

# College Accounting

Seventh Edition

Chapters 1-32

Price Haddock Brock



# COLLEGE ACCOUNTING

S E V E N T H E D I T I O N

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**GLENCOE**

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Macmillan/McGraw-Hill

New York, New York   Columbus, Ohio   Mission Hills, California   Peoria, Illinois



PHOTO CREDITS: Cover and page ii, Zigy Kaluzny/Tony Stone Images; page iv, Chuck Keeler/Tony Stone Images; v, (t) Jo Riley/Tony Stone Images, (b) Michael Krasowitz/FPG International; vi, (t) Comstock, Inc., (b) © Stock Imagery, Inc. 1992; vii, (t) Hickson and Associates, (b) Comstock, Inc.; viii, (t) Comstock, Inc., (b) Andy Sacks/Tony Stone Images; ix, (t) Dick Luria/FPG International, (b) Comstock, Inc.; x, (t) Comstock, Inc., (b) Bob Mullenix; xi, Hans Peter Merten/Tony Stone Images; xii, (t) Comstock, Inc., (b) Jim Pickerell/FPG International; xiii, (t) Bob Mullenix, (b) Comstock, Inc.; xiv, (t) Tim Brown/Tony Stone Images, (b) Comstock, Inc./C. Davidson; xv, Bob Thomason/Tony Stone Images; xvi, (t) Dennis Hallinan/FPG International, (b) Comstock, Inc.; xvii, (t) Howard Grey/Tony Stone Images, (b) Tom Tracy/FPG International; xviii, Charles Thatcher/Tony Stone Images; xix, (t) Tom Tracy/FPG International, (b) Comstock, Inc./George Lepp; xx, (t) Comstock, Inc./Hartman-DeWitt, (b) Comstock, Inc.; xxi, (t) Comstock, Inc., (b) Keith Wood/Tony Stone Images; 1, Bob Mullenix; 3, Chuck Keeler/Tony Stone Images; 22, Jo Riley/Tony Stone Images; 51, Michael Krasowitz/FPG International; 85, Comstock, Inc.; 112, © Stock Imagery Inc. 1992; 145, Hickson and Associates; 174, 175, 176, Todd Yarrington; 178, 229, Comstock, Inc.; 264, Andy Sacks/Tony Stone Images; 332, Dick Luria/FPG International; 369, 409, Comstock, Inc.; 449, Bob Mullenix; 491, 492, 493, 494, 495, 496, Todd Yarrington; 497, Tim Brown/Tony Stone Images; 499, Hans Peter Merten/Tony Stone Images; 529, Comstock, Inc.; 554, Jim Pickerell/FPG International; 585, Bob Mullenix; 608, Comstock, Inc.; 642, Tim Brown/Tony Stone Images; 687, Comstock, Inc./C. Davidson; 731, Bob Thomason/Tony Stone Images; 778, Dennis Hallinan/FPG International; 811, 812, 813, 814, 815, Todd Yarrington; 817, Comstock, Inc.; 853, Howard Grey/Tony Stone Images; 889, Tom Tracy/FPG International; 929, Tim Brown/Tony Stone Images; 931, Charles Thatcher/Tony Stone Images; 966, Tom Tracy/FPG International; 993, Comstock, Inc./George Lepp; 1028, Comstock, Inc./Hartman-DeWitt; 1057, 1088, Comstock, Inc.; 1123, Keith Wood/Tony Stone Images.

#### Library of Congress Cataloging-in-Publication Data

Price, John Ellis.

College accounting/John E. Price, M. David Haddock, Jr., Horace R. Brock.—7th ed.

p. cm.

Rev. ed. of: Accounting: basic principles/Horace R. Brock, Charles E. Palmer, John Ellis Price, 6th ed. c1990.

Includes index.

ISBN 0-02-801441-3

1. Accounting. I. Haddock, M. David. II. Brock, Horace R.

III. Brock, Horace R. Accounting. IV. Title.

HF5635.B8542 1993

657—dc20

93-19084

CIP

#### COLLEGE ACCOUNTING Seventh Edition

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Send all inquiries to:

GLENCOE DIVISION

Macmillan/McGraw-Hill

936 Eastwind Drive

Westerville, Ohio 43081

ISBN 0-02-801441-3

Printed in the United States of America.

