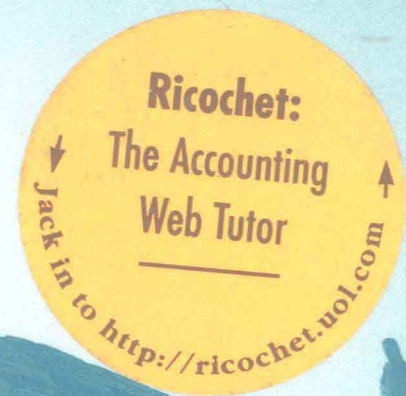


STUDY GUIDE I  
CHAPTERS 1-13

WEYGANDT • KIESO • KELL

# ACCOUNTING PRINCIPLES

FOURTH EDITION



PREPARED BY  
DOUGLAS W. KIESO

STUDY GUIDE I  
CHAPTERS 1-13

TO ACCOMPANY

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# ACCOUNTING PRINCIPLES

FOURTH EDITION

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## To The Student

This study guide is provided as a significant aid in your study of ***Accounting Principles, 4th Edition*** by Jerry J. Weygandt, Donald E. Kieso, and Walter G. Kell. The material in the study guide is designed to reinforce your understanding of the principles and procedures presented in the textbook. **It is important to recognize that the study guide is a supplement to and not a substitute for the textbook.**

This study guide contains the following materials for each chapter in the textbook: (a) study objectives, (b) a preview of the chapter, (c) a chapter review consisting of 20-30 key points, (d) a chapter outline for note taking, (e) a demonstration problem, (f) 20 true—false statements, (g) 20 multiple choice questions, (h) a matching question pertaining to key terms, (i) 2-3 exercises, and (j) blank working papers for use in class. At the end of the guide, answers to questions and exercises are provided in order to enable you to assess your comprehension of the material. Included are solutions explaining why the answer is what it is, so you get immediate feedback as to what, how, or why.

You will realize the maximum benefit from this study guide by following the approach suggested below.

1. Carefully read and study the chapter material in the textbook.
2. Read the chapter preview and review material in the study guide.
3. Take notes in class using the chapter outlines provided in the study guide.
4. Answer the questions and exercises for the chapter in the study guide and compare your answers with those provided in the study guide. For any incorrect answers, refer back to the textbook for a discussion of the point you have missed.
5. Solve the end-of-chapter materials in the textbook assigned by your instructor.

**The study guide should be helpful in preparing for examinations.** The chapter review points, class notes, and other materials may be used to determine your recall of the information presented in specific chapters. When you have identified topics in need of further study, you can return to the textbook for a complete discussion of the subject matter.

I wish to acknowledge the valuable assistance of the proofers and checkers of this study guide, Professor John C. Borke of the University of Wisconsin—Platteville and Mr. Greg A. Graber of Deloitte & Touche, and our compositor, Mary Ann Benson.

The following supplementary materials are also available from your bookstore, or the publisher, for use with this study guide and with the textbook, ***Accounting Principles, 4th Edition***.

Douglas W. Kieso



## Student Active Learning Aids

**Working Papers I and II.** Working Papers are partially completed accounting forms for all end-of-chapter exercises, problems, and cases. A convenient resource for organizing and completing homework assignments, they demonstrate how to correctly set up solution formats and are directly tied to textbook assignments.

**Student Study Guide I and II.** The Student Study Guide is a comprehensive review of accounting and a powerful tool for students to use in the classroom, guiding students through chapter content, tied to study objectives, and providing resources for use during lectures. This is an excellent resource when preparing for exams.

Each chapter of the Student Study Guide includes study objectives and a chapter review consisting of 20-30 key points; a demonstration problem linked to study objectives in the textbook; and additional opportunities for students to practice their knowledge and skills through true/false, multiple-choice, and matching questions related to key terms and exercises linked to study objectives. Solutions to the exercises explain the hows and whys so students get immediate feedback. A chapter outline and blank working papers allow students space to take lecture notes and record problems worked in class.

