

SOLUTIONS

Learning Goal 1

Multiple Choice

1. b
2. d
3. c
4. c
5. a Although all the other items are important as well—especially (b) and (d).
6. c
7. c

Reinforcement Problems

LG 1-1. The life of a business is divided into regular, equal accounting periods because:

- **Income measurement:** Net income can only be measured over a period of time.
- **Timeliness:** Financial information is needed frequently and regularly.
- **Comparability:** Selecting equal time periods makes information comparable.

The issues created are:

- a. Deciding what is the best way to measure financial change during each period.
- b. The need to carefully define the elements that will measure the change.
- c. Knowing in what periods revenues and expenses should be recorded.
- d. Making sure that all revenues and expenses do get recorded.

LG 1-2. The active policy falls into 2017, 2018, and 2019.



LG 1-3. No! Rosie’s Company earned the \$12,000 in only one *month*, while Greg’s Company needed a year to earn the same amount. Rosie’s Company will earn $12 \times \$12,000 = \$144,000$ in a year. The length of the time period makes a big difference!

LG 1-4.

- A revenue can either increase an asset or decrease a liability, but always increases retained earnings.
- An expense can either increase a liability or decrease an asset, but always decreases retained earnings.

SOLUTIONS**Learning Goal 2, continued****LG 1-5.**

Sonora Company, Inc.		
Income Statement		
For the Year Ended December 31, 2017		
Revenues and gains		
Service revenue		\$475,200
Operating expenses		
Salaries expense	\$269,220	
Rent expense	48,400	
Advertising expense	42,750	
Utilities expense	26,130	
Repairs expense	<u>11,100</u>	
Total operating expenses		<u>397,600</u>
Income before tax		77,600
Income tax expense		<u>15,620</u>
Net income		<u><u>\$61,980</u></u>

Sonora Company, Inc.	
Statement of Retained Earnings	
For the Year Ended December 31, 2017	
Retained earnings, January 1	\$181,300
Add: net income	61,980
Less: dividends	<u>(25,000)</u>
Retained earnings, December 31	<u><u>\$218,280</u></u>

Sonora Company, Inc.	
Balance Sheet	
December 31, 2017	
Assets	
Cash	\$ 82,440
Accounts receivable	69,330
Office Supplies	5,600
Equipment	<u>101,300</u>
Total assets	<u><u>\$258,670</u></u>
Liabilities and Stockholders' Equity	
Liabilities	
Accounts payable	\$27,390
Unearned Revenue	<u>3,000</u>
Total liabilities	30,390
Stockholders' equity	
Paid-in capital	
Common stock	\$ 10,000
Retained earnings	<u>218,280</u>
Total stockholders' equity	<u>228,280</u>
Total liabilities and stockholder's equity	<u><u>\$258,670</u></u>