1 2 3 4 5 6 7 8 9 10 RRD-W 00 99 98 97 96 95 94

# Preface

**T**he seventh edition of *College Accounting* is the most comprehensive revision of the text ever. While retaining the key features of prior editions—short units of instruction; a clear, concise writing style; numerous illustrations and examples; and abundant questions, exercises, problems, and projects—the authors have added a number of new features to meet the needs of today's business students and instructors. These new features are the result of discussions with students, adult learners, and instructors; on-campus visits; reviews of the text by accounting instructors; and comments received from adopters. Additionally, the authors have used a more integrated approach in their writing style to demonstrate the link between accounting and computers, business ethics, communication, and the international environment. These areas are essential to a successful career in business. This approach is endorsed by the Accounting Education Change Commission, which was created in 1989 by the American Accounting Association to direct national attention to the need for change in accounting education. The authors believe that this approach will help students to become better prepared to solve real-world problems.

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## RETENTION AND REINFORCEMENT

This edition employs a sound pedagogy for assisting a student to learn accounting. Each chapter introduces accounting concepts through short learning modules. At the end of each module the student can reinforce understanding through self-review questions and answers. This reinforcement technique allows a student to build on a mastery of each concept. Retention and reinforcement are further enhanced through the variety of end-of-chapter activities, including questions, exercises, problems, challenge problems, critical thinking problems, and the practice sets.

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## SOLID ACCOUNTING COVERAGE

The seventh edition of *College Accounting* reflects a solid coverage of accounting concepts and principles. The textbook establishes a foundation of accounting procedures within the traditional proprietorship accounting cycle and builds on this framework as it examines alternative methods of accounting for assets, liabilities, and equity accounts. In addition, the textbook expands on partnership, corporation, and managerial accounting concepts. This solid accounting coverage can serve as the basis for a student to elect advanced accounting courses or serve as the basic accounting requisite for a management, marketing, or finance degree.



## MAJOR TEXTBOOK CHANGES

The following summarizes the major changes that have been introduced in the student edition of the textbook.

- **NEW Four-Color Format.** A new, four-color format allows functional use of color for emphasis and in the design of diagrams, illustrations, and accounting forms. Moreover, money columns are highlighted in the accounting forms. Color is further used to distinguish journals, ledgers, and financial statements.
- **NEW Chapter Reorganization.** The new organization of chapters presents an orderly flow of accounting concepts. By reorganizing several chapters of the prior edition we offer a crisp and concise presentation of the accounting cycle, partnerships, and corporation accounting.
- **NEW Short Learning Modules.** Each chapter is divided into short learning modules. Each module is followed by a student self-check activity. The results of this activity will let students know how well they have mastered the accounting concepts in the module.
- **NEW Competency-Based Chapters.** Chapter objectives based on expected learner outcome introduce each chapter. Each objective is repeated in the margin alongside the text material that develops the objective. The objective is also keyed beside the exercises and problems that relate to the objective.
- **NEW Illustrations.** This edition makes widespread use of color illustrations. Examples of textbook illustrations include flow charts of accounting concepts, the use of T accounts to reinforce journal entries, diagrams that highlight posting procedures, and detailed financial statements.
- **NEW Vocabulary.** A new strategy to help students master accounting vocabulary is built into each chapter. All new terms are previewed on the chapter-opener page, appear in boldface type where defined, and are summarized in a glossary at the end of the chapter with page references. In addition, a master glossary appears at the end of the textbook, and the index highlights all defined terms.
- **NEW Communications, Ethics, Computers, and International Accounting Vignettes.** Short vignettes highlight timely adjunct areas of accounting suggested by the Accounting Education Change Commission of the American Accounting Association. These articles expand a student's horizon and allow the instructor to teach across the curriculum. Each article addresses a single concept and complements the chapter material without interrupting its natural flow. Selected vignettes are supported with student activities. For example, the communications activities not only illustrate business memos and letters but suggest student assignments that are typical of an accounting office envi-



ronment. The ethics vignettes are designed for lively classroom discussion and involve timely real-world events that closely identify with the chapter materials. Comprehensive instructor materials support all student activities.