**Self-Study Problems/Solutions Book I and II.** This Self-Study tutorial is designed to improve students' success rates in solving accounting principles homework assignments and exam questions. The Self-Study also provides additional insight and tips on how to study accounting. Each chapter includes an overview of key chapter topics and a review of chapter study objectives; purpose statements for each question, case, or exercise and a direct link to study objectives; and tips to alert students to common pitfalls and misconceptions, as well as reminders of concepts and principles to help solve problems. A selection of multiple-choice exercises and cases representative of common exam questions or homework assignments enhance student proficiency, and detailed solutions and explanations assist students in the approach, setup, and completion of problems.

**Career Supplement.** The Career Supplement is a valuable resource for students interested in accounting and business careers. This updated edition of the Career Supplement gives a broad perspective of accounting and its applications in business, presents an overview of various career paths that may be pursued with an accounting background, and includes brief interviews with individuals in each of these areas. Also provided in the Career Supplement is a listing of each of the companies discussed in the textbook with contact information, allowing students to explore these companies for more information about their individual employment structures, mission statements, and career opportunities.

**Practice Sets.** These practice sets expose students to a real-world simulation of maintaining a complete set of accounting records for a business. Students will find that practice sets reinforce the concepts and procedures learned in each chapter of the textbook, as they integrate the business events, accounting concepts, procedures, and records covered within Accounting Principles. Designed to meet a variety of skill levels, particular study objectives, and to be used at various places throughout the course, these practice sets reinforce key concepts and allow students to apply the information they have learned. They are an excellent way to see how these concepts are all brought together to generate the accounting information that is essential in assessing the financial position and operating results of a company. Each of these practice sets has been revised to reflect changes in the text and to modify account information.

**Campus Cycle Shop.** Business papers add a realistic dimension by enabling students to handle documents—checks, invoices, receipts—that they would encounter in a small company. As students complete this sole proprietorship case, they will become familiar with analyzing and journalizing business transactions. Students can use this practice set after Chapter 4: Completion of the Accounting Cycle.

**Heritage Home Furniture.** This narrative listing of sole proprietorship business transactions includes the necessary journals, ledgers, and forms for completing the simulation. It reviews and reinforces the transactions emphasized in the Campus Cycle Shop Practice Set, while introducing more complex transactions generally covered in a financial accounting course. Recommended for use after Chapter 11: Current Liabilities and Payroll Accounting.

**University Bookstore, Inc.** This corporate practice set exposes students to a real-world simulation of maintaining a complete set of accounting records for a business, integrating business events, accounting concepts, and records. Students work with a bond transaction, so the set is recommended for use after Chapter 16: Long-Term Liabilities. The end of the set recommends that students complete a financial analysis of the company, so students will need to complete Chapter 19: Financial Statement Analysis before completing the set. Performed either independently or in a group, the set includes few transactions and thus reinforces students' analytical skills and creative problem solving.

**Olympic Mowers Co.** This corporate practice set introduces students to a cost accounting system in a manufacturing environment. Specifically, a job order cost accounting system will be maintained in order to develop product costs. The case reviews and reinforces many of the transactions emphasized in the first few practice sets and provides a review of the major types of business transactions generally covered in a financial accounting course. Recommended for use after Chapter 21: Job Order Cost Accounting.

**General Ledger Software.** The General Ledger Software (GLS) is one of the most exciting technology supplements that accompanies the Fourth Edition. Available in either a DOS, Windows, or Network version, the General Ledger Software program allows students to solve selected end-of-chapter text problems, which are identified by a diskette icon in the margin in the text. GLS is ideal for instructors who want their students to gain a hands-on feel for a computerized accounting system. It has the ability to modify the existing chart of accounts and beginning balances. This increases the instructor's flexibility in assigning alternate problems within the textbook. GLS is user-friendly and easy to use, with little start-up time.

The General Ledger Software is used to computerize the business papers, narrative, and corporate practice sets. Students can purchase the GLS alone, packaged with the text, or packaged with one of these practice sets.

**Solving Accounting Principles Problems Using Lotus 1-2-3 and Excel for Windows.** These electronic spreadsheet templates (available in either Lotus or Excel) allow students to complete selected end-of-chapter exercises and problems, identified by a spreadsheet icon in the margin of the text. The manuals, which include the disks, guide students step-by-step from an introduction to computers and Lotus or Excel, to completing preprogrammed spreadsheets, to designing their own spreadsheets. Prepared for students with a range of experience in spreadsheet applications, these templates and tutorials help students develop and hone their computer skills and expose them to software packages often used in real-world business environments.

