



*Heintz & Parry*

# COLLEGE ACCOUNTING



1 8 T H   E D I T I O N





*Heintz & Parry*

# COLLEGE ACCOUNTING

18TH EDITION

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THOMSON  
—★—  
SOUTH-WESTERN



**College Accounting, 18e, Chapters 1-10**  
By James A. Heintz and Robert W. Parry

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# PROVEN TO BE THE BEST!

## LEADING THE REST—THE BEST COLLEGE ACCOUNTING TEXT

Edition after edition, Heintz & Parry's *College Accounting* has been the leader in providing solid, tested content to hundreds of thousands of students. The 18th edition continues that tradition of excellence. We've kept intact everything that has made *College Accounting* so successful, then added new features, supplements, and technology to ensure it remains **the best text** on the market. Our main objective has and always will be to make accounting understandable to every student and to do so without sacrificing crucial substance and technical correctness. Our step-by-step, straightforward approach helps build practical accounting skills that are needed when entering the world of work. The text presents basic topics first and builds to more advanced coverage so that learners are never overwhelmed. Likewise, the narrative approach covers a simpler example of a service business before moving on to a merchandising business and then to a manufacturing environment. In the end, *College Accounting, 18e*, combines an easily readable style throughout the text with helpful reinforcement through its unparalleled learning package. By building practical accounting skills and developing an understanding of concepts, students will be prepared for success in the business world. We're confident that this new edition represents a text that achieves our goals and continues its tradition of fundamental excellence.

### The Best Approach

Heintz & Parry has proven that students excel when they're not rushed into financial statements or overloaded with theory. This text presents concepts simply and ensures the best, most accurate coverage, which allows students to build on their foundation of knowledge one topic at a time.

### The Best Enhancements

The 18th edition refines the many improvements of earlier editions that were made in response to both instructors' feedback and our own commitment to meet the evolving needs of the learning environment. Newly revised and expanded *Computers and Accounting* coverage and enhanced technology opportunities encourage students to understand how the computerized environment enhances the world of accounting. Choices of coverage increase teaching flexibility to allow subject matter to be taught with or without special journals. We also have enriched Comprehensive Problem 1 to provide students the opportunity to see the impact of transactions on more than one financial period and Comprehensive Problem 2 by offering the option of completing it with or without special journals.

### The Best Pedagogy

*College Accounting, 18e*, employs time-tested, classroom-proven educational techniques.

Repetition of key topics, a continuing topic example, and relevant demonstration problems are some of the methods used to ensure—and enhance—student progress.



### The Best Supporting Products

A helpful instructor's resource manual, colorful teaching transparencies tied to the text as well as transparencies of assignment solutions, and excellent PowerPoint® slides are just a few of the features that constitute the extensive supplement package. See descriptions of these and other ancillary products below under "Supplements For Instructors."

### The Best Technology

Our expanded WebTutor Advantage™ and revised Personal Trainer® offer exceptional technology tools for high-impact assistance to students and instructors.

### The Best Service

You have our commitment to always provide you with the best of everything accompanying our products. From your ITP sales representative, to the Academic Resource Center staff, to the authors themselves, our professional resources and support team is committed to helping you.

Take a closer look at *College Accounting, 18e*,  
and see for yourself why it's THE BEST!

## WHAT MAKES OUR APPROACH THE BEST?

Quality and creative suggestions and other feedback from instructors and students provide excellent opportunities for our ongoing refinement and enhancement of each edition. As always, we listened and responded in this new edition. Skill development and mastery are encouraged and assisted by a number of features.

*College Accounting, 18e*, doesn't rush students into financial statements or overwhelm them with theory. The text presents simple concepts first and builds to more advanced content. In each chapter students focus on only one major topic or procedure, ensuring that they master each new concept before moving on.

- **Real-world skills** are developed to help students get jobs after graduation.
- **Careful development of topics** prevents "information overload."
- **Repetition of key topics** throughout helps students master important concepts and procedures.
- **Narrative approach** covers the simpler example of a service business before moving on to a merchandising business and later a manufacturing business. Along the way, the company structure moves from sole proprietorship to partnership to corporation.
- **Demonstration problems** can be used as study aids or in-class examples.
- **Challenge Problems** expand student thinking.
- **Comprehensive problems** provide key opportunities to review skills.
- **Three versions** of the text (10, 16, or 29 chapters) create a custom fit for your course.







