Horngren 11e, Introduction to Financial Accounting

Errata

Please note the following clarifications

p. 463, add the following sentence after the first sentence on the page: "There must be a stockholders' vote to approve the split, and for most splits stockholders also approve a proportional increase in the number of authorized shares."

p. 480, Exercise 10-40, add the following sentence just prior to the sentence that begins "Assume the balance. . .": "They also approved the doubling of the number of authorized shares."

p. 481, Exercise 10-40, add the following sentence immediately after the first sentence of the exercise: "When stockholders approved the reverse stock split, they also reduced the authorized shares from 30,000 to 3,000.”

CONTENTS

Solutions by Chapter

GENERAL COMMENTS

Please read the textbook preface before examining this material. The scope and depth of a particular assignment schedule largely depend upon the instructor's personal evaluation of the relative importance of various topics. In turn, his or her evaluation will be influenced by students' backgrounds and other courses in the curriculum.

As the preface indicates, instructors may wish to rely heavily or exclusively on real company problems. The materials enable the instructor to cover the essentials by using real-life numbers and organizations. Students are naturally more enthusiastic about the subject matter and the course when they can experience actual uses.

Please give serious consideration to covering some topics that are not yet found in all introductory accounting courses, especially consolidated statements (Chapter 11). Resistance to the inclusion of consolidations in a basic course is probably a carryover from decades of regarding consolidations as being "advanced" accounting material. However, the *fundamentals* of consolidated statements are not too hard for basic courses and make the basic course more relevant by linking the course more closely to what the students are reading in the business press and in annual reports.

There are several supplements to *Introduction to Financial Accounting*, both for the instructor and for students. These are listed next, followed by some suggested assignment schedules.

Comments on how to choose among the various problems in each chapter follow the sample assignment schedules. A linking of problems in the tenth edition with those in this eleventh edition follows. This will help users of the tenth edition find problems in the eleventh edition similar to those used previously.

We then provide some tips that have served us well in teaching financial accounting—tips on conducting the course, presentation of solutions in class, and returning examinations.

Finally, we present Key Amounts from Suggested Solutions that can be used by students to provide a partial check on their work.

SUPPLEMENTS TO ACCOMPANY *INTRODUCTION TO FINANCIAL ACCOUNTING*, ELEVENTH EDITION, BY HORNGREN/SUNDEM/ELLIOTT/PHILBRICK

Supplements for Instructors

Instructor's Manual

Contains the following elements for each chapter of the text: chapter overviews, chapter outlines organized by objectives, teaching tips, and chapter quizzes derived from textbook exhibits.

Solutions Manual

Solutions are provided for all the end-of-chapter assignment materials. The Solutions Manual is available for down on the Instructor Resource Center (IRC) and in MyAccountingLab.

Test Item File

The Test Item File includes more than 1500 questions. Choose from a variety of question types including multiple choice, true/false, exercises, comprehensive problems, short answer problems, and critical thinking essay questions. Each test item is tied to the corresponding learning objective and has an assigned difficulty level. The Test Item File is available in the TestGen testing software shell, and the files are also delivered in Microsoft Word on the IRC as well as in MyAccountingLab.

TestGen testing software, by Tamarack Software, Inc., is an easy-to-use computerized testing program that can create exams, evaluate, and track student results. TestGen also provides online testing capabilities. Test items are drawn from the Test Item Files.

PowerPoint Presentations

PowerPoint presentations are available for each chapter of the text on the IRC for download. These presentations use colorful graphics, outlines of chapter material, additional examples, and graphical explanations of difficult topics. Instructors have the flexibility to add slides and/or modify the existing slides to meet the course's needs.

MyAccountingLab

MyAccountingLab is web-based tutorial and assessment accounting software that not only gives students more "I Get It" moments, but gives instructors the flexibility to make technology an integral part of their course. It's also an excellent supplementary resource for students.

View a guided tour of MyAccountingLab at http://www.myaccountinglab.com/tours/instructor-tours

The flash-based eText allows students to access their textbook from anywhere. In addition, students have access to all of the supplements listed below.

Supplements for Students:

Spreadsheet Templates

Enhanced spreadsheets include "built in" cell comments to help the students complete the template. Check figures and "alerts" cause the appearance of cells to change when the student calculates the wrong answer. Solutions are available on the IRC and MyAccountingLab to the instructor upon adoption of the text.

SAMPLE ASSIGNMENT SCHEDULES

The sample assignment schedules do not include any financial statement research, Starbucks, or Internet problems that appear at the end of the assignment materials in every chapter. We urge you to consider using some of these problems instead of or in addition to the more traditional exercises and problems listed.

One Sequence

This sequence is designed for one semester of 13 weeks with three 50-minute meetings per week and one holiday. Longer semesters permit either more intensive or extensive coverage, depending on instructor preferences.

		Problem Assignments:	
No. of Class Meeting	**Chapter in Text**	**Normal: Based on Approximately Two Hours of Homework Per Session**	**Selected Additional Problems if Time Permits**
1	Introduction	See the Section that follows shortly, "COMMENTS ON CHOICES OF PROBLEMS IN EACH CHAPTER."	
2	Ch 1 – Balance Sheets	35 (or 36 or 37 or 38 or 39)	41 or 45, 52
3	Ch 2 – Income Measurement	39, 48	33
4	Review Ch 2	35, 57, 59 (or 60)	53, 58
5	Ch 3 – Journals & Ledgers	43 or 44	25, 27, 32
6	Review Ch. 3	36	Any of 39–44
7	Review Ch. 3	45, 50	51, 52
8	Ch 4 – Accrual Accounting	35 (or 37 or 38 or 39), 36, 40	22, 23, 29
9	Review Ch 4	24, 25, 47 (or 48)	Any of 27, 44, 45 (or 46)
10	Review Ch 4	43	42, any of 51–54
11	Examination**		
12	Ch 5 – Cash Flow statement	49, 50, 53	55
13	Review Ch 5	45, 56	52, 58
14	Review Ch 5	64, 70	65, 66, 73
15	Ch 6 – Receivables	42, 64	46, 47
16	Review Ch 6	70, 71, 74	73, 75
17	Review Ch 6	61, 80	84, 85
18	Ch 7 – Inventories	34, 52, 54	30, 36, 50, 51
19	Review Ch 7	47, 56, 57, 62	63, 72
20	Review Ch 7	48, 59, 64	66, 80
21	Ch 8 – Long-Lived Assets	56, 61 (or 62 or 63)	28, 30, 37
22	Review Ch 8	52 (or 51), 68 (or 69), 71	Any of 31–33
23	Review Ch 8	54, 59 (or 57), 70	40, 46
24	Ch 9 – Liabilities	38, 39, 53	34, 36, 37

Note: Footnotes are on the following page.

No. of Class Meeting	Chapter in Text	Problem Assignments: Normal: Based on Approximately Two Hours of Homework Per Session	Selected Additional Problems if Time Permits
25	Review Ch 9	46–51, 79, 82	83, 85
26	Review Ch 9	58, 59, 63	60, 61, 69
27	Review Ch 9	66, 68, 71, 72	56, 75, 77
28	Examination**		
29	Ch 10 – Stockholders' Equity	50, 58, 60	66
30	Review Ch 10	68, 69,70	47
31	Review Ch 10	38, 44, 71	73
32	Ch 11 – Intercorporate Investments	28, 30, 32	33, 41
33	Review Ch 11	34, 44	45
34	Review Ch 11	53, 54	55
35	Ch 12 – Financial Statement Analysis	31, 45, 46	51 (or 43)
36	Review Ch 12	35, 36, 38, 56	52–55
37	Review Ch 12	39, 41, 42, 57	47, 61, 62
38	Final examination**		

* Many instructors will wish to devote more time to the initial four chapters than indicated above. If so there is plenty of assignment material of all kinds that can be used. Furthermore, some of the problems do not necessarily have to be assigned in connection with a specific chapter.

** In subsequent sessions some instructors devote time to discuss tests. See page XXII of this preface to the solutions manual, "RETURNING EXAMINATIONS."

Other Sequences

As the preface in the textbook indicates, instructors may wish to shuffle the sequence or omit some chapters, in whole or in part. Specifically, Chapters 10–12 may be studied in any order, after Chapter 9. In addition, instructors may omit portions of Chapters 9 and 10 without breaking the continuity.

As you consider specific problems for each chapter, you may wish to consult the section, "COMMENTS ON CHOICES OF PROBLEMS IN EACH CHAPTER," that follows immediately.

COMMENTS ON CHOICES OF EXERCISES AND PROBLEMS

General Comments

Contact with real world problems and exercises enlivens the course and generates student interest. We encourage instructors who have not used this approach to review a few of these problems for possible inclusion. Each chapter ends with four special problems, one focused on collaborative learning and three on financial statement analysis: 1) Financial statement research, 2) Analyzing Starbucks' financial statements, and 3) Analyzing financial statements using the Internet. These last three problems are an especially good way to develop skill in reading and analyzing real financial statements.

Instructors are encouraged to try the exercises and problems that use data from real companies. Their range of difficulty varies. However, this is an elementary book, not an intermediate or advanced book. Therefore, an ample supply of basic material is provided. For instance, examine exercise 1-31 and problems 1-39 and 1-40. Even exercise 1-43 through 1-45 are not difficult. Students enjoy real-life assignment material, particularly if it is not too complicated.

CRITICAL THINKING QUESTIONS

In each chapter there are four Critical Thinking Questions that appear following the questions and before exercises. In Chapter 1, they are numbered 1-24 through 1-27. They are intended to exercise and reinforce conceptual understanding and integration of material without calculations.

ETHICS ASSIGNMENTS

Coverage of ethical issues in accounting is especially important after the corporate and accounting failures in the past decade. Each chapter has at least one ethics problem, and we strongly encourage instructors to use some of these problems to emphasize the importance of ethics.

