

F.A.P. Sixteenth Edition
Larson • Wild • Chiapp

100s on the Nose

Papa John's

Latham

WWF

eBay

FUBU

Kate Spade

Beardstown

Reppel

Red Hat

Designs

Creative Assets

Interactive Sports

Birthdays

Volume 1 Chapters 1–15

16

edition

Fundamental Accounting Principles

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University of Texas at Austin

John J. Wild

University of Wisconsin at Madison

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Nassau Community College



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To my wife **Nancy**.

To my wife **Gail** and children, **Kimberly**, **Jonathan**, **Stephanie**, and **Trevor**.

To my husband **Bob**, my sons **Michael** and **David**, and my **mother**.

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Professor Larson is a member of the American Accounting Association, the Texas Society of CPAs, and the American Institute of CPAs. His positions with the AAA have included vice president, southwest regional vice president, and chairperson of several committees, including the Committee of Concepts and Standards. He was a member of the committee that planned the first AAA doctoral consortium and served as its director.

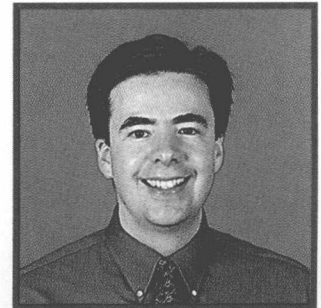
Professor Larson served as president of the Richard D. Irwin Foundation. He also served on the Accounting Accreditation Committee and on the Accounting Standards Committee of the AACSB. He was a member of the Constitutional Drafting Committee of the Federation of Schools of Accountancy and a member of the Commission on Professional Accounting Education. He has been an expert witness on cases involving mergers, antitrust litigation, consolidation criteria, franchise taxes, and expropriation of assets by foreign governments. Professor Larson served on the Board of Directors and Executive Committee of Tekcon, Inc., and on the National Accountants Advisory Board of Safe-Guard Business Systems. In his leisure time, he enjoys skiing and is an avid sailor and golfer.



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Professor Wild teaches courses at both the undergraduate and graduate levels. He has received the Mabel W. Chipman Excellence-in-Teaching Award and the departmental Excellence-in-Teaching Award at the University of Wisconsin. He also received the Beta Alpha Psi and Roland F. Salmonson Excellence-in Teaching Award from Michigan State University. Professor Wild is a past KPMG Peat Marwick National Fellow and is a recipient of fellowships from the American Accounting Association and the Ernst and Young Foundation.

Professor Wild is an active member of the American Accounting Association and its sections. He has served on several notable committees of these organizations, including the Outstanding Accounting Educator Award, National Program Advisory, Publications, and Research Committees. Professor Wild is author of *Financial Statement Analysis* and *Financial Accounting: Information for Decisions*, both published by McGraw-Hill/Irwin. His research publications appear in *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting and Economics*, *Contemporary Accounting Research*, *Journal of Accounting, Auditing and Finance*, *Journal of Accounting and Public Policy*, and other business periodicals. He is associate editor of *Contemporary Accounting Research* and has served on several editorial boards including *The Accounting Review*.



Professor Wild, his wife, and four children enjoy travel, music, sports, and community activities.

BARBARA CHIAPPETTA received her BBA in Accountancy and MS in Education from Hofstra University and is a tenured full professor at Nassau Community College. For the past 20 years, she has been an active executive board member of the Teachers of Accounting at Two-Year Colleges (TACTYC), serving 10 years as vice president and 5 years as president. As an active member of the American Accounting Association, she has served on the Northeast Regional Steering Committee, chaired the Curriculum Revision Committee of the Two-Year Section, and participated in numerous national committees. In April 1998, Professor Chiappetta was inducted into the American Accounting Association Hall of Fame for the Northeast Region. She received the Nassau Community College dean of instruction's Faculty Distinguished Achievement Award in the spring of 1995. Professor Chiappetta was honored with the State University of New York Chancellor's Award for Teaching Excellence in 1997. As a confirmed believer in the benefits of the active learning pedagogy, Professor Chiappetta has authored *Student Learning Tools*, an active learning workbook for a first-year accounting course, published by McGraw-Hill/Irwin.



