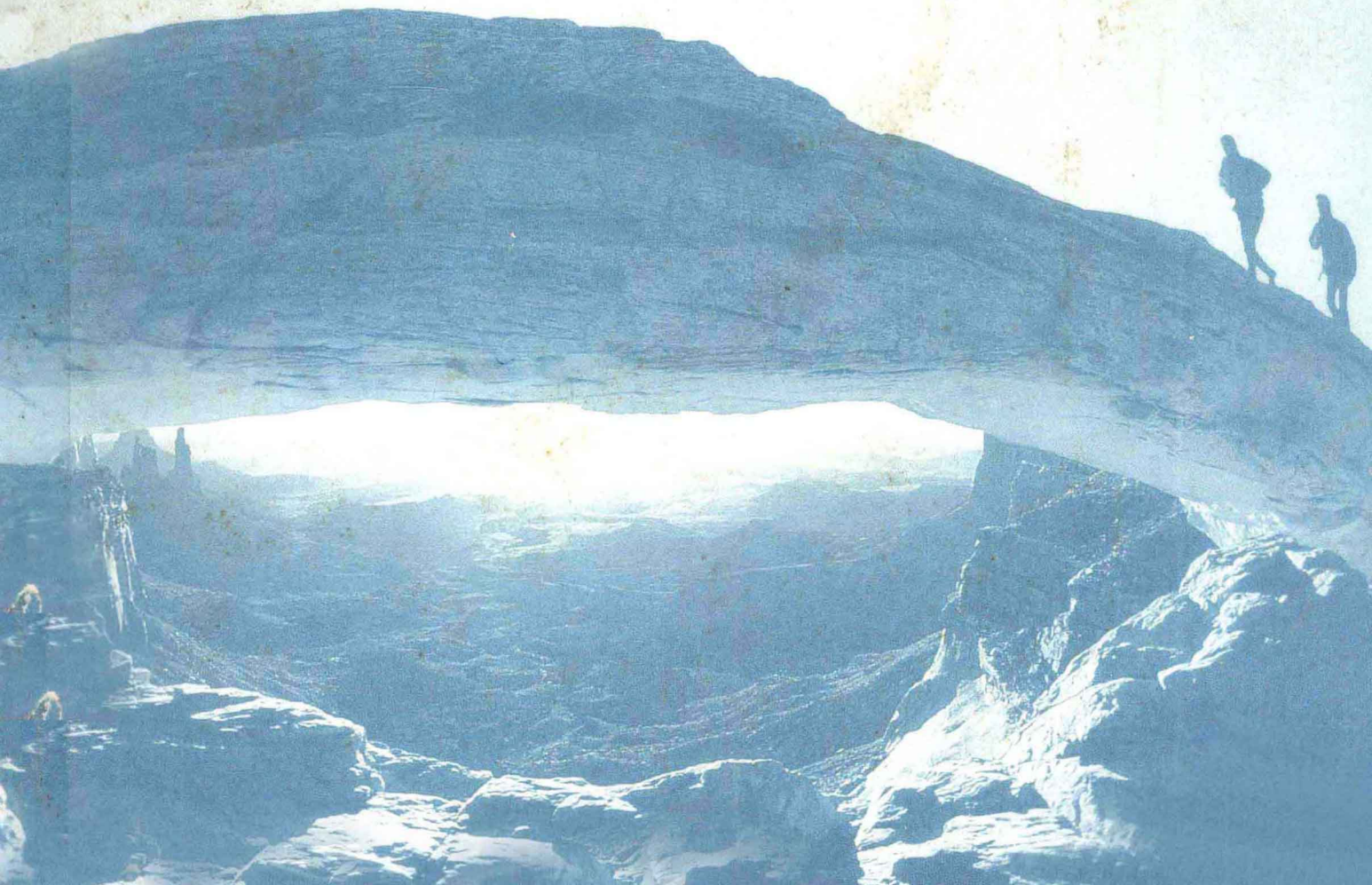


SOLUTIONS MANUAL I  
CHAPTERS 1-13

WEYGANDT • KIESO • KELL

ACCOUNTING  
PRINCIPLES

FOURTH EDITION



SOLUTIONS MANUAL I  
CHAPTERS 1-13

TO ACCOMPANY

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# ACCOUNTING PRINCIPLES

FOURTH EDITION

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# PREFACE TO THE INSTRUCTOR

The presentation of the subject matter of the twenty-seven chapters in *Accounting Principles* is followed by questions, brief exercises, exercises, problems, a financial reporting problem, a decision case, a communication activity, a group activity, an ethics case, and a critical thinking: real-world focus problem. This Solutions Manual contains suggested answers to the questions and complete solutions to all of these assignment items.