**Computerized Study Guide.** The Computerized Study Guide is designed to provide more flexible movement through the content of the Study Guide to meet the particular needs of each student. It offers students both extensive review information and hundreds of self-testing questions from every chapter in the text. The student can select from a number of self-study options, including chapter summaries, chapter study objectives, and self-test questions. Multiple-choice questions offer students explanations of why the wrong choices are not correct. All questions can be automatically scrambled to avoid duplication of identical tests.

# MAKING YOUR STUDIES PAY

## Suggestions for Effective Studying

WANT TO GET BETTER GRADES? READ ON!

Good students have a system to their studying. In the next few pages, we'll give you some guidelines that we think can help improve the way you study—not only for this course, but for any course.

How to Use a Textbook

How to Read a Chapter

How to Take Notes

How to Use a Study Guide (In General)

How to Take Tests

If you need more specific help, we suggest that you go to your teacher or your school's career counseling center.

And Good Luck in your College Career!

## HOW TO USE A TEXTBOOK

Textbooks often include material designed to help you study. It's worth your while to flip through a textbook to look for:

- **The Preface.** If an author has a point of view, you can find it here, along with notes on how the book is meant to be used.
- **The Table of Contents.** Reading the table of contents will tell you how the book will be developed.
- **Glossary.** The most important terms and ideas for you to know will be in a glossary, either at the end of each chapter or at the end of the book.
- **Appendixes.** Found either after certain chapters or at the end of the book, appendixes contain such things as:
  - \* More difficult material.
  - \* Statistics or data, such as the present value of money. You may be able to use such data for most of the book.
  - \* Answers to selected problems.



## HOW TO READ A CHAPTER

### Before Class: Skim

Unless you're told to know a chapter completely by class time, it's a good idea just to skim an assigned chapter before class.

- Become familiar with the main ideas so that the lecture will make more sense to you.
- As you skim, ask yourself if you know something about the material.
- Keep any questions you have in mind for the lecture, so that you can listen for the answers.

In particular, look for:

- **Study Objectives.** These are what your teacher will expect you to know—and be able to do or explain—by the end of the chapter.
- **Chapter-Opening Vignettes.** This section is linked to the chapter topic, and gives a general idea of how accounting relates to your day-to-day life.
- **Boldface or *Italic* Terms.** These usually indicate important terms, people, or concepts.
- **Headings.** Read the major headings to see how the material fits together. How are the ideas related to each other? Do they make sense to you?
- **Summary.** A good summary will repeat the general ideas and conclusions of the chapter, but it won't explain them. It usually matches up well with the study objectives and chapter introduction.

### After Class: Read

After skimming the chapter and attending class, you are ready to read a chapter in detail.

- **Check for Meaning.** Ask yourself as you read if you understand what the material means.
- **Don't Skip the Tables, Figures, and Illustrations.** These items usually contain important material and may all be on the test.
- **Read the "Sidebars."** These are features that are set off, usually in boxes or by color backgrounds. They can include real-world examples, amusing anecdotes, or additional material. The amusing anecdotes may not come up on the test, but the other kinds of sidebars probably will!
- **Review.** Read the chapter again, especially the parts you had trouble with. Review the study objectives, chapter introduction, summary, and key terms to make sure you understand them.

- **End-of-Chapter Questions.** Do all the end-of-chapter questions, exercises, or problems. For the exercises and problems, make sure you have memorized what equations or rules apply, and why. (Do any practice problems that your teacher gives you, too. These will not only help you but show you what kind of questions might be on the test.) If you have trouble with any:
  - \* Review the part of the chapter that applies.
  - \* Look for similar questions.
  - \* Ask yourself what concept or equation should be applied.
- **Use the Study Guide.** After you've read and studied the chapter, use the study guide to find out what areas you need to review in the text.