CHAPTER	ETHICS PROBLEMS
1	1-21, 1-52
2	2-61
3	3-52
4	4-55
5	5-74
6	6-78, 6-88
7	7-81
8	8-74
9	9-26, 9-84
10	10-73
11	11-58
12	12-64

Chapter 1 – Accounting: The Language of Business

Many instructors skip the assignment material in the first chapter of textbooks. However, we do not recommend omission in this instance. It is important to use some assignments to solidify students' understanding of the balance sheet and the balance sheet equation. This could include any of problems1-35 through 1-40. We also encourage you to use the problems in each chapter based on Starbucks' financial statements. You can introduce this by using problem 1-55. Emphasizing ethics through use of problem 1-52 is also encouraged.

Two important parts of this chapter deserve special mention. First, see the section labeled Accounting Vocabulary that appears just before the Assignment Material. Terminology is extremely important. Students should be urged to check their understanding of terms in each chapter. Second, the arrangement and nature of the assignment material are explained on page 00 of the text.

Chapter 2 – Measuring Income to Assess Performance

The emphasis is on using the balance sheet equation for analyzing transactions, especially those affecting the income statement.

Exercise 2-39 and problem 2-48 (or their alternates) seem essential at this stage. Furthermore, a simple exercise such as 2-33 is especially illuminating.

Students enjoy an early introduction to earnings ratios and dividend ratios. Some instructors may prefer to assign exercises 2-42 and 2-43 and problems 2-59 and 2-60 later in the course.

The use of material based on real companies can be painless and can improve student morale and enthusiasm. For instance, consider using exercise 2-40 or problem 2-55 instead of exercise 2-39. Or consider using 2-50 or 2-52 instead of 2-48. To continue analysis of Starbucks' financial statements, use problem 2-66.

Chapter 3 – Recording Transactions

Problem 3-39 (or alternates 3-43 or 3-44, which we prefer) may suffice. Problem 3-38 requires formal financial statements, but 3-39 stops with a trial balance. Basic exercises at this stage are particularly worthwhile; consider 3-18 through 3-33. Problems 3-43 through 3-51 add "real-world" touches to the learning process. Problems 3-54 through 3-56 require students to analyze and interpret financial statements of actual companies.

Chapter 4 – Accrual Accounting and Financial Statements

Problems 4-35, 4-37 through 4-39, and 4-44 through 4-46 focus on the preparation of adjusting entries. We also like exercises 4-22, 4-23, 4-24, 4-25, 4-27, and 4–29, which stress basic concepts. Exercises 4-30 and 4-31 require students to consider the implications of failure to make adjustments and the process of correcting erroneous journal entries.

Problems 4-41, 4-42, and 4-47 through 4-49 challenge the student by requiring reconstruction of events.

Problems in preparing the income statements of actual companies are provided (4-51 through 4-54). Problems 4-50, 4-53, and 4-54 also cover preparation of balance sheets. Exercises 4-32 through 4-34 and Problems 4-50, 4-52 and 4-53 cover the computation of basic ratios introduced in this chapter. Problems 4-57 through 4-59 require students to analyze and interpret financial statements of actual companies.

Chapter 5 – Statement of Cash Flows

Chapter 5 is written so that the basics of the Statement of Cash Flows, including the direct but not the indirect method of reporting cash flows from operating activities, can be covered by assigning only pages 108-202. The remainder of the chapter can be covered later or not at all. Exercises 5-33 through 5-40 and problems 5-48 through 5-59 do not require knowledge of the indirect method. Thus, those who wish to consider only the direct method have adequate assignment material.

Many of the problems—for example, 5-49, 5-50, 5-57, 5-59, 5-61, 5-62, and 5-71 through 5-73—rely on the proper arrangement of elements from actual cash flow statements. Problem 5-53 is a good problem for applying the direct method for cash flow from operations. Problems 5-54 and 5-55 provide transactions for preparation of the statement under the direct method. Each is followed by a separate requirement (5-60 and 5-63) to prepare the accompanying reconciliation that parallels the indirect method. Problem 5-56 challenges the student to prepare the statement using the direct method from balance sheet and income statement data rather than transaction data. Problem 5-70 is a challenging, integrative capstone for the direct and indirect methods.

Most students find the indirect method more difficult. Problems 5-61 and 5-62 focus on preparing indirect-method statements for real companies, and problems 5-65 and 5-66 ask the student to prepare statements using the indirect method and to interpret the results in terms of cash utilization. Problem 5-71 calls for converting a statement prepared under the indirect method to the direct method.

Differences between U.S. GAAP and IFRS are covered in problems 5-34 and 5-59.

Chapter 6 – Accounting for Sales

Chapter 6 deals with sales revenue, cash, and accounts receivable. The chapter covers three methods of estimating bad debt expense: 1) percentage of sales, 2) percentage of ending accounts receivable, and 3) aging of accounts.

Problems 6-70 and 6-71 provide straightforward illustrations of basic procedures. Problems 6-64, 6-65 and 6-67 and 6-72 through 6-75 involve actual situations and provide the opportunity to extend discussions beyond debits and credits.

Chapter 7 – Inventories and Cost of Goods Sold

Chapter 7 is an important chapter. It deals with the fundamental issue of gross profit. It also addresses the primary methods of inventory valuation, which affect cost of goods sold. Attention is directed to how the choice of inventory method affects both the reported income and the asset valuation—that is, both the income statement and the balance sheet.

Problems 7-56, 7-62, 7-64, and 7-69 provide broad comparisons of the different methods. For those who like to stress the self-correcting nature of inventory errors, problems 7-59 and 7-66 are useful. Problem 7-71 (Chrysler) provides a good, classic view of the reasons the LIFO choice is so important. Problem 7-80 provides a direct comparison of J.C. Penney and Sears/Kmart.

Chapter 8 – Long-Lived Assets

Chapter 8 deals with accounting for long-lived assets, from acquisition, through use and ultimately disposal. Exercises 8-28 through 8-30 cover the recognition of initial acquisition costs. Exercises 8-45 through 8-47 consider capitalization versus expensing of expenditures related to long-lived assets. Comprehensive coverage of depreciation is found in exercises 8-31 through 8-41 and problems 8-56 through 8-58, and 8-67. Exercise 8-42 and Problem 8-61 (alternatives are problems 8-62 or 8-63) seem particularly important because they relate depreciation to income taxes and cash flow. Exercises 8-48 through 8-50 and problems 8-68 through 8-71 provide exposure to accounting for the disposal of long-lived assets.

Exercises 8-51 and 8-52 and problems 8-65 and 8-72 focus specifically on intangible, rather than tangible, assets.

Instructors interested in coverage of IFRS and revaluation issues (including asset impairment under U.S. GAAP) should consider exercises 8-53 and 8-54. Students learn much from problems 8-57 or 8-59, which require the reconstruction of basic transactions. Problems 8-75 through 8-78 require students to analyze and interpret financial statements of actual companies.

Chapter 9 – Liabilities and Interest

Chapter 9 first presents liabilities without using compound interest calculations. Exercises 9-34 through 9-44 are highly recommended. Exercise 9-39 covers a variety of liability issues before embarking on the more difficult issues relating to bonds.

The latter part of Chapter 9 introduces compound interest in the context of valuing bonds. Brief attention is given to pensions and other postretirement benefits. For students without prior exposure to the fundamentals of compound interest and present value techniques, exercises 9-46 through 9-52 are highly recommended.

Problems 9-58, 9-59, and 9-63 offer a basic introduction to accounting for issuances at par, at a discount, and at a premium. Problems 9-69 and 9-70 deal with zero coupon bonds, which offer an extreme example of the innovative nature of evolving practice in finance.

Problems 9-71 through 9-76 deal with leasing. Problems 9-74 through 9-76 use the actual disclosures in real financial statements. Problems 9-79 through 9-81 cover deferred taxes and 9-82 examines debt-to-equity ratios. Differences between U.S. GAAP and IFRS are covered in problems 9-55 (convertible bonds) and 9-65 (interest on the statement of cash flows).

Chapter 10 –Stockholders' Equity

This chapter on stockholders' equity is lengthy, but it is not conceptually difficult. If time is limited, Exercise 10-46 and problems 10-52, 10-57, 10-60 and 10-64 cover the basics.

However, if more time is available to focus on this chapter, exercise 10-34 and problems 10-56 through 10-58 and 10-68 cover the issuance of common stock. The reacquisition of stock to be retired or held in treasury is covered in exercise 10-43 and problems 10-56 and 10-60 through 10-64.

Exercises 10-39 through 10-42 and problems 10-50, 10-51, 10-54, 10-55, and 10-57 through 10-59 relate to the accounting for stock splits and stock dividends. Exercise 10-42 and problems 10-50 and 10-51 also address cash dividends, as do exercise 10-37 and problem 10-56. The impact of cumulative preferred stock on the distribution of cash dividends is the focus of exercises 10-35 and 10-36 and problem 10-48.

Exercise 10-38 and problem 10-53 offer an introduction to stock options. Problem 10-73 raises ethical considerations involving stock options.

Exercises 10-44 and 10-45 and problems 10-62, 10-71 and 10-74 cover the computation of ratios from this chapter. Problems 10-75 through 10-77 provided students the opportunity to research and analyze equity transactions and ratios.

This chapter offers the opportunity to discuss some interesting issues. Problem 10-54 deals with the meaning of stock splits and 10-70 deals with restrictive covenants in the context of leases (limits related to the level of stockholders' equity).

Chapter 11 – Intercorporate Investments and Consolidations

The organization of this chapter allows the instructor to pick and choose the topics to be covered. The topics move through the chapter somewhat in order of difficulty.

Accounting for trading, available-for-sale and held-to-maturity securities is covered in exercises 11-28 through 11–31 and in problems 11-39 through 11-41.

Exercises 11-32, 11-33, and 11-37 cover the basics of the equity method. Problems 11-51, 11-52 and 11-54 offer more challenging consideration of equity method accounting.

The remainder of the material deals with consolidation and related issues. If you choose to cover consolidation, you may find the sequence of problems 11-44, 11-45, and 11-46 to be especially useful. They deal with common base data and then 100% purchase, noncontrolling interest, and goodwill recognition by altering the transaction price and the percentage purchased.

