

College Accounting

CHAPTERS 1-32

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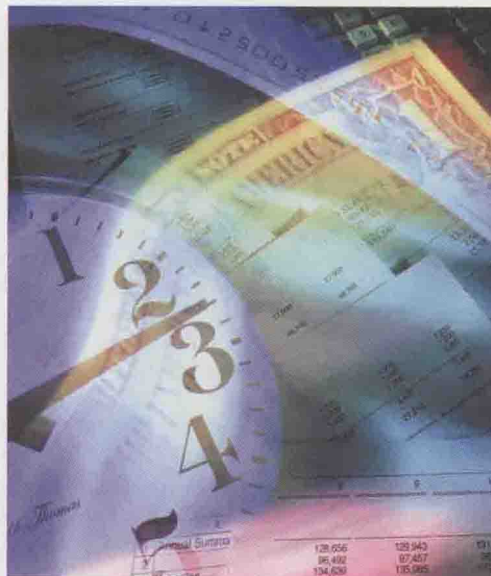
Updated

Tenth Edition

College Accounting

UPDATED TENTH EDITION

CHAPTERS 1 – 32



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COLLEGE ACCOUNTING, UPDATED TENTH EDITION
CHAPTERS 1–32

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Preface

Who do you want to be? Do you hope to become a dynamic leader, one of the inspirational members of a corporate team, an innovative contributor in a new business startup? Do you want to solve tough management challenges while utilizing your business skills to the fullest extent possible? If you answered “yes” to these questions, these desires can become a reality. Career development begins by constructing a framework of necessary knowledge, work experience, and personal skills. Employers today seek candidates who can effectively communicate in a business situation, analyze financial data, work creatively with a team, and proactively find answers to difficult problems.

We wrote this text to help you construct a framework of skills and knowledge necessary for success in the business world today. You will learn the “language of business” used in boardrooms, financial newscasts, and corporate meetings every day. This language will become part of your working vocabulary. Real-world perspectives from companies such as The Home Depot, Southwest Airlines, Guess?, and Wal-Mart give you a deeper understanding of business transactions and how they affect the financial condition and performance of a company.

In the workplace, knowledge of a particular topic is not enough. You will be asked to make presentations, write reports and summaries, lead team meetings, analyze financial options, and solve new business challenges. This textbook offers countless opportunities to enhance these valuable skills as you apply and practice accounting procedures and concepts.

Features and Elements of Your Textbook

Textbook Organization

College Accounting is offered in three versions: Chapters 1–13, Chapters 1–25, and Chapters 1–32. Each chapter is divided into two or three sections. Each section is numbered, titled, and treated as a self-contained learning segment. Sections are again broken down into easy-to-digest portions of information labeled with informative headings.

Content

College Accounting, Chapters 1–32, provides a solid coverage of accounting concepts, procedures, and principles. The textbook first examines the traditional

framework of a sole proprietorship accounting cycle, and then builds on these concepts with discussions of asset, liability, and equity accounts. The textbook expands its coverage of basic principles by presenting partnership, corporation, and managerial accounting concepts.

Learning Objectives. Each chapter opens with a preview of learning objectives for the material. Keep these objectives in mind as you work through the content of the chapter. Note that the running text offers an indicator in the side margin signaling that a new learning objective is being addressed.

Vocabulary. Mastery of the “language of business” is key to success in this course and in the business world. Each chapter provides the following learning aids:

- **New Terms Preview.** All new terms are previewed on chapter-opener pages. Each section within a chapter also previews the terms that will be used in that portion of learning. Before beginning each chapter, read the new terms and recall instances in which you have heard these terms used.
- **Definitions.** As each term is introduced in the running text of a chapter, it appears in boldface type and is highlighted. Take special note of these terms as they appear and make sure you understand the term before you continue reading.
- **Glossaries.** A glossary at the end of each chapter provides definitions and page number references. Use the master glossary located at the end of the textbook for a quick way to find definitions and page number references for terms you need to review.

