

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!