## New Location for Challenge Problems

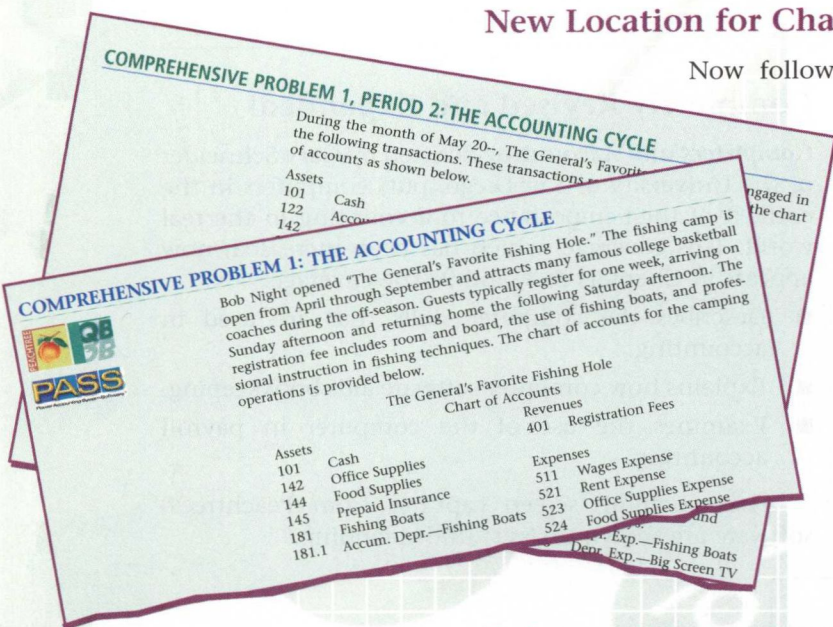
Now following the Mastery Problem in each chapter, the Challenge Problem contains a reminder, in the margin, that this problem is intended to challenge students to think a step beyond the chapter's coverage.

## Expansion and Enhanced Flexibility of the Comprehensive Problem

Instructors may now choose to assign a new "Part 2" (of Comprehensive Problem 1) that takes students into a second period.)

## Check Figures

These helpful benchmarks are now provided in the text's margin by applicable assignments.



## Enhanced Technology—WebTutor® Advantage with Personal Trainer® 3.0

Available in either WebCT™ or Blackboard® platforms, this rich course management product extends the classroom experience by using the power of the Internet to reach students when needed, day or night. WebTutor Advantage with Personal Trainer 3.0 provides students with an unprecedented, guided, self-correcting learning tool outside the classroom. It also provides instructors with more ways to reinforce understanding and an efficient way to grade assignments and identify areas needing further study by individual students or the class as a whole. Instructors and students can use this technology along with those on the product web site to supplement the classroom experience. Use this effective resource as an integrated solution for your distance learning or web-enhanced course! This powerful, turnkey solution provides the following content customized for this edition:

- **Interactive Quizzes**—Multiple choice, true/false, and matching questions, which test the knowledge of the chapter content, provide immediate feedback on the accuracy of the response. In addition, there are specific quizzes in Chapters 2–6 that reinforce understanding of the accounting cycle. All of the quizzes help students pinpoint areas needing more study.
- **Problem Demonstrations**—The chapter demonstration problem is presented and an audio step-by-step explanation of the solution is provided to guide student understanding.
- **Practice Exercises**—These practice exercises provide students an opportunity to further test their knowledge and receive immediate feedback.
- **Learning Objectives & Chapter Review**—To reinforce and remind students of the objectives of each chapter, the learning objectives are provided and tied to a brief review of the chapter.
- **Flashcards**—A terminology quiz helps students gain a complete understanding of the key terms from the chapter.
- **Spanish Dictionary of Accounting Terms**—To aid Spanish-speaking students, a Spanish dictionary of key accounting terms is provided.
- **Crossword Puzzles**—These interactive puzzles provide an alternative tool for students to test their understanding of terminology.

WebTUTOR® Advantage



- **Games**—Students can review chapter content and terminology using online games.
- **Personal Trainer 3.0**—This Internet-based homework tutor is a rich tool for students and instructors. With the help of warm-ups and hints, students can complete exercise and problem assignments or practice by completing unassigned homework online. Instructors receive the results, which can be automatically entered into a grade book for the assigned homework, and can view the efforts of the unassigned work completed by students. Unlike any other tutorial on the market, students receive the pedagogical benefits of the completion of homework assignments and instructors have more time to devote to other classroom activities. (Personal Trainer 3.0 is also available as a standalone product for those instructors not using WebTutor Advantage.)

## WHY IS OUR PEDAGOGY THE BEST?

This text facilitates student learning by employing a classroom-proven pedagogy.

- **A narrative approach** uses a continuing example to help students understand topics.
- **Repetition of key topics** benefits students by repeated exposure to important concepts and techniques.
- **Learning objectives** preview the skills that will be studied and mastered in that chapter.
- **Chapter openers** present the topic in context and pose a question that is answered at the end of the chapter.
- **Margin notes** enrich student understanding of concepts and terms beyond what is contained in the text narrative.
- **Learning Keys** emphasize important new points and help students gain a clearer understanding of the key coverage in each chapter.
- **A Broader View** provides students with interesting examples of actual events or situations that tie to accounting.
- **Profiles in Accounting** feature real people successfully working and using their College Accounting skills.
- **Arrow pointers and text pointers** emphasize the sources and calculations of numbers.
- **Key steps** demonstrate steps to accomplish specific objectives, such as how to prepare a bank reconciliation or work sheet.
- **Accounting forms** are presented on rulings to emphasize structure and help students quickly learn how to prepare these documents.
- **The statement of cash flows coverage** reflects its importance today.
- **Depreciation methods** are introduced in Chapter 5 with some detailing in that chapter's appendix.

Depreciation expense is based on estimates of useful lives and salvage values.

**LEARNING KEY:** The business entity's assets and liabilities are separate from the owner's nonbusiness assets and liabilities.