## HOW TO TAKE NOTES

The ability to take notes is a skill, and one you can learn. First, a few practical tips:

- Arrive in class on time, and don't leave early. You might miss important notes or assignments.
- If you don't have assigned seating, sit close enough to your teachers so that you can hear them and read any overhead transparencies.
- If you don't understand, ask questions.
- Do not read the text during the class—you'll just miss what your teacher is saying. Listen, take notes, and ask questions.

Now, for the note-taking itself:

- **Listen for Ideas.** Don't try to write everything the instructor says. Instead, listen and take notes on the main ideas and any supporting ideas and examples. Make sure you include names, dates, and any new terms. In accounting classes, take down all rules, equations, and theories, as well as every step in a demonstration problem.
- **Use Outlines.** Organize these ideas into outlines. You don't have to use a numbered outline if you don't want to—just indent supporting ideas under the main ones.
- **Abbreviate.** Use any abbreviations you can, whether they're standard or ones you make up. (Leaving out vowels can sometimes help: Lvg out vwls can ...).
- **Leave Space.** Leave enough space in your notes so that you can add material if the instructor goes back to the topic or expands a problem later.

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- **Leave Space.** Leave enough space in your notes so that you can add material if the instructor goes back to the topic or expands a problem later.

Now for some notes on objective, problem, and essay tests.

- **Objective Tests.** (Multiple choice, true/false, matching, and completion or fill-in-the blank.)
  - \* Watch out for words like always/all/every/none/never. Very few things are always or never so. If a question or answer includes words like these, be careful.
  - \* If you are uncertain about a multiple choice answer, try to narrow the choices down to two and make an educated guess.
  - \* Match up the easy ones first on a matching test. This will leave less possibilities for the harder ones.
  - \* Make educated guesses for other objective questions. (If you really have no idea and wrong answers count against you, leave it blank.)
- **Problem Test**
  - \* If a formula or equation is quite long, jot it down before you work on the problem.
  - \* Remember that math builds one equation on another. If you can't remember a particular equation, try to remember how it was derived.
  - \* Don't despair if you can't figure out what a question is calling for. Try to figure out part of it first. If that doesn't work, go on; sometimes a later question will jog your memory.
  - \* If your teacher grants some credit for partially correct problems, make sure you include the way you worked out a problem.
  - \* Make sure you know how your calculator works before the test. And make sure you know how to do the problems without it. Sometimes you can hit the wrong button, so it helps to have a rough idea of what your calculator should be giving you.
- **Essay Test**
  - \* Write a rough outline before you begin. If that takes too much time, just jot down all the things you want to say and then number them. Organize what you're going to say into groups of related ideas.
  - \* Make a point in each paragraph. The easiest way is to make the point in the paragraph's first sentence and then to back it up.
  - \* Use examples, facts, and dates to back up what you are saying.
  - \* Do what the question asks for. If it asks you to compare two things, for example, go back and forth between them; don't spend all your time on one of them.
  - \* If you have no idea what to write, try to remember ideas that the teacher stressed in class and see if you can relate the question to those ideas.
  - \* Check your time. If you're running out, write your last points down without explaining them; your teacher will at least know what you are going to explain.

- **Test Yourself.** Cover up something you've just read and try to explain it to yourself—or to a friend—out loud.
- **Use Memory Tricks.** If you're having trouble remembering something—such as a formula or items in a list—try associating it with something you know or by making a sentence up out of the first letters.
- **Study with a Group.** Group study is helpful after you've done all your own studying. You can help each other with problems and by quizzing each other, but you'll probably just distract each other if you try to review a chapter together.

**(A Note About Cramming), DON'T!** If you cram, you will probably only remember what you've read for a short time, and you'll have trouble knowing how to generalize from it. If you must cram, however, concentrate on the main ideas, the supporting ideas, main headings, boldface or italicized terms, and study objectives.)

## **Taking a Test**

After the following general tips, we'll give you specifics on objective, problem, and essay tests.