**Assignment Classification Table.** A unique feature of our Solutions Manual is a table that categorizes the end-of-chapter items (questions, brief exercises, exercises, problems, and alternate problems) by key topics in each chapter.

**Assignment Characteristics Table.** Each chapter of this Solutions Manual contains a table offering (1) a short description of each problem and alternate problem, (2) an indication of the level of difficulty (simple, moderate, or complex), and (3) the estimated time in minutes.

**Bloom's Taxonomy Table.** Each chapter features a correlation chart showing the relationship between Bloom's taxonomy of learning and study objective for each end-of-chapter item, allowing for more targeted assignments and assessment.

**Questions.** The questions at the end of each chapter provide a basis for classroom discussion of the topics presented in the chapter and serve as an aid to the students in testing their understanding of the text materials. They deal with both conceptual and procedural matters. The sequence of questions generally corresponds to the topical coverage in the text. Full and complete answers to these questions are presented in this manual.

**Brief Exercises.** Each brief exercise focuses on one of the study objectives listed at the beginning of the chapter. Because these brief exercises are straightforward and simple, they build the student's confidence and test basic skills.

**Exercises.** Generally, the exercises cover a specific topic and require less time and effort to solve than the problems. In addition to serving as supplemental assignment material, the exercises may be used for class discussion and for examination purposes.

**Problems.** Whereas the goal of the exercises is brevity of solution time and coverage of essential principles or methodology with minimum difficulty, the problems are designed to develop a professional level of achievement and, therefore, are generally more challenging to solve. We have arranged the problems, as much as possible, in the same order as the discussion in the chapter. Some of the problems are routine and can be solved by following procedures that are illustrated in the text. The more difficult problems may blend a diversity of principles into a single situation requiring a series of steps, computations, or solutions and demand interpretation, analysis, and judgment.

Additionally, a far greater number of problems has been provided than the instructor can reasonably use in a single offering of the course. An alternative set of problems similar in nature and coverage to the first set of problems is provided so that assignments similar in coverage and difficulty can be varied from semester to semester.

## Broadening Your Perspective

**Financial Reporting Problems.** Each chapter (1 through 19) has a financial reporting problem that requires the student to **use** (as opposed to prepare) a set of real-world financial statements. Some of these problems require that the student locate information in PepsiCo's financial statements or the accompanying notes and management discussion. Others of these reporting problems require analysis and evaluation of the content of these real-world financial statements and notes.

**Decision Cases.** Each chapter has a decision case following the problem material. These cases are imaginative, provocative, and realistic. The purpose of the decision case is to provide a less structured situation to which the students can apply their judgment and understanding of the chapter. The decision cases generally are not procedural; they require the student to arrive at a business decision or to make a recommendation to management.

**Communication Activities.** In each chapter, the authors have integrated writing assignments in the end-of-chapter exercises and problems. These writing assignments are highlighted by the yellow pencil icon at the beginning of the relevant instruction. In addition, every chapter contains a separate communication assignment in the Broadening Your Perspective section. These communication assignments require that the student write a memo, letter, or report to a designated person or audience.

**Group Activities.** Each chapter has an assignment that requires the collaborative effort of the students. The instructor is required to divide the class into small groups of four to six students who designate a discussion leader and a secretary who reports the group's conclusions or solutions to the class. These group projects are of a higher complexity and difficulty level than most of the other assignments.

**Ethics Cases.** The ethics case sensitizes the student to ethical situations in a business or accounting environment. The student is asked to identify the stakeholders (affected parties) in each case as well as the ethical considerations and issues involved. In some cases the student must evaluate the consequences of several alternative courses of action from an ethical viewpoint.

