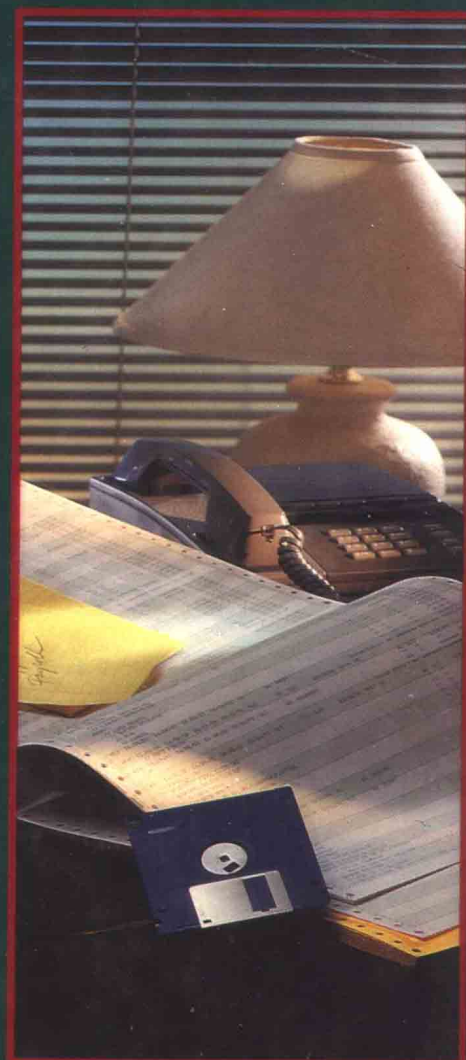
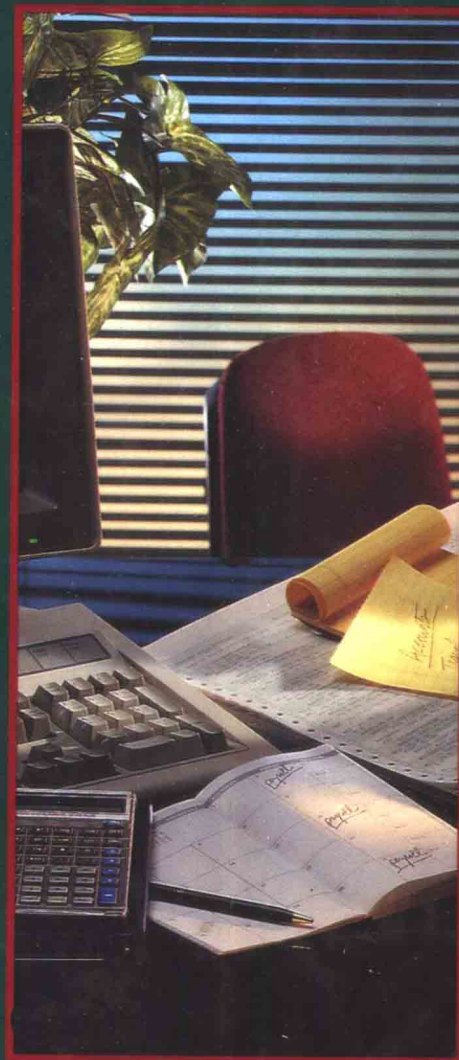
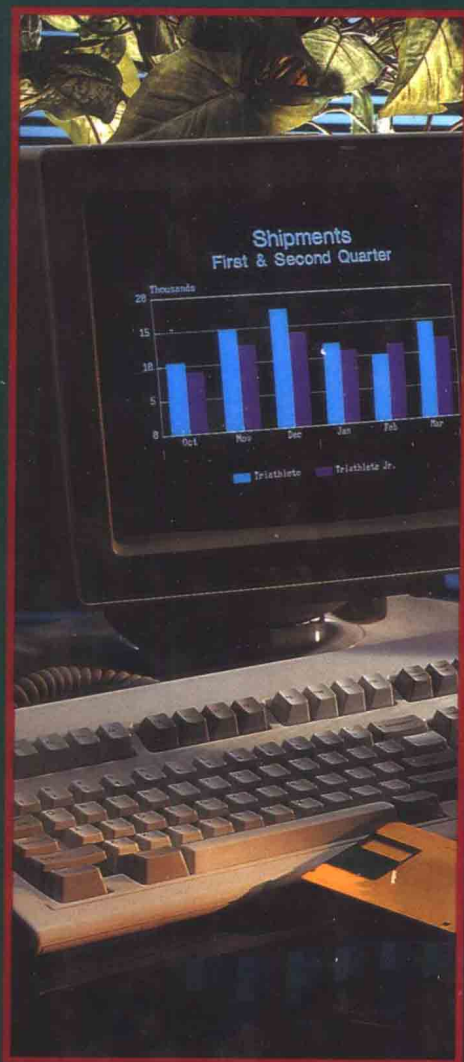


