# *Financial Accounting 1st edition Openstax Solutions Manual*

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# Principles of Accounting

## Volume 1

## Financial Accounting

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## *Principles of Accounting, Volume 1: Financial Accounting*
## Chapter 1: Role of Accounting in Society

**Multiple Choice**

1. **LO 1.2** Accounting is sometimes called the "language of _____."
   A. Wall Street
   B. business
   C. Main Street
   D. financial statements

Solution
B

2. **LO 1.2** Financial accounting information _____.
   A. should be incomplete in order to confuse competitors
   B. should be prepared differently by each company
   C. provides investors guarantees about the future
   D. summarizes what has already occurred

Solution
D

3. **LO 1.2** External users of financial accounting information include all of the following *except* _____.
   A. lenders such as bankers
   B. governmental agencies such as the IRS
   C. employees of a business
   D. potential investors

Solution
C

4. **LO 1.2** Which of the following groups would have access to managerial accounting information?
   A. bankers
   B. investors
   C. competitors of the business
   D. managers

Solution
D

5. **LO 1.2** All of the following are examples of managerial accounting activities *except* _____.
   A. preparing external financial statements in compliance with GAAP
   B. deciding whether or not to use automation
   C. making equipment repair or replacement decisions
   D. deciding whether or not to use automation

Solution
A

6. **LO 1.3** Which of the following is *not* true?
   A. Organizations share a common purpose or mission.



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B. Organizations have inflows and outflows of resources.
C. Organizations add value to society.
D. Organizations need accounting information.

Solution
A

7. **LO 1.3** The primary purpose of what type of business is to serve a particular need in the community?
A. for-profit
B. not-for-profit
C. manufacturing
D. retail

Solution
B

8. **LO 1.3** Which of the following is *not* an example of a retailer?
A. electronics store
B. grocery store
C. car dealership
D. computer manufacturer
E. jewelry store

Solution
D

9. **LO 1.3** A governmental agency can best be described by which of the following statements?
A. has a primary purpose of making a profit
B. has a primary purpose of using taxpayer funds to provide services
C. produces goods for sale to the public
D. has regular shareholder meetings

Solution
B

10. **LO 1.3** Which of the following is likely *not* a type of not-for-profit entity?
A. public library
B. community foundation
C. university
D. local movie theater

Solution
D

11. **LO 1.4** Which of the following is *not* considered a stakeholder of an organization?
A. creditors
B. lenders
C. employees
D. community residents
E. a business in another industry

Solution
E

12. **LO 1.4** Stockholders can best be defined as which of the following?
A. investors who lend money to a business for a short period of time
B. investors who lend money to a business for a long period of time



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C. investors who purchase an ownership in the business
D. analysts who rate the financial performance of the business

Solution
C

13. **LO 1.4** Which of the following sell stock on an organized stock exchange such as the New York Stock Exchange?
A. publicly traded companies
B. not-for-profit businesses
C. governmental agencies
D. privately held companies
E. government-sponsored entities

Solution
A

14. **LO 1.4** All of the following are sustainable methods businesses can use to raise capital (funding) *except* for _____.
A. borrowing from lenders
B. selling ownership shares
C. profitable operations
D. tax refunds

Solution
D

15. **LO 1.4** The accounting information of a privately held company is generally available to all of the following *except for* _____.
A. governmental agencies
B. investors
C. creditors and lenders
D. competitors

Solution
D

16. **LO 1.5** Which of the following skills/attributes is *not* a primary skill for accountants to possess?
A. written communication
B. verbal communication
C. ability to work independently
D. analytical thinking
E. extensive computer programing background

Solution
E

17. **LO 1.5** Which of the following is typically required for entry-level positions in the accounting profession?
A. bachelor's degree
B. master's degree
C. Certified Public Accountant (CPA)
D. Certified Management Accountant (CMA)
E. only a high school diploma

