referred to as:
 - a. Managerial accountant.
 - b. Governmental accountant
 - c. Certified public accountant.
 - d. Internal auditor.
- 2. The private-sector organization responsible for establishing generally accepted accounting principles (GAAP) is called the:
 - a. AICPA.
 - b. SEC.
 - c. IMA.
 - d. FASB.
- 3. Which of the following is *not* an example of an external user of accounting information?
 - a. The company's Board of Directors.
 - b. The company's creditors.
 - c. The company's labor union.
 - d. The company's suppliers.
- 4. Which of the following is *not* considered a general-purpose financial report used by the investors and creditors of an organization?
 - a. A statement of cash flows.
 - b. A production budget.
 - c. A balance sheet.
 - d. An income statement.
- 5. The repayment to an investor of the amount originally invested in the enterprise is referred to as:
 - a. Return on investment.
 - b. Return of investment.
 - c. Profit.
 - d. Interest.
- 6. The government organization with the legal power to establish accounting principles for publicly owned companies in the United States is called the:
 - a. AICPA.
 - b. SEC.
 - c. IMA.
 - d. FASB.

- 7. The clerical dimension of accounting that includes recording routine daily transactions is called:
- a. Internal auditing.
 - b. Managerial accounting.
 - c. Bookkeeping.
 - d. Accounting information systems.
- 8. The professional designation granted by the Institute of Management Accounting (IMA) is the:
- a. CMA.
 - b. CIA.
 - c. CPA.
 - d. CIMA.
- 9. The career path in accounting that deals primarily with the independent audit of financial statements is referred to as:
- a. Internal auditing.
 - b. Governmental accounting.
 - c. Managerial accounting.
 - d. Public accounting.
- 10. Which of the following is *not* an example of an internal user of accounting information?
- a. The company's Board of Directors.
 - b. The company's labor union.
 - c. The company's senior management.
 - d. The company's Chief Executive Officer.
- 11. A plan of financial operations for some future period is referred to as:
- a. A financial forecast.
 - b. An income statement.
 - c. A balance sheet.
 - d. A statement of cash flows.
- 12. The formulation and analysis of the costs associated with certain business activities is referred to as:
- a. Financial accounting.
 - b. An independent audit.
 - c. Cost accounting.
 - d. An internal audit.

Exercises

1. Listed below are eight technical accounting terms emphasized in this chapter.

Audit

Bookkeeping

Public accounting

Income statement

General purpose information

Return on investment

Statement of financial position

Financial accounting

Each of the following statements may (or may not) describe one of these technical terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms.

- a. A financial statement that shows detailed results of a company's profit-related activities for a particular period of time.

- b. Principles that provide the framework for determining what information is to be included in financial statements and how that information is to be presented.

- c. An independent investigation of financial statements for the purpose of determining their fairness in relation to generally accepted accounting principles.

- d. A projected plan of financial operations for a specified period in the future.

- e. The clerical dimension of accounting that includes the recording of routine daily transactions.

- f. The repayment to investors of the amounts they originally invested in a particular enterprise.

- g. Another term for balance sheet.

2. Assuming that you wish to open your own small business shortly after graduating from college. Unfortunately, you do not have the cash necessary to get you started. Your father is willing to lend you \$50,000, provided that you agree to pay the entire amount back in one year, plus interest at 15%.
 - a. Your father's anticipated return of investment is: \$_____.
 - b. Your father's anticipated return on investment is: \$_____.

3. In the space provided, indicate whether each of the following parties should be considered an internal user of accounting information or an external user.

I = Internal User
E = External User

 - _____ a. Bankers.
 - _____ b. The Board of Directors.
 - _____ c. The Vice President of Human Resources.
 - _____ d. Labor unions.
 - _____ e. Suppliers.
 - _____ f. Trade associations.
 - _____ g. Factory supervisors.
 - _____ h. Stockholders of a corporation.

SOLUTIONS TO CHAPTER 1 SELF-TEST

1. **F** The term **accounting** is often referred to as the language of business. Bookkeeping is a routine subset of accounting involving the routine recording of daily transactions.
2. **T** Financial accounting information is designed specifically for external decisions makers. Management (or managerial) accounting is the term used for internal decision-makers.
3. **F** Accounting systems are not limited to software. They include all personnel, procedures, devices, and records used by organizations to develop and communicate information to decision-makers.
4. **F** The primary users of financial accounting information are investors and creditors .
5. **T** Investors and creditors learn about the financial condition of an enterprise from financial statements, the financial press, newsletters, the Internet, etc.
6. **F** The financial statement used by investors and creditors lack a focus toward the *future*.
7. **F** External reported financial statements rely heavily upon estimates and inexact measures.
8. **F** Internal users of financial information depend heavily on accounting reports uniquely designed for their special decision making needs.
9. **F** Managerial accounting information is oriented primarily toward the future.
10. **F** Integrity is important to all users of accounting information.