Chapter Summary. Accounting is a subject that continually builds on learned concepts and procedures. The Chapter Summary offers you the chance to review the concepts learned within a specific chapter. It is organized by learning objective, providing further reinforcement of your learning milestones.

Exercises and Problems. Once you have studied new accounting concepts and analyzed business transactions, you will be ready to practice what you have learned. At the end of each chapter, exercises and problems challenge you to apply the techniques and procedures you have studied. Track your learning progress by noting the learning objective that each exercise or problem addresses.

Visual Learning Tools

Have you ever heard the saying "A picture is worth a thousand words"? *College Accounting* takes every opportunity to reinforce your learning experience with the effective use of color, eye-catching text treatments, and meaningful visual presentations.

In-Text Worksheet Transparencies. In Chapter 5 you will learn about a helpful tool called the *worksheet*. A special worksheet illustration using multiple overlay transparencies is bound into the chapter and highlights step-by-step procedures for its preparation.

Business Transaction Analysis Models. One of the most important concepts you will learn in this course is how to properly analyze and record business transactions. Step-by-step transaction analysis illustrations show you how to identify the appropriate general ledger accounts affected, determine debit or credit activity for each account, present the transaction in T-account form, and record the entry in the general journal.

Business Transaction

On November 10 Carter Consulting Services purchased office equipment on account for \$15,000.

Analysis

- e. The asset account, **Equipment**, is increased by \$15,000.
- f. The liability account, **Accounts Payable**, is increased by \$15,000.

OFFICE <i>plus</i>		INVOICE NO. 2223	
		DATE: Nov. 10, 2004	
		ORDER NO.: P38	
		SHIPPED BY: n/a	
		TERMS: 60 days	
TO	Carter Consulting Services		
QTY.	ITEM	UNIT PRICE	TOTAL
1	Copier	1,000	1,000
1	Fax Machine	600	600
5	Computers	2,200	11,000
3	Printers	500	1,500
2	Scanners	250	500
4	Calculators	100	400
		Total	15,000

Debit-Credit Rules

DEBIT Increases to asset accounts are recorded as debits. Debit **Equipment** for \$15,000.

CREDIT Increases to liability accounts are recorded as credits. Credit **Accounts Payable** for \$15,000.

T-Account Presentation

Equipment		Accounts Payable	
+	—	—	+
(e) 15,000			(f) 15,000

General Journal Entry

GENERAL JOURNAL					PAGE	1
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
10	Nov. 10	Equipment		15 000 00		10
11		Accounts Payable			15 000 00	11
12		Purchased equipment on				12
13		account from Office Plus,				13
14		Inv. 2223, due in 60 days				14

The Bottom Line. The Bottom Line visuals appear in the margins alongside select transactions and concepts in the textbook. These visuals offer a summary of the effects of these transactions—the end result—on the financial statements of a business.

T Accounts. In this course, you will learn that a T account is a visual tool used by the accountant to help analyze business transactions. T accounts are used extensively throughout the textbook. Note that the account's normal balance is indicated by shading. An increase in the account balance is represented by (+) and a decrease is represented by (-).

Full-Color Illustrations. Tables, flowcharts, diagrams, journals, ledgers, and financial statements are presented in full color to provide you with an understanding of the documents and reports found and used extensively in the real world of business.

Highlighting. Vocabulary terms are highlighted in yellow as they appear in the running text. Pause to absorb the meaning and the context of each term as it appears.

Boldface Text. As you progress through this textbook, you will learn that general ledger accounts are a vital part of the accounting profession. These general ledger account names are presented in boldface text to help you distinguish them from accounting concepts with similar or identical names.

Reinforcement

Most of us learn most effectively by careful review of materials and by practicing what we have learned. *College Accounting* takes every opportunity to construct concepts in an understandable way and then reinforce them at critical junctures.

Recall and Important! The **Recall** margin feature is a series of brief reinforcements that serve as reminders of material covered in *previous* chapters that are relevant to new information being presented. The **Important!** margin features draw your attention to critical materials introduced in the *current* chapter.

