

SURVEY OF ACCOUNTING · CHAPTER 1 · LO 1-4

Interactive Assessment — LO 1-4

Work these on your own, then we'll go through them together on the screen.

Name _____ Date _____ Section _____

LO 1-4 Show how business events affect the accounting equation.**1 Ironclad Fitness under the equation**

Ironclad Fitness was formed on January 1, Year 1. Record the effect of each event under the accounting equation. Write the amount in every account the event affects and NA in every account it does not.

1. Ironclad acquired \$60,000 cash by issuing common stock.
2. Ironclad borrowed \$25,000 cash from a bank.
3. Ironclad paid \$70,000 cash to purchase land for an outdoor training yard.
4. Ironclad received \$38,000 cash from members for training services.
5. Ironclad paid \$21,000 cash for operating expenses.
6. Ironclad paid a \$3,000 cash dividend to its owners.
7. On December 31 the land was appraised at \$82,000.

EVENT	ACCOUNTING EQUATION									
	Assets				=	Liabilities + Stockholders' Equity				
	Cash	+	Land	=		N. Pay.	+	Com. Stk.	+	Ret. Earn.
1	60,000	+	NA	=		NA	+	60,000	+	NA
2	25,000	+	NA	=		25,000	+	NA	+	NA
3	(70,000)	+	70,000	=		NA	+	NA	+	NA
4	38,000	+	NA	=		NA	+	NA	+	38,000
5	(21,000)	+	NA	=		NA	+	NA	+	(21,000)
6	(3,000)	+	NA	=		NA	+	NA	+	(3,000)
7	NA	+	NA	=		NA	+	NA	+	NA
Tot.	29,000	+	70,000	=		25,000	+	60,000	+	14,000

EVENT	ACCOUNTING EQUATION								
	Assets			=	Liabilities + Stockholders' Equity				
	Cash	+	Land	=	N. Pay.	+	Com. Stk.	+	Ret. Earn.

Write NA where an account is not affected. Decreases in parentheses.

FOR THE INSTRUCTOR

Mirrors the RCS sequence with new numbers. Event 7 is the historical-cost check: nothing is recorded. Watch the retained earnings column on events 4 to 6; students often want revenue in common stock.

2 Ironclad's ending balances

Ironclad Fitness was formed on January 1, Year 1. Events: acquired \$60,000 cash by issuing common stock; borrowed \$25,000 cash from a bank; paid \$70,000 cash to purchase land for an outdoor training yard; received \$38,000 cash from members for training services; paid \$21,000 cash for operating expenses; paid a \$3,000 cash dividend to its owners; on December 31 the land was appraised at \$82,000. Determine the December 31, Year 1 balances.

Ending cash

\$29,000

Total assets

\$99,000

Retained earnings

\$14,000

SHOW YOUR WORK

FOR THE INSTRUCTOR

Cash: $60,000 + 25,000 - 70,000 + 38,000 - 21,000 - 3,000 = 29,000$. Assets: $29,000 + 70,000 \text{ land} = 99,000$. Retained earnings: $38,000 - 21,000 - 3,000 = 14,000$. Check: $25,000 + 60,000 + 14,000 = 99,000$.

3 The appraisal

Ironclad paid \$70,000 for land that an appraiser now values at \$82,000. What amount does the chapter say Ironclad reports for the land, and why? Circle one.

- ☐ A \$82,000, because financial statements should show what assets are worth
- ☐ B \$76,000, the average of cost and appraisal, to be conservative
- ☒ C **\$70,000, because historical cost is a verifiable fact while an appraisal is an opinion**
- ☐ D Whichever amount management prefers, as long as it is disclosed

FOR THE INSTRUCTOR

The historical cost concept, with the text's reasoning: two people reading the purchase documents will agree on \$70,000; two appraisers will not agree on market value. Option d borrows the disclosure logic from LO 1-1 and misapplies it.

4 At least two places

Every transaction Ironclad recorded affected the accounting equation in at least two places. The chapter says this practice gives its name to which of the following? Circle one.

- ☒ A **Double-entry bookkeeping**
- ☐ B The matching concept
- ☐ C Articulation
- ☐ D The closing process

FOR THE INSTRUCTOR

A stock issue touches cash and common stock; every event touches at least two accounts. That is where double-entry bookkeeping gets its name. Matching, articulation, and closing are all introduced later in the chapter and are the named traps.