Solution



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A

18. **LO 1.5** Typical accounting tasks include all of the following tasks *except* _____.
    A. auditing
    B. recording and tracking costs
    C. tax compliance and planning
    D. consulting
    E. purchasing direct materials

Solution
E

19. **LO 1.5** What type of organization primarily offers tax compliance, auditing, and consulting services?
    A. corporations
    B. public accounting firms
    C. governmental entities
    D. universities

Solution
B

20. **LO 1.5** Most states require 150 semester hours of college credit for which professional certification?
    A. Certified Management Accountant (CMA)
    B. Certified Internal Auditor (CIA)
    C. Certified Public Accountant (CPA)
    D. Certified Financial Planner (CFP)

Solution
C

**Questions**

1. **LO 1.2** Research your top five career choices. Identify financial factors that might influence your career choice. The following websites might be helpful in answering this question.
    - Occupational Outlook Handbook: https://www.bls.gov/ooh/
    - National Association of Colleges and Employers: http://www.naceweb.org/
    - O*Net OnLine: https://www.onetonline.org/find/

Solution
Answers will vary but should include factors such as starting salaries, value of fringe benefits, cost of living, and other monetary factors.

2. **LO 1.2** Using the same top five career choices, identify nonfinancial factors that might influence your career choice. The following websites might be helpful in answering this question.
    - Occupational Outlook Handbook: https://www.bls.gov/ooh/
    - National Association of Colleges and Employers: http://www.naceweb.org/
    - O*Net OnLine: https://www.onetonline.org/find/

Solution
Answers will vary. Responses should include factors such as location, access to schools, characteristics of the commute, entertainment, health care, and other nonfinancial factors.



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3. **LO 1.2** Think about a recent purchase you made. Describe what financial and nonfinancial factors went into that purchase. Rank the factors, and explain how you made the final decision to purchase the item.

Solution

Answers will vary but should include considerations such as price, convenience, features, ease of purchase, availability, and other decision-making factors.

4. **LO 1.2** Computerized accounting systems help businesses efficiently record and utilize financial information. QuickBooks is a popular software package for small businesses. Explore the QuickBooks website at https://quickbooks.intuit.com/. Select one of the QuickBooks plans, and discuss some of the capabilities of the software. Taking the perspective of a small business owner, explain how this software might help the business.

Solution

Answers will vary. Responses should include QuickBooks features, such as income and expense tracking, ability to invoice and apply payments, ease of vendor payments, reporting, vendor management, payroll and tax compliance, preparing standardized financial statements, preparing general ledger transactions, and other features that streamline the accounting process for small business owners.

**5.** **LO 1.2** The following information was taken from the Netflix financial statements.

**NETFLIX, INC.**
**Consolidated Statement of Operations**
**For the Years 2014, 2015, and 2016**

| | Dec. 31, 2014 | Dec. 31, 2015 | Dec. 31, 2016 |
|---|---|---|---|
| **Sales** | $5,504,656* | $6,779,511 | $8,830,669 |

**Dollar values are in thousands of US dollars.*

Source: United States Security and Exchange Commission. "Netflix, Inc. Consolidated Statements of Operations." www.sec.gov

For Netflix, sales is the product of the number of subscribers and the price charged for each subscription. What observations can you make about the previous three years of Netflix's sales? Given this data, provide any predictions you can make about the future financial performance of Netflix. What nonfinancial factors influenced that prediction?

Solution

Responses should comment on the growth Netflix has experienced. Although this may have been due to subscription price increases, the biggest driver of these increases is the number of subscriptions. While this is only a few data points, it does appear likely that Netflix will continue to grow sales in the next year or so. Factors influencing this prediction would be competition, changes in the streaming market, and economic considerations.

6. **LO 1.2** The following chart shows the price of Netflix stock for the six-month period from August 2017 to January 2018.



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Source: Nasdaq. "Netflix, Inc. Stock Chart." www.nasdaq.com

Assume you are considering purchasing Netflix stock. What considerations would influence your decision? Relative to Netflix's financial performance, what factors would influence the decision, and how would those factors rank in your decision? What about the nonfinancial factors?