In her leisure time, Professor Chiappetta enjoys tennis and participates on a U.S.T.A. team. She also enjoys the challenge of bridge. Her husband, Robert, is an entrepreneur in the leisure sport industry. She has two sons—Michael, a lawyer, currently practicing in New York City, and David, formerly lead guitarist in the rock band Blindman's Sun and currently pursuing a career in film scoring.

PUTTING THE STUDENT
ON A PEDESTAL



A WORD TO THE STUDENT

WHEN we set about revising FAP, we spoke to hundreds of educators throughout the country, listening to their thoughts about what worked in previous editions and what they felt could be improved. The experience they brought to us was born of countless hours of teaching, of helping students just like you to master what can be a challenging subject. They had a great deal to tell us and we listened.

NOW, after nearly two years of work, we present to you the **SIXTEENTH EDITION** of **FAP**. It is the result of a simple, guiding principle: **THE STUDENT COMES FIRST**. Every change to this edition, from the **ENTREPRENEURIAL FLAVOR** to the extensive use of helpful **STUDY AIDS**, is designed to make the principles of accounting easier for you to learn—and more fun too! You will encounter chapter-opening vignettes and “Did You Know” boxes containing names like eBay, FUBU, Birdhouse, NetLedger, Freeplay and Red Hat, **YOUNG COMPANIES** helping to shape the **NEW ECONOMY** in which you will soon **COMPETE FOR WORK**. You’ll also notice a boxed feature entitled “You Make the Call” that challenges you to apply your understanding to a real-world situation.

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There's a great deal more to this edition of **FAP** as you'll discover when you read the following pages. We hope you'll agree that **Fundamental Accounting Principles** by **Larson, Wild, and Chiappetta** provides you with everything you need to master the principles of accounting.

Sincerely,

The McGraw-Hill/Irwin FAP Team

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Concept 1-1



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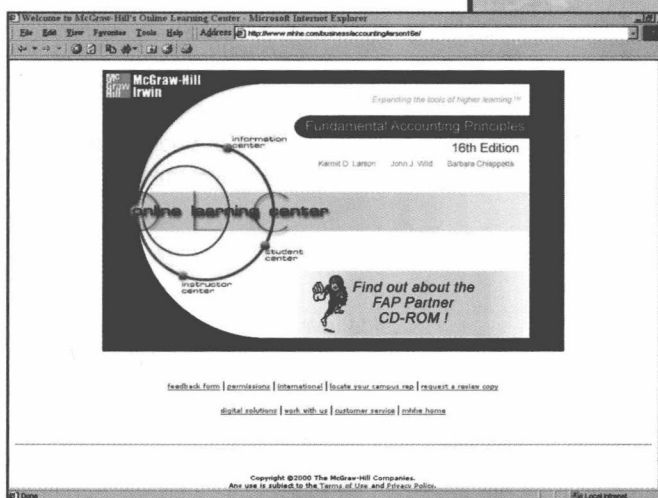
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The First Level of **Knowledge Gateway** is available to all professors browsing the McGraw-Hill Higher Education Website, and consists of an introduction to OLC content, access to the first level of the Resource Library, technical support, and information on Instructional Design Services available through Eduprise.

The Second Level is password-protected and provides access to the expanded Resource Library, technical and pedagogical support for WebCT, Blackboard, and TopClass, the online Instructional Design helpdesk and an online discussion forum for users. The **Knowledge Gateway** provides a considerable advantage for teaching online—and it's only available through McGraw-Hill.