ADVANCED COURSE
SECOND EDITION

G L E N C O E Accounting

CONCEPTS/PROCEDURES/APPLICATIONS



Guerrieri/Haber/Hoyt/Turner

CONCEPTS/PROCEDURES/APPLICATIONS

**Advanced Course
Second Edition**

DONALD J. GUERRIERI
Norwin Senior High School

F. BARRY HABER
Fayetteville State University

WILLIAM B. HOYT
Wilton High School

ROBERT E. TURNER
McNeese State University

GLENCoe

Donald J. Guerrieri is an accounting instructor at Norwin Senior High School, North Huntingdon, Pennsylvania. He has taught accounting at both the secondary and college levels. He also has experience working for a firm of certified public accountants. Dr. Guerrieri has written numerous articles on the teaching of accounting for a variety of educational journals. He is also a program speaker at business education seminars and conferences.

F. Barry Haber is Professor of Accounting at Fayetteville State University, Fayetteville, North Carolina. Dr. Haber is a certified public accountant and is active in the American Institute of Certified Public Accountants, where he has served on the AICPA Minority Doctoral Fellows Committee. In addition to teaching accounting principles, Dr. Haber has authored three other textbooks, as well as various articles and cases in accounting.

William B. Hoyt is head of the Business Education Department at Wilton High School, Wilton, Connecticut. In addition to teaching accounting, he has been active in the development of microcomputer usage in business education courses. In this endeavor, he has taken part in panel discussions, given workshops, and written on the use of microcomputers in the accounting instruction.

Robert E. Turner is the Vice President for Business Affairs at McNeese State University, Lake Charles, Louisiana. Mr. Turner has taught accounting and other business subjects at the high school and college levels. Mr. Turner has appeared on the programs of a number of business education conferences. He is also a frequent speaker at educational seminars around the country.

Copyright © 1993 by the Glencoe Division of Macmillan/McGraw-Hill Publishing Company. Originally copyrighted in 1988, 1985, by Houghton Mifflin. All rights reserved. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without prior written permission of the publisher.

Send all inquiries to:

Glencoe Division, Macmillan/McGraw-Hill
936 Eastwind Drive
Westerville, OH 43081

ISBN: 0-02-800123-0

Printed in the United States of America

2 3 4 5 6 7 8 9 10 VH 00 99 98 97 96 95 94 93

Preface

It has been said that “Accounting is the language of business.” It might also be said that “The ability to *apply* accounting knowledge is critical to success in business.” Mere knowledge of accounting terminology and principles is not enough to be effective in the business world; one must be able to *apply* that knowledge in planning, controlling, predicting, and evaluating. Furthermore, to be successful in today’s competitive business environment, one should be able to utilize fully the potential of the computer in applying that knowledge.

Glencoe Accounting, Concepts/Procedures/Applications, Advanced Course, Second Edition, not only reconfirms and reinforces basic principles, procedures, and terminology learned in first year accounting, it also provides the opportunity to apply that knowledge in greater depth. This depth of application, coupled with a widening horizon of computer experience, will more nearly ensure that students have the tools to make the most of further study or to successfully enter the business world. It is a comprehensive program that continues to emphasize sound methodology, proven practices, and solid applications to help students succeed.

There are two basic reasons why students study a second year of accounting at the high school level. First, many students study advanced accounting because they plan to major in accounting in college and they want to be better prepared for their college courses. Second, high school graduates seeking employment immediately after high school will be more qualified for entry-level accounting jobs if they have completed two years of study in accounting.

