

Fundamental Accounting Principles

John J. Wild

Ken W. Shaw

Barbara Chiappetta



20th
edition

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Fundamental Accounting Principles

20th
edition

John J. Wild

University of Wisconsin at Madison



Nassau Community College

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To my students and family, especially **Kimberly, Jonathan, Stephanie, and Trevor.**
 To my wife **Linda** and children, **Erin, Emily, and Jacob.**
 To my mother, husband **Bob**, and sons **Michael and David.**

FUNDAMENTAL ACCOUNTING PRINCIPLES

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Dear Colleagues/Friends,

As we roll out the new edition of *Fundamental Accounting Principles*, we thank each of you who provided suggestions to improve our textbook. As teachers, we know how important it is to select the right book for our course. This new edition reflects the advice and wisdom of many dedicated reviewers, symposium and workshop participants, students, and instructors. Our book consistently rates number one in customer loyalty because of you. Together, we have created the most readable, concise, current, accurate, and innovative accounting book available today.

Throughout the writing process, we steered this book in the manner you directed. Reviewers, instructors, and students say this book's enhanced presentation, graphics, and technology cater to different learning styles and helps students better understand accounting. *Connect Accounting Plus* offers new features to improve student learning and to assist instructor teaching and grading. Our iPod content lets students study on the go, while our Algorithmic Test Bank provides an infinite variety of exam problems. You and your students will find all these tools easy to apply.

We owe the success of this book to our colleagues who graciously took time to help us focus on the changing needs of today's instructors and students. We feel fortunate to have witnessed our profession's extraordinary devotion to teaching. Your feedback and suggestions are reflected in everything we write. Please accept our heartfelt thanks for your dedication in helping today's students learn, understand, and appreciate accounting.

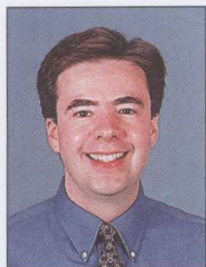
With kindest regards,

John J. Wild

Ken W. Shaw

Barbara Chiappetta

About the Authors



JOHN J. WILD is a distinguished professor of accounting at the University of Wisconsin at Madison. He previously held appointments at Michigan State University and the University of Manchester in England. He received his BBA, MS, and PhD from the University of Wisconsin.

Professor Wild teaches accounting courses at both the undergraduate and graduate levels. He has received numerous teaching honors, including the Mabel W. Chipman Excellence-in-Teaching Award, the departmental Excellence-in-Teaching Award, and the Teaching Excellence Award from the 2003 and 2005 business graduates 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 has received several research honors and 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 committees of these organizations, including the Outstanding Accounting Educator Award, Wildman Award, National Program Advisory, Publications, and Research Committees. Professor Wild is author of *Financial Accounting*, *Managerial Accounting*, and *College Accounting*, each published by McGraw-Hill/Irwin. His research articles on accounting and analysis 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 journals. He is past associate editor of *Contemporary Accounting Research* and has served on several editorial boards including *The Accounting Review*.

In his leisure time, Professor Wild enjoys hiking, sports, travel, people, and spending time with family and friends.



KEN W. SHAW is an associate professor of accounting and the Deloitte Professor at the University of Missouri. He previously was on the faculty at the University of Maryland at College Park. He received an accounting degree from Bradley University and an MBA and PhD from the University of Wisconsin. He is a Certified Public Accountant with work experience in public accounting.

Professor Shaw teaches financial accounting at the undergraduate and graduate levels. He received the Williams-Keepers LLC Teaching Excellence award in 2007, was voted the "Most Influential Professor" by the 2005, 2006, and 2010 School of Accountancy graduating classes, and is a two-time recipient of the O'Brien Excellence in Teaching Award. He is the advisor to his School's chapter of the Association of Certified Fraud Examiners.

