SOLUTIONS

Learning Goal 1

Multiple Choice

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

Reinforcement Problems

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

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

The issues created are:

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

LG 1-2. The active policy falls into 2007, 2008, and 2009.

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