**Critical Thinking: A Real-World Focus.** Each chapter has a real-world case taken from the current business literature (newspapers, magazines, books, and annual reports). These assignments require the student to apply concepts, methods, and techniques they have learned from the chapter to specific situations and problems faced by actual companies.

## Acknowledgments

We sincerely thank the following individuals for their expert assistance in reviewing and checking the material contained in this Solutions Manual: John Borke, University of Wisconsin—Platteville; James M. Emig, Villanova University; and Larry Falcetto, Emporia State University.

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Jerry J. Weygandt  
Donald E. Kieso  
Walter G. Kell

# SUPPLEMENTARY MATERIALS AND TEACHING AIDS

## Instructor's Resources

**Annotated Instructor's Edition.** The Annotated Instructor's Edition features the full student text along with extra data, additional examples, check figures and Bloom's taxonomy classification for end-of-chapter exercises and problems, all conveniently located in the margins. In addition, it offers you four types of supplementary information you can use in class:

- ▶ **Teaching help** consists of marginal notes indicating ways to help students through potential trouble spots.
- ▶ **Case in point** notes include specific examples that you can use to illustrate a point that is discussed in the text.
- ▶ **Alternate terminology** presents synonymous terms, since terminology may differ from discipline to discipline.
- ▶ **Check figures** provide quick answers next to end-of-chapter exercises and problems.

**Solutions Manuals I and II.** The Solutions Manuals contain detailed solutions to all exercises and problems in the textbook and suggested answers to the questions and cases. Print is large and bold for easy readability in lecture settings, and instructors may duplicate any portion of the manual without paying a permissions fee. Each chapter includes an *assignment classification table* (identifies end-of-chapter items by study objectives), an *assignment characteristics table* (describes each problem and alternate problem and identifies difficulty level and estimated completion time), and a *Bloom's taxonomy table* (classifies end-of-chapter items by Bloom's taxonomy of learning objective and study objective).

**Examination Book and Test Bank I and II.** The Fourth Edition now features a comprehensive testing package designed to allow instructors to tailor examinations according to study objectives, learning skills and objectives, and selected content. This package consists of a Test Bank of over 3,000 examination questions and exercises accompanied by answers and solutions. Each chapter includes a *Summary of Questions by Objectives* and a *Summary of Objectives by Questions* (linking test items to study objectives), and an indication of placement among Bloom's taxonomy. Exercises are also identified by estimated completion time. In addition to the examination material provided for each chapter, seven comprehensive examinations covering four to five chapters are also included.

The Examination Book also includes a series of preprinted Achievement Tests for easy testing of major concepts. Each test covers two chapters from the textbook. In addition, a comprehensive test for each half of the textbook is included. The tests, easy to photocopy and distribute directly to students, consist of multiple-choice, matching, and true/false questions, and problems and exercises (computation and journal entries). Solutions are included at the end of each Achievement Test.

**Test Preparation Service.** Simply call Wiley's special number (1-800-541-5602) with the questions you want on an examination. Wiley will provide a customized master exam within 24 hours. If you prefer, random selection from a number of chapters is possible.

**Solutions Transparencies I and II.** Packaged in an organizer box with chapter file folders, these transparencies feature detailed solutions to all exercises and problems in the textbook, and suggested answers

to the cases. They feature large, bold type for better projection and easy readability in large classroom settings. Accuracy is assured—all solutions were extensively checked by the authors and reviewers.

**Teaching Transparencies.** One hundred and fifty illustrations are available in four-color format. The authors have selected these illustrations from the text and from original exhibits outside the text as well. Designed to support and clarify concepts in the text, the Teaching Transparencies will enhance lectures. Suggestions on how to integrate the Teaching Transparencies are included in the Instructor's Manuals.

**Instructor's Manual I and II.** The Instructor's Manual is a comprehensive resource guide designed to assist professors in preparing lectures and assignments. Each manual is set in a print size large enough for easy reading or use as transparency masters. Each volume includes sample syllabi for two-semester and three-quarter use of the textbook. A correlation chart for all end-of-chapter exercises and problems and a correlation chart of chapter contents help instructors adapt their lecture materials for a smooth transition to the Fourth Edition.