### A BROADER VIEW

**Fraud—A Real Threat to Small Business**

The bookkeeper for Kramer Iron, Inc., in Hamden, Connecticut, embezzled \$213,539 from the company over a four-year period. She used two schemes. One was to alter the number of the dollar amount printed on checks payable to her. The other technique involved putting her own name on the "pay to" line on checks intended for other parties.

This fraud shows the importance of two procedures described in this chapter: (1) Make sure that all aspects of a check are correct before signing it. (2) In preparing the bank reconciliation, compare canceled checks with the accounting records.





| Jessie Jane's Campus Delivery<br>Trial Balance<br>June 30, 20-- |               |                |  |
|---|---------------|----------------|--|
| ACCOUNT TITLE   | DEBIT BALANCE | CREDIT BALANCE |  |
| Cash  | 3 7 0 00      |                |  |
| Accounts Receivable   | 6 5 0 00      |                |  |
| Supplies  | 8 0 00        |                |  |
| Prepaid Insurance   | 2 0 0 00      |                |  |
| Delivery Equipment  | 3 6 0 0 00    |                |  |
| Accounts Payable  |               | 1 8 0 0 00     |  |
| Jessica Jane, Capital   |               | 2 0 0 0 00     |  |
| Jessica Jane, Drawing   | 1 5 0 00      |                |  |
| Delivery Fees   |               | 2 1 5 0 00     |  |
| Rent Expense  | 2 0 0 00      |                |  |
| Telephone Expense   | 5 0 00        |                |  |
| Wages Expense   | 6 5 0 00      |                |  |
|   | 5 9 5 0 00    | 5 9 5 0 00     |  |

| Jessie Jane's Campus Delivery<br>Income Statement<br>For Month Ended June 30, 20-- |            |          |             |
|--|------------|----------|-------------|
| Revenue:   |            |          |             |
| Delivery fees  |            |          | 52 1 5 0 00 |
| Expenses:  |            |          |             |
| Wages expense  | 5 6 5 0 00 |          |             |
| Rent expense   | 2 0 0 00   |          |             |
| Telephone expense  | 5 0 00     |          |             |
| Total expenses   |            | 9 0 0 00 |             |
| Net income   |            |          | 51 2 5 0 00 |

- The most current **payroll information** is presented in two chapters (Chapters 8 and 9).
- The **combination journal** is featured in Chapter 10 and provides flexibility for those instructors not wishing to cover this topic.
- **Text & Supplements** carefully **verified** to guarantee an accurate and error-free text and package.
- **Color-coding** enhances understanding by highlighting ac-

counts in a consistent color scheme. Assets are shown in blue, liabilities in yellow, owner-ship equity in purple, revenues in green, expenses in light red, and drawing accounts in mauve. All journals are on blue rulings to differentiate those chronological records from ledgers and other processing documents, which are shown in yellow. Financial statements are white. Source documents vary in color, in the same manner as real-life documents.

Some additional specific examples include:

- Transactions reflected in the accounting equation (Page 18)
- The interaction of the key financial statements (Page 29)
- Owner's equity umbrella (Page 50)
- Source documents (Page 90)
- General journal and general ledger relationship (Page 99)
- Work sheet development (Page 142G)
- Linkages between the work sheet and the financial statements (Pages 177 and 178)
- Tax forms (Pages 266–268 and 305–310)

Chapter-ending activities reinforce learning.

- **Key Points** provide an effective review of important information covered in each chapter.

**DEMONSTRATION PROBLEM**

The totals line from Hart Company's payroll register for the week ended December 31, 20--, is as follows:

| (left side) |             | (right side) |           |
|-------------|-------------|--------------|-----------|
| NAME        | TOTAL       | NET PAY      | CHECK NO. |
| 21 Totals   | 197 6 00 00 | 21 5 7 90 30 | 21        |

**REQUIRED**

1. a. Prepare the journal entry for payment of this payroll on December 31, 20--.

**Solution**

1. a. Prepare the journal entry for payment of this payroll on December 31, 20--.

| DATE    | DESCRIPTION                       | DEBIT        | CREDIT     |
|---------|-----------------------------------|--------------|------------|
| Dec. 31 | Wages and Salaries Expense        | 3 8 0 0 00   |            |
|         | Employee Income Tax Payable       |              | 3 8 0 00 2 |
|         | Social Security Tax Payable       |              | 2 3 5 60 2 |
|         | Medicare Tax Payable              |              | 5 5 10 4   |
|         | Health Insurance Premiums Payable |              | 5 0 00 5   |
|         | United Way Contributions Payable  |              | 1 0 0 00 6 |
|         | Cash                              | 2 9 7 9 30 7 |            |

To record Dec. 31 payroll

**MANAGING YOUR WRITING**

The current month's bank statement for your account arrives in the mail. In reviewing the statement, you notice a deposit listed for \$400.00 that you did not make. It has been credited in error to your account. Discuss whether you have an ethical or legal obligation to inform the bank of the error. What action should you take?

- **Reflection: Answering the Opening Question** provides the answer to the question posed in the opening scenario.
- **Key Terms** are defined at the end of each chapter, and the page of their first appearance is listed.
- **Demonstration Problems** bring together key concepts and principles. Students can work through the problems and solutions independently to gain confidence before working the homework assignments. The problems are also effective for in-class examples.
- **Review Questions** for each chapter help students understand and assimilate the important points covered and determine where additional review is required.
- **Managing Your Writing**, introduced in a Chapter 1 module and written by Ken Davis of Indiana University—Purdue University, guides students through an easy-to-follow, 12-step process for honing writing skills. An assignment at the end of each chapter allows students to apply critical thinking and writing skills to issues raised by material in that chapter.