- **NEW Margin Notes.** Major concepts are emphasized, and previously introduced concepts are reinforced in the margin. Learning objectives and points to remember are also highlighted.
- **NEW In-Text Worksheet Transparencies.** A special worksheet illustration using multiple overlay transparencies is bound into Chapter 5 of the textbook. This illustration highlights the procedures to prepare a worksheet on a step-by-step basis. The illustration culminates with the presentation of the financial statements that are prepared from the worksheet.
- **NEW Managerial Focus.** Each chapter concludes with a short discussion of real-world managerial applications. In addition, managerial questions are an integral part of every end-of-chapter activity section.
- **NEW End-of-Chapter Applications: Exercises, Problems A and B, Challenge Problem, and Critical Thinking Problem.** Each major concept in each chapter is supported with an exercise. The problems combine two or more major concepts and are presented in order from simple to complex. New to this edition is the introduction of a “Challenge Problem” and a “Critical Thinking Problem” for each chapter.
- **NEW Computer Activities.** Selected exercises and problems may be completed on a computer. These activities are designated by icons that indicate the nature of the software to be used: Tutorial, General Ledger, or Spreadsheet. The supplementary use of the computer adds a new dimension to student review and reinforcement of the material presented in the chapter.

## MAJOR FEATURES OF THE STUDENT SUPPORT MATERIALS

The following summarizes the major changes and features in the student support materials. These materials will assist the student in mastering the accounting concepts introduced in the textbook.

**Study Guide and Working Papers.** The Study Guide and the Working Papers are combined into one workbook. The Study Guide contains a step-by-step study plan, objective questions and exercises with self-check solutions, and a demonstration problem with solution. Working papers are supplied for all the Exercises, the A or B Problems, the Challenge Problem, and the Critical Thinking Problem.

**Computer Applications.** A variety of student software supports *College Accounting*, including an electronic study guide for tutorial use, general ledger software, and spreadsheet software. Detailed user's guides accompany all software packages.



**Electronic Study Guide.** Students may use a special tutorial computer-software package that contains study guide questions and tutorial activities similar to the designated textbook exercises and problems. A special feature of the tutorial software is a computer-generated program that reports to the student the objective questions that were correctly and incorrectly answered. A basic math review program is included in this software, as well as a review of generally accepted accounting principles.

**Accounting Software Systems.** *College Accounting* is supported by two basic types of accounting software systems: (1) the Glencoe integrated system ACCLAIM and (2) commercial software.

**ACCLAIM Software.** The ACCLAIM software, an integrated Glencoe program accompanied by a template disk, assists students in solving designated chapter exercises and problems. This software also allows students to solve the mini-practice sets in the textbook and the stand-alone practice sets that are available with *College Accounting*.

**Commercial Software.** Template disks are available to provide opportunities to solve selected chapter problems and practice sets using the most commonly used commercial accounting software: ACCPAC®, Simply Accounting, Dac-Easy®, and Peachtree®.

**Accounting Spreadsheet Software.** Two types of spreadsheet template disks are available for solving designated textbook problems: (1) a self-booting spreadsheet template disk and (2) a Lotus spreadsheet template disk.

**Dictionary of Accounting Terms.** A quick, easy reference to accounting and computer terms is offered in a separately bound dictionary of accounting terms. Each term has been defined using the terminology found in *College Accounting*. The computer terms will assist students who elect a microcomputer accounting course after completing the basic course.

## MAJOR FEATURES OF THE INSTRUCTOR'S SUPPORT MATERIAL

The following summarizes the major changes that have been made to the instructor's support materials. All these materials provide a variety of innovative teaching suggestions and alternative methods in presenting accounting concepts.

### Instructor's Wraparound Edition of the Textbook

For the first time, the college accounting instructor has a comprehensive teaching guide. This unique and innovative four-color textbook teaching guide combines the student edition with the instructor's edition to provide a wealth of teaching support. Teaching suggestions and strategies specifically focus on each major concept. Interesting business connections and real-world accounting facts and figures provide a learning link. Course management tips, pro-



gram components, pop quizzes, cooperative-learning strategies, life experience applications, reteaching strategies, and special-needs strategies are combined into this unprecedented publication.

### **Instructor's Resource Portfolio**

A variety of individual booklets designed to support multiple teaching needs are housed in a handsome, tabbed portfolio.