Chapter 12 – Financial Statement Analysis

Chapter 12 presents methods of financial statement analysis. Exercise 12-31 and problems 12-43, 12-45, 12-48, and 12-51 provide students with the opportunity to prepare and evaluate common-size and percentage change financial statements. Exercises 12-32 through 12-35, 12-40, and 12-42 concentrate on calculation of ratios with limited interpretation.

Instructors can choose analysis using hypothetical statements in problems 12-43, 12-44, and 12-48 through 12-50, or actual statements in problems 12-45 through 12-47 (3M), 12-51 through 12-55 (The Hershey Company) and 12-56 (Coca-Cola). For instructors who wish to focus on issues regarding leverage, exercises 12-36 through 12-38 are worth consideration. Exercise 12-41 and Problem 12-47 focus on the complications introduced by the presence of irregular items and acquisition activity, and Problem 12-57 emphasizes the role of segment disclosures. EVA analysis is covered in Problems 12-62 and 12-63.

Problem 12-59 is challenging. It provides an opportunity to extend discussion, but it does push the student beyond the confines of the straightforward material in the chapter. The authors have found problem 12-59 to be especially interesting for students.

Problems 12-60 and 12-61 involve comparisons of price and ratio data that some faculty will find interesting but others will not view as accounting. The answers here are more judgment-based than most accounting problems. Some users of the book will not be comfortable with this material.

Problems 12-65 and 12-66 allow students to identify industries and companies of particular interest to them, and compute and interpret selected ratios. Problem 12-65 is a collaborative exercise and 12-66 is designed as an individual exercise. To continue analysis of Starbucks financial statements, use Problem 12-67.

LINKAGE OF PROBLEMS IN THE ELEVENTH EDITION TO THOSE IN THE TENTH EDITION

Long-term users will understand our philosophy of changing and updating problems, but for more recent and new adopters we will review it briefly. In each revision we change about 90 percent of the problems. These changes are of several types. We change numbers in "book" problems to support adopters who grade homework and want to avoid the creation of files of solutions in different student groups that make it too easy for students to copy correct answers from files. We update real company problems so that they are current. Students are more responsive to very current real-world problems. There are a few problems that are based on real events but are so classic that we retain them for several editions, until a new classic replaces them as the quintessential example. Of course, some problems are completely new.

This section will help people who have used the text before and want to transition easily from the tenth to the eleventh edition. Users of the eleventh edition of *Introduction to Financial Accounting* may have favorite problems that they want to continue to use. To help select a problem in the eleventh edition that is similar, the following table links the exercises and problems in the two editions. The first column for each chapter lists the exercise or problem numbers from the tenth edition, and the second column shows the corresponding problem in the eleventh edition. Note that in most cases the numbers within the problems will change from edition to edition and the underlying date of real financial statements will also change. In some cases we will have added requirements within a question and in others deleted requirement(s). But we treat the problem as equivalent if it addresses the same underlying issue and has the same level of difficulty and general structure.

Chapter	Problems 10/E	Problems 11/E
1	26	28
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Chapter	Problems 10/E	Problems 11/E
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Chapter	Problems 10/E	Problems 11/E
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Chapter	Problems 10/E	Problems 11/E
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Chapter	Problems 10/E	Problems 11/E
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Chapter	Problems 10/E	Problems 11/E
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Chapter	Problems 10/E	Problems 11/E
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Chapter	Problems 10/E	Problems 11/E
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Chapter	Problems 10/E	Problems 11/E
9	80	79
(cont.)	81	80
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Chapter	Problems 10/E	Problems 11/E
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(cont.)	65	67
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Chapter	Problems 10/E	Problems 11/E
11	27	28
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Chapter	Problems 10/E	Problems 11/E
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CONDUCTING THE COURSE

Periodically professors inquire as to how we teach accounting. We often hand out the following "Notes on Classroom Procedures" on the first day:

The following describes my general teaching style. I am placing this description in writing to avoid any misunderstanding; in the past, a few students have been misled about why I operate classes in a particular way.

In my view, the most effective and efficient use of classroom time aims at reinforcing or clarifying what the student has tried to learn on an individual basis (or sometimes a group basis) before entering the classroom. Therefore, optimal learning is achieved by (a) wholehearted preparation via studying the assigned readings and solving the assigned problems or cases, (b) discussion of the material by the students and teacher in class, and (c) the instructor's underscoring of the most important points via comments or short lectures (lecturettes). I rarely give lectures per se. My lectures are in the text or the readings.

Obviously, problems or cases are not ends in themselves; instead, they are the means of focusing on central issues, concepts, or knowledge.

Given the foregoing, the success of this course depends on adequate preparation for classes by both students and teacher. It also requires participation during class—always participation of the mind and occasional participation of the mouth. Throughout the term, a variety of helpful questions arises from a variety of students. As in all situations throughout life, some individuals naturally speak more often than others. (We all realize that there is no necessary consistency between lots of talk and lots of comprehension of the subject matter.)

I use a call list for two major reasons: (1) to get acquainted with all the students in class so that I can at least link faces with names, and (2) to provide motivation and ensure widespread participation. From time to time, you may come to class unprepared for a variety of reasons. In such instances, if you want to preclude the possibility of being called on, simply put your name on a slip of paper on the front desk before the session begins. In this way, everyone wins; I don't enjoy calling on students who are unprepared.

Unless otherwise specified, no assignments need to be handed in. However, as you know, pre-class preparation enhances learning, and your contribution to the class via your solutions, comments, and questions is an essential part of the course. My use of a call list is not intended to be a terror tactic.

PRESENTATION OF SOLUTIONS IN CLASS

Instructors have a variety of views regarding the use of classroom time for homework solutions. Most instructors put solutions on a chalkboard or use overhead projectors. In turn, many students frantically copy the materials in their notes. Our practice is to reproduce the printed homework solutions for distribution either before, during, or after the discussion of a particular solution. The members of the class are glad to pay a modest fee to the school to cover the reproduction costs. In this way, students can spend more of their classroom time in thinking rather than writing. Furthermore, they have a complete set of notes.

Some instructors object to this procedure because it provides students with a “file” that can be passed along to subsequent classes. Students in subsequent classes will then use the “file” to avoid conscientious preparation of homework. There will always be some students who hurt themselves by not doing homework in an appropriate way. Why should the vast majority of students be penalized by withholding the printed solutions? The benefits of using printed solutions clearly outweigh the costs; we no longer fret about the few students who beat the system (and themselves).

RETURNING EXAMINATIONS

We distribute printed solutions to tests and examinations along with a summary of overall class performance. We do not devote class time to discussing these solutions. The students deserve feedback, but they have sufficient motivation to scrutinize the printed solutions and check their errors on an individual basis. In this way more class time is available for new material.

If students have complaints about grades, we usually ask them to cool off for 24 hours and then submit a written analysis of how they were unjustly treated. We then take these complaints in batches, re-grade the papers, and return the papers. If the student then wants to have a person-to-person discussion of the matter, he or she is welcome to see us. This procedure may seem too impersonal, but we recommend it to those teachers (like us) who have been through some painful debates that have been inefficient and frustrating for both student and teacher.

KEY AMOUNTS FROM SUGGESTED SOLUTIONS TO SELECTED PROBLEMS

Chapter 1

1-29 May 2, $6,000 investment
1-30 Nov. 8, $500 paid
1-31 Total assets, $140,000
1-32 Total assets, £363,000
1-33 1. $14,269,000,000
1-34 Add. paid-in cap., $58,000
1-35 Total assets, $121,000
1-36 Total assets, $438,000
1-37 Total assets, €96,900
1-38 Total assets, $64,000
1-39 Total assets, $27,593 million
1-40 Total assets, $15,146 million
1-41 Total assets, $210,000
1-42 1. Cash & deposits increase, $1,000
1-43 1. Cash, €2,879 million
1-44 Total assets, $61,948 million
1-45 Total assets, $22,263 million
1-46 1. Total assets, $350,000
1-47 1. Par value up $5,000,000
1-48 Common stock, $1,832 million
1-49 1. Par value, ¥47.5
1-55 1. Cash, $1,148.1 million

Chapter 2

2-32 1. $10,000
2-35 1/1/X1, SE $60,000
2-36 Cash, June 30, $53,000
2-38 1. $1,452 million
2-39 1. E = $35,000; 2. K = $230,000
2-40 A = $19,199 million
2-42 1. EPS = £1.07
2-43 1. 1,986,336,780 average shares
2-45 Total assets, $189,000
2-47 Total assets, $513,000
2-48 Total assets, $245,000
2-49 Net cash outflow, $82,000
2-50 Total assets, $12,236 million
2-51 Net cash outflow, $9 million
2-52 1. Net loss, CHF(70) million
2-53 1. Net income, $3,000
2-54 1. Total assets, $1,849,000
2-55 B = $6,272 million
2-57 1. Net income, $5,503.1 million
2-58 1. Net income, $1,798.3 million
2-59 1. UPS Div. = $2.10
2-60 1. Shell P-E = 7.32
2-66 1. Net earnings, $1,245.7 million

Chapter 3

3-18 1. Cr., 2. Dr.
3-19 1. Cr., 2. Dr.
3-20 1. Dr., 2. Cr.
3-21 1. T, 2. F
3-23 f. Dr. 3; Cr. 7
3-29 Trial balance Totals, $150,000
3-31 Total assets, £263,000
3-32 1. U
3-33 2. 20X0, o; 20X1, n
3-34 Total debits, $155,700
3-35 4. Total debits, $1,386,000
3-36 Total debits, $912,000
3-37 3. Total debits, $355,000
3-38 Net income, $17,000
3-39 Total debits, $336,000
3-40 4. Net income, $10,000
3-41 3. Total debits, $1,234
3-42 4. Total debits, $67,000
3-43 3. Total debits, $74,865 million
3-44 3. Total debits, $1,845.3 million
3-45 2. Total assets, $75,378 million
3-46 1. 7.2 years
3-47 1. 2010 income overstated ¥30 million
3-51 4. 65.2% through life
3-55 2. Net, $2,355.0 million