- **Ethics Cases** help students think through what they would do in various situations. Case problems for individual and group use allow students to weigh the merits of various ethical considerations related to accounting.

## WEB WORK



Your business will, at some point in time, need to write a check to pay a vendor or an employee, or to cover an unforeseen expense. What do you need to do to open an account? What are some of the costs and restrictions a business owner needs to be aware of? Visit the Interactive Study Center on our web site at <http://heintz.swlearning.com> for special hotlinks to assist you in this assignment.

- **Web Work** assignments, identified by an icon, begin in Chapter 7. Web Work assignments expose students to the business applications of the Internet by directing them to Internet sites, where they obtain information to complete an assignment.

- **Self-Study Test Questions**, consisting of multiple choice and true/false items at the end of each chapter, allow students to assess their understanding of chapter material to determine if further study is required before proceeding to the next chapter. Answers to the questions are provided at the end of the text.
- **A & B Exercises and Problems**, keyed to chapter learning objectives, provide a range of instructional choices. One set can be used in class and the other for assignments. Alternatively, both sets can be used for practice for students needing extra assistance.

- **Mastery Problems** challenge students to apply the essential elements introduced in the chapter. Selected assignments may be solved using the PASS, Peachtree®, or QuickBooks® software. These are designated by icons shown here.

- **Challenge Problems**—Perhaps the most important measure of student understanding is the ability to apply newly learned concepts to new and unfamiliar situations. At the end of each chapter, the Challenge Problem tests the ability of more advanced or ambitious students to apply concepts to transactions, events, or economic conditions one step beyond what is laid out in the text.

- **Comprehensive Problems**—Comprehensive review problems are built directly into the text, providing an opportunity to review topics from multiple chapters.

### MASTERY PROBLEM

Adjusted Trial Bal. total: \$58,500;  
Net income: \$13,630

Kristi Williams offers family counseling services specializing in financial and marital problems. A chart of accounts and a trial balance taken on December 31, 20-1, follow.

| Assets |                   | Revenue |             | Expenses |                         |
|--------|-------------------|---------|-------------|----------|-------------------------|
| 101    | Cash              | 401     | Client Fees |          |                         |
| 142    | Office Supplies   |         |             | 511      | Wages Expense           |
| 145    | Prepaid Insurance |         |             | 521      | Rent Expense            |
|        | Office Equipment  |         |             | 523      | Office Supplies Expense |
|        |                   |         |             |          | Utilities Expense       |

### CHALLENGE PROBLEM

This problem challenges you to apply your cumulative accounting knowledge to move a step beyond the material in the chapter.

2. Item 4: Dr: Depositor Accounts, \$350.00

Susan Panera is preparing the June 30 bank reconciliation for Panera Bakery. She discovers the following items that explain the difference between the cash balance on her books and the balance as reported by Lawrence Bank.

1. An ATM withdrawal of \$200.00 for personal use was not recorded by Susan, Lawrence Bank as of June 30.
2. A deposit of \$850.00 was recorded by Susan but has not been received by Lawrence Bank as of June 30.
3. A check written in payment on account to Jayhawk Supply for \$340.00 was recorded by Susan as \$430.00 and by Lawrence Bank as \$530.00.
4. An ATM deposit of \$350.00 was recorded twice by Lawrence Bank.
5. An electronic funds transfer of \$260.00 to Sunflower Mills as a payment on account was not recorded by Susan.
6. Check No. 103 for \$235.00 and No. 110 for \$127.00 had not cleared Lawrence Bank as of June 30.

**REQUIRED**

1. Prepare the journal entries required to correct Panera Bakery's books as of June 30.
2. Prepare the journal entries required to correct Lawrence Bank's books as of June 30.

## WHAT MAKES OUR SERVICE THE BEST?

The entire Heintz & Parry team is ready to help instructors. Your South-Western representative is always available to provide individualized assistance. The Heintz & Parry web site at <http://heintz.swlearning.com> gives you access to supplement downloads, a help line, teaching ideas, hot links, and more.

### The Product Web Site Is a Rich Resource.

The Heintz & Parry web site (<http://heintz.swlearning.com>) provides easy access assistance to both students and instructors. Links for Web Work assignments provide a helpful way to connect with assignment resources. Online quizzes with solutions help students test themselves as they study. Instructors



have online access to many other resources, such as the solutions and instructor's manuals in Microsoft® Word, which are all password protected.

- Call the Academic Resource Center for desk copies and product information: Career College Customers: 800-477-3692 Community College or University Customers: 800-423-0563
- Call the Preferred Accounting Customer Hotline for special requests: 800-342-8798
- E-mail the authors or the publisher through the hot link at <http://heintz.swlearning.com>

## DEDICATION

We are grateful to our wives, Celia Heintz and Jane Parry, and our children, Andrea Heintz, John Heintz, Jessica Jane Parry, and Mitch Parry, for their love, support, and assistance during the creation of this eighteenth edition. We especially appreciate Jessie Parry's willingness to let us use her name throughout the first six chapters.