Professor Shaw is an active member of the American Accounting Association and its sections. He has served on many committees of these organizations and presented his research papers at national and regional meetings. Professor Shaw's research appears in *The Accounting Review*; *Journal of Accounting Research*; *Contemporary Accounting Research*; *Journal of Financial and Quantitative Analysis*; *Journal of the American Taxation Association*; *Journal of Accounting, Auditing, and Finance*; *Journal of Financial Research*; *Research in Accounting Regulation*; and other journals. He has served on the editorial boards of *Issues in Accounting Education*, the *Journal of Business Research*, and *Research in Accounting Regulation*. Professor Shaw is co-author of *Financial and Managerial Accounting* and *College Accounting*, both published by McGraw-Hill.

In his leisure time, Professor Shaw enjoys tennis, cycling, music, and coaching his children's sports teams.



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 two decades, 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 as president from 1993 through 1999. 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. Professor Chiappetta has been inducted into the American

Accounting Association Hall of Fame for the Northeast Region. She had also received the Nassau Community College dean of instruction's Faculty Distinguished Achievement Award. 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, specializing in intellectual property law in New York, and David, a composer, pursuing a career in music for film in Los Angeles.

Helping Students Achieve Peak Performance

Fundamental Accounting Principles 20e

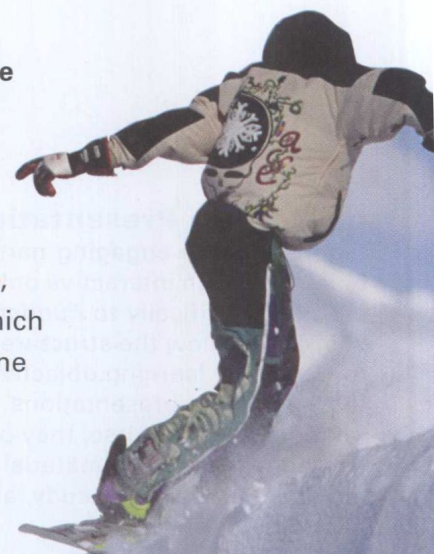
Great performances result from pushing the limits through quality practices and reinforcing feedback to strengthen abilities and motivation. Assist your students in achieving their peak performance by giving them what they need to succeed in today's accounting principles course.

Whether the goal is to become an accountant or a businessperson, or simply to be an informed consumer of accounting information, *Fundamental Accounting Principles (FAP)* has helped generations of students succeed by giving them support in the form of leading-edge accounting content that engages students, paired with state-of-the-art technology that elevates their understanding of key accounting principles.

With *FAP* on your side, you'll be provided with **engaging content** in a **motivating style** to help students see the relevance of accounting. Students are motivated when reading materials that are clear and pertinent. *FAP* excels at engaging students. Its chapter-opening vignettes showcase dynamic, successful entrepreneurial individuals and companies guaranteed to **interest and excite students**. This edition's featured companies—**Research In Motion** (maker of BlackBerry), **Apple**, **Nokia**, and **Palm**—captivate students with their products and annual reports, which are a pathway for learning financial statements. Further, this book's coverage of the accounting cycle fundamentals is widely praised for its clarity and effectiveness.

FAP also delivers innovative technology to help student performance. **Connect Accounting** provides students with instant grading and feedback for assignments that are completed online. **Connect Accounting Plus** integrates an online version of the textbook with *Connect Accounting*. Our algorithmic test bank offers infinite variations of numerical test bank questions. The Self-Quiz and Study, Interactive Presentations, and LearnSmart all provide additional support to help reinforce concepts and keep students motivated.

We're confident you'll agree that ***FAP* will help your students achieve peak performance.**

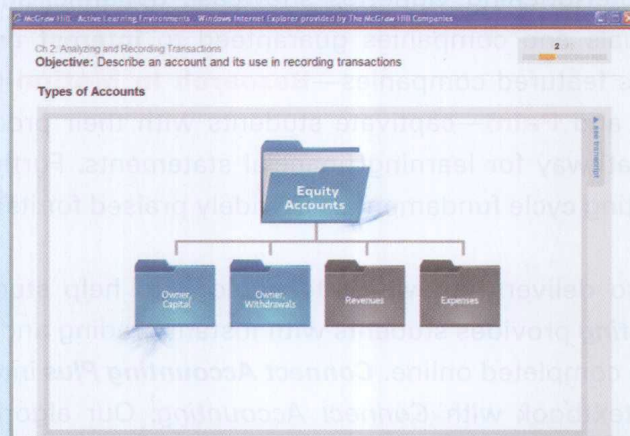


McGraw-Hill *Connect Accounting* is an online assignment and assessment solution that connects your students with the tools and resources needed to achieve success through faster learning, more efficient studying, and higher retention of knowledge.