End-of-Chapter Review and Applications. Retention and reinforcement of concepts are further enhanced through discussion questions, exercises, problems, challenge problems, and critical thinking problems at the end of each chapter.

Business Connections. New enrichment and alternative assessment activities, collectively known as **Business Connections**, reinforce chapter materials from practical and real-world perspectives.

Section Self Reviews. Each section concludes with a Self Review that includes questions, multiple choice exercises, and an analysis assignment. You may check your work with the answers that are provided at the end of each chapter.

Section 1 Self Review

Questions

1. Why is accounting called the "language of business"?
2. What are the names of three accounting job positions?
3. What are financial statements?

Exercises

4. One requirement for becoming a CPA is to pass the
 - a. State Board Examination

- b. Uniform CPA Examination
- c. SEC Accounting Examination
- d. Final CPA Examination

5. Which organization has the final say on financial accounting issues faced by publicly owned corporations?
 - a. Internal Revenue Service
 - b. U.S. Treasury Department
 - c. Federal Trade Commission

- d. Securities and Exchange Commission

Analysis

6. The owner of the sporting goods store where you work has decided to expand the store. She has decided to apply for a loan. What type of information will she need to give to the bank?

(Answers to Section 1 Self Review are on page 21.)

Real-World Connections

College Accounting transforms academic concepts into real-world applications and associations by integrating materials about well-known companies and organizations.

Part Opener. Each part opener presents a vignette of a real-world company like Avis, SAS Institute, or Johnson & Johnson, connecting the Part business theme to real-world issues or profiles. An evocative Thinking Critically question stimulates thought on the topics to be explored in the Part.

Chapter Opener. Setting the stage for learning, each chapter opener presents brief features about real-world companies such as Adobe Systems Incorporated, Lands' End, Inc., and The Boeing Company. You will assess a topic presented in the Thinking Critically question that concludes each feature.

Street Wise: Questions from the Real World. Excerpts from The Home Depot, Inc. annual report are presented in Appendix B of the text. In **Street Wise: Questions from the Real World**, you will be asked to research various components of the annual report and answer questions related to content, presentation, and meaning.

Financial Statement Analysis. A brief excerpt of a real-world annual report is also included at the end of each chapter in the **Financial Statement Analysis** activities. Questions presented will lead you through an analysis of the statement and conclude with an Analyze Online activity for which you will research the company's most recent financial reports on the Internet.

Internet Connections. The **Internet Connections** activity provides the opportunity to conduct online research about major companies, accounting trends, organizations, and government agencies.

Real-World Snapshots. As you read through each chapter, you will be presented with relevant news, company profiles, and facts related to real-world businesses or situations.

Career Applications

The Big Picture. Accounting plays a role in every aspect of our personal and business lives. As you learn key accounting concepts and procedures, it is important to know why these issues are relevant and what role they play in the larger picture of business. **Why It's Important** statements accompany each learning objective, highlighting practical applications for the objective.

Career Paths. Accounting skills are useful, and often critical, to landing and keeping that perfect job. **Accounting on the Job** features, found in each even-numbered chapter, highlight the benefits of accounting in various careers:

- hospitality and tourism
- legal and protective services
- information technology services
- retail/wholesale sales and service
- human services
- business and administration
- education and training
- finance
- transportation, distribution, and logistics

FINANCIAL STATEMENT ANALYSIS

Income Statement An excerpt from the Consolidated Statements of Income for Wal-Mart Stores, Inc. is presented below. Review the financial data and answer the analysis questions.

◀ Connection 4 WAL★MART

Amounts in millions

Fiscal years ended

January 31

2000

1999

1998

Revenues:

Net Sales	\$165,013	\$137,634	\$117,958
Other Income Net	<u>1,796</u>	<u>1,574</u>	<u>1,341</u>
Total Revenues	\$166,809	\$139,208	\$119,299

- agriculture and natural resources
- government and public administration
- arts, audio-video technology, communications
- health science
- manufacturing
- architecture and construction
- scientific research/engineering

These fields are among the “career clusters” defined by the U.S. Department of Education. Optional Internet Application activities and Thinking Critically Questions are included.