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Through 18 editions, *College Accounting* has helped millions of students understand and employ basic accounting skills. But we know we can't rest on past success. The business world continues to change, and so do we. To prepare today's generation for a lifetime of accounting skills, the solution is simple. Depend on the text that's simply better than ever.

*College Accounting, 18e.* From the leader in college accounting, you expect the best.

Jim Heintz  
Rob Parry



## Supplements for Students

## ISBN Authors, Affiliations, Description

### Accounting Workbook for Peachtree® 2004

(with Data & Software on CD) for  
Chapters 4–16

0-324-22369-2

### Donna Ulmer, St. Louis Community College, James Heintz, and Robert Parry

Available for use with selected problems (marked by an icon in the main text). A student instruction book accompanies the software. The data files and a student version of the software are included on the CD. This product assists students in learning how to use real-world accounting software. Can also be used as a stand-alone ancillary.

### Accounting Workbook for QuickBooks® 2003

(with Data CD) for Chapters 4–16

0-324-29170-1

### Carol Fischer, University of Wisconsin–Waukesha, James Heintz, and Robert Parry

Available for use with selected problems (marked by an icon in the main text). A student instruction book and the data files, which are on a CD in the book, provide guidance to students in learning how to use real-world accounting software. Can also be used as a stand-alone ancillary.

### Power Accounting Software System (PASS) and Data Files CD

for Chapters 2–16

0-324-22333-1

### Warren Allen, Mary Allen, James Heintz, and Robert Parry

Available for use with selected problems found in the main text (identified by icons). As students use the opening balances, chart of accounts, and set-up functions to complete problems, they gain valuable, hands-on experience with full-functioning general ledger software.

### R&K UltraGlo Practice Set

0-324-22339-0

### Janet Caruso, Briarcliffe College

This practice set is a sole-proprietorship service business simulation for use after text Chapter 7. It reviews the accounting cycle and accounting for cash.

### Study Guide with Working Papers

for Chapters 1–10

0-324-22181-9

### James Heintz and Robert Parry

A study guide and the working papers for the text assignments are provided together in one convenient resource. Students are able to reinforce their learning experience with chapter outlines that are linked to learning objectives and a set “C” of assignments consisting of review questions, exercises, and problems. The working papers are tailored to the text's end-of-chapter assignments. (The text solutions manual contains the solutions to the working papers. The solutions to the study guide assignments are available separately.)

### On the Internet:

Web site

0-324-22159-2

WebTutor Advantage

on WebCT for Chapters 1–16

0-324-22335-8

WebTutor Advantage

on Blackboard for Chapters 1–16

0-324-22337-4

Personal Trainer 3.0 for Chapters 1–16

0-324-22188-6

Please see the preface for descriptions of these products.



| <b>Supplements for Instructors</b>  | <b>ISBN</b>                    | <b>Authors, Affiliations, Description</b>  |
|---|--------------------------------|--|
| <b>Solutions Manual to Accompany the Accounting Workbooks for Peachtree® 2004</b><br>(Chapters 4–29)  | 0-324-22396-X                  | <b>Donna Ulmer, St. Louis Community College</b>  |
| <b>Solutions Manual to Accompany the Accounting Workbooks for QuickBooks® 2003</b><br>(Chapters 4–29) | 0-324-29173-6                  | <b>Carol Fischer, University of Wisconsin–Waukesha</b>   |
| <b>PASS Inspector Disk</b> for Chapters 2–29  | 0-324-22170-3                  | <b>Warren Allen and Mary Allen</b><br>This disk contains the electronic solutions to PASS.   |
| <b>R&amp;K UltraGlo Practice Set Key</b><br>with Inspector disk                                       | 0-324-29175-2                  | <b>Janet Caruso, Briarcliffe College</b>   |
| <b>Achievement Tests</b><br>–version A, Chapters 1–16<br>–version B, Chapters 1–16                    | 0-324-22171-1<br>0-324-22173-8 | These tests, grouped in “A” and “B” sets, allow for maximum flexibility in assigning in-class and out-of-class work for students.  |
| <b>Achievement Test Keys</b><br>–version A, Chapters 1–16<br>–version B, Chapters 1–16                | 0-324-22175-4<br>0-324-22177-0 | Solutions for the Achievement tests.   |
| <b>Instructor Resource Guide</b> for<br>Chapters 1–16   | 0-324-22162-2                  | <b>William CK. Alberts, National Business College</b><br>This guide contains a wealth of resources to help instructors create an exciting and productive classroom experience. Included are enhanced chapter outlines and teaching tips; references to exhibits, PowerPoint® slides, and teaching transparencies; suggested enrichments and activities; check figures for text assignments; pretests tied to learning objectives; and Ten Questions Your Students Will Always Ask to help anticipate student learning needs. |
| <b>Solutions Manual</b> for Chapters 1–16   | 0-324-22164-9                  | <b>James Heintz and Robert Parry</b><br>The complete, carefully verified solutions for all text assignments. Accounting rulings are used where appropriate. (Note: These are also the solutions to the working papers.)  |
| <b>Study Guide Solutions</b> for Chapters 1–10  | 0-324-22184-3                  | <b>James Heintz and Robert Parry</b><br>Solutions to all study guide set “C” assignments found in the study guide. This may be packaged with the study guide at the instructor’s discretion.   |
| <b>Solutions Transparencies</b> for<br>Chapters 1–16  | 0-324-22166-5                  | <b>James Heintz and Robert Parry</b><br>Contains solutions for the Series A & B Exercises and Problems, Mastery Problems, Challenge Problems, and Comprehensive Problems in the text. Where appropriate, solutions appear on accounting rulings.   |
| <b>Teaching Transparencies</b> for<br>Chapters 1–16   | 0-324-22168-1                  | <b>James Heintz and Robert Parry</b><br>Colorful teaching transparencies of many of the text illustrations for use in classroom presentations.   |
| <b>Test Bank</b> for Chapters 1–16  | 0-324-22160-6                  | <b>Lee Moore, South Plains College</b><br>These tests have been revised and carefully verified. The electronic test bank (ExamView) is available on the Instructor’s Resource CD-ROM, described below.   |
| <b>Instructor’s CD-ROM with ExamView</b>  | 0-324-22157-6                  | ExamView 4.0 is an enhanced, easy to use electronic test bank that contains the content found in the two printed test banks; also: (a) A complete set of PowerPoint® presentations, by Donna Larner of Davenport College, reinforce text content by using extremely engaging visuals that are paced well for student comprehension; (b) The solutions manual, instructor’s manual, and check figures are provided in Microsoft® Word files.  |