Online Assignments: *Connect Accounting* helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. *Connect* grades homework automatically and gives immediate feedback on any questions students may have missed.

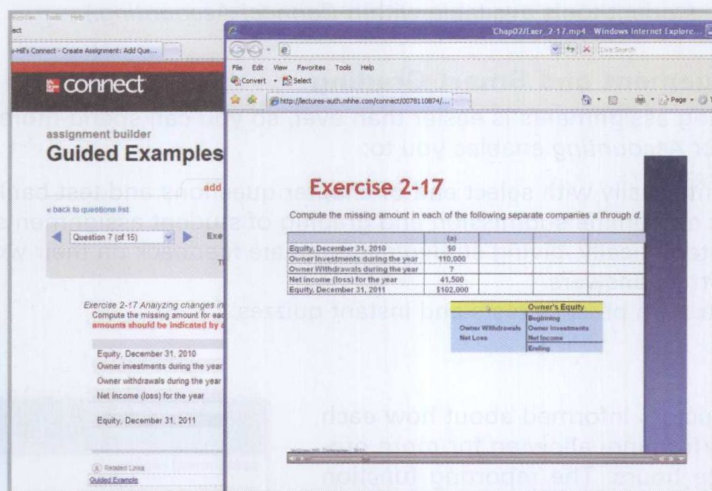
	A	B	C
1	TECH TODAY		
2	Income Statement		
3	For Month Ended August 31		
4	Revenues		
5	Consulting fees earned.....		\$ 17,000
6	Expenses		
7	Salaries expense.....	\$ 8,000	
8	re		
9	Rent expense		
10	Rent expense-Office space		
11	Rent expense-Selling space		8,000
12	Rent on factory building		\$ 9,000
	Rent payable		

Interactive Presentations: The interactive presentations provide engaging narratives of all chapter learning objectives in an interactive online format. The presentations are tied specifically to *Fundamental Accounting Principles*, 20e. They follow the structure of the text and are organized to match the learning objectives within each chapter. While the interactive presentations are not meant to replace the textbook in this course, they provide additional explanation and enhancement of material from the text chapter, allowing students to learn, study, and practice with instant feedback at their own pace.

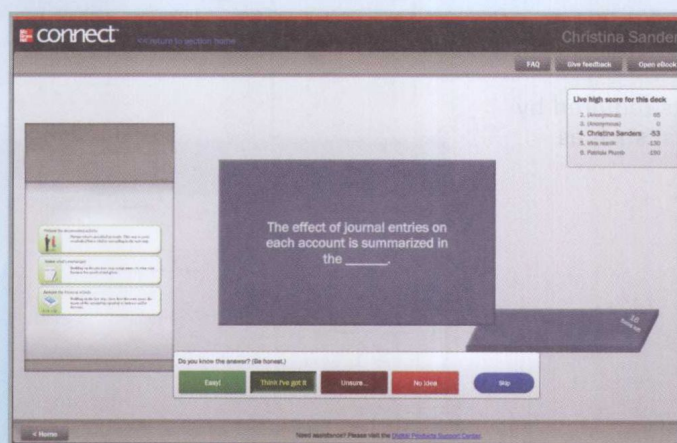


Student Resource Library: The *Connect Accounting* Student Study Center gives access to additional resources such as recorded lectures, online practice materials, an eBook, and more.