Included for each chapter are an *assignment classification table*; an *assignment characteristics table*; a *list of study objectives* in extra large, boldface print for transparencies; a *chapter review* of the significant topics and points contained in the chapter; *enhanced lecture outlines* with teaching tips and references to text material; *suggestions for integrating supplements* into the classroom; a *20-minute quiz* in the form of 10 true/false and 5 multiple-choice questions (with solutions); and illustrations, including diagrams, graphs, questions, and exercises, for use as classroom handouts, overhead transparencies, in-class quizzes or demonstrations (solutions are provided).

**Checklist of Key Figures.** A listing of key amounts for textbook problems, allowing students to verify the accuracy of their answers as they work through the assignments, is packaged in sets of 50 for easy distribution.

**Additional Solutions Manuals.** Solutions Manuals are also available for the following:

- ▶ Campus Cycle Shop: A Business Papers Practice Set
- ▶ Heritage Home Furniture: A Narrative Practice Set
- ▶ Olympic Mower Company: A Manufacturing Practice Set
- ▶ University Bookstore: A Corporate Practice Set
- ▶ Solving Accounting Principles Problems Using Lotus 1-2-3 and Excel for Windows

**Computerized Test Bank.** The collection of objective questions and exercises with answers for each chapter in the textbook is available for use with IBM and IBM-true compatibles, and the Macintosh. The Computerized Test Bank offers a number of valuable options. You can quickly generate a large number of test questions randomly or manually; modify and customize test questions by either changing existing problems or by adding your own problems; create multiple versions of the same test by scrambling questions by type, chapter, or number; customize exams with headers, page and margin size, and question numbering; preview tests prior to printing (the answer key prints with the test); store tests on a separate disk or hard drive and retrieve them later for playback; and save tests as ASCII files for export into other word-processing applications.

**PowerPoint Presentation Material.** This PowerPoint lecture aid contains a combination of key concepts, images, and problems from the textbook for use in the classroom. Designed according to the organization of the material in the textbook, this series of electronic transparencies can be used to reinforce accounting principles visually and graphically.

**General Ledger Software Evaluator Disk.** This program is a simple way to evaluate students' answers prepared using the General Ledger Software. It evaluates both the transactions that were posted and the ending balances for each of the accounts. The program also includes many reporting options, allowing instructors to print detailed or summary reports for a student or a class using a variety of sort sequences.

**Videos for Accounting Principles, Fourth Edition.** Wiley has produced a series of videos to enliven accounting principles and concepts through graphics and visual aids. Presented by three dynamic instructors, all known for their excellence in teaching, they also bring additional insight to the material covered in each chapter of *Accounting Principles, Fourth Edition*. The videos are designed for student self-study and review, and cover each major accounting topic. The whole set is approximately 30 hours in length. Each module covers a chapter and averages 40 to 60 minutes. Within each chapter, topics are covered in 15-minute segments. The format is designed to aid in maximum student retention.

**Nightly Business Report Video.** This video contains segments from the highly respected Nightly Business Report that have been selected for their applicability to accounting principles and for their reinforcement of key concepts in the text. Each of the segments is approximately 3-5 minutes long and can be used to introduce topics to the students, enhance lecture material, and provide real-world context for related concepts. An Instructor's Manual with suggestions for integrating the material into the classroom accompanies the video.

## Student Active Learning Aids

**Working Papers I and II.** Working Papers are partially completed accounting forms for all end-of-chapter exercises, problems, and cases. A convenient resource for organizing and completing homework assignments, they demonstrate how to correctly set up solution formats and are directly tied to textbook assignments.

**Student Study Guide I and II.** The Student Study Guide is a comprehensive review of accounting and a powerful tool for students to use in the classroom, guiding students through chapter content, tied to study objectives, and providing resources for use during lectures. This is an excellent resource when preparing for exams.

Each chapter of the Student Study Guide includes study objectives and a chapter review consisting of 20-30 key points; a demonstration problem linked to study objectives in the textbook; and additional opportunities for students to practice their knowledge and skills through true/false, multiple-choice, and matching questions related to key terms and exercises linked to study objectives. Solutions to the exercises explain the hows and whys so students get immediate feedback. A chapter outline and blank working papers allow students space to take lecture notes and record problems worked in class.