# COLLEGE ACCOUNTING ACCOUNTING CYCLE QUICK REFERENCE

## THE ACCOUNTING EQUATION

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

## FINANCIAL STATEMENTS

Income Statement

$$\text{Revenues} - \text{Expenses} = \text{Net Income or Loss}$$

Statement of Owner's Equity

$$\text{Beginning Capital} + \text{Investments} + \text{Net Income} - \text{Withdrawals} = \text{Ending Capital}$$

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

## T ACCOUNT

| Title        |                |
|--------------|----------------|
| Debit = Left | Credit = Right |

## EXPANDED ACCOUNTING EQUATION SHOWING RULES OF DEBIT AND CREDIT

| Assets |     | = | Liabilities |     | + | Owner's Equity |     |          |     |         |     |
|--------|-----|---|-------------|-----|---|----------------|-----|----------|-----|---------|-----|
| Dr.    | Cr. |   | Dr.         | Cr. |   | Dr.            |     | Cr.      |     |         |     |
| +      | -   |   | -           | +   |   | -              |     | +        |     |         |     |
|        |     |   |             |     |   | Drawing        |     | Expenses |     | Revenue |     |
| Dr.    | Cr. |   | Dr.         | Cr. |   | Dr.            | Cr. | Dr.      | Cr. | Dr.     | Cr. |
| +      | -   |   | -           | +   |   | +              | -   | +        | -   | -       | +   |

## STEPS IN MAJOR ACCOUNTING PROCESSES

### Steps in Journalizing a Transaction

1. Enter the date.
2. Enter the account title and debit amount.
3. Enter the account title and credit amount.
4. Enter the explanation.

### Steps in Posting from the Journal to the Ledger

#### In the ledger:

1. Enter the date in the Date column.
2. Enter the amount of each transaction in the Debit or Credit column.
3. Enter the new balance in the Balance column under Debit or Credit.
4. Enter the page number of the journal from which each transaction is posted in the Posting Reference column.