Solution

Answers will vary. Responses should include the overall increasing trend in the price of Netflix stock. The consideration might include whether or not the stock price will continue to increase, the expected financial performance of Netflix, such as dividend distribution, the streaming sector, and general economic considerations. While some factors may be beyond students' understanding, they may have a general understanding of the relevant factors.

7. **LO 1.3** Use the internet to research one for-profit, one governmental, and one not-for-profit entity. For each entity, describe the following:

A. the primary purpose of the entity
B. the types of activities that accountants would record (hint: what is the source of the entity's funding, and what costs might the entity have?)
C. the types of decisions that might be made in this organization and how financial and nonfinancial information might help the decision-making process

Solution

Answers will vary, but responses should state, in a sentence or two, the primary purpose of the entity. The goal of this exercise is to have students clearly communicate why the entity exists, the stakeholders served by the entity, and the role accounting plays in the organization.

8. **LO 1.3** Use the internet to research one manufacturing, one retail (or merchandising), and one service business. For each business, describe the following:

A. the primary purpose of the entity
B. the types of activities that accountants would record (hint: what is the source of the business' funding, and what costs might the business have?)
C. the types of decisions that might be made in this organization and how financial and nonfinancial information might help the decision-making process

Solution



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Answers will vary. Responses should state, in a sentence or two, the primary purpose of the business. The goal of this exercise is to clearly communicate the products or services the business sells, the activities of the business, and the role accounting plays in the organization.

9. **LO 1.3** Assume you are considering opening a retail business. You are trying to decide whether to have a traditional "brick-and-mortar" store or to sell only online. Explain how the activities and costs differ between these two retail arrangements.

Solution
Answers will vary but should highlight aspects of each model:
*Brick-and-mortar*: higher investment in physical storefront, interior, etc., to attain visual appeal; insurance and regulatory requirements; space/storage considerations; lower delivery costs; no delivery time.
*Online*: less overhead costs, higher delivery costs, higher website and technology costs, competition.

10. **LO 1.3** Uber and Lyft are two popular ride-sharing services. Imagine that you are visiting New York City for a family vacation. You are trying to decide whether to use one of these ride-sharing services to get around the city or rent a car and drive yourself. Considering the perspectives of the passengers (your family), the drivers, and the company (Uber or Lyft), explain the following:

A. why ride-sharing services have gained in popularity
B. the financial considerations relevant to your decision
C. the nonfinancial considerations relevant to your decision

Solution
Answers will vary. Responses should recognize the fact that ride-sharing services have increased due to technological advances and innovation. The use of these services is beneficial for users because of the ease of requesting a ride, the availability of drivers, and the low investment. Drivers are able to determine their own work schedules and are able to become drivers with a fairly low financial investment. The company benefits by having lower employment costs and the ability to adjust to changes in supply (of drivers) and demand (from customers) fairly easily. The rating mechanism is critical to the success of ride-sharing and should be addressed.

11. **LO 1.3** How would you categorize or classify a company like Disney?

Solution
Manufacturer: movies; service: hotels, restaurants, waste removal, entertainment; retail: shopDisney, clothes and apparel.

12. **LO 1.3** Charity Navigator (https://www.charitynavigator.org) is a website dedicated to providing information regarding not-for-profit charitable organizations.

A. After reviewing the website, explain how not-for-profit organizations are rated.
B. Explain why there is a need for the type of information provided by Charity Navigator.
C. Choose one to two charities listed in the website. Explain the information provided about the charity (financial and nonfinancial), the rating of the charity, and any other relevant factors.

Solution
Answers will vary. Responses should discuss the goal of providing transparency to the funding received and spent related to the purpose of the organization. In effect, the goal of Charity Navigator is to assess the stewardship function of the charities. Charity Navigator rates charities based on financial and nonfinancial factors such as revenue, program and administrative expenses, financial health, and accountability and transparency.



