

Solutions to Chapter 2 Online Material:

Questions:

1. D
2. C
3. FALSE
4. TRUE
5. D

Exercise 1:

- A. This process would be considered a reporting entity because it contains all three features. (1) Economic activity is being conducted, (2) the activity can be objectively distinguished, and (3) economic information would be useful to potential investors as some have already shown interest in investing.
- B. Rubber Company would be considered a reporting entity because it contains all three features. Its financial dependency on Manufacturing Company does not impact its status as a reporting entity.
- C. The two sub-processes would not be considered separate reporting entities because the economic activities of cutting and preparing the glass and cutting and assembling the wood are not objectively distinguishable. Rather, the two sub-processes taken together as a whole are the reporting entity.

Exercise 2:

- A. Because of the extremely low probability of winning the lottery, the first requirement for recognition is not met. No asset should be recognized.
- B. The grant to be received meets both criteria for recognition. It is highly probable that ABC Company will receive the money and the amount of the grant is certain.
- C. Because of the difficulty involved in measuring the value of well-trained employees, the second requirement for recognition is not met. No asset should be recognized.
- D. The payable meets both criteria for recognition. It is extremely probable that ABC Company will pay, and the amount is certain.

Writing Assignment:

Students responses will vary but should include:

1. A summary of the current status of the Conceptual Framework Project. The summary should be no longer than three pages.
2. An example of a rules-based vs. principles-based accounting standard and a brief summary of the recommendations that the SEC proposed to improve the standard setting process in the U.S.