Glencoe Accounting, Concepts/Procedures/Applications, Advanced Course, Second Edition, is designed to be used by the college-bound student as well as the vocational student. The textbook covers much of the same material that students will study in the beginning college accounting course, but at a level suitable for high school students. The coverage of practical accounting procedures—such as those for uncollectible accounts and plant assets—will help prepare students for the various tasks they will encounter on the job. The use of the computer will open students’ eyes to its potential as a tool in accounting. Finally, the number and variety of problems and reinforcement activities will help students assimilate and apply the accounting principles and procedures in the textbook.

Course Objectives

Glencoe Accounting, Concepts/Procedures/Applications, Advanced Course, Second Edition is designed to be used in the second year of a complete two-year financial accounting course.

After studying this textbook and successfully completing activities in the textbook and the related working papers, students will be able to:

1. Understand both the basic and advanced principles and procedures that are applied to accounting records kept for profit-oriented businesses.
2. Use common techniques to analyze and interpret financial statements.
3. Describe the differences in accounting for the three types of business organizations: sole proprietorships, partnerships, and corporations.
4. Apply accounting procedures for not-for-profit organizations.
5. Describe the accounting systems used by departmentalized, branch, and manufacturing businesses.
6. Understand the information required for the planning and control of business operations.

Organization of the Textbook

Glencoe Accounting, Concepts/Procedures/Applications, Advanced Course, Second Edition is organized in six units of twenty-five chapters. The first unit of the textbook reviews the basic principles and procedures that students learned in their first-year study of accounting. In Chapter 1, students review the first five steps of the accounting cycle as they analyze, journalize, and post various business transactions. In Chapter 2, students review the final five steps of the accounting cycle as they complete the end-of-fiscal-period activities for a merchandising business organized as a closely held corporation. This unit provides students with a solid base from which to expand their accounting knowledge.

Unit 2 elaborates upon transactions and procedures introduced in the first-year accounting course. The chapters within the unit are presented in the same order as the related accounts would appear on the balance sheet. In Chapter 3, students look at procedures that affect a corporation's cash, marketable securities, and accounts receivable. Chapter 4 discusses notes receivable. Merchandise inventory costs and investments are the topic of Chapter 5. The depreciation and disposal of plant assets, as well as a brief discussion of intangible assets, are covered in Chapter 6. Chapter 7 presents current liabilities, particularly notes payable. Long-term liabilities such as bonds are discussed in Chapter 8. In Chapter 9, students move on to stockholders' equity, specifically transactions involving the issuance of stock. Dividends, treasury stock, and the appropriation of retained earnings are covered in Chapter 10. Chapter 11 pulls the topics discussed in the unit together as students complete the end-of-period activities for a publicly held corporation.

Unit 3 introduces students to the uses of financial information for decision making. Chapter 12 presents several different methods and techniques that can be used to analyze and interpret the information presented in various financial statements. In Chapter 13, students learn

how to prepare the fourth major financial statement prepared by businesses: the statement of cash flows.

The first two chapters of Unit 4 introduce students to the partnership form of business organization. Students learn how to account for the formation, dissolution, and liquidation of a partnership in Chapter 14 and how to divide partnership earnings in Chapter 15. The last two chapters in the unit focus on the accounting system used by not-for-profit organizations. In Chapter 16, students learn about the budgeting process, a major tool of a fund accounting system. Chapter 17 covers the financial statements prepared by a not-for-profit organization.

Unit 5 covers special accounting systems. In the first two chapters of the unit, students learn about the accounting systems and financial statements prepared by departmentalized businesses and businesses with branch operations. Chapter 20 presents the voucher system. The last two chapters in the unit introduce manufacturing businesses and procedures followed in a cost accounting system.

Unit 6 is an entirely new unit on managerial and cost accounting that emphasizes those procedures used to make appropriate management decisions.

Special Features

Glencoe Accounting, Concepts/Procedures/Applications, Advanced Course, Second Edition uses full color to heighten student interest, emphasize key features, and illustrate important procedures. It continues the major features of the first-year textbook. These features are designed to promote student interest, involvement, and success.

Accounting cycle approach. The textbook uses a traditional accounting cycle approach to introduce students to new concepts and procedures. This step-by-step development gives students the guidance they look for and clearly demonstrates the continuity and interrelationships of the accounting process.