Chapter 4

4-24	1. Cash decreases, $138,000
4-25	1. Dr. Wage expense, $54
4-26	Net income, Sunriver, $92,500
4-27	Interest is $5.00 per month
4-29	1. (c) 2. (f)
4-30	1. 20X0 u; 20X1 o
4-31	c. Dr. Prepaid insurance $2,250,000
4-32	Current ratio, 3.94
4-33	Gross profit percentage, 47.2%
4-34	a. Current, N; Return on sales, N
4-35	a. supplies used, $1,700
4-36	Net income, $180,000
4-37	1a. 6 months' rent, $12,000
4-38	1a. Dr. rent expense, $728,000
4-39	1a. Dr. Prepaid rent expense, $9 million
4-40	1. Net earnings, $1,204 million
4-41	3. $550,000
4-42	1. Collections €140,000
4-43	1. Net income $58,626
4-44	b. Dr. Accounting expense, $20,000
4-45	1. Dr. Unearned rent revenue, $728,000
4-46	b. Cr. Rent revenue, $3 million
4-47	1a. Dr. Prepaid expense, $366 million
4-48	1a. Cr. Deferred revenue, $205,173,000
4-49	a. Dr. Accrued unbilled rev., $61,925,000
4-50	1. Total assets, $25,278 million
4-51	Net income, $12,942 million
4-52	1. Net income, $599,114 thousand
4-53	1. Net income, $6,272 million
4-54	1. Net income, $11,797 million

Chapter 5

5-33	Cash provided, $143,000
5-34	Cash used, £(21,000)
5-35	Cash used, $(220,000)
5-37	Cash received, $870,000
5-38	Cash paid, $632,000
5-39	Ending balance payable, $53,000
5-40	Cash from operations, $215,000
5-41	Cash from operations, $215,000
5-42	a. Operating f. Financing
5-43	1. Cash used by operations, $(110,000)
5-45	Cash from operations, $390,000
5-46	Bal,, Cash & cash equivalents, £310 million
5-47	Free CF before dividends, £4,582 million
5-49	Cash used for fin., $(1,432.0 million)
5-50	Cash used, $(4,612 million)
5-53	Net decrease, $(38 million)
5-54	Net decrease $(124,000)
5-55	Cash from operations, ¥224 million
5-56	Net cash increase, $80,000
5-57	Cash from operations, $392 million
5-58	Ending cash balance, R37 million
5-59	Net increase in cash, A$103 million
5-60	Cash from operations, $227,000
5-61	Cash from operations, $168 million
5-62	Cash from operations, ¥202 billion
5-63	Cash from operations ¥224 million
5-64	Net increase, $80,000
5-65	Net decrease, $(16 million)
5-66	1. Net decrease, $(18 million)
5-67	Cash from operations, $83 million
5-68	Net increase in cash $29 million
5-70	Cash from operations $1,378,000
5-71	Cash from operations, $1,177 million
5-72	2011, $397 million
5-73	3. A. Decrease $(51 million)

Chapter 6

6-39	2. 20X2, $6.0 million
6-40	Revenues, $220,000
6-41	Net revenue, $35,000
6-44	1. Net sales, $660,000
6-47	2. Yes,
6-48	2. No
6-49	Discount, $4,800
6-51	1. $42,296,000
6-54	2. Net A/R, 20X1, $138,000
6-56	2. Net A/R, $60,000
6-57	Turnover, 9.16
6-58	Ave. collection period, 2011, 68.6
6-59	2. 9.1%
6-63	1. Revenue, $2 million
6-65	1. $95,011
6-67	3. $2,407,000
6-68	Ending balance, $12,078
6-69	Addition to allowance, $9,900
6-70	1. Bad debt expense, $17,640
6-71	1. Net A/R, $404,200
6-72	2. Allowance, $9,266
6-73	1. 3.0%
6-74	2. $101 million
6-75	1. $113 million
6-76	Bal., $(3,000)
6-77	20X3, 46.9 days
6-87	5. $17,900
6-91	3. 10.75 days

Chapter 7

7-31 Gross profit, $356,000
7-32 Jan. 1, Inventory, $39,964
7-33 Cost of Goods Sold, Perpetual $17 million
7-34 FIFO ending Inventory, £9,200
7-36 1. Cost of steel acquired, $192,280
7-41 Cost of goods sold, $61,431 million
7-42 May 3, Inventory, $51,200
7-43 March 9, Inventory, $85,000
7-44 $40,000
7-45 20X5, Taxable income, $12,000 too low
7-46 1. Turnover, 1.18
7-47 1. July 31, LIFO inventory, $11,000
7-48 December 31, 20X2, Inventory $180,000
7-49 Purchases $78,739 million
7-50 Gross profit percentage, 2012, 35.73%
7-51 1. Gross profit, $200,000
7-52 Net income, $6,000
7-53 Cost of goods sold, $1,505
7-54 2. Inventory turnover 3.6 times
7-55 Pretax income, ($1,751) million
7-56 1. FIFO gross profit, $11,000
7-57 LIFO gross profit down $1,400
7-58 1. $1,240
7-59 1. 20X1 gross profit Overstated, $20,000
7-60 3. LIFO, lower cash outflow by $8,000
7-61 1. LIFO gross profit, £134,000
7-62 1. LIFO gross profit, $1,640
7-63 FIFO 20X2 cost of goods sold, $2,000
7-64 1.a. Pretax income, $32,000
7-65 1.a. Ending LIFO reserve, $32
7-66 2. 20X1, Retained earnings over by $6 million
7-67 2.a. Lower under LIFO, $10,000
7-68 Gross Margin with Purchases $114,000
7-69 LIFO net income, $156
7-70 LIFO Pretax income $70 lower with purchase
7-72 1. EPS, $4.80 lower with purchase
7-73 1. Net Income $89,400
7-74 1. Write down $4 million
7-75 1. FIFO Pretax Income $846 million
7-76 1. Increasing
7-77 1. 2011 Net income, U by $12 million
7-79 1. Savings of $2,720,000
7-80 2011 inventory turnover, JCP=3.60, Kmart= 3.57
7-81 If 15,000 more units purchased, inventory= $1,055,000
7-82 1. $155,000 Ending inventory
7-83 1. Taxes evaded, $200,000
7-84 1. Cost of goods sold, $5,880
7-85 2. LIFO Cost of goods sold, $561 million

Chapter 8

8-28 Land, $3,950,000
8-29 $473,400
8-30 Allocated Land cost, $345,000
8-31 2. Loss, $8,000
8-32 2. Gain $10,000
8-33 2. Loss, $5,500
8-34 Truck, year 1, $12,000
8-35 1. $.45 per mile
8-36 Year 2, DDB, $350 thousand
8-37 Year 2, Units, $180,000
8-38 Year 2, DDB, $8,160
8-39 Year 2, DDB, $67.5 thousand
8-40 1. Cost, $613,748 thousand
8-41 2016 Revised SL, $15,000
8-43 2. Tax purposes, $1,733,333
8-45 1, a, b, c
8-46 1. E; 5. C
8-48 1. Gain, $5,000
8-49 1. Gain, $2,000
8-51 1. $1,500,000
8-52 1. $150,000
8-54 1. Impairment loss, $3.5 million
8-55 1. 20X1 depletion, $1,728,000
8-56 Year 2, DDB, $4,500 thousand
8-57 2. $148.4 million
8-58 1. Other, ¥118,718 million
8-59 1. Amortization, $1,774 million
8-60 1. 19.7 years
8-61 2. S/L net income, $174 thousand
8-62 2. S/L net income, $15,325 million
8-63 2. S/L net income, €734 million
8-64 1. Dep. Exp., $4.5 million
8-68 1. Gain, $13.2 million
8-69 1. Acc. Dep., $46.5 million
8-70 1. Gain, $5,358,000
8-71 1. Gain, $120.4 million
8-72 1. 20X8 R&D expense, $400,000

Chapter 9

9-34	2. $18,000	9-60	1. Proceeds, $16,911,020
9-36	1. Warranty. Exp., $24,000	9-61	2. Interest expense $490,476
9-37	2. Unearned revenue, 4/30, $345.4 million	9-62	2a. Cash NKR 15,762,000
9-38	Total liabilities $85,822 million	9-63	1. Proceeds $6,486,870
9/39	1. Warranty expense, $150,000	9-64	2a. Cash $11,359,000
9-40	1. To Accounts payable, $2,400,000	9-66	1. Net liability $17,987,728
9-41	@12%, $10,000	9-67	1. Gain CHF 1,000,000
9-42	a. Operating	9-68	1. Proceeds, $76,000
9-43	Pension exp., $800,000	9-69	1. Cash $19,275,000
9-44	Income tax expense $3,392	9-70	3. Cash $5,219
9-45	1. Debt-to-equity 1.91	9-71	1. $74,607
9-46	1a. FV, $13,605	9-72	1a. Total expense, operating lease, $32,330
9-47	1a. PV, $20,490	9-73	1. Rental $38,803 per year
9-48	1. Equipment, $788,000	9-74	1. Quarterly payment $55.25
9-49	2a. PV, $21,648	9-75	1. $9,452,000,000
9-50	1a. Withdraw, $150,274.25	9-76	2. Asset $558.6 million, Liability $420 million
9-51	1. Future amount, $121,820	9-78	1. Pension obligation, $3,215 million
9-52	$234,260	9-79	1. Earnings from cont ops $3,883 million
9-53	2. Accrued wages payable, Cr. $64,900	9-80	3. Zero
9-54	Total liabilities $64,804 million	9-81	1. income tax expense $255 million
9-55	1. Interest expense $3,000	9-82	1. GE 2011 Debt-to-Equity = 5.07
9-56	1. € 34,375,000,	9-83	1. Accum. Depreciation on disposals $600 million
9-57	1. Proceeds, $20 milllion	9-85	1. Total Present value = $193,204,400
9-58	1. Proceeds, $50 million	9-89	1a. Debt-to-equity, 2011 = 0.68
9-59	3. March 1, 2009, $91,420		