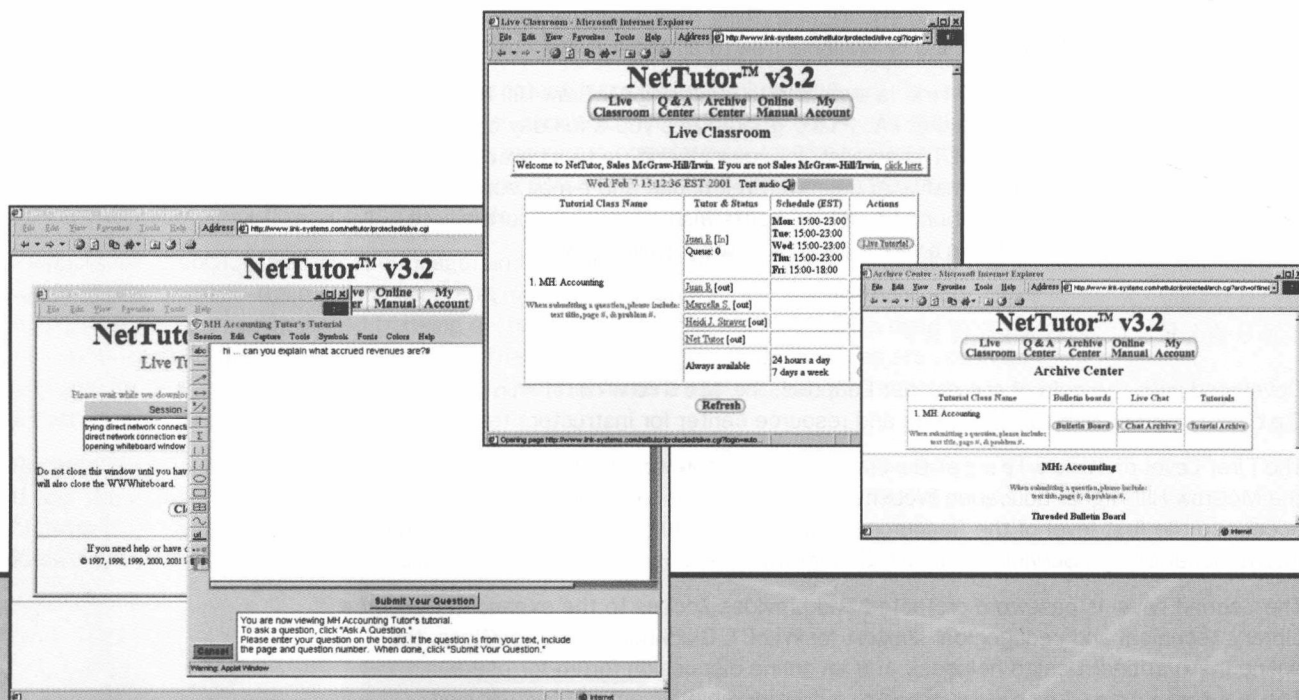
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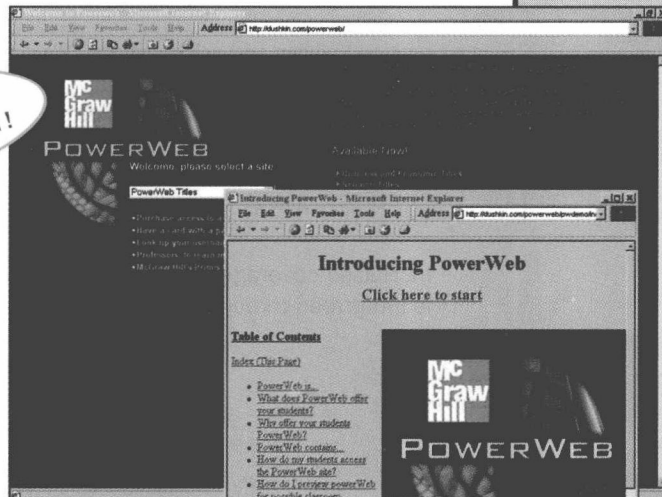
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SOLID ACCOUNTING COVERAGE...

WE LISTENED! **IN ADDITION** to a number of reviewers, we held focus groups in cities around the country to learn what **INSTRUCTORS LIKE YOU** are thinking about in the principles of accounting course and the materials you use to teach it. John Wild attended every session to listen and ask questions. We got **FANTASTIC FEEDBACK** and our authors have integrated that feedback into this new edition of the text. We think you'll like what you see.