11. **F** The Financial Accounting Standards Board is primarily responsible for developing GAAP.
12. **F** The FASB needs the support of the SEC to make GAAP legally binding.
13. **T** The broad objective of an internal control system is to help ensure that an enterprise accomplishes its goals and objectives.
14. **F** Managerial accountants are not required to become CMAs. Those that do earn the CMA designation are *not* licensed by any state.
15. **F** By the year 2000, *most* states had made 150 semester hours of college course work a mandatory requirement for becoming a licensed CPA.
16. **F** The AICPA has a very detailed code of ethics for its members.
17. **F** Public accounting and governmental accounting are two separate career paths within the accounting profession.
18. **F** Bookkeepers are usually responsible only for recording the daily transactions of an enterprise.

Completion Statements

1. end, means. 2. the language of business. 3. Financial, managerial (or management). 4. accounting system. 5. return of, return on. 6. investors, creditors. 7. planning, control. 8. integrity. 9. licensed. 10. governmental.

Multiple Choice

1. Answer **c** – only certified public accountants (CPAs) are licensed by states as accounting professionals. Other accounting professionals may receive designation of a particular specialty, but these specialties do not require licensing.
2. Answer **d** – the Financial Accounting Standards Board (FASB) is responsible for establishing GAAP. The FASB needs the support of the Securities and Exchange Commission (SEC) to legally enforce these principles.
3. Answer **a** – creditors and suppliers are clearly external users of accounting information. Although labor union members are internal users of accounting information, labor union themselves are separate, external, entities.
4. Answer **b** – a production budget is a custom report used by production managers to plan for manufacturing operations.
5. Answer **b** – the return to an investor of the amount originally invested is the return of investment. Profit and interest represent additional returns referred to as the return *on* investment.
6. Answer **b** – the Securities and Exchange Commission (SEC) has the legal power to establish accounting principles. However, it rarely uses this power. Rather it relies upon the FASB to establish GAAP for publicly traded companies.
7. Answer **c** – bookkeeping is the clerical subset of accounting that involves the daily recording of routine transactions.
8. Answer **a** – the CMA is awarded by the Institute of Management Accounting (IMA) to members who have passed a rigorous examination and who have fulfilled certain education and experience requirements.
9. Answer **d** – public accountants perform independent audits of financial statements. Unlike internal auditors, public accountants are *external* to the enterprises that they audit.
10. Answer **b** – the members of labor unions are internal users of accounting information. However, labor union themselves are separate and external entities.
11. Answer **a** – only a financial forecast looks toward future operations. The income statement, balance sheet, and the statement of cash flows have *historical* orientations.

12. Answer c – cost accounting is that area of expertise within the accounting profession that is directly involved in the formulation and analysis of cost data.

Solutions to Exercises

- 1.
- a. Income statement
 - b. None (This statement describes *generally accepted accounting principles, or GAAP.*)
 - c. Audit
 - d. None (This statement describes a *financial forecast.*)
 - e. Bookkeeping
 - f. None (This statement describes *return of investment.*)
 - g. Statement of financial position
- 2.
- a. \$50,000 (the original amount of the loan)
 - b. \$ 7,500 ($\$50,000 \times 15\%$)
- 3.
- a. E
 - b. I
 - c. I
 - d. E
 - e. E
 - f. E
 - g. I
 - h. E

BASIC FINANCIAL STATEMENTS

HIGHLIGHTS OF THE CHAPTER

1. To really understand “accounting,” you must understand three things:
 - a. The nature of the economic activities described in accounting reports.
 - b. The assumptions and measurement techniques involved in the accounting process.
 - c. How the accounting information relates to specific decisions.
2. For example, let us apply this “three perspectives” approach to the presentation of assets in a balance sheet. What should you understand about assets? First, know what they represent *future economic benefits* that have been purchased by the business. Next, know that current accounting practice is to value most assets at cost. Thus, a balance sheet provides information about the *nature and dollar amount* (cost) of *financial resources* owned. This information is useful in evaluating the company’s ability to pay its debts, and also in determining whether its resources are being used efficiently.
3. The process of providing financial information about a business to decision makers other than management and employees is termed *financial reporting*. These “outsiders” may include investors, creditors, financial analysts, government regulators, and in some cases, even the general public (including the company’s competitors).
4. *Financial statements* provide a means of reporting financial information about an enterprise to parties outside the enterprise itself. The three primary financial statements include:
 - a. A *balance sheet* showing the financial position of the company at a given date.
 - b. An *income statement* indicating profitability of the business over a specific time period.
 - c. A *statement of cash flows* summarizing cash receipts and cash payments over the same period covered by the income statement.