**Self-Study Problems/Solutions Book I and II.** This Self-Study tutorial is designed to improve students' success rates in solving accounting principles homework assignments and exam questions. The Self-Study also provides additional insight and tips on how to study accounting. Each chapter includes an overview of key chapter topics and a review of chapter study objectives; purpose statements for each question, case, or exercise and a direct link to study objectives; and tips to alert students to common pitfalls and misconceptions, as well as reminders of concepts and principles to help solve problems. A selection of multiple-choice exercises and cases representative of common exam questions or homework assignments enhance student proficiency, and detailed solutions and explanations assist students in the approach, setup, and completion of problems.



**Career Supplement.** The Career Supplement is a valuable resource for students interested in accounting and business careers. This updated edition of the Career Supplement gives a broad perspective of accounting and its applications in business, presents an overview of various career paths that may be pursued with an accounting background, and includes brief interviews with individuals in each of these areas. Also provided in the Career Supplement is a listing of each of the companies discussed in the textbook with contact information, allowing students to explore these companies for more information about their individual employment structures, mission statements, and career opportunities.

**Practice Sets.** These practice sets expose students to a real-world simulation of maintaining a complete set of accounting records for a business. Students will find that practice sets reinforce the concepts and procedures learned in each chapter of the textbook, as they integrate the business events, accounting concepts, procedures, and records covered within *Accounting Principles*. Designed to meet a variety of skill levels, particular study objectives, and to be used at various places throughout the course, these practice sets reinforce key concepts and allow students to apply the information they have learned. They are an excellent way to see how these concepts are all brought together to generate the accounting information that is essential in assessing the financial position and operating results of a company. Each of these practice sets has been revised to reflect changes in the text and to modify account information.

**Campus Cycle Shop.** Business papers add a realistic dimension by enabling students to handle documents—checks, invoices, receipts—that they would encounter in a small company. As students complete this sole proprietorship case, they will become familiar with analyzing and journalizing business transactions. Students can use this practice set after Chapter 4: Completion of the Accounting Cycle.

**Heritage Home Furniture.** This narrative listing of sole proprietorship business transactions includes the necessary journals, ledgers, and forms for completing the simulation. It reviews and reinforces the transactions emphasized in the Campus Cycle Shop Practice Set, while introducing more complex transactions generally covered in a financial accounting course. Recommended for use after Chapter 11: Current Liabilities and Payroll Accounting.

**University Bookstore, Inc.** This corporate practice set exposes students to a real-world simulation of maintaining a complete set of accounting records for a business, integrating business events, accounting concepts, and records. Students work with a bond transaction, so the set is recommended for use after Chapter 16: Long-Term Liabilities. The end of the set recommends that students complete a financial analysis of the company, so students will need to complete Chapter 19: Financial Statement Analysis before completing the set. Performed either independently or in a group, the set includes few transactions and thus reinforces students' analytical skills and creative problem solving.

**Olympic Mowers Co.** This corporate practice set introduces students to a cost accounting system in a manufacturing environment. Specifically, a job order cost accounting system will be maintained in order to develop product costs. The case reviews and reinforces many of the transactions emphasized in the first few practice sets and provides a review of the major types of business transactions generally covered in a financial accounting course. Recommended for use after Chapter 21: Job Order Cost Accounting.

**General Ledger Software.** The General Ledger Software (GLS) is one of the most exciting technology supplements that accompanies the Fourth Edition. Available in either a DOS, Windows, or Network version, the General Ledger Software program allows students to solve selected end-of-chapter text problems, which are identified by a diskette icon in the margin in the text. GLS is ideal for instructors who want their students to gain a hands-on feel for a computerized accounting system. It has the ability to modify

the existing chart of accounts and beginning balances. This increases the instructor's flexibility in assigning alternate problems within the textbook. GLS is user-friendly and easy to use, with little start-up time.

The General Ledger Software is used to computerize the business papers, narrative, and corporate practice sets. Students can purchase the GLS alone, packaged with the text, or packaged with one of these practice sets.

**Solving Accounting Principles Problems Using Lotus 1-2-3 and Excel for Windows.** These electronic spreadsheet templates (available in either Lotus or Excel) allow students to complete selected end-of-chapter exercises and problems, identified by a spreadsheet icon in the margin of the text. The manuals, which include the disks, guide students step-by-step from an introduction to computers and Lotus or Excel, to completing preprogrammed spreadsheets, to designing their own spreadsheets. Prepared for students with a range of experience in spreadsheet applications, these templates and tutorials help students develop and hone their computer skills and expose them to software packages often used in real-world business environments.