- **Before the Test**
  - \* Make sure you eat well and get enough sleep before the exam.
  - \* If the instructor doesn't say in class what material will be covered or what kind of test—objective or essay—will be used, ask.
  - \* Arrive early enough to get settled.
  - \* Bring everything you need—bluebook, pens, pencils, eraser, calculator—even the book if it's an open-book test.
- **As You Begin the Test**
  - \* Read the instructions completely. Do you have to answer all of the questions? Do certain questions apply to others? Do some questions count more than others? Will incorrect answers be counted against you?
  - \* Schedule your time. How many questions are there? Try to estimate how much time to leave for each section. If sections are timed, so that you won't be able to go back to them, make sure you leave enough time to decide which questions to answer.
- **Taking the Test**
  - \* Read each question completely as you come to it.
  - \* Answer the easier questions first and go back to the harder ones.
  - \* Concentrate on questions that count more.
  - \* Jot notes or equations in the margin if you think it will help.
  - \* Review your answers, and don't change an answer unless you're sure you were wrong.
- **Dealing with Panic**
  - \* Relax. Do this by tightening and relaxing one muscle at a time.
  - \* Breathe deeply.
  - \* If you don't know an answer, go on to the next question.



# CONTENTS

Chapter 1	Accounting in Action
Chapter 2	The Recording Process
Chapter 3	Adjusting the Accounts
Chapter 4	Completion of the Accounting Cycle
Chapter 5	Accounting for Merchandising Operations
Chapter 6	Accounting Information Systems
Chapter 7	Internal Control and Cash
Chapter 8	Accounting for Receivables
Chapter 9	Inventories
Chapter 10	Plant Assets, Natural Resources, and Intangible Assets
Chapter 11	Current Liabilities and Payroll Accounting
Chapter 12	Accounting Principles
Chapter 13	Accounting for Partnerships

# CHAPTER 1

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## **ACCOUNTING IN ACTION**

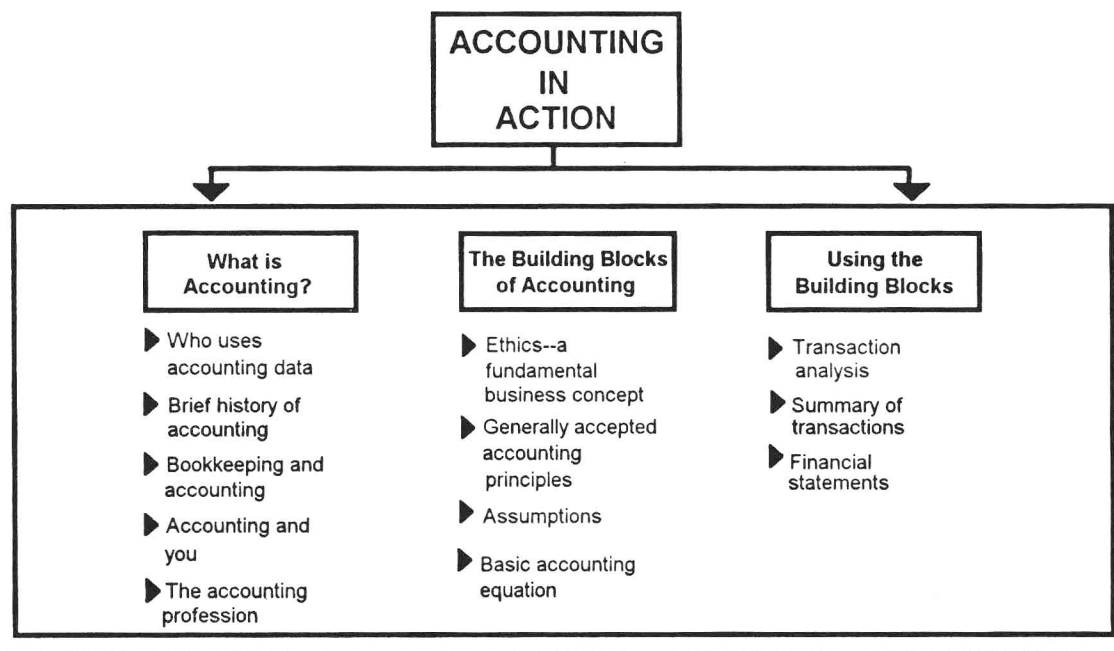
### CHAPTER STUDY OBJECTIVES

After studying this chapter, you should be able to:

1. Explain the meaning of accounting.
2. Identify the users and uses of accounting.
3. Understand why ethics is a fundamental business concept.
4. Explain the meaning of generally accepted accounting principles and the cost principle.
5. Explain the meaning of the monetary unit assumption and the economic entity assumption.
6. State the basic accounting equation and explain the meaning of assets, liabilities, and owner's equity.
7. Analyze the effect of business transactions on the basic accounting equation.
8. Prepare an income statement, owner's equity statement, balance sheet, and statement of cash flows.