Chapter 10

10-31	Issued and outstanding, 1,625,000	10-53	1. Comp. expense, Dr. $50,000
10-32	Issued and outstanding, 1,163.2 million	10-55	2. Tot. Stk. equity, $74,985,000
10-33	Com. stk. receives, $530,000 of $1,400,000	10-56	2. Tot. Stk. equity, $307,000
10-34	1. Common stock, ¥103,580 million	10-57	1. Cash Dr., $4,000,000
10-35	1. 20X4 Pref. Div., $9,000,000	10-58	3. Ret. earnings after div., $4,800 million
10-36	Pref. Div., $540,000	10-59	2. Ret. Earnings, Dr. $300,000
10-37	Div. Declared, ¥92,172.3 mil	10-60	1. Treasury stock, Dr., $2,701 million
10-38	Compensation expense, $16,000	10-61	1. Ending Treasury stock, $31,769 million
10-40	Common stock balance, $1,760	10-62	2. Book value, $33.96
10-41	1. New C/S issued, 2,353,000 shares	10-63	Ending Stk. equity, $55,600,000
10-42	2. Common stock, Cr., $97,035	10-64	1. Treasury stock, Cr., $60,000
10-43	1. Treasury stock, $58,005	10-65	1. Stk. equity, after $8 mil. dividends, $44 mil.
10-44	1. $52.50	10-66	1. Treasury stock, Dr., R6,000,000
10-45	ROE, 15.8%	10-67	Convertion: Freewater Cr. Com. Stk., $10,000
10-46	Tot. S.E., $27,250,000	10-68	1a. Issue 272,000 shares
10-47	3. +$600,000	10-70	4. $7,695 Profit
10-48	2. $2,784,581	10-71	1. ROE, Adobe, 14.4%
10-49	1. Ret. earnings, Dr., $2,604,000,000	10-72	2. $893 million
10-51	1. Common stock, Cr., $2,000,000	10-76	1. Div. Declared $419.5 million
10-52	1. Common stock, Cr., $700,000		

Chapter 11

11-28	Unrealized loss, $(5) million, period 1	11-44	2. Consolidated net income, $160 million
11-29	B/S shows $135million, period 2	11-45	3. Consolidated Stk. equity, $606 million
11-30	1. Discount amortization, $3,118	11-46	1. Goodwill, $30 million
11-31	1. Premium amortization, $13,511	11-47	1. Plant assets, $105 million
11-32	2. Equity method	11-48	1. Total assets, $1,000 million
11-33	Year-end investment, $97 million	11-49	Net consolidated income, $115 million
11-34	3. $295,000	11-51	1. Deduct R49 million
11-35	P's noncontrolling interest, $30,000	11-52	Other increases, $183 million
11-36	1. $220,000	11-53	2. Net income, $1,640,000
11-37	Equity in earnings, $54,000	11-54	1. Total earnings, $372.5 million
11-39	1. Balance sheet value, Feb., $940,000	11-55	1. Goodwill 46.2% of assets in 2010; 40.4% in 2011
11-40	1. $1,990,000	11-57	Net cash provided by operating activities $741,000
11-41	1. Gain, $282,825	11-61	2. Loss, $1.6 million
11-42	Net income, $123,000		
11-43	Consolidated net income, $19 million		

Chapter 12

12-31	Lowe's gross profit 34.6%	12-46	f. 27.6% g. 14.7%
12-32	1. 2.04 10. 7.7%	12-48	Net income up $10; 33.3%
12-33	1. Stockholders' equity $228,000,000	12-49	1b. Gross profit, 20X3, 45.6%
12-34	1a. ¥200 million	12-50	1. ROA, 9.9%
12-35	1. 2012, 9.5%	12-51	2011 net income, 10.3%
12-36	Year 1 Bayol ROE, 10%	12-52	1c. Inventory turnover 6.0 times
12-37	Net income w/debt, $6,600,000	12-53	1a. Total-debt-to-total-assets = 42.8%
12-38	Net income w/debt, $2,116 million	12-54	1a. ROE, 71.8%
12-39	1. $4.50	12-55	1a. Price-earnings, 21.7
12-40	1. $5.44, EPS	12-56	1. EBIT 2011, $11,891 million
12-43	Price-Break net income, 6.44%	12-57	1b. Gross profit rate, 29.31%
12-44	1.m. Price-Break 12.85, Low Cost 9.54	12-58	1. ROA, 22.4%
12-45	Sales up $2,949 million, 11.1%	12-67	2011, 30.9%

CHAPTER 1

COVERAGE OF LEARNING OBJECTIVES

LEARNING OBJECTIVES	QUESTIONS	EXERCISES	PROBLEMS	OTHER
LO1: Explain how accounting information assists in making decisions.	1,2,3,4,5,25			
LO2: Describe the components of the balance sheet.	6,7	28, 33	42, 43	54,55,56
LO3: Analyze business transactions and relate them to changes in the balance sheet.	8,9,10, 24	29,30	35,36,37,38, 39,40	53
LO4: Prepare a balance sheet from transactions data.		31,32	35, 36, 37, 38, 39, 40, 41, 44,45	53
LO5: Compare the features of sole proprietorships, partnerships, and corporations.	11,12,13,14, 26			
LO6: Identify how the owners' equity section in a corporate balance sheet differs from that in a sole proprietorship or a partnership.	15,16	33, 34	46,47,48,49	
LO7: Explain the regulation of financial reporting, including differences between U.S. GAAP and IFRS.	17,18		50	
LO8: Describe auditing and how it enhances the value of financial information.	18,19,27		50,51	56
LO9: Evaluate the role of ethics in the accounting process.	20,21		52	
LO10: Recognize career opportunities in accounting, and understand that accounting is important to both for-profit and nonprofit organizations.	22, 23			

CHAPTER 1

1-1 Accounting is a process of identifying, recording, summarizing, and reporting economic information to decision makers.

1-2 No. Accounting is real information about real companies. In learning accounting it is helpful to see accounting reports from various companies. This helps put the rules and techniques of accounting into an understandable framework and provides familiarity with the diversity of practice.

1-3 Examples of decisions that are likely to be influenced by financial statements include choosing where to expand or reduce operations, lending money, investing ownership capital, and rewarding mangers.

1-4 Users of financial statements include investors, managers, lenders, suppliers, owners, income tax authorities, and government regulators.

1-5 The major distinction between financial accounting and management accounting is their use by two classes of decision makers. Management accounting is concerned mainly with how accounting can serve internal decision makers such as the chief executive officer and other executives. Financial accounting is concerned with supplying information to external users.

1-6 The balance sheet equation is Assets = Liabilities + Owners' equity. It is the fundamental framework of accounting. The left side lists the resources of the organization, and the right side lists the claims against those resources.

1-7 No. Every transaction should leave the balance sheet equation in balance. Accounting is often called "double-entry" because accountants must enter at least two numbers for each transaction to keep the equation in balance.

1-8 This is true. When a company buys inventory for cash, one asset is traded for another, and neither total assets nor total liabilities change. Thus, the balance sheet equation stays in balance. When a company buys inventory on credit, both inventory and accounts payable increase. Thus, both total assets and total liabilities increase by the same amount, again keeping the balance sheet equation in balance.

1-9 The evidence for a note payable includes a promissory note, but the evidence for an account payable does not. A note payable is generally to a lender while an account payable is generally to a supplier.

1-10 Balance sheets for companies in the same industry will not necessarily look similar. For example, companies in the same industry may have quite different strategies. One might be capital intensive, with large amounts of property, plant, and equipment. Another may rely less on fixed assets, but it may have large accounts receivable because of a lenient credit policy. In addition, one may have large bank loans while another has greater owner investment and thus larger owners' equity or stockholders' equity.

1-11 Ownership shares in most large corporations are easily traded in the stock markets, corporate owners have limited liability, and the owners of sole proprietorships or partnerships are usually also managers in the company while most corporations hire professional managers.

1-12 Limited liability means that corporate owners are not personally liable for the debts of the corporation. Creditors' claims can be satisfied only by the assets of the particular corporation.

1-13 The corporation is the most prominent type of entity, and corporations do by far the largest volume of business.

1-14 Yes. In the United Kingdom corporations frequently use the word limited (Ltd.) in their name. In many countries whose laws trace back to Spain, the initials S.A. refer to a "society anonymous," meaning that multiple unidentified owners stand behind the company, which is essentially the same structure as a corporation.

1-15 Almost all states forbid the issuance of stock at below par; thus, par values are customarily set at very low amounts and have no real importance in affecting economic behavior of the issuing entity.

1-16 The board of directors is the elected link between stockholders and the actual managers. It is the board's duty to ensure that managers act in the best interests of shareholders.

1-17 In the U.S. GAAP is generally set by the Financial Accounting Standards Board. The SEC has formal authority for specifying accounting standards for companies with publicly held stock, as delegated by Congress, but it usually accepts the standards promulgated by the FASB. Internationally, a majority of countries accept IFRS as set by the International Accounting Standards Board as their GAAP.

1-18 Until recently this was true. However, now the SEC allows companies headquartered outside the U. S. to report using IFRS.

1-19 Audits have value because they add credibility to a company's financial statements. Provided that auditors have the expertise to assess the accuracy of financial statements and the integrity to report any problems they discover, the investing public can put more faith in statements that are audited.

1-20 A CPA is a certified public accountant. One becomes a CPA by a combination of education, qualifying experience, and the passing of a two-day national examination. A CA (chartered accountant) is the equivalent of a CPA in many parts of the world, including most former British Commonwealth countries.

1-21 Public accountants must obey standards of independence and integrity. In addition, there are many more ethical standards that pertain to accountants. Some folks call accounting the moral guardian of companies. This reputation has been sullied recently by corporate scandals that went undetected (or, at least, unreported by accountants), but accountants are working to regain the high ethical regard they have traditionally maintained.