**Computerized Study Guide.** The Computerized Study Guide is designed to provide more flexible movement through the content of the Study Guide to meet the particular needs of each student. It offers students both extensive review information and hundreds of self-testing questions from every chapter in the text. The student can select from a number of self-study options, including chapter summaries, chapter study objectives, and self-test questions. Multiple-choice questions offer students explanations of why the wrong choices are not correct. All questions can be automatically scrambled to avoid duplication of identical tests.

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# CHAPTER 1

## Accounting in Action

### ASSIGNMENT CLASSIFICATION TABLE

<u>Study Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Exercises</u>	<u>Problems</u>	<u>Alternate Problems</u>
1. Explain the meaning of accounting.	1, 2, 5				
2. Identify the users and uses of accounting.	3, 4				
3. Understand why ethics is a fundamental business concept.					
4. Explain the meaning of generally accepted accounting principles and the cost principle.	6				
5. Explain the meaning of the monetary unit assumption and the economic entity assumption.	7, 8, 9, 10				
6. State the basic accounting equation and explain the meaning of assets, liabilities, and owner's equity.	11, 12, 13	1, 2, 3, 6	1, 2, 3, 7	1, 2	1, 2
7. Analyze the effect of business transactions on the basic accounting equation.	14, 15, 16, 18	4, 5, 6, 7	2, 3, 4, 6, 7	1, 2	1, 2, 5
8. Prepare an income statement, owner's equity statement, balance sheet, and statement of cash flows.	17, 19, 20, 21	8, 10	5, 8, 9, 10, 11, 12	2, 3, 4, 5	2, 3, 4, 5



## ASSIGNMENT CHARACTERISTICS TABLE

<b>Problem Number</b>	<b>Description</b>	<b>Difficulty Level</b>	<b>Time Allotted (min.)</b>
1	Analyze transactions and compute net income or net loss.	Moderate	40-50
2	Analyze transactions and prepare an income statement, owner's equity statement, and balance sheet.	Moderate	50-60
3	Prepare an income statement, owner's equity statement, and balance sheet after making adjustments.	Moderate	50-60
4	Prepare an income statement and owner's equity statement.	Moderate	40-50
5	Determine financial statement amounts and prepare owner's equity statement.	Moderate	40-50
1A	Analyze transactions and compute net income or net loss.	Moderate	40-50
2A	Analyze transactions and prepare an income statement, owner's equity statement, and balance sheet.	Moderate	50-60
3A	Prepare an income statement, owner's equity statement, and balance sheet after making adjustments.	Moderate	50-60
4A	Prepare an income statement and owner's equity statement.	Moderate	40-50
5A	Determine financial statement amounts and prepare owner's equity statement.	Moderate	40-50

# BLOOM'S TAXONOMY TABLE

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

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain the meaning of accounting.		Q1-1 Q1-2 Q1-5				
2. Identify the users and uses of accounting.		Q1-3 Q1-4				
3. Understand why ethics is a fundamental business concept.						
4. Explain the meaning of generally accepted accounting principles and the cost principle.		Q1-6				
5. Explain the meaning of the monetary unit assumption and the economic entity assumption.	Q1-8 Q1-9	Q1-7 Q1-10				
6. State the basic accounting equation and explain the meaning of assets, liabilities, and owner's equity.	Q1-11 Q1-12	Q1-13 BE1-9 E1-1 E1-2 E1-3	BE1-1 BE1-2 BE1-3 E1-7 P1-1 P1-2 P1-1A P1-2A			
7. Analyze the effect of business transactions on the basic accounting equation.		Q1-14 Q1-15 Q1-16 Q1-18 BE1-4 BE1-5 BE1-6 BE1-7 E1-2 E1-3	E1-4 E1-6 E1-7 P1-1 P1-2 P1-5 P1-1A P1-2A P1-5A			
8. Prepare an income statement, owner's equity statement, balance sheet, and statement of cash flows.		Q1-17 Q1-19 BE1-10	Q1-20 Q1-21 BE1-8 E1-5 E1-8 E1-10 E1-11 E1-12 P1-2A P1-3A P1-2 P1-4A P1-3 P1-5A P1-4 P1-5	E1-9		
Broadening Your Perspective		Financial Reporting Critical Thinking	Group Activity			Decision Case Ethics Case Communication