These statements are prepared by the company’s accounting department; management is primarily responsible for the statements’ reliability.
5. Regardless of whether an accounting system is operated manually or makes use of a computer, the system performs three basic functions. First, the company’s economic activities are *recorded* in accounting records. Next, the recorded data are *classified* to accumulate subtotals for various types of activities. Finally, the classified data are *summarized* in accounting reports designed to meet the needs of decision makers.
6. The *transactions approach* to recording economic activities focuses upon completed transactions, that is events that (1) cause an *immediate change* in the financial position of the business, and (2) can be *measured objectively* in monetary terms. The primary strength of this approach is that the information is reliable and can be measured objectively. A weakness is that some nonfinancial events may not be recorded.
7. Accounting information is gathered for specific business entities. A business *entity* is any economic unit which enters into business transactions. The business entity is regarded as separate from its owners; the entity owns its own property and has its own debts. In preparing a balance sheet, the *same* definition of the “business entity” must be used in identifying the assets, liabilities, and owners’ equity of the business.
8. *Assets* are economic resources owned by a business, such as land, buildings, and cash. Assets are valued in a balance sheet at their cost, rather than at current market prices because cost is more

factual and can be more *objectively determined* than current market value. Another reason for valuing assets at cost is that a business is assumed to be a *going concern* that will keep and use such assets as land and buildings rather than sell them.

9. Adhering to the cost basis of accounting implies that the dollar is a *stable* unit of measurement, as is a gallon, or an inch. The cost principle works well in periods of stable prices. Severe inflation, however, weakens the usefulness of cost as a basis for asset valuation. In recent years, the FASB has required large corporations to experiment with disclosures of “price-level adjusted” accounting data. However, the cost of developing this information was found to exceed the benefits. Thus, at present, the *cost principle* and the *stable dollar assumption* remain generally accepted accounting principles in this country.
10. Liabilities are debts. Either borrowing money or buying on credit will create a liability. Liabilities represent the claims of *creditors* to the resources of the business. Example of liabilities are accounts payable and notes payable.
11. Owners’ equity represents the stockholders’ investment in the business; it is equal to total assets minus total liabilities. Owners’ equity in a corporation is called *stockholders’ equity*. The equity of the stockholder is a residual amount. It is the claim to all resources (assets) of the business *after* the claims of the creditors have been satisfied. If a loss occurs, it is the owners’ equity rather than the creditors’ claims which must absorb the loss. Thus, creditors view the owners’ equity as a “buffer” which protects the safety of their claims to the resources of the business.
12. Increases in owners’ equity result from (a) the stockholders investing cash or other assets in the business and (b) profitable operation of the business. Owners’ equity is decreased by (a) dividends distributed to the stockholders, and (b) unprofitable operation of the business.
13. The “accounting equation” is *Assets = Liabilities + Owners’ equity*. The listing of assets shows us what things the business owns; the listing of liabilities and owners’ equity tells us who supplied these resources to the business and how much each group supplies.
14. *Revenue* represents increases in an enterprise’s assets as result of a profit-oriented activity. The increased profits resulting from the earning of revenue cause owners’ equity to increase as well. *Expenses* represent resources consumed in the past, present, or future in the process of generating revenue. Expenses decrease profits and, therefore, cause owners’ equity to decrease as well.
15. Profits (or net losses) are reported in detail in the *income statement*. The income statement shows all revenue earned during the period, less all expenses incurred during the period. Revenue, less expenses, is often termed *net income*, or *net loss*.
16. The *statement of cash flows* reports all inflows and outflows of cash for the same time period covered by the income statement. Revenue and expenses reported in the income statement *are not* necessarily the same as cash flows reported in the statement of cash flows. We will address this issue frequently in later chapters. The statement of cash flows reports three types of cash flows: (a) cash flow from *operating activities* – the cash flows related to revenue and expense transactions, (b) cash flow from *investing activities* – the cash flows resulting from the sale and purchase of property and equipment, and (c) cash flow from *financing activities* – the cash flows resulting from financing transactions with the creditors and the owners of the enterprise.
17. The three most common forms of business entities are sole proprietorships, partnerships, and corporations. Accounting principles and concepts apply to all three forms of organizations. A sole proprietorship is an unincorporated business owned by one individual. A partnership is an unincorporated business owned by two or more people who have agreed to act as partners. A corporation is a business granted a charter by the state and owned by *stockholders*. Ownership of a corporation is evidenced by *shares of capital stock* that may be sold to investors.