THROUGHOUT THE TEXT:

Increased coverage of e-business, the Web, and entrepreneurship as related to accounting is integrated throughout the text as appropriate. Following are some content revisions:

Chapter 1

JobDirect **NEW opener**

New, early introduction to financial statements

Revised motivation on the relevance of accounting

Revised section on accounting and related careers

New table on compensation in accounting careers

Chapter 2

Simplified transaction analysis with accounting equation

Early introduction to statement of cash flows

Revised Nintendo financials

Top 10 list of key entrepreneurial qualities

Chapter 3

Creative Assets **NEW opener**

Streamlined section on using T-Accounts

Shortened section on posting of transactions

New discussion of using entries to analyze transactions

Chapter 4

CrossWorlds **NEW opener**

Revised presentation on accounting adjustments

Streamlined discussion of the adjusting process

Chapter 5

Red Hat **NEW opener**

Shortened section on closing entries

New Excel screen captures with acetates for work sheet

Streamlined section on account numbering system

Chapter 6

Wooden Ships of Hoboken **NEW opener**

Simplified presentation of income statement formats

Streamlined section on merchandising cash flows

Chapter 7

FUBU **NEW opener**

Streamlined presentation of gross profit method

Toys "R" Us **Updated**

Chapter 8

NetLedger **NEW opener**

More discussion on Web-based accounting

New simplified visuals for special journals (using PeachTree screen captures)

Revised special journals using perpetual inventory system

Streamlined coverage of special journals

New analysis of Harley-Davidson segments

Chapter 9

eBay **NEW opener**

New feature on cyber fraud

Shortened discussion of voucher system of control

Chapter 10

Tarina Tarantino **NEW opener**

Streamlined discussion on full disclosure principle

Dell and Apple **Updated**

Chapter 11

Papa John's **NEW opener**

Streamlined discussion of partial-year depreciation

Shortened and simplified section on "Revenue and Capital Expenditures"

Deleted section on exchange of dissimilar assets

Coors and Anheuser-Busch **Updated**

Chapter 12

Sector 9 **NEW opener**

New section on employee bonus plans

Shortened section on "Income Tax Liabilities"

Best Buy **Updated**

Revised appendix on payroll records

Chapter 13

AltiTUNES **NEW opener**

Expanded discussion of limited liability companies

New section on partnership return on equity

Boston Celtics revised feature

Chapter 14

World Wrestling Federation **NEW opener**

Deleted section on "Issuing Stock through Subscriptions"

Streamlined section on participating and nonparticipating preferred stock dividends

Deleted the Dividends Declared account to streamline journal entries for cash (and stock) dividends

Deleted the section on "Liquidating Cash Dividends"

Shortened section on "Discontinued Segments"

Simplified section on "Changes in Accounting Principles"

Streamlined section on diluted earnings per share

Shortened sections on book value per share and dividend yield

Chapter 15

David Bowie Bonds **NEW opener**

Streamlined Appendix on "Present Values of Bonds and Notes"

New Appendix 15B on "Leases and Pensions"

Chapter 16

Freeplay **NEW opener**

New illustrations on adjustments for unrealized gains and losses on securities

Chapter 17

Interactive Sports **NEW opener**

Simplified preparation of the statement of cash flows

Shortened section on "Analyzing Cash Sources and Uses"

Chapter 18

Nike vs. Reebok **Updated**

Revised discussion on comparative analysis (benchmarking)

Streamlined section on "Working Capital and Current Ratio"

Chapter 19

American Paper Optics **NEW opener**

New section on "Lean Business Model"

Shortened discussion on manufacturing management principles

Expanded discussion of service businesses

New presentation of manufacturing statement

Chapter 20

iFRONTIER **NEW opener**

Moved manufacturing statement to Chapter 19

Simplified section on "Overapplied and Underapplied Overhead"

Deleted section on "Multiple Overhead Allocation Rates"

New section on costing and pricing for service businesses

Moved Appendix 20A on General Accounting System to the Web

Chapter 21

INCA **NEW opener**

New footnote illustration of process costing using weighted-average method

Deleted section on "Spoiled Units of Production"

New section on "Hybrid Costing"

Chapter 22

Kate Spade **NEW opener**

Simplified discussion of "Activity-Based Costing"

Streamlined sections on "Departmental Accounting"

Chapter 23

Latham Entertainment **NEW opener**

Streamlined section on "Assumptions of CVP Analysis"

Chapter 24

Birdhouse **NEW opener**

Deleted section on "Zero-Based Budgeting"

Streamlined section on the budgeted balance sheet

New section on "Activity-Based Budgeting"

Chapter 25

Toes on the Noes **NEW opener**

New discussion of service applications

Chapter 26

Leading Edge Aviation Services **NEW opener**

New applications to service businesses

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