# ANSWERS TO QUESTIONS

1. Yes, the student is correct. The reason for the growth is quite simple—accounting is the financial information system that provides relevant financial information to every person who owns and uses economic resources or otherwise engages in economic activity.
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 events that are (a) considered evidence of economic activity and (b) relevant to a particular business enterprise. Once identified and measured, the events are recorded to provide a permanent 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.
3. (a) Internal users are those who manage 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.
4. External users are those outside the business who have either a present or potential **direct financial interest** (investors and creditors) or an **indirect financial interest** (taxing authorities, regulatory agencies, labor unions, customers, and economic planners).
5. 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 accounting process, including identification, measurement, recording, and communication.
6. Vince Gill Travel Agency should report the land at \$75,000 on its December 31, 1996 balance sheet. An important concept that accountants follow is the cost principle. The cost principle states that assets should be recorded at their cost. Cost has an important advantage over other valuations: it is reliable. Cost is definite and verifiable.
7. The monetary unit assumption requires that only transaction data capable of being expressed in terms of money be included in the accounting records of the economic entity. An important corollary to the monetary unit assumption is the added assumption that the unit of measure remains sufficiently constant over time. The assumption of a stable monetary unit has been seriously challenged during the past two decades because of the significant decline in the purchasing power of the dollar. The profession has recognized this problem and encourages companies to disclose the effects of purchasing power changes.
8. The economic entity assumption states the economic events can be identified with a particular unit of accountability. This assumption requires that the activities of the entity be kept separate and distinct from (1) the activities of its owners and (2) all other economic entities.
9. The three basic forms of business organizations are (1) proprietorship, (2) partnership, and (3) corporation.

## Questions Chapter 1 (Continued)

10. One of the advantages Martha Ross would enjoy is that ownership of a corporation is represented by transferable shares of stock. This would allow Martha 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.
11. The basic accounting equation is  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ .
12. Assets are resources owned by a business. Liabilities are items that affect claims against assets. Put more simply, liabilities are existing debts and obligations. Owner's equity is the ownership claim on total assets. The subdivisions of owner's equity are capital, drawings, revenues, and expenses.
13. The liabilities are (b) Accounts payable and (g) Salaries payable.
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.
15. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic equation.
  - (a) The death of the owner of the company is not a business transaction as it does not affect the basic equation.
  - (b) Supplies purchased on account is a business transaction because it affects the basic equation.
  - (c) An employee being fired is not a business transaction as it does not affect the basic equation.
  - (d) A withdrawal of cash from the business is a business transaction as it affects the basic equation.
16.
  - (a) Decrease assets and decrease owner's equity.
  - (b) Increase assets and decrease assets.
  - (c) Increase assets and increase owner's equity.
  - (d) Decrease assets and decrease liabilities.
17. 

(a) Income statement.	(d) Balance sheet.
(b) Balance sheet.	(e) Balance sheet and owner's equity statement.
(c) Income statement.	(f) Balance sheet.
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 owner's equity resulting from business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by the owner in the business.
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 statement of owner's equity—it is shown as an addition to the beginning-of-period capital. Indirectly, the net income of a company is also included in the balance sheet. It is included in the capital account which appears in the owner's equity section of the balance sheet.



## Questions Chapter 1 (Continued)

20.	(a)	Ending capital balance .....	\$198,000
		Beginning capital balance .....	<u>158,000</u>
		Net income .....	<u>\$ 40,000</u>
	(b)	Ending capital balance .....	\$198,000
		Beginning capital balance .....	<u>158,000</u>
			40,000
		Deduct: Investment .....	<u>13,000</u>
		Net income .....	<u>\$ 27,000</u>
21.	(a)	Total revenues (\$45,000 + \$70,000) .....	\$115,000
	(b)	Total expenses (\$26,000 + \$40,000) .....	\$66,000
	(c)	Total revenues .....	\$115,000
		Total expenses .....	<u>66,000</u>
		Net income .....	<u>\$ 49,000</u>