The Business Manager. The business environment today requires managers to make strategic business decisions based on a variety of factors. Financial and accounting information, in particular, are elements that managers must be well prepared to consider. Near the end of each chapter, **Managerial Implications** summarizes the chapter’s accounting concepts from the point of view of the manager. The feature ends with a Thinking Critically question that requires contemplation of chapter content from management’s perspective. End-of-chapter assessment materials include **Managerial Focus** questions where you will apply accounting concepts to business situations.

Business Research and Reporting. In order to be useful, business information must be presented in a meaningful format and must be interpreted for its users. Optional end-of-chapter features such as **Street Wise: Questions from the Real World**, **Financial Statement Analysis**, **Teamwork**, and **Internet Connections** provide opportunities for you to review real-world financial data, research current trends, offer interpretations, communicate findings, and work as part of a team. Within the chapters themselves, **Accounting on the Job** and **Computers in Accounting** features provide research opportunities in the realms of careers, business technologies, and software.

The Analyst. Problem Sets A and B, Challenge Problems, and Mini-Practice Sets conclude with an **Analyze** question. You will review your work and extend your learning process with summarizations and conclusions about what you have done.

The Problem Solver. The ability to think critically, solve problems, and create solutions is one of the most sought after attributes in the workplace today.

Thinking Critically questions are incorporated in **Part Openers**, **Chapter Openers**, **Managerial Implications**, **Accounting on the Job**, and **Computers in Accounting**. Critical thinking skills are flexed in the **Section Self Reviews**, **Comprehensive Self Reviews**, and the end-of-chapter **Business Connections** activities.

The Team Player. Each chapter contains a collaborative learning activity, **Teamwork**, which will provide learning opportunities to prepare for team-oriented projects and work environments.

The Ethical Worker. Reasoning, societal norms, morals, laws, and personal judgment are factors that play critical roles in decision making in the business world. An **Ethical Dilemma** activity within each chapter provides the opportunity for you to discuss ethics in the workplace, formulate a course of action for certain scenarios, and support your opinions.

The International Professional. Accounting issues that provide connections to the global world of business are presented in an in-text feature called **International Insights**.

The Effective Communicator. Excellent communication skills are paramount to a successful career. In this course, you will write memos, reports, essays; present oral presentations; create visual presentation aids; communicate via electronic methods; and hone your interpersonal skills via **Business Communications** activities presented in each chapter.

Technology Applications

The world of business today is largely fueled and sustained by process and information technologies. In that spirit, *College Accounting* provides many opportunities to work with and learn about various software applications, communications technologies, and Web-based applications.

College Accounting Web Site. From reinforcement quizzes to case studies, Internet research activities to demonstration problems, the *College Accounting* Web site features a realm of opportunities to review, reinforce, and supplement your learning. You may explore tips for completing end-of-chapter problems or use the online glossary for a quick review of vocabulary and accounting concepts.

Commercial Software. The tenth edition of *College Accounting* offers more than twice as many accounting software problems as the previous edition. Master your skills in the following software products:

 Peachtree  QuickBooks  Spreadsheets

Student Tutorial CD-ROM. Supplement your learning with this interactive CD-ROM utilizing exceptional PowerPoint presentations, chapter quizzes, and ten-key practice exercises.

Computers in Accounting. Highlighting a variety of aspects related to computer technologies in the accounting workplace, **Computers in Accounting** activities bring relevant issues to light with optional Internet Application activities and Thinking Critically questions.

The Tenth Edition at a Glance

We are excited to bring you the Tenth Edition of *College Accounting* complete with new designs, activities, reinforcement opportunities, and real-world connections developed to enhance and strengthen your learning experience.