1-22 All managers find accounting useful for making decisions, and often their superiors use accounting numbers in evaluating them. In addition, experience in accounting is valuable to anyone in an organization. Many operating executives got their start in accounting. It provided them a broad knowledge of the company and brought them into contact with managers throughout the organization.

1-23 No. The fundamental accounting principles apply equally to nonprofit (also called not-for-profit) and profit-seeking organizations. Managers and accountants in hospitals, universities, government agencies, and other nonprofit organizations use financial statements. They need to raise and spend money, prepare budgets, and judge financial performance. Nonprofit organizations need to use their limited resources wisely, and financial statements are essential for judging their use of resources.

1-24 Double-entry refers to the concept that every transaction involves two or more accounts with the effect being to retain the balance in the balance sheet equation. The double-entry concept is important because it emphasizes that there are assets and claims on assets. In the balance sheet, for example, borrowing money provides an asset, cash, and creates a liability. In addition to this conceptual benefit there is a clerical benefit. Maintaining a balanced relationship provides an indicator of errors. If the balance sheet equation does not balance, an error has been made.

1-25 Historians are primarily concerned with events that have already occurred. In that sense, a company's financial statements do report on history—transactions that are complete. The negative side of this is that many important things that affect the value of a firm are based on what will happen in the future. Thus, investors often worry about expectations and predictions. Of course, there is no way to agree on the accuracy of expectations and predictions. The positive side of historical financial statements is that they present a no-nonsense perspective on what actually happened, where the company was at a point in time, or what it accomplished over a period of time. It is easier to predict the future when you know where you are and how you got there. You might liken the importance of historical financial statements to the importance of navigation instruments. If you do not know where you are and where you are headed, it is very hard to get to where you want to go.

Most people who refer to accountants as historians intend it as a criticism, although, as indicated above, a historical focus ensures that the data are measurable and verifiable.

1-26 Such arguments are fun but can never be truly resolved. The notion behind the importance of the corporation is that for any substantial growth to occur there must be a system for organizing resources and using them over long periods of time. The corporate form of ownership helps companies raise large amounts of capital via stock issuance as well as borrowing. It allows us to separate ownership from management. It protects the personal assets of shareholders, and because their maximum losses can be limited, more risky undertakings can be financed. Finally, it has perpetual life so its activity is not disrupted by the death of any shareholder. Corporations operate under a set of established rules of behavior for entering into contracts and being sure that other parties can be relied upon to uphold their side of an agreement.

Accounting helped corporations emerge as the dominant economic organization in the world. Without accounting it would be difficult to coordinate the activities of large corporations. It would be especially difficult to separate management from ownership if accounting did not provide information about the performance of managements.

1-27 The auditor increases the value of financial statements by reassuring the reader of the statements that an “independent” and a “qualified” third party has reviewed management’s disclosures and believes they fairly present the company’s performance. The fact that you personally do not recognize the name of the audit firm should not be a problem, because only CPAs can perform public audits and sign audit opinions. Every state has strict procedures for licensing CPAs, so such people are qualified. Nevertheless, audit firms develop reputations, and ones with a positive public image may give some financial statement users more confidence in the financial statements they audit.

1-28 (10 min.) Amounts are in millions.

1. Assets = Liabilities + Owners’ Equity

$7 = $4 + $3

2. Assets and liabilities would increase by $2 million. Owners’ equity would be unaffected.

1-29 (15-20 min.)

May	2	Owners invested $6,000 additional cash in Radloff's Furniture Company.
	3	Owners invested an additional $4,000 into the company by contributing additional store fixtures valued at $4,000.
	4	Radloff's Furniture Company purchased additional furniture inventory for $3,000 cash.
	5	Radloff's Furniture Company purchased furniture inventory on account for $6,000.
	6	Radloff's Furniture Company sold store fixtures for $3,000 cash.
	7	Radloff's Furniture Company purchased $6,000 of store fixtures, paying $5,000 cash now and agreeing to pay $1,000 later.
	8	Radloff's Furniture Company paid $2,000 on accounts payable.
	9	Radloff's Furniture Company returned $400 of merchandise (furniture inventory) for credit against accounts payable.
	10	Owners withdrew $3,000 cash from Radloff's Furniture Company.

1-30 (10-20 min.)

Nov.	2	Melbourne purchased $2,500 of store fixtures on account.
	3	Owner or owners withdrew $2,000 cash.
	4	Melbourne returned $5,000 of its inventory of computers for $5,000 credit against its accounts payable.
	5	Computers (inventory) valued at $7,000 were invested in the company by owners.
	8	Melbourne paid $500 on accounts payable.
	9	Melbourne purchased $3,500 of store fixtures, paying $1,000 now and agreeing to pay $2,500 later.
	10	Melbourne returned $500 of store fixtures for credit against accounts payable.

1-31 (15-25 min.)

JACKSONVILLE CORPORATION
Balance Sheet
March 31, 20X1

Assets		Liabilities and Stockholders' Equity	
Cash	$ 5,000 (a)	Liabilities:	
Merchandise inventory	43,000 (b)	Accounts payable	$ 11,000 (f)
Furniture and fixtures	2,000 (c)	Notes payable	10,000
Machinery and equipment	27,000 (d)	Long-term debt	27,000 (g)
Land	39,000 (e)	Total liabilities	48,000
Building	24,000	Stockholders' equity:	
Total assets	$140,000	Paid-in capital	92,000 (h)
		Total liab. & stk. equity	$140,000

(a) Cash: $14,000 + $1,000 – $10,000 = $5,000
(b) Merchandise inventory: $40,000 + $3,000 = $43,000
(c) Furniture and fixtures: $3,000 – $1,000 = $2,000
(d) Machinery and equipment: $15,000 + $12,000 = $27,000
(e) Land: $14,000 + $25,000 = $39,000
(f) Accounts payable: $8,000 + $3,000 = $11,000
(g) Long-term debt: $12,000 + $15,000 = $27,000
(h) Paid-in capital: $80,000 + $12,000 = $92,000

Note: Event 5 requires no change in the balance sheet.

1-32 (25-35 min.)

SOUTHAMPTON COMPANY
Balance Sheet
November 30, 20X1

Assets			Liabilities and Stockholders' Equity		
Cash	£ 17,000	(a)	Liabilities:		
Merchandise inventory	29,000		Accounts payable	£ 9,000	(d)
Furniture and fixtures	8,000		Notes payable	30,000	(e)
Machinery and equip.	33,000	(b)	Long-term debt payable	111,000	(f)
Land	35,000	(c)	Total liabilities	150,000	
Building	241,000		Stockholders' equity:		
Total assets	£363,000		Paid-in Capital	213,000	(g)
			Total liab. & stk. equity	£363,000	

(a) Cash: £22,000 – £4,000 – £7,000 + £6,000 = £17,000
(b) Machinery and equipment: £20,000 + £13,000 = £33,000
(c) Land: £41,000 – £6,000 = £35,000
(d) Accounts payable: £16,000 – £7,000 = £9,000
(e) Notes payable: £21,000 + (£13,000 – £4,000) = £30,000
(f) Long-term debt payable: £134,000 – £23,000 = £111,000
(g) Paid-in capital: £190,000 + £23,000 = £213,000

Note: Event 4 requires no change in the balance sheet.

1-33 (5-10 min.)

1. Total liabilities = Total assets – stockholders' equity
= $26,271,000,000 – $12,002,000,000
= $14,269,000,000

2. Common stock, par value = $.005 × 434,266,000 = $2,171,330.

Like other items on Costco's balance sheet, the amount would be rounded off to millions:

Common stock, par value $2

1-34 (5 – 10 min.)

The Mammal Center
Balance Sheet
July 1, 20X1

Assets		Liabilities and Stockholder's Equity	
Cash	$45,000	Accounts payable	$14,000
Account receivable	13,000	Bank loan payable	9,000
Property, plant, and equipment	25,000	Capital stock at par	2,000
Total assets	$83,000	Additional paid-in capital	$58,000
		Total liab. and stockholder's equity	$83,000

1-35 (20-30 min.) See Exhibit 1-35. Equipment and furniture could be in two separate accounts rather than combined.

1-36 (20-35 min.)

1. See Exhibit 1-36.

2. JBW CORPORATION
Balance Sheet
January 31, 20X1
(In Thousands of Dollars)

Assets		Liabilities and Stockholders' Equity		
		Liabilities:		
Cash	$153	Accounts payable		$108
		Note payable		30
Merchandise inventory	249	Total liabilities		$138
		Stockholders' equity:		
Equipment	36	Capital stock,		
		$1 par, 30,000 shares		
		issued and outstanding	$ 30	
		Additional paid-in capital		
		in excess of par value	270	300
Total assets	$438	Total liabilities & stockholders' equity		$438

EXHIBIT 1–35

MARYMOUNT SERVICES, INC.
Analysis of April 20X1 Transactions
(In Thousands of Dollars)

	Assets				Liabilities and Stockholders' Equity				
Description of Transactions	Cash	+	Equipment and Furniture	=	Note Payable	+	Accounts Payable	+	Paid-in Capital
1. Issuance of stock	+60			=					+60
2. Issuance of stock			+20	=					+20
3. Borrowing	+35			=	+35				
4. Acquisition for cash	–33		+33	=					
5. Acquisition on account			+10	=			+10		
6. Payments to creditors	– 4			=			– 4		
7. Sale of equipment	+ 8		– 8	=					
8. No entry				=					
	+66		+55	=	+35		+ 6		+ 80
	121				121				

MARYMOUNT SERVICES, INC.
Balance Sheet
April 30, 20X1

Assets		Liabilities and Stockholders' Equity	
		Accounts payable	$ 6,000
Cash	$ 66,000	Note payable	35,000
Equipment and furniture	55,000	Paid-in Capital	80,000
Total assets	$121,000	Total liab. & stk. equity	$121,000

EXHIBIT 1–36

JBW CORPORATION
January 20X1
Analysis of Transactions
(In Thousands of Dollars)

	Assets				Liabilities		+ Stockholders' Equity	
Description of Transactions	Cash +	Merchandise Inventory +	Equipment	=	Notes Payable +	Accounts Payable +	Capital Stock (at par) +	Additional Paid-in Capital
1. Original incorporation	+300			=			+ 30	+ 270
2. Inventory purchased	–75	+75		=				
3. Inventory purchased		+85		=		+ 85		
4. Return of inventory to supplier		–11		=		– 11		
5. Purchase of equipment	–10		+40	=	+30			
6. Sale of equipment	+ 4		– 4	=				
7. Payment to creditor	–16			=		– 16		
8. Inventory purchased	–50	+100		=		+ 50		
9. No entry except on detailed underlying records				=				
Balance, January 31, 20X1	+153	+249	+36	=	+30	+108	+ 30	+ 270
		438					438	

1-37 (20-35 min.)