### PREVIEW OF CHAPTER 1

The purpose of this chapter is to show you that accounting is the system used to provide useful financial information. The content and organization of the chapter are as follows:



## CHAPTER REVIEW

### Accounting Defined

1. (S.O. 1) **Accounting** is the process of identifying, recording, and communicating economic events of an organization to interested users.
  - a. The first part of the process, **identifying**, involves selecting those events that are considered evidence of economic activity relevant to a particular business organization.
  - b. **Recording** is the keeping of a chronological diary of measured events in an orderly and systematic manner.
  - c. **Communication** occurs through the preparation and distribution of accounting reports.
2. The accounting process consists of:  
  
Identification → Recording → Communication.
3. (S.O. 2) **Internal users** of accounting information consist of management, officers, and other decision makers inside the business.
4. **External users** include investors, creditors, taxing authorities, regulatory agencies, labor unions, customers, and economic planners outside the business.
5. **Bookkeeping** is not synonymous with accounting. Bookkeeping involves only the recording of economic events, while accounting also includes identification, measurement, and communication. Bookkeeping is therefore only a part of accounting.
6. **Public accounting** provides the services of auditing, taxation, and management consulting.
  - a. **Auditing** involves examining financial statements of companies and expressing an opinion as to the fairness of their presentation.
  - b. **Taxation** includes providing tax advice and planning, preparing tax returns, and representing clients before governmental agencies.
  - c. **Management consulting** involves providing advice for managers on such matters as financial planning and control and the development of computer systems.
7. **Private accounting** involves the employment of accountants within individual companies. The private accountant performs a wide variety of duties such as cost accounting, budgeting, general accounting, accounting information systems, tax accounting, and internal auditing.
8. **Not-for-profit accounting** pertains to not-for-profit organizations such as governmental units, foundations, hospitals, colleges, universities, and charities.

### Ethics

9. (S.O. 3) The standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair, are **ethics**. The process of analyzing ethical issues is to recognize that an ethical issue is involved, identify and analyze the principle elements in the situation (especially those harmed or benefited), identify the alternatives and weigh the impact of each alternative on the various stockholders, then select the most ethical alternative.

### GAAP and the Cost Principle

10. (S.O. 4) **Generally accepted accounting principles** (GAAP) are a common set of guidelines (standards) used by accountants in reporting economic events.
11. The **Securities and Exchange Commission** (SEC) is an independent regulatory agency of the United States government. The SEC has the legal power to enforce the form and content of financial statements of corporations that wish to sell securities to the public.
12. The **Financial Accounting Standards Board** (FASB) has been granted the power from the SEC to establish GAAP.
13. Under the **cost principle** assets should be recorded at their cost. Cost is the value exchanged at the time something is acquired.

### The Monetary Unit and Economic Entity Assumptions

14. The accounting profession has developed certain assumptions that serve as guidelines for the accounting process.
  - a. The **monetary unit assumption** requires that only transaction data that can be expressed in terms of money be included in the accounting records of the economic entity.
  - b. The **economic entity assumption** requires that the activities of the entity be kept separate and distinct from (1) the activities of its owner and (2) all other economic entities.

### Business Enterprises

15. Three types of business enterprises are proprietorships, partnerships, and corporations.
  - a. A **proprietorship** is a business owned by one person.
  - b. A **partnership** is a business owned by two or more persons associated as partners.
  - c. A **corporation** is a business organized as a separate legal entity under state corporation law with ownership divided into transferable shares of stock.

### The Accounting Equation

16. (S.O. 6) The **basic accounting equation** is:

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

The accounting equation applies to all economic entities regardless of size, nature of business, or form of business organization.

17. The key components of the basic accounting equation are:
  - a. **Assets** are resources owned by a business
  - b. **Liabilities** are claims against assets.
  - c. **Owner's equity** are the claims of owners.