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13. **LO 1.4** Use the internet to visit the Securities and Exchange Commission (SEC) website (https://www.sec.gov/). Write a report discussing the following:
    A. several of the services provided by the SEC
    B. why the services are important to the investing public
    C. why you think the SEC would require publicly traded companies to file financial information

Solution
Answers will vary but should include the key services of the SEC related to regulation and enforcement. You may be particularly interested to explore the SEC's whistle-blowing initiatives. Responses regarding required filings for publicly traded companies should include a discussion about the relationship between transparency and protecting the public interest. The significant amount of invested capital by the investing public is also relevant to the discussion.

14. **LO 1.4** Imagine that you have just been elected president of your university's student senate. Assume the university is considering constructing a new student union—a place that offers a variety of stores, restaurants, and entertainment option for students—and has asked the student senate to develop a formal position in support or opposition of the new student union.
    A. Identify the stakeholders involved in this decision. Discuss the relevant considerations that each stakeholder might have.
    B. Discuss the financial information that might be helpful in formulating the student senate position.
    C. Discuss the nonfinancial information that might be helpful in formulating the student senate position.

Solution
Answers will vary. Responses should include stakeholder groups such as donors, current students, alumni, and prospective students. The consideration identified for each of these groups should consider the short-term and long-term needs of the university and its students. Financial considerations would include funding (donations, debt, or a combination), the impact on tuition, and enrollment (which impacts tuition revenue) as well as the arrangement with the businesses that will occupy the new student union. Nonfinancial considerations would include the impact on retention of current students and the ability to recruit incoming students.

15. **LO 1.4** According to a company press release, on January 5, 2012, Hansen Natural Corporation changed its name to Monster Beverage Corporation. According to Yahoo Finance, on that day the value of the company stock (symbol: MNST) was $15.64 per share. On January 5, 2018, the stock closed at $63.49 per share. This represents an increase of nearly 306%.
    A. Discuss the factors that might influence the increase in share price.
    B. Consider yourself as a potential shareholder. What factors would you consider when deciding whether or not to purchase shares in Monster Beverage Corporation today?

Solution
Answers will vary but should include the increase in popularity of energy drinks and Monster's partnership with the Coca-Cola Company (which now owns close to a 17% stake in Monster). Considerations as to whether or not to purchase Monster shares today would include the estimated future performance of the company, the energy drink market, purchasing at a high point, etc.

16. **LO 1.4** The Dow Jones Industrial Average (DJIA) is often cited as a key metric for business activity. The average is a mathematical formula that uses the stock prices of thirty companies



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traded on the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation (NASDAQ) system.

A. Identify several of the companies that are included in the DJIA.
B. Explain why this metric might be commonly used to measure business activity.
C. Research the history of the DJIA and note some interesting facts. When did the Dow begin? What was the first value? What was the lowest value? The following is an example of a website that may be helpful: http://www.dow-jones-djia.com/history-of-dow-jones-industrial-average-index/.
D. What is the current value of the DJIA? What factors might contribute to the difference between early and current values of the DJIA?

Solution
Answers will vary. The current composition of the Dow can be found at: http://money.cnn.com/data/dow30/. Responses may discuss the value of stock relative to the financial performance of the companies and the relationship to the overall economy. Responses may also discuss inflation and changes in economic activity over time. The DJIA was established on May 26, 1896, and had a closing value of 40.94 (https://us.spindices.com/indices/equity/dow-jones-industrial-average—found in the "Methodology" PDF). The value of the Dow as of January 2018 was approximately 26,000. This value is influenced by economic, global, government fiscal and monetary policies, and other factors.

17. **LO 1.5** Many professional certifications now have requirements for ethics training.

A. Define ethics.
B. Why does the accounting profession put so much emphasis on acting ethically?

Solution
Answers will vary but should include a discussion of the importance for accountants to provide information that is unbiased. Accountants have an obligation to protect the public interest by reporting information that is useful for decision-making but does not sway the user in a particular way. Accountants are in a unique position where they serve many stakeholders, including their employer, clients, and the public. The interests of all stakeholders must be considered while maintaining the highest level of integrity.