**Lesson Plans/Lecture Outlines.** Lesson plans and lecture outlines for each chapter are provided in a separately bound booklet. The booklet contains teaching objectives, student objectives, a list of instructor's tools, key terms, major concepts, assignments, and evaluation. The materials are perforated and can be duplicated as needed.

**How to Study Accounting.** A separate booklet offers specific techniques and suggestions to help students develop good study skills. The suggestions focus on methods that students can use when reading technical materials such as those found in accounting to aid them in sorting out key concepts that will facilitate their comprehension.

**Math Review.** A booklet of activities designed to help students review and develop their basic math skills is provided. It includes a pretest, specific instructions for solving problems, practice problems, and demonstration masters for use with the overhead projector. The activities are provided as blackline masters to facilitate their reproduction and distribution to students or conversion to overhead transparencies.

**Blackline Teaching Masters.** A set of blackline teaching masters that support the major concepts in each chapter, as well as a comprehensive set of accounting form masters, are provided in booklet form. These masters may be converted into transparencies to be used with the overhead projector or duplicated and distributed to students for classroom use.

**Strategies for Using Teaching Transparencies.** Another booklet offers suggestions on the most effective way to use each of the transparencies that are described below under "Teaching Transparencies." Suggestions are included for using the overhead projector and for duplicating the transparency for individual student use in conjunction with illustrations in the textbook.

**Strategies for Integrating Computers in Accounting.** A general discussion on using computers in the classroom, combined with specific strategies for incorporating computers in an accounting classroom, is provided in a self-contained booklet. A detailed review of the student and instructor software that accompanies *College Accounting* provides suggestions to maximize the effectiveness of each accounting software package in classroom or lab situations.

**Strategies for Teaching Ethics in Accounting.** This booklet begins with an overview of the importance of teaching ethics in the accounting classroom. The booklet also contains specific ways of introducing the textbook vignettes on ethics, as well as providing a decision model with solutions. Each student activity contains specific teaching guides for classroom discussion.

**Strategies for Infusing Communications in Accounting.** As a discussion of the importance of communications in accounting, this booklet provides general suggestions for helping students sharpen their skills in reading, analyzing, and reporting financial information. This booklet also contains rationales for communication projects, features, strategies, and evaluation guidelines. There are specific instructor solutions for each communication project. These solutions contain detailed background information and additional teaching suggestions.

**Strategies for Teaching Global Perspectives in Accounting.** An overview of the role of accounting in a global environment, as well as specific vignette discussion questions and answers, are provided in this instructor booklet. Also, there is a series of optional student activities that will broaden a student's international horizon.

## Testing Package

A variety of testing resources are available with *College Accounting*. The flexibility of these resources will allow an instructor to design a testing program specifically tailored to the aims and objectives of the course.

**Test Bank.** The test-bank book contains true-false questions, multiple-choice questions, fill-in questions, and problems and solutions for each chapter. Each solution immediately follows its question.

**Test Bank Software.** This test bank is an electronic version of the test-bank book. Its software program allows an instructor either to select individual test questions or to select randomly and customize a test. Moreover, the software has the flexibility to allow instructors to incorporate additional testing materials into the program.

**Achievement Tests.** A and B versions of an achievement test have been developed for each chapter. These tests contain a combination of objective questions and problems to measure the student's understanding of the major concepts of the chapter.

## Solutions Manuals

Annotated editions of the Student Study Guide and Working Papers provide solutions to the exercises and problems at the end of each chapter. For clarity, student solutions appear in a second color.



### Solutions Transparencies

Boxed volumes of solution transparencies are available for all exercises and problems. The large-type format will project well using an overhead projector.

### Teaching Transparencies

Four-color teaching transparencies that illustrate selected major accounting concepts in the textbook are supplied in a separate package. They summarize concepts and enhance textbook illustrations.

### Accounting Cycle Reinforcement Video

A video discusses the major concepts introduced in the accounting-cycle section of *College Accounting*. The step-by-step presentation of each concept offers an excellent method of introducing a specific accounting topic or of reviewing it.

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## MANUAL AND COMPUTER-ASSISTED PRACTICE SETS

Three practice sets are designed to accompany *College Accounting*. Each practice set may be completed manually or on the computer.