#### In the journal:

5. Enter the account number in the Posting Reference column in the journal.

### Steps in Preparing the Work Sheet

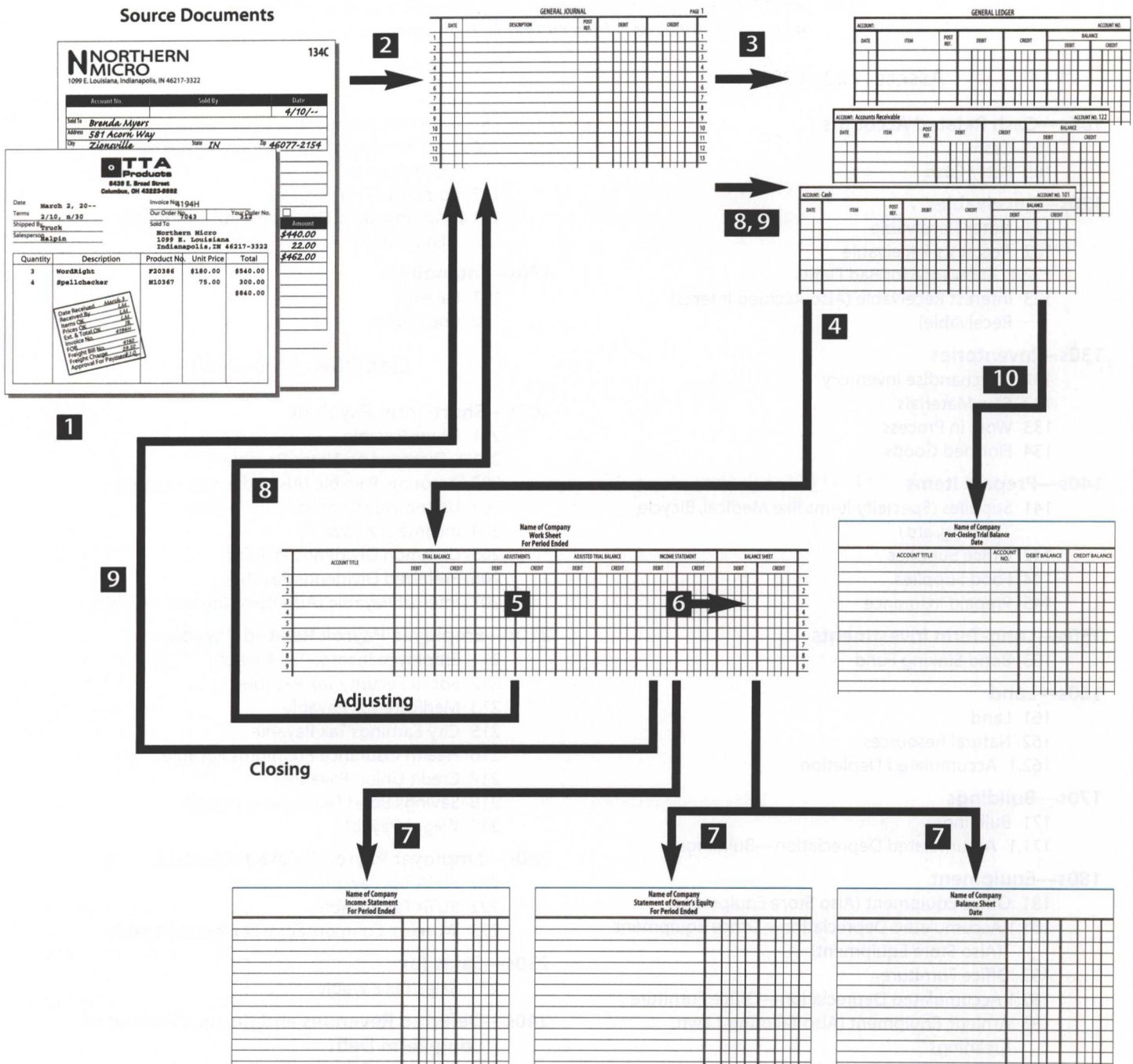
1. Prepare the trial balance.
2. Prepare the adjustments.
3. Prepare the adjusted trial balance.
4. Extend adjusted balances to the Income Statement and Balance Sheet columns.
5. Complete the work sheet.

### Steps in the Closing Process

1. Close revenue accounts to Income Summary.
2. Close expense accounts to Income Summary.
3. Close Income Summary to Capital.
4. Close the drawing account to the owner's capital account.



## STEPS IN THE ACCOUNTING CYCLE



### Steps in the Accounting Cycle

#### During Accounting Period:

1. Analyze source documents.
2. Journalize the transactions.
3. Post to the ledger accounts.

#### End of Accounting Period:

4. Prepare a trial balance.
5. Determine and prepare the needed adjustments on the work sheet.
6. Complete an end-of-period work sheet.
7. Prepare an income statement, statement of owner's equity, and balance sheet.
8. Journalize and post the adjusting entries.
9. Journalize and post the closing entries.
10. Prepare a post-closing trial balance.



## CHART OF ACCOUNTS

*Note: While for a specific company each account number used would have only one title, titles vary from company to company as needed.*

### Assets (100–199)

#### 100s—Cash Related Accounts

- 101 Cash
- 105 Petty Cash

#### 120s—Receivables

- 121 Notes Receivable
- 122 Accounts Receivable
- 122.1 Allowance for Bad Debts
- 123 Interest Receivable (Also Accrued Interest Receivable)

#### 130s—Inventories

- 131 Merchandise Inventory
- 132 Raw Materials
- 133 Work in Process
- 134 Finished Goods

#### 140s—Prepaid Items

- 141 Supplies (Specialty items like Medical, Bicycle, Tailoring, etc.)
- 142 Office Supplies
- 144 Food Supplies
- 145 Prepaid Insurance

#### 150s—Long-Term Investments

- 153 Bond Sinking Fund

#### 160s—Land

- 161 Land
- 162 Natural Resources
- 162.1 Accumulated Depletion

#### 170s—Buildings

- 171 Buildings
- 171.1 Accumulated Depreciation—Buildings

#### 180s—Equipment

- 181 Office Equipment (Also Store Equipment)
- 181.1 Accumulated Depreciation—Office Equipment (Also Store Equipment)
- 182 Office Furniture
- 182.1 Accumulated Depreciation—Office Furniture
- 183 Athletic Equipment (Also Tailoring, Lawn, Cleaning)
- 183.1 Accumulated Depreciation—Athletic Equipment (Also Tailoring, Lawn, Cleaning)
- 184 Tennis Facilities (Also Basketball Facilities)
- 184.1 Accumulated Depreciation—Tennis Facilities (Also Basketball Facilities)
- 185 Delivery Equipment (Also Medical, Van)
- 185.1 Accumulated Depreciation—Delivery Equipment (Also Medical, Van)