1. See Exhibit 1-37.

2.

AUTOPARTES LISBON
Balance Sheet
March 31, 20X1

Assets		Liabilities and Owner's Equity	
Cash	€62,800	Liabilities:	
Inventory	16,600	Accounts payable	€ 4,500
Equipment	17,500	Note payable	8,000
		Total liabilities	12,500
		You, capital	84,400
Total assets	€96,900	Total liabilities and owner's equity	€96,900

1-38 (25-40 min.) Note that transaction 9 is not covered directly in the text. However, it should be possible to figure out the accounting for it from similar items that are covered. However, some instructors may want to omit transaction 9.

1. See Exhibit 1-38.

2.

LEIDA CRUZ, ATTORNEY-AT-LAW
Balance Sheet
December 31, 20X0

Assets		Liabilities and Owner's Equity	
		Liabilities:	
Cash in bank	$50,000	Accounts payable	$ 1,000
Note receivable	3,000	Note payable	3,000
Rental damage deposit	1,000	Total liabilities	$ 4,000
Legal supplies on hand	1,000	Owner's equity:	
Computer	5,000	Leida Cruz, capital	60,000
Office furniture	4,000	Total liabilities and	
Total assets	$64,000	owner's equity	$64,000

1-39 (15-25 min.) See Exhibit 1-39.

EXHIBIT 1–37

AUTOPARTES LISBON
Analysis of Transactions (in Euros)
For the Month Ended March 31, 20X1

	Assets				Liabilities		+ Owner's Equity
Description of Transactions	Cash	+ Inventory	Equip- + ment	=	Accounts Payable	Note + Payable	You, + Capital
1. Initial investment	+80,000			=			+80,000
2. Inventory acquired for cash	–10,000	+10,000		=			
3. Inventory acquired on credit		+ 8,000		=	+ 8,000		
4. Equipment acquired	– 5,000		+15,000	=		+10,000	
5. No entry				=			
6. Tires for family		– 600		=			- 600
7. Parts returned to supplier for cash	+ 300	– 300		=			
8. No effect on total inventory*				=			
9. Parts returned to supplier for credit		– 500		=	– 500		
10. Payment on note	– 2,000			=		–2,000	
11. Equipment acquired			+ 5,000 =				+5,000
12. Payment to creditors	– 3,000			=	–3,000		
13. No entry							
14. No entry							
15. Exchange of equipment	+ 2,500		– 4,000 + 1,500	=			
	+ 62,800	+16,600	+17,500	=	+4,500	+ 8,000	+84,400
		96,900				96,900	

*Entries could have reduced both inventory and accounts payable by €800 and then increased the same two accounts by €800. The net effect is no change in either account.

EXHIBIT 1–38

LEIDA CRUZ ATTORNEY
Analysis of Business Transactions
(In Thousands of Dollars)

	Assets						=	Liabilities and Owner's Equity		
								Liabilities		Owner's Equity
Description of Transactions	Cash in Bank	Note Receiv-able	Rental Damage Deposit	Legal Supplies on Hand	Computer	Office Furni-ture		Note Payable	Account Payable	L. Cruz Capital
2. Opening investment	+60						=			+60
4. Rental deposit	– 1		+1				=			
5. Purchased computer	– 2				+5		=	+3		
6. Purchased supplies				+1			=		+1	
7. Purchased furniture	– 4					+4	=			
9. Note receivable from Whitman	– 3	+3	—	—	—	—	=	—	—	—
Balance, December 31, 20X0	+50	+3	+1	+1	+5	+4	=	+3	+1	+60
	64							64		

General Comments:

- Transactions 1 and 3 are personal rather than business transactions.
- In transaction 4, no obligation (liability) is set up for the rent because it is not payable until January 2 and no rental services will occur until January.
- Transaction 8 requires no entry because no services have been performed during December.

EXHIBIT 1–39

WALGREEN COMPANY
Analysis of Transactions
(In Millions of Dollars)

	Assets				Liabilities and Stockholders' Equity			
Description of Transactions	Cash	+ Inven-tories	+ Property and Other Assets	=	Notes Payable	+ Accounts Payable	+ Other Liabilities	+ Stock-holders' Equity
Balance August 31	1,556	8,044	17,854	=		4,810	7,797	14,847
1. Issuance of stock for cash	+30			=				+ 30
2. Issuance of stock for equipment			+42	=				+ 42
3. Borrowing	+13			=	+13			
4. Acquisition of equipment for cash	–18		+18	=				
5. Acquisition of inventory on account		+89		=		+89		
6. Payments to creditors	–35			=		–35		
7. Sale of equipment	+2		- 2	=				
Balance September 2	1,548	8,133	17,912	=	13	4,864	7,797	14,919
	27,593				27,593			

WALGREEN COMPANY
Balance Sheet
September 2, 2011
(In Millions of Dollars)

Assets		Liabilities and Stockholders' Equity	
Cash	$ 1,548	Notes payable	$ 13
Inventories	8,133	Accounts payable	4,864
Property and other assets	17,912	Other liabilities	7,797
		Stockholders' equity	14,919
Total assets	$27,593	Total liab. and stockholders' equity	$27,593

1-40 (20-35 min.)

1. See Exhibit 1-40.

2.

NIKE, INC.
Balance Sheet
June 3, 2011
(In Millions)

Assets		Liabilities and Stockholders' Equity	
Cash	$ 2,086	Total liabilities	$ 5,213
Inventories	2,758	Stockholders' equity	9,933
Property, plant, and equipment	2,089		
Other assets	8,213		
Total	$15,146	Total liabilities & stk. equity	$15,146

1-41 (15-20 min.)

JENNIFER GRANT, REALTOR
Balance Sheet
November 30, 20X1

Assets		Liabilities and Owners' Equity	
Cash	$ 6,000	Liabilities:	
Undeveloped land	170,000	Accounts payable	$ 6,000
Office furniture	16,000 (a)	Mortgage payable	85,000
Franchise	18,000 (b)	Total liabilities	91,000
		Owner's equity:	
		Jennifer Grant, capital	119,000 (c)
Total assets	$210,000	Total liabilities and owner's equity	$210,000

(a) $17,000 – $1,000 = $16,000
(b) A franchise is an economic resource that has been purchased to benefit future operations.
(c) $210,000 – $91,000 = $119,000

Note that Rubenstein's death may have considerable negative influence on future operations, but accounting does not formally measure its monetary impact. Moreover, transactions 3 and 4 are personal rather than business transactions.

EXHIBIT 1–40

NIKE, INC.
Analysis of Transactions
(In Millions of Dollars)

	Assets								Liabilities and Stockholders' Equity		
Description of Transactions	Cash	+	Inventories	+	Property, Plant, and Equip.	+	Other Assets	=	Total Liabilities	+	Stockholders' Equity
Balance May 31	1,955		2,715		2,115		8,213		5,155		9,843
1. Inventory purchased	–28		+28					=			
2. Inventory purchased			+19					=	+19		
3. Return of inventory to supplier			–4					=	–4		
4. Purchase of equipment	–5				+14			=	+9		
5. Sale of equipment	+40				–40			=			
6. No entry								=			
7. Payment to creditor	–16							=	–16		
8. Borrowed from bank	+50							=	+50		
9. Issued common stock	+90							=			+90
10. No entry except on detailed underlying records								=			
Balance, June 3	2,086		2,758		2,089		8,213	=	5,213		9,933
	15,146								15,146		

1-42 (10 min.)

1. Cash would increase by $1,000 and the liability, Deposits, would increase by the same amount.

2. Deposits are liabilities because Wells Fargo owes these amounts to depositors. They are depositors' claims on the assets of the bank.

3. Loans Receivable would increase and Cash would decrease by $75,000.

4. Both Deposits and Cash would decrease by $5,000.

1-43 (10 min.) Amounts are in millions.

1. a. Cash = Total assets – Noncash assets
= €27,739 – €24,860
= €2,879

b. Stockholders' equity = Total assets – Total liabilities
= €27,739 – €21,512
= €6,227

2. Total liabilities and stockholders' equity = total assets = €27,739.

1-44 (20-30 min.)

UNITED TECHNOLOGIES CORPORATION
Balance Sheet
September 30, 2011
(In Millions of Dollars)

Assets		Liabilities and Stockholders' Equity		
Cash	$ 5,966 (1)	Accounts payable		$ 5,597
Inventories	8,617	Other liabilities		22,935
Fixed assets	6,137	Long term debt		9,501
Other assets	41,228	Total liabilities		38,033
		Common stock	$13,330	
		Other stockholders' equity	10,585 (3)	
		Total stockholders' equity		23,915 (2)
Total assets	$61,948	Total liabilities and stockholders' equity		$61,948

Notations (1), (2), and (3) designate the answers to the requirements. (1) The $5,966 cash was computed by taking total assets minus all assets except cash. To calculate (2) and (3), note that total assets must equal total liabilities plus stockholders' equity, $61,948. Furthermore, total liabilities equal ($5,597 + $22,935 + $9,501) = $38,033. Therefore, total stockholders' equity is ($61,948 – $38,033) = $23,915, denoted by (2) above. Other stockholders' equity is ($23,915 – $13,330) = $10,585, denoted by (3) above.