Chapter objectives. Clearly defined and stated objectives are included at the beginning of each chapter to help students know exactly what they are expected to learn. The mastery of these objectives is evaluated through end-of-chapter activities, applications, and examinations.

Vocabulary emphasis. The new accounting terms that are defined in each chapter are listed on the first page of the chapter. This list, which can be used to “preview” the meaning of each term, helps students achieve greater understanding and retention of the material in the chapter. End-of-chapter vocabulary reviews reinforce understanding of key terms.

Clear, conversational narrative. The textbook is written in a style that is appropriate for high school students. Simple analogies make concepts meaningful. Abundant, colorful illustrations and examples guide students through the preparation of accounting records.

Emphasis on transaction analysis. A solid review of the rules of debit and credit and the six-step method of analyzing transactions appears in the

first unit of the textbook. Understanding the “why” of transaction analysis ensures that the “how” comes naturally.

Frequent learning reinforcement. “Check Your Learning” reinforcement activities follow major sections in every chapter to help students assume the responsibility for their own learning. “Remember” notes summarize key points and help cement important facts in students’ minds. “Accounting Tips” at appropriate intervals remind students of essential practices and procedures. “Accounting Notes” inform students of interesting facts about business and the practice of accounting.

Chapter summaries. The key points in each chapter are presented in a numbered list format at the end of the narrative in each chapter.

Solid, end-of-chapter activities. Vocabulary reviews reinforce key accounting terms. Review questions help students expand their understanding of accounting concepts. Short activities encourage students to improve their skills in such important areas as decision making, communications, analysis, math, and human relations. A variety of exercises and problems, ranging from easy to challenging, gives students of all abilities the chance to gain practical accounting experience and to enjoy success.

Comprehensive application activities. These five applications, at appropriate points in the textbook, require students to integrate new knowledge with learned procedures and to apply their cumulative skills.

Computer orientation. Information about computerized accounting systems is integrated into the narrative, providing computer awareness for all students. Short vignettes, called “Focus on Computers,” introduce specific aspects of computer technology. A broad range of computer activities is available on optional software for end-of-chapter problems, application activities, and simulations. While use of the computer is encouraged, it is not required for successful completion of the course.

Career orientation. “Focus on Accounting Careers” vignettes provide students with a look at interesting jobs in the accounting world.

Complete learning package. A complete package of student and teacher materials is available for the advanced accounting course. This package includes the textbook, teacher’s edition of the textbook, teacher’s manual, transparencies, student working papers, teacher’s edition of the working papers, tests, a business simulation, and software.

Acknowledgments

We wish to thank those individuals and companies that provided advice and assistance in the development of this program. We owe a debt of gratitude to thousands of teachers and students who used the first edition of the textbook and who offered encouragement, suggestions, and advice in making a good accounting program even better.

We especially wish to thank the Accounting Advisory Committee, composed of ten master accounting teachers from across the country, who provided excellent guidance and advice in the development and review of this program.

Finally, we wish to thank our families, colleagues, and friends who offered constant encouragement and support as we worked on the second edition.

Donald J. Guerrieri
F. Barry Haber
William B. Hoyt
Robert E. Turner

We wish to acknowledge the contributions of the members of the Accounting Advisory Committee in the revision of the accounting program. The members of the committee are:

DeVon Allmaras
Longmont High School
Longmont, Colorado

David McDonald
Rincon High School
Tucson, Arizona

Gail Blair
William Floyd High School
Mastic Beach, New York

John Nigro
North Haven High School
North Haven, Connecticut

Jackie Dean
Washington High School
Washington, North Carolina

Nate Rosenberg
Palo Alto High School
Palo Alto, California

Gloria Farris
Seneca High School
Louisville, Kentucky

Michael Sailes
Carver Area High School
Chicago, Illinois

Ruth Hennessy
Comeaux High School
Lafayette, Louisiana

Emma Jo Spiegelberg
Laramie High School
Laramie, Wyoming

Contents

	Preface	vii
Unit 1	The Accounting Cycle	1
1	Reviewing the First Five Steps of the Accounting Cycle	3
	<i>Focus on Computers: Database Management: A Way to Organize and Find the Latest Information Fast!</i>	35
2	Reviewing the Final Five Steps of the Accounting Cycle	36
	<i>Focus on Accounting Careers: Accounting: A Dangerous Career</i>	59
	Application Activity 1: A Complete Accounting Cycle for a Merchandising Business	60
Unit 2	Accounting for Assets, Liabilities, and Equity	65
3	Cash, Marketable Securities, and Accounts Receivable	68
	<i>Focus on Accounting Careers: Taking Accounting to Court</i>	94
4	Notes Receivable	95
	<i>Focus on Computers: Computers Point the Finger at Poor Credit Risks</i>	118
5	Inventories and Investments	119
	<i>Focus on Accounting Careers: Computer Consultant: Two Careers in One</i>	141
6	Property, Plant, and Equipment Assets and Intangible Assets	142
	<i>Focus on Computers: Online Accountants: Using Computers to Keep Current</i>	170
	Application Activity 2: Accounting for Current and Long-Term Assets	171
7	Accounts Payable, Notes Payable, and Other Current Liabilities	173
	<i>Focus on Computers: Graphic Designers: Using Computers to Save Time Creatively</i>	197
8	Long-Term Liabilities	198
	<i>Focus on Computers: Astronomically Advanced Computers</i>	225
	Application Activity 3: Accounting for Liabilities	226

9	Stockholders' Equity: Contributed Capital	230
	<i>Focus on Computers: Computers: Helping Make April 15 Less Taxing</i>	257
10	Stockholders' Equity: Earnings and Distributions	258
	<i>Focus on Accounting Careers: Financial Planners: Helping Clients Reach Their Goals</i>	279
11	Work Sheet and Financial Statements	280
	<i>Focus on Computers: Accounting on the Go</i>	307
	Application Activity 4: Accounting for a Publicly Held Corporation	308
	Heritage Home Center simulation	312
Unit 3	Understanding Business Information	313
12	Analyzing and Interpreting Financial Statements	314
	<i>Focus on Accounting Careers: International Accounting: The Best of Many Worlds</i>	335
13	The Statement of Cash Flows	336
	<i>Focus on Computers: Using Blocks, Rubber Bands, and Computers to Learn Math</i>	365
Unit 4	Accounting for Other Forms of Organization	366
14	Partnerships: Formation, Dissolution, and Liquidation	367
	<i>Focus on Computers: Computers in the Home/Office: Making Little Businesses Work Like Big Ones</i>	388
15	Partnerships: Division of Profits and Losses	389
	<i>Focus on Computers: Teaching With Technology</i>	408
16	Not-for-Profit Organizations: Budgeting and Control	409
	<i>Focus on Accounting Careers: Accounting in Government Circles</i>	437
17	Not-for-Profit Organizations: Financial Reporting	438
	<i>Focus on Accounting Careers: Balancing Costs and Benefits</i>	460
Unit 5	Special Accounting Systems	461
18	Departmental Accounting Systems	462
	<i>Focus on Computers: Computer Networking at Work</i>	486
19	Branch Accounting	487
	<i>Focus on Computers: Word Processing: Letting Businesses Streamline Communications</i>	517
20	The Voucher System of Accounting	518
	<i>Focus on Computers: Speaking Out on Voice-Activated Computers</i>	541
21	Manufacturing Accounting	542
	<i>Focus on Accounting Careers: Using Accounting Skills to Make Management Decisions</i>	567
22	Product Costing: Job and Process Cost Accounting Systems	568
	<i>Focus on Computers: Using Computers to Run High-Tech Dairy Farms</i>	598
	Application Activity 5: Preparing Financial Statements for a Manufacturing Business	599

Unit 6	Accounting for Business Decisions	601
23	Managerial Cost Control	602
	<i>Focus on Computers: Decision Support Systems: The Edge of Profitability</i>	617
24	Cost-Volume-Profit Relationships	618
	<i>Focus on Computers: Electronic Spreadsheets Open a Window to Business Opportunities</i>	638
25	Using Cost Data for Pricing Decisions	639
	<i>Focus on Computers: Computers and the Physically Challenged</i>	655
	Appendix A Optional Reinforcement Problems	657
	Answers to “Check Your Learning” Activities	676
	Glossary	683
	Credits	696
	Index	697

UNIT 1

THE ACCOUNTING CYCLE

In this unit, you will review the basic principles and procedures you learned during your first-year study of accounting. You will review the accounting equation and the effects of business transactions on assets, liabilities, and owner's equity. You will analyze various types of transactions for Campers Unlimited, a merchandising corporation. You will journalize the transactions in special journals and post the amounts to the general and subsidiary ledgers. You will then complete the end-of-period activities for the business.

By the time you finish studying the two chapters in this unit, you will have reviewed the complete accounting cycle.





CAMPERS UNLIMITED

Chart of Accounts

ASSETS	101	Cash in Bank
	105	Accounts Receivable
	110	Merchandise Inventory
	115	Supplies
	120	Prepaid Insurance
	150	Store Equipment
LIABILITIES	201	Accounts Payable
	205	Employees' Federal Income Tax Payable
	210	Employees' State Income Tax Payable
	215	Federal Income Tax Payable
	220	Federal Unemployment Tax Payable
	225	FICA Tax Payable
	230	Insurance Premiums Payable
	235	Sales Tax Payable
	240	State Unemployment Tax Payable
STOCKHOLDERS' EQUITY	301	Capital Stock
	305	Retained Earnings
	310	Income Summary
REVENUE	401	Sales
	405	Sales Discounts
	410	Sales Returns and Allowances
COST OF MERCHANDISE	501	Purchases
	505	Transportation In
	510	Purchases Discounts
	515	Purchases Returns and Allowances
EXPENSES	601	Advertising Expense
	605	Bank Card Fees Expense
	610	Insurance Expense
	615	Miscellaneous Expense
	620	Payroll Tax Expense
	625	Rent Expense
	630	Salaries Expense
	635	Supplies Expense
	640	Utilities Expense
	650	Federal Income Tax Expense

Reviewing the First Five Steps of the Accounting Cycle

Accounting, you'll remember, is the process of recording and reporting financial events, or transactions. *Business transactions* are events that directly affect the operation of a business. Whenever a transaction occurs, the business's financial position changes. The purpose of an accounting system is to process the financial information and report it to interested users.

In this chapter, you will first review the basic accounting equation and the rules of debit and credit for the various types of accounts. Then you will review the first five steps of the accounting cycle, from analyzing transactions to preparing a trial balance.

LEARNING OBJECTIVES

When you have completed this chapter, you should be able to

1. Describe the effects of various business transactions on the basic accounting equation.
2. Record business transactions in special journals and in the general journal.
3. Post business transactions to the general and subsidiary ledger accounts.
4. Prove the accuracy of the subsidiary ledgers.
5. Prepare a trial balance.
6. Define the accounting terms presented in this chapter.

NEW Terms

assets • liabilities • stockholders' equity • basic accounting equation • account • double-entry accounting • debit • credit • fiscal period • revenue • cost of merchandise • expenses • general ledger • accounting cycle • source document • journal • sales journal • cash receipts journal • purchases journal • cash payments journal • general journal • contra account • correcting entry • posting • subsidiary ledger • controlling account • trial balance

The Basic Accounting Equation

In your previous study of accounting, you learned that **assets** are items of value owned or controlled by a business. Cash, accounts receivable, supplies, equipment, buildings, and land are all examples of assets. The financial claims (property rights) to those assets are referred to as *equity*. In accounting, there are two types of equity. First, there are **liabilities**, the creditors' claims to the business's assets. Liabilities are the debts of the business. Second, there are the owner's claims to the assets. In a sole proprietorship, the owner's claims are known as *owner's equity*. In this unit, you will study the accounting records of Campers Unlimited, which is organized as a corporation. In a corporation, the owners' claims are known as **stockholders' equity**.

In accounting, total assets are always equal to total equities. This relationship is set out in the **basic accounting equation**:

$$\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$$

Double-Entry Accounting

As a business begins operations and records business transactions, its financial position changes. The business records these changes in the asset, liability, and stockholders' (or owner's) equity accounts. An **account** is a record of the increases and decreases in and the balance for a specific item, such as supplies.

In the **double-entry accounting** system, every business transaction affects the balance in at least two accounts. The increases and decreases in accounts caused by business transactions are recorded as debits and credits. A **debit** is an amount entered on the left side of an account. A **credit** is an amount entered on the right side of an account. Each transaction has a debit part and a credit part, and the total debit part must equal the total credit part. The basic accounting equation therefore always remains in balance.