New design

New high-interest photos and full-color illustrations

New business transaction analysis visuals

New "The Bottom Line" visuals

New part opener business vignettes

New chapter opener business vignettes

New section openers with "Why It's Important" statements for each learning objective

New exercises in Section Self Reviews

New analysis assignments in Section Self Reviews

New Comprehensive Self Review

New Recall margin features

New Important! margin features

New real-world snapshots featured in running text

New International Insights margin features

New Accounting on the Job features

New Thinking Critically questions

New Analyze questions

New Chapter Review organized by learning objectives

New Appendix B, featuring Excerpts from The Home Depot, Inc. 1999 *Annual Report*

New Business Connections activities:

- Managerial Focus
- Ethical Dilemma
- Street Wise: Questions from the Real World
- Financial Statement Analysis
- Extending the Thought
- Business Communication
- Teamwork
- Internet Connection

Revised chapter structure, organized into easy-to-grasp learning segments

Revised Computers in Accounting features

Revised mini-practice sets

Revised About Accounting margin features

Content Revisions

Chapter 2 Analyzing Business Transactions: This chapter introduces an important visual tool, the Business Transaction Analysis Model. This tool is expanded on in Chapters 3 and 4, providing a step-by-step process used to analyze transactions from source document through T accounts and general journal entry.

Chapter 5 Adjustments and the Worksheet: The term *contra account* is introduced in the discussion of depreciation.

The coverage of depreciation is supplemented with the online Chapter 5 Appendix: Methods of Depreciation on the *College Accounting* Web site.

Chapter 6 Closing Entries and the Postclosing Trial Balance: The term *interpret* is introduced as a New Term to better explain the last step of the accounting cycle: interpreting the financial information.

The coverage of financial statements is supplemented with the online Chapter 6 Appendix: Statement of Cash Flows on the *College Accounting* Web site.

Chapter 7 Accounting for Sales and Accounts Receivable: The merchandising business chart of accounts separates cost of goods sold accounts from the expense accounts. Each category has a different series of account numbers: 500 for cost of goods sold accounts, and 600 for expense accounts.

This chapter introduces The Bottom Line, a visual tool that shows the effect of transactions on the income statement and the balance sheet.

Chapter 8 Accounting for Purchases and Accounts Payable: The term *cost of goods sold* is introduced as a New Term. The concept is explained in the discussion of merchandise purchases.

Chapter 10 Payroll Computations, Records, and Payment: The discussion of employees versus independent contractors is supplemented with the online Chapter 10 Appendix: Independent Contractors on the *College Accounting* Web site.

Chapter 11 Payroll Taxes, Deposits, and Reports: The Electronic Federal Tax Payment System (EFTPS) is introduced in this chapter.

Chapter 14 Accounting Principles and Reporting Standards: The term *recognition* is now treated as a New Term to further emphasize the importance of this concept. The terms *public sector* and *private sector* are introduced in the discussion of generally accepted accounting principles.

Chapter 16 Notes Payable and Notes Receivable: The terms *negotiable instrument* and *contingent liability* are now treated as New Terms to reinforce the importance of these concepts.

Chapter 17 Merchandise Inventory: The discussion of inventory cost flow assumptions now includes international considerations.

Chapter 18 Property, Plant, and Equipment: This chapter introduces the concept of asset impairment and how it affects the financial statements. The term *intangible asset* is now treated as a New Term to emphasize the importance of this concept.

Chapter 20 Corporations: Formation and Capital Stock Transactions: This chapter introduces the “hybrid” business entities S corporation, limited liability company, and limited liability partnership.

Chapter 22 Long-Term Bonds: The term *market interest rate* is now treated as a New Term to emphasize this concept’s importance in the discussion of bonds issued at a premium or a discount.

Chapter 27 Departmentalized Profit and Cost Centers: The term *departmental income statement* is now treated as a New Term to emphasize the importance of segment reporting.

Chapter 32 Cost-Revenue Analysis for Decision Making: The term *capacity* is introduced as a New Term to better illustrate considerations in the decision-making process.