**Whitewater Wilderness Canoe Livery** is a sole proprietorship service business that uses source documents, general journals, general ledgers, work sheets, and a filing system. This set can be completed after Chapter 6.

**Wood n' Things** is a sole proprietorship merchandise business that uses source documents, special journals, general ledger, subsidiary ledger, work sheet, accounting forms, and a filing system. This set can be completed after Chapter 13.

**SoftBooks, Inc.** is a corporation practice set that summarizes annual events and concentrates on the financial analysis of the data recorded. Through it, the student will also gain experience in the preparation of adjustments, financial statements, and closing entries.

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## AUTHOR ACKNOWLEDGMENTS

The authors wish to express their appreciation to all of the following professionals for their generous contributions:

Dr. Michael R. Lane, CPA, Director, MBA Program, Bradley University

Ms. Nina Watson, MSBE, Consultant in Language Arts

Mr. Howard Donaldson, CPA, Glencoe Publishing

Ms. Linda Herrington, CPA, Community College of Allegheny County

Dr. Carolyn Hagler, Associate Professor, The University of Southern Mississippi

A special note of appreciation is in order for Dr. Charles E. Palmer, Professor Emeritus, for the many years that he has been associated with accounting education and the writing and editing of many quality accounting publications.

# Acknowledgments

The authors are deeply grateful to the following accounting educators for their ongoing involvement with the *College Accounting* program. As the program moves from edition to edition, the efforts of these knowledgeable and dedicated instructors provide the authors with extremely valuable assistance in meeting the changing needs of the college accounting classroom.

George Allen  
Bishop State Community College

Andy Anderson  
Bryan Institute

Jere Anderson  
Alexandria Technical College

John Nigro  
Stone Academy

Richard Arlen  
Schoolcraft College

Judy Austin  
Shelton State Community College

Marilyn Beebe  
Kirkwood Community College

Carol Cardone  
The Cittone Institute

George Carter  
New Hampshire Technical College

Mike Choma  
New Kensington Commercial School

Craig Christopherson  
Richland College

Carol Ciulli  
The Sawyer Schools

George Converse  
Stone Academy

Harvey Cooke  
Penn Valley Community College

Kathy Denham  
Edmunds Community College

Lela Eldridge Denson  
Volunteer State Community College

Elsie Dubac  
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Barnes Business College

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Tampa College

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Richard Irvine  
Pensacola Junior College

Vernamae Johnson  
Brown Mackie Business College

Marilyn Jones  
Friends University

Carol Keltner  
Manhattan AVTS

Don King  
ITT



## **xxxii ■ ACKNOWLEDGMENTS**

Frank Korman  
Mountain View College  
Dr. Tom Land  
Bessemer State Technical College  
Gene Lefort  
Thibodaux Technical Institute  
Carol Lemen  
Odessa College  
Lenny Long  
Fisher College  
Susie Mackey  
Charter College  
Dr. Ty Mathews  
Broward Community College-S  
Bill McDowell  
Central Alabama Community College  
Connie McGee  
American Institute of Commerce  
William Mittelstadt  
American Institute of Commerce  
Paul Morgan  
Mississippi Gulf Coast Community  
College  
William D. Newsom  
State Technical Institute at Memphis

George Olson  
New England Banking Institute  
Rick Orszulak  
Pittsburgh Office Management Center  
Robert Painter  
St. Petersburg Junior College  
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Mercer County Community College  
Carmen Salinas  
San Antonio College  
Billie Scott  
Northeast Kansas AVTS  
Linda Scott  
Ivy Tech  
Nelda Shelton  
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State Technical Institute at Memphis  
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Ayers State Technical College  
Naomi Ward  
Northwest AVTS  
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Dale Westfall  
Midland College  
Richard Whiteside  
Mississippi Gulf Coast Community  
College  
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## THE NEED FOR FINANCIAL INFORMATION

Suppose a relative leaves you a substantial sum of money and you decide to carry out your lifelong dream of opening a small shop to sell sportswear. You rent space in a local shopping center, purchase fixtures and equipment, purchase goods to sell, hire salespeople, and open the store to customers. Before long you realize that, to run your business successfully, you will need financial information about the business. To obtain the information you need, someone must gather data about the firm's financial affairs and analyze that data.