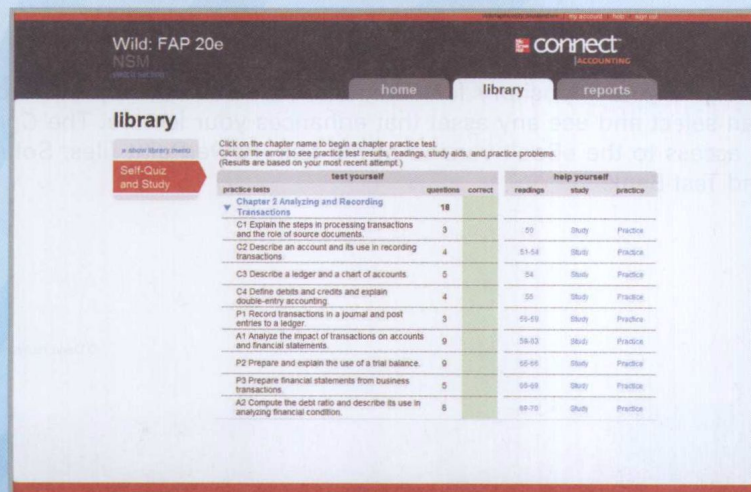
Reach Peak Performance!



Guided Examples: The Guided Examples in *Connect Accounting* provide a narrated, animated, step-by-step walk-through of select exercises similar to those assigned. These short presentations provide reinforcement when students need it most.



LearnSmart: LearnSmart adaptive self-study technology within *Connect Accounting* helps students make the best use of their study time. LearnSmart provides a seamless combination of practice, assessment, and remediation for every concept in the textbook. LearnSmart's intelligent software adapts to students by supplying questions on a new concept when they are ready to learn it. With LearnSmart, students will spend less time on topics they understand and practice more on those they have yet to master.



Self-Quiz and Study: The Self-Quiz and Study (SQS) connects students to the learning resources students need to succeed in the course. For each chapter, students can take a practice quiz and immediately see how well they performed. A study plan then recommends specific readings from the text, supplemental study material, and practice exercises that will improve students' understanding and mastery of each learning objective.

Connect Accounting

Connect Accounting offers a number of powerful tools and features to make managing assignments easier, so faculty can spend more time teaching. With *Connect Accounting*, students can engage with their course-work anytime and anywhere, making the learning process more accessible and efficient. (Please see previous page for a description of the student tools available within *Connect Accounting*.)

Simple Assignment Management and Smart Grading

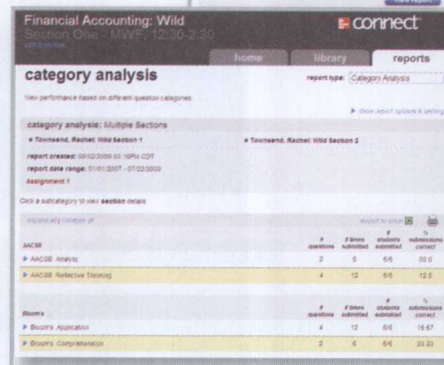
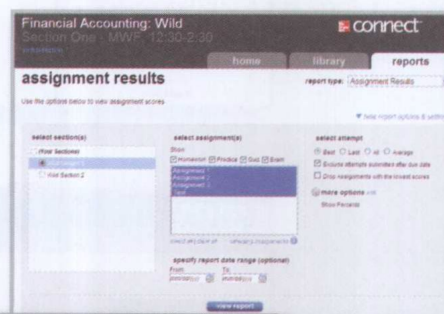
With *Connect Accounting*, creating assignments is easier than ever, so you can spend more time teaching and less time managing. *Connect Accounting* enables you to:

- Create and deliver assignments easily with select end-of-chapter questions and test bank items.
- Go paperless with the eBook and online submission and grading of student assignments.
- Have assignments scored automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Reinforce classroom concepts with practice tests and instant quizzes.

Student Reporting

Connect Accounting keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The reporting function enables you to:

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB and AICPA.



category	questions	correct answers	percentage correct
AACSB			
▶ AACSB: Heavy	2	0	0%
▶ AACSB: Reflective Thinking	4	12	5%
Blom's			
▶ Blom's: Application	4	12	0%
▶ Blom's: Comprehension	2	0	0%



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Instructor Library

The *Connect Accounting* Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The *Connect Accounting* Instructor Library includes: access to the eBook version of the text, PowerPoint files, Solutions Manual, Instructor Resource Manual, and Test Bank.