18. **LO 1.5** The Certified Public Accountant (CPA) exam is a uniform exam that is administered by a national organization. Licenses, however, are issued by individual states.

A. Explain why you think each state is responsible for issuing CPA licenses.
B. Choose two to three states, and compare and contrast the requirements to become a CPA. Are they fairly consistent or drastically different from each other? A helpful resource is https://www.thiswaytocpa.com/. You may also find it helpful to search the board of accountancy for each state.
C. Tax preparation is a large part of what many CPAs do. Students may be interested to know that a CPA (or any other licensing) is not required to prepare tax returns. Assume you know two friends who prepare tax returns for others, one is a CPA and one is not. Assume that both friends intend to move next year and will, therefore, prepare taxes in another state. Analyze this situation.

Solution
Answers will vary. Responses may focus on the need of the CPA to know and understand the laws pertaining to the specific state. Students will likely find that state requirements are fairly similar, especially related to the education (150 hours) and ethics requirements. Students may note the extra requirements for the CPA to prepare tax returns in another state are burdensome



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and may increase the cost of tax preparation. On the other hand, having a tax return prepared by a CPA offers additional benefits such as currency with the tax code, eligible representation, etc.

19. **LO 1.5** Accounting is not the only profession to offer professional certifications. Many other professions have certifications that are either required or encouraged for entry or advancement in the profession. Think of two to three career paths that you have considered or are considering. After doing some research, complete the following:
    A. Identify the name of the certification and the institute that administered the certification.
    B. Explain the education and/or experience requirements for taking the exam and earning the license.
    C. Discuss any of the benefits, financial or otherwise, of earning the certification.

Solution
Answers will vary and may include certifications/licensing in nursing, information technology, engineering, human resources management, counseling, medicine, and many other occupations.

20. **LO 1.5** Assume you are considering earning a master's degree (or even doctorate) after earning your bachelor's degree. One option is to continue directly into a master's program and then enter the workforce. Another option is to gain some work experience and then return to graduate school and earn your master's degree.
    A. Evaluate these options, and identify the advantages and disadvantages of each.
    B. It may be helpful to do some research on earnings and advancement potential, available formats of graduate programs (full time, part time, online), and other factors that might influence your decision. You may want to research graduate programs and utilize sites such as the Occupational Outlook Handbook (https://www.bls.gov/ooh/).

Solution
Answers will vary but should include benefits of continuing directly into a master's program (quicker, already in "student mode," scholarship availability, job placement) or entering later after entering the workforce (work experience adds to graduate education experience; employer may pay; part-time and/or program options; difficult once established in career, family, etc.).

**Feature Boxes**

Think It Through: Expertise

Solution
Answers will vary. Responses may include attorneys, engineers, sign language interpreters, computer programmers, and pilots.

Your Turn: Categorizing Restaurants

Solution
Answers will vary. Responses may initially consider a restaurant to be only a service provider. Students may also recognize that a restaurant possesses aspects of a manufacturer (by preparing the meals), retailer (by selling merchandise and/or gift cards), and service provider (by waiting on customers).

Your Turn: Types of Organizations

Solution
Answers will vary, but this should be an opportunity to learn about careers in a variety of organizations (for-profit including manufacturing, retail, and services; not-for-profit; and



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governmental agencies). You may have an assumption about a career that is based only on the positive aspects. Learning from experienced professionals may help you understand all aspects of the careers. In addition, this exercise may help you confirm or alter your potential career path, including the preparation required (based on advice given from those you talk with).

Your Turn: Daily Decisions

Solution

In consideration of food-related decisions, there are many options you can consider. For example, what types, in terms of ethnic groups or styles, do you prefer? Do you want a dining experience or just something inexpensive and quick? Do you have allergy-related food issues? These are just a few of the myriad potential decisions you might make.

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