#### 186 Exercise Equipment

- 186.1 Accumulated Depreciation—Exercise Equipment

#### 187 Computer Equipment

- 187.1 Accumulated Depreciation—Computer Equipment

#### 190s—Intangibles

- 191 Patents
- 192 Copyrights

### Liabilities (200–299)

#### 200s—Short-Term Payables

- 201 Notes Payable
- 201.1 Discount on Notes Payable
- 202 Accounts Payable (Also Vouchers Payable)
- 203 United Way Contribution Payable
- 204 Income Tax Payable
- 205 Common Dividends Payable
- 206 Preferred Dividends Payable
- 207 Interest Payable (Also Bond Interest Payable)

#### 210s—Employee Payroll Related Payables

- 211 Employee Income Tax Payable
- 212 Social Security Tax Payable
- 213 Medicare Tax Payable
- 215 City Earnings Tax Payable
- 216 Health Insurance Premiums Payable
- 217 Credit Union Payable
- 218 Savings Bond Deductions Payable
- 219 Wages Payable

#### 220s—Employer Payroll Related Payables

- 221 FUTA Tax Payable
- 222 SUTA Tax Payable
- 223 Workers' Compensation Insurance Payable

#### 230s—Sales Tax

- 231 Sales Tax Payable

#### 240s—Deferred Revenues and Current Portion of Long-Term Debt

- 241 Unearned Subscription Revenue (Also Unearned Ticket Revenue, Unearned Repair Fees)
- 242 Current Portion of Mortgage Payable

#### 250s—Long-Term Liabilities

- 251 Mortgage Payable
- 252 Bonds Payable
- 252.1 Discount on Bonds Payable
- 253 Premium on Bonds Payable



**Owner's Equity (300–399)**

- 311 Jessica Jane, Capital
- 312 Jessica Jane, Drawing
- 313 Income Summary
- 321 Common Stock
- 321.1 Common Treasury Stock
- 322 Paid in Capital in Excess of Par/Stated Value—Common Stock
- 323 Preferred Stock
- 323.1 Preferred Treasury Stock
- 323.2 Discount on Preferred Stock
- 324 Paid in Capital in Excess of Par/Stated Value—Preferred Stock
- 327 Common Stock Subscribed
- 327.1 Common Stock Subscriptions Receivable
- 328 Preferred Stock Subscribed
- 328.1 Preferred Stock Subscriptions Receivable
- 329 Paid in Capital from Sale of Treasury Stock
- 331 Retained Earnings
- 332 Retained Earnings Appropriated for...
- 333 Cash Dividends
- 334 Stock Dividends

**Revenues (400–499)****400s—Operating Revenues**

- 401 Delivery Fees
- 401 Appraisal Fees
- 401 Medical Fees
- 401 Service Fees
- 401 Repair Fees
- 401 Sales
- 401.1 Sales Returns and Allowances
- 401.2 Sales Discounts
- 402 Boarding and Grooming Revenue
- 403 Subscriptions Revenue (if main line of business)

**410s—Other Revenues**

- 411 Interest Revenue
- 412 Rent Revenue
- 413 Subscriptions Revenue (if not main line of business)
- 414 Sinking Fund Earnings
- 415 Uncollectible Accounts Recovered
- 416 Gain on Sale/Exchange of Equipment
- 417 Gain on Bonds Redeemed

**Operating Expenses (500–599)****500s—Cost of Goods Sold**

- 501 Purchases
- 501.1 Purchases Returns and Allowances
- 501.2 Purchases Discounts
- 502 Freight-In
- 504 Overhead
- 505 Cost of Goods Sold

**510s—Selling Expenses**

- 511 Wages Expense (Also Wages and Salaries Expense)
- 512 Advertising Expense
- 513 Bank Credit Card Expense
- 514 Store Supplies Expense
- 515 Travel and Entertainment Expense
- 516 Cash Short and Over
- 519 Depreciation Expense—Store Equipment and Fixtures

**520s–40s—General and Administrative Expenses**

- 521 Rent Expense
- 522 Office Salaries Expense
- 523 Office Supplies Expense (Also Medical)
- 524 Other Supplies: Food Supplies Expense (Also Medical)
- 525 Telephone Expense
- 526 Transportation/Automobile Expense (Also Laboratory, Travel)
- 527 Collection Expense
- 528 Inventory Short and Over
- 529 Loss on Write Down of Inventory
- 530 Payroll Taxes Expense
- 531 Workers' Compensation Insurance Expense
- 532 Bad Debt Expense
- 533 Electricity Expense, Utilities Expense
- 534 Charitable Contributions Expense
- 535 Insurance Expense
- 536 Postage Expense
- 537 Repair Expense
- 538 Oil and Gas Expense (Also Automobile Expense)
- 540 Depreciation Expense—Building
- 541 Depreciation Expense—Equipment (Also Tennis Facilities, Delivery Equipment, Office Equipment, Furniture)
- 542 Depreciation Expense—Other Equipment (Medical Equipment, Exercise Equipment, Computer Equipment)
- 543 Depletion Expense
- 544 Patent Amortization
- 545 Organization Expense
- 549 Miscellaneous Expense

**550s—Other Expenses**

- 551 Interest Expense (Also Bond Interest Expense)
- 552 Loss on Discarded Equipment
- 553 Loss on Sale/Exchange of Equipment
- 554 Loss on Bonds Redeemed
- 555 Income Tax Expense