What type of financial information do you need to operate your business successfully? At regular intervals you will probably need answers to the following questions:

- How much cash does the business have?
- How much money do customers owe the business?
- What is the cost of the merchandise sold?
- How much did the volume of sales increase?
- What is the amount owed to suppliers?
- How much profit has the firm made?

As your business grows, you will need even more financial information to evaluate the firm's performance and make decisions about the future. An efficient accounting system allows owners and managers to obtain a wide range of useful information quickly. Timely information is one reason it is so important for a business to have a well-run accounting system directed by a professional staff.

## ACCOUNTING DEFINED

### OBJECTIVE 1

Define accounting.

**Accounting** is the process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties. An **accounting system** is designed to accumulate data about a firm's financial affairs, classify the data in a meaningful way, and summarize it in periodic reports called **financial statements**. Owners and managers receive much of the information they need from financial statements. The accountant not only establishes the records and procedures that make up the accounting system and supervises the operations of the system but also interprets the resulting financial information. Most owners and managers rely heavily on the accountant's judgment and knowledge when making financial decisions.

## ACCOUNTING CAREERS

### OBJECTIVE 2

Identify and discuss career opportunities in accounting.

Many jobs are available in accounting, and they require varying amounts of education and experience. Bookkeepers and accountants are responsible for keeping records and providing the financial information about the business. Generally bookkeepers are responsible for the recording of business transactions. In large firms bookkeepers may also supervise the work of accounting clerks who are responsible for the record-keeping function of part of the accounting system—perhaps payroll, accounts receivable, or accounts payable. Accountants usually supervise bookkeepers and prepare the financial statements and reports of the business.

Newspapers often carry classified advertisements for accounting clerks, bookkeepers, and accountants. Accounting clerk positions usually require a minimum of one to two semesters of accounting courses and little or no experience. Bookkeeper positions usually require a minimum of one to two years of accounting education plus experience as an accounting clerk. Accountant positions usually require a college degree but are sometimes filled by experienced bookkeepers or individuals with a two-year college degree. Most entry-level positions for accountants do not have an experience requirement; however, both the education and experience requirements for these positions will vary according to the size of the firm. Accountants usually choose to practice in one of three areas: public accounting, managerial accounting, or governmental accounting.

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## Public Accounting

The largest public accounting firms in the United States are referred to as the “Big Six.” These firms are Arthur Andersen & Co.; Coopers and Lybrand; Deloitte and Touche; Ernst & Young; Peat, Marwick, Main & Co.; and Price Waterhouse & Co.

**Public accountants** belong to firms whose major business is the performance of accounting services for other companies. These firms are called public accounting firms. They offer three major types of services: auditing, tax accounting, and management advisory services. Many public accountants are **certified public accountants (CPAs)**. A CPA is an independent accountant who provides accounting services to the public for a fee. To become a CPA, an individual must have earned a certain number of college credits in accounting courses, demonstrate good personal character, pass the Uniform CPA Examination, and fulfill the experience requirements of the state of practice.

**Auditing** is the review of financial statements to assess their fairness and adherence to generally accepted accounting principles. Auditing is performed by auditors who are CPAs. **Tax accounting** is a service offered by public accounting firms that involves tax compliance and tax planning. Tax compliance is any activity associated with the preparation of tax returns and the audit of those returns. Tax planning involves giving advice to clients on how to legally structure their financial affairs to reduce their tax liability. Providing **management advisory services** involves helping clients improve their information systems or improve their business performance.

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## Managerial Accounting

**Managerial accounting**, also referred to as private accounting, involves working on the staff of a single business in industry. Managerial accountants perform a wide range of activities. They establish a company’s accounting policies, direct its accounting system, prepare its financial statements, interpret its financial information, and provide financial advice to management. In addition, managerial accountants prepare tax forms, perform tax planning services for the company, and prepare internal reports for management.

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## Governmental Accounting

**Governmental accounting** involves keeping financial records and preparing financial reports as part of the staff of federal, state, or local governmental units. Although governmental units do not earn profits, they receive and pay out huge amounts of money and must have procedures for recording and managing this money. Govern-