1-45 (20 min.)

MACY'S, INC.
Balance Sheet
October 29, 2011
(In Millions of Dollars)

Assets		Liabilities and Shareholders' Equity	
Cash	$ 1,097 (1)	Merchandise accounts payable	$ 3,576
Inventories	7,158	Long-term debt	6,151
Property, plant, and equipment	8,423	Other liabilities	6,684
		Total liabilities	$16,411 (2)
Other assets	5,585	Shareholders' equity	5,852 (3)
Total assets	$22,263	Total liabilities and shareholders' equity	$22,263

Notations (1), (2), and (3) designate the answers to the requirements. Cash is calculated by subtracting the values given for the other assets from total assets: ($22,263 – $7,158–$8,423 – $5,585) = $1,097. Cash is the smallest individual asset. Companies try to keep cash balances small because they do not earn large returns on cash accounts.

To calculate (2), simply add the components ($3,576 + $6,151 + $6,684).

For (3), note that total liabilities and shareholders' equity equals total assets, $22,263, so shareholders' equity is $22,263 less total liabilities of $16,411, which equals $5,852.

1-46 (10 min.)

1.

EL-HASHEM PARTNERS
Balance Sheet
June 15, 20X0

Assets		Liabilities and Owners' Equity	
Rental house	$350,000	Mortgage loan payable	$260,000
		Owners' equity	
		Muhab El-Hashem, Capital	45,000
		Ghassan El-Hashem, Capital	45,000
Total assets	$350,000	Total liabilities and owners'equity	$350,000

2.

EL-HASHEM CORPORATION
Balance Sheet
June 15, 20X0

Assets		Liabilities & Stockholders' Equity	
Rental house	$350,000	Mortgage loan payable	$260,000
		Stockholders' equity	
		Common stock, par value	2,000
		Additional paid-in capital	88,000
Total assets	$350,000	Total liabilities and stockholders' equity	$350,000

1-47 (10 min.)

1. The par value line would increase by (500,000,000 × $.01) = $5,000,000 and the number of shares issued and outstanding would increase by 500 million. Additional paid-in capital would increase by [500,000,000 × ($25.00 – $.01)] = $12,495,000,000.

2. IBM shows all of its paid-in capital as a one-line item. Therefore, its common stock line would increase by $180,000,000, and the number of issued and outstanding shares would increase by 1 million.

1-48 (5-10 min.)

The common stock line should show (2,442,676,580 × \$.75) = \$1,832 million; note that balance sheet amounts are rounded to the nearest million. The total price per share paid by the original investors for the Chevron common stock was (\$15,110 million + \$1,832 million) = \$16,942 million; the average price per share was (\$16,942 million ÷ 2,442,676,580) = \$6.94. Note that the par value is small, \$.75, as compared to \$6.94.

The relatively large difference between the original issuance price (\$6.94) and the current market price (nearly \$100 in early 2012) is quite typical of many large successful companies. This is usually caused by increased investment attractiveness based on a record of profitable operations over many years.

1-49 (5-10 min.)

1. The par value of Honda's shares is (¥86,067,000,000 ÷ 1,811,428,430) = ¥47.5.
2. The average price per share paid by the original investors was ¥142.76: (¥86,067 million + ¥172,529 million) = ¥258,596 million; (¥258,596 million ÷ 1,811,428,430) = ¥142.76. Note that the ¥142.76 easily exceeds the par value of ¥47.5.
3. The large difference between the original issuance price of ¥142.76 and the market price of ¥3,000 at the end of fiscal 2011 is typical for many successful companies. This phenomenon is usually caused by increased investment attractiveness based on a record of profitable operations over many years.

1-50 (10 min.)

There are two popular sets of generally accepted accounting principles (GAAP) in the world—IFRS set by the International Accounting Standards Board, and U.S. GAAP set by the Financial Accounting Standards Board. In 2005 the European Union adopted IFRS to be used by all companies in its member nations. Thus, Carrefour, a French company, must issue financial statements that comply with IFRS. Its auditors will examine its financial statements to ensure compliance with IFRS and must confirm this in the audit opinion. Although not mentioned in the chapter, the phrase "as adopted by the European Union" is also significant. Countries that adopt IFRS may not accept 100% of its standards, and the European Union makes a few adjustments to the standards.

In contrast, companies based in the United States, such as Safeway, must use U.S. GAAP, not IFRS. Thus, Safeway's audit opinion clearly states that its statements comply with U. S. GAAP.

Both companies use Deloitte & Touche LLP as an auditor, but the auditor must apply different standards when auditing Carrefour than when auditing Safeway.

1-51 (15-20 min.)

NOTE TO INSTRUCTOR: You may want to assign a more recent annual report, and the composition on the board may have changed. However, the general mix of backgrounds of the board members is unlikely to change.

1. The board of directors of General Mills has 13 members, of which only one is a General Mills executive—Kendall J. Powell, the CEO and chairman of the board.

2. Of the 12 independent directors, 9 are either current or retired executives of other companies, one is an attorney, one is a venture capitalist, and one is an academic (dean of Dartmouth's Tuck School). However, two retired executives and the attorney are currently academics, also. The board should have sufficient independent directors to avoid too much management influence and should have extensive and varied experiences to bring to the board discussions.

3. There are five members of the audit committee. None are General Mills executives; they are all independent directors. The attorney chairs the audit committee. The audit committee was given extensive power by the Sarbanes-Oxley Act. It is charged with responsibility for overseeing the financial reporting of the company, a task that is extremely important to shareholders, who rely on the financial reports for important information.

1-52 (10 min)

Credibility of accounting reports is essential. Decision makers both within and outside of an organization rely on accounting reports for important decisions. For accounting reports to have credibility, users must have confidence in both the preparers and the auditors of those reports.

Internal accountants have access to much sensitive data, and they have access to information across an entire organization. They need to be trusted to keep certain types of information confidential as well as to report fully and accurately to managers who need information for their decisions. Because of their access to so much information, accountants also often act as the conscience of an organization, identifying areas where managers may intentionally or unintentionally be misusing organizational resources. This is a large responsibility, and it requires the trust of managers throughout the organization.

External audits have value because they add credibility to the financial statements. Management prepares the financial statements and may be prone to overstate operating results either because of natural optimism or because their reputation or compensation is linked to operating performance. If investors and other users of financial statement do not have faith in the competence, fairness, and objectivity of the auditors, audits will have little value. Therefore, developing and maintaining high ethical standards is a hallmark of the auditing profession.

Not only are individual accountants cognizant of the need to develop and maintain a reputation for ethical behavior, but they recognize the need to be collectively regarded as highly ethical. Any breach of ethical conduct by one accountant has spillover effects on others. It is important to all accountants that the profession of accounting be regarded as highly ethical. Therefore, professional accounting organizations have developed standards of ethical conduct. Certification examinations, such as the Certified Public Accountant (CPA) and Certified Management Accountant (CMA) exams, test applicants' knowledge of ethical standards, and the associations enforce compliance to ethical standards by penalizing those who violate the standards. In this way the public can be reasonably assured that when they deal with a certified accountant he or she will be familiar with ethical standards and will have been in compliance with them.

1-53 (60 or more min.)

The purpose of this exercise is to learn how to find a company's balance sheet, to pick out significant items on it, and to understand how basic transactions affect the balance sheet. Each student will become an "expert" on one or two types of transactions and will be required to explain the accounting for that transaction to the rest of the group. Requirement 2 is a test of how well the "experts" explained the effects of their transactions. The hypothetical transactions are chosen so that only the selected accounts are affected.

1-54 (15-30 min.)

Each solution is unique and will change each year. The purpose of this problem is for students to recognize the format of a balance sheet and to see how it relates to the balance sheet equation.

1-55 (10-15 min.) NOTE: This solution is based on Starbucks' 2011 financial statement. If a more recent annual report is used, the numbers will change.

Dollar amounts are in millions.

1. Cash = $1,148.1

2.

Cash and cash equivalents	$ 1,148.1
Inventories	965.8
Property, plant, and equipment *	2,355.0
Accounts payable	540.0
Common stock	.7
Additional paid-in capital**	1.1
Other additional paid-in capital**	39.4

* This was called store equipment in the chapter.
** The reason additional paid-in capital is separated into 2 parts is beyond our scope at this time.

3. Assets = Liabilities + Stockholders' Equity
$7,360.4 = $2,973.1 + $4,387.3

1-56 (30-60 min.)

NOTE TO INSTRUCTOR: This solution is based on the web site as it was in 2012 and the financial statements for the year ended June 30, 2011. Be sure to examine the current web site before assigning this problem, as the information there may have changed.

1. Despite the recession, the letter is very optimistic and future oriented. It indicates that "Fiscal 2011 was one of the most transformative years we have seen at Cisco. We prioritized, simplified, and took action to drive Cisco's continued market leadership. We aggressively changed the way we do business to become a faster and more agile partner, with the goal continuing to be to increase our ability to deliver unique value to our shareholders, customers, partners, and employees."

2. Cisco was founded in 1984. The company designs, manufactures, and sells Internet Protocol (IP)-based networking and other products related to the communications and information technology (IT) industry and provides services associated with these products.

3. Cisco's total assets at the end of fiscal 2011 were $87,095 million, its total liabilities were $39,836 million, and total shareholders' equity was $47,259 million. (The item called "noncontrolling interest" is part of shareholders' equity that is held by shareholders other than those of Cisco. It will be discussed in Chapter 11.)

4. Inventories are $1,486 million, $159 million more than a year ago. Inventory grew 12% in fiscal 2011, faster than total assets growth of 7%. Although this inventory build-up is not excessive, when inventories grow faster than assets it may be a sign of trouble.

5. The audit report states: "The Company's management is responsible for these financial statements. . . Our responsibility is to express opinions on these financial statements . . . based on our integrated audits."

6. Cisco has 12 members of the board of directors. Of these, 2 are part of Cisco's management team. There is one academic, the president of Stanford University. The others are all executives or retired executives with other companies. There are 5 members on the audit committee.