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Tools for Instructors

McGraw-Hill Connect Plus Accounting

McGraw-Hill reinvents the textbook learning experience for the modern student with *Connect Plus Accounting*. A seamless integration of an eBook and *Connect Accounting*, *Connect Plus Accounting* provides all of the *Connect Accounting* features plus:

- An integrated eBook, allowing for anytime, anywhere access to the textbook.
- Dynamic links between the problems or questions you assign to your students and the location in the eBook where that problem or question is covered.
- A powerful search function to pinpoint and connect key concepts in a snap.



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How Can Text-Related Web Resources Enrich My Course?

Online Learning Center (OLC)

We offer an Online Learning Center (OLC) that follows *Fundamental Accounting Principles* chapter by chapter. It doesn't require any building or maintenance on your part. It's ready to go the moment you and your students type in the URL:

www.mhhe.com/wildFAP20e

As students study and learn from *Fundamental Accounting Principles*, they can visit the Student Edition of the OLC Website to work with a multitude of helpful tools:

- Generic Template Working Papers
- Chapter Learning Objectives
- Interactive Chapter Quizzes
- PowerPoint® Presentations
- Narrated PowerPoint® Presentations*
- Video Library
- Excel Template Assignments
- iPod Content*

* indicates Premium Content

A secured Instructor Edition stores essential course materials to save you prep time before class. Everything you need to run a lively classroom and an efficient course is included. All resources available to students, plus . . .

- Instructor's Resource Manual
- Solutions Manual
- Solutions to Excel Template Assignments
- Test Bank
- Solutions to CYGL, Peachtree, and QuickBooks templates

The OLC Website also serves as a doorway to other technology solutions, like course management systems.

"There are numerous materials and resources available for the instructor. I love how everything is on one Website and there is no need for a CD or different supplements/materials that need to be carried around."

—Jeanine Metzler, Northampton Community College, on the OLC



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How Students Can Study On the Go Using Their iPods

iPod Content

Harness the power of one of the most popular technology tools students use today—the Apple iPod. Our innovative approach allows students to download audio and video presentations right into their iPod and take learning materials with them wherever they go. Students just need to visit the Online Learning Center at www.mhhe.com/wildFAP20e to download our iPod content. For each chapter of the book they will be able to download audio narrated lecture presentations for use on various versions of iPods. iPod Touch users can even access self-quizzes.

It makes review and study time as easy as putting on headphones.

How Can McGraw-Hill Help Teach My Course Online?

Improve Student Learning Outcomes and Save Instructor Time with ALEKS®

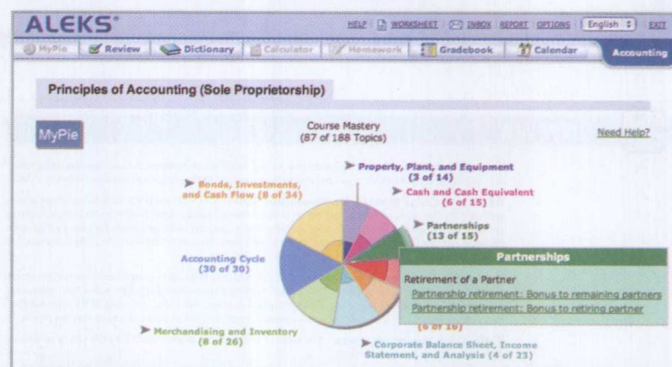
ALEKS is an assessment and learning program that provides individualized instruction in accounting. Available online in partnership with McGraw-Hill/Irwin, ALEKS interacts with students much like a skilled human tutor, with the ability to assess precisely a student's knowledge and provide instruction on the exact topics the student is most ready to learn. By providing topics to meet individual students' needs, allowing students to move between explanation and practice, correcting and analyzing errors, and defining terms, ALEKS helps students to master course content quickly and easily.

ALEKS also includes an Instructor Module with powerful, assignment-driven features and extensive content flexibility. The complementary Instructor Module provides a course calendar, a customizable gradebook with automatically graded homework, textbook integration, and dynamic reports to monitor student and class progress. ALEKS simplifies course management and allows instructors to spend less time with administrative tasks and more time directing student learning.

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Innovative Textbook Features

Using Accounting for Decisions

Whether we prepare, analyze, or apply accounting information, one skill remains essential: decision-making. To help