Financial Accounting's Instructor Solution Manual by Betsy Willis

Financial Accounting
Fourteenth Edition

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Chapter 1

Financial Statements

Ethics Check

(5-10 min.) EC 1-1

a. **Objectivity and independence**

b. **Due care**

c. **Integrity**

d. **Integrity**

Short Exercises

(10 min.) S 1-1

a. ***Corporation, limited partners of a Limited-liability partnership (LLP) and Limited-liability company (LLC).*** **If any of these businesses fails and cannot pay its liabilities, creditors cannot force the owners to pay the business's debts from the owners' personal assets. Creditors can go after the general partner of a limited liability partnership.**

b. ***Proprietorship*****. There is a single owner of the business, so the owner is answerable to no other owner.**

c. ***Partnership*****. If the partnership fails and cannot pay its liabilities, creditors can force the partners to pay the business's debts from their personal assets. A partnership affords more protection for creditors than a proprietorship because there are two or more owners to share this liability.**

(5 min.) S 1-2

1. **The *entity assumption* applies.**
2. **Application of the entity assumption will separate Osmond's personal assets from the assets of Simple Treats, Inc. This will help Osmond, investors, and lenders know how much assets, liabilities and equity the business has, and this knowledge will help all parties evaluate the business realistically.**

a. **Stable-monetary-unit assumption**

b. **Historical cost** principle**; $300 is the accounting value of the laptop**

c. **Historical cost principle; the sale price is the amount actually received from the sale**

d. **Entity assumption**

(10 min.) S 1-4

Computed amounts in boxes

	Total Assets	=	Total Liabilities	+	Stockholders' Equity
a.	$\boxed{\$660,000}$	=	$300,000	+	$360,000
b.	85,000	=	50,000	+	$\boxed{35,000}$
c.	350,000	=	$\boxed{75,000}$	+	275,000

(5 min.) S 1-5

1. **Liabilities = Assets − Owners' Equity**
2. **Owners' Equity = Assets − Liabilities**

   This way of determining the amount of owners' equity applies to any company or your household.

a.	**Land _A_**	g.	**Retained earnings _S_**
b.	**Accrued expenses payable_L_**	h.	**Prepaid expenses _A_**
c.	**Supplies _A_**	i.	**Accounts payable _L**
d.	**Equipment _A_**	j.	**Accounts receivable _A_**
e.	**Notes payable _L_**	k.	**Merchandise inventory_A_**
f.	**Long-term debt _L_**	l.	**Common stock _S_**

(5-10 min.) S 1-7

1. ***Assets* are the *economic resources* of a business that are expected to produce a benefit in the future.**

   ***Owners' (stockholders') equity* represents the *insider claims* of a business, the owners' interest in its assets.**

   Assets and owners' equity *differ* in that assets are *resources* and owners' equity is a *claim to assets*.

   Assets must be at least as large as owners' equity, so equity can be smaller than assets.

2. **Both liabilities and owners' (stockholders') equity are *claims to assets*.**

   Liabilities are the *outsider* claims to the assets of a business; they are obligations to pay creditors.

   Owners' equity represents the *insider* claims to the assets of the business;