Supplements for the Student

Study Guide & Working Papers (1–13)

Study Guide & Working Papers (14–25)

Study Guide & Working Papers (26–32)

Practice Set 1—*Action Video Productions*

Practice Set 2—*Home Team Advantage*

Practice Set 3—*Awesome Software*

Peachtree User’s Guide and Templates CD

QuickBooks User’s Guide and Templates CD

Student Tutorial CD-ROM (1–32)

College Accounting Web site:

collegeaccounting.glencoe.com

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Exploring the Real World of Business

The Tenth Edition focuses on a **business perspective** by using examples from the business world to illustrate accounting concepts.

Information on featured companies, organizations, their products, and services is included for educational purposes only and does not represent or imply endorsement of the *College Accounting* program. The following companies appear throughout the text:

Openers

Part 1

Avis Group Holdings, Inc. 


Chapter 1

Yahoo! Inc. 

Chapter 2

Southwest Airlines Co. 


Chapter 3

Guess?, Inc. 

Chapter 4

CSX Corporation 

Chapter 5

The Boeing Company 


Chapter 6

Galileo International Inc. 

Part 2

The Home Depot, Inc. 

Chapter 7

Wal-Mart Stores, Inc. 

Chapter 8

Pier 1 Imports 

Chapter 9

H&R Block, Inc. 

Part 3

SAS Institute Inc. 

Chapter 10

Adobe Systems Incorporated 


Chapter 11

Lands' End, Inc. 


Part 4

Johnson & Johnson 

Chapter 12

American Eagle Outfitters, Inc. 

Chapter 13

Safeway Inc. 

Part 5

Carnival Corporation 

Chapter 14

The Goodyear Tire & Rubber Company 


Chapter 15

FedEx Corporation 


Chapter 16

KB HOME 


Chapter 17

Circuit City Stores, Inc. 

Chapter 18

The Coca-Cola Company 


Part 6

Caterpillar Inc. 

Chapter 19

Woolpert LLP 


Chapter 20

Sara Lee Corporation 

Chapter 21

McDonald's Corporation 

Chapter 22

3M 

Part 7

International Truck and Engine Corporation 

Chapter 23

Dole Food Company, Inc. 

Chapter 24

The Walt Disney Company 

Chapter 25

Eastman Kodak Company 


Part 8

Amgen Inc. 

Chapter 26

Dell Computer Corporation 

Chapter 27

Mattel, Inc. 

Chapter 28

Goodrich Corporation 

Chapter 29

Avery Dennison Corporation



Chapter 30

Conoco Inc.



Chapter 31

Boise Cascade Corporation



Boise Cascade Corporation

Chapter 32

Dupont



FINANCIAL STATEMENT ANALYSIS

Chapter 1

American Eagle Outfitters, Inc.

AMERICAN EAGLE OUTFITTERS

Chapter 2

Southwest Airlines Co.



Chapter 3

Adobe Systems Incorporated



Chapter 4

Wal-Mart

Stores, Inc. WAL*MART

Chapter 5

DuPont



Chapter 6

CSX Corporation



Chapter 7

Wal-Mart

Stores, Inc. WAL*MART

Chapter 8

Lands' End, Inc.



Chapter 9

Armstrong Holdings, Inc.



Chapter 10

Southwest Airlines Co.



Chapter 11

H&R Block, Inc.



Chapter 12

DuPont



Chapter 13

Mattel, Inc.



Chapter 14

Avery Dennison Corporation



Chapter 15

Pier 1 Imports



Chapter 16

Dole Food Company, Inc.



Chapter 17

American Eagle Outfitters, Inc.

AMERICAN EAGLE OUTFITTERS

Chapter 18

Pier 1 Imports



Chapter 19

The Marina

Limited Partnership



Chapter 20

Conoco Inc.



Chapter 21

McDonald's Corporation



Chapter 22

FedEx Corporation



Chapter 23

Safeway Inc.



Chapter 24

Dupont



Chapter 25

Pier 1 Imports



Chapter 26

Boise Cascade Corporation



Boise Cascade Corporation

Chapter 27

Alcoa Inc.



Chapter 28

Dole Food Company, Inc.



Chapter 29

Alcoa Inc.



Chapter 30

Eastman Kodak Company



Chapter 31

International Truck and Engine Corporation



Chapter 32

Mattel, Inc.



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