The rules of debit and credit for asset, liability, and stockholders' equity accounts are as follows:

Assets		=	Liabilities		+	Stockholders' Equity	
Debit	Credit		Debit	Credit		Debit	Credit
+	-		-	+		-	+
Increase Side	Decrease Side		Decrease Side	Increase Side		Decrease Side	Increase Side
Balance Side				Balance Side			Balance Side

R E M E M B E R

The left side of an account is the debit side. The right side of an account is the credit side.

Asset, liability, and stockholders' equity accounts are *permanent accounts*. Their balances are carried forward from one accounting period

See "ACCOUNTING NOTES ..." below.

to the next. A business also has *temporary accounts*. Temporary accounts are used for one **fiscal period**, or the time covered by an accounting report. At the end of the period, the balances of the temporary accounts are transferred to the stockholders' equity account Retained Earnings.

For a merchandising business, temporary accounts include revenue, cost of merchandise, and expense accounts. **Revenue** is the income earned from the sale of goods and services. The **cost of merchandise** accounts record the actual cost to the business of the merchandise that will be resold to customers. **Expenses** are the amounts paid for goods and services used to operate the business. The rules of debit and credit for the temporary accounts are as follows:

Revenue		=	Cost of Merchandise		+	Expenses	
Debit	Credit		Debit	Credit		Debit	Credit
-	+		+	-		+	-
Decrease Side	Increase Side		Increase Side	Decrease Side		Increase Side	Decrease Side
	Balance Side		Balance Side			Balance Side	

All of a business's accounts, whether kept manually or electronically, are referred to as the **general ledger**. A complete list of a business's accounts appears in the *chart of accounts*. A chart of accounts for Campers Unlimited appears on page 2. Take a moment to look at it. Notice that each account has a number and has been placed into one of the six classifications.

The Steps in the Accounting Cycle

The **accounting cycle** refers to the activities a business completes within a fiscal period to keep its accounting records in order. The accounting cycle consists of ten steps:

1. Collect source documents and verify the data on them.
2. Analyze business transactions.
3. Journalize business transactions.
4. Post each entry to the ledger accounts.
5. Prepare a trial balance.
6. Complete the work sheet.
7. Prepare the financial statements.
8. Journalize and post the adjusting entries.
9. Journalize and post the closing entries.
10. Prepare a post-closing trial balance.

In this chapter, you will review steps 1 through 5 of the accounting cycle. Chapter 2 will cover steps 6 through 10. In these two chapters, you will go through the complete accounting cycle for Campers Unlimited, a merchandising business organized as a corporation. Let's now look at the first step.

ACCOUNTING

The word *fiscal* refers to financial matters. The fiscal period used by a business will vary from one company to another. One business may choose a six-month fiscal period while another may prefer a twelve-month period. A twelve-month fiscal period often does not coincide with the calendar year.

Collecting and Verifying Source Documents

As each business transaction occurs, the accounting clerk prepares a paper as evidence that the transaction took place. This paper is called a **source document**. Some common source documents are invoices, receipts, memorandums, check stubs, and sales slips. The accounting clerk begins the accounting cycle by collecting these source documents and checking the accuracy of the information and calculations contained on the documents.

Analyzing Business Transactions

After verifying a source document, the accounting clerk performs the second step in the accounting cycle: analyzing the information on the document to determine the debit and credit parts of the transaction.

To analyze a business transaction, you must determine the answers to these six questions:

1. Which accounts are affected?
2. What is the classification of each account?
3. Is each account increased or decreased?
4. Which account is debited, and for what amount?
5. Which account is credited, and for what amount?
6. What is the complete entry?

R E M E M B E R

The debit and credit parts of each transaction must be equal.

Before reading further, do the following activity to check your understanding of the material you have just studied.



Check Your Learning

Write your answers to the following questions on a sheet of notebook paper.

1. In accounting, the two types of equity are ____?____ and ____?____.
2. Assets = Liabilities + Stockholders' Equity is referred to as the ____?____.
3. The ____?____ is a complete listing of a business's accounts.
4. Supplies is classified as a(n) ____?____ account.
5. The revenue account Sales normally has a ____?____ balance.

Compare your answers to those in the answers section, which begins on page 676. Reread the preceding part of the chapter to find the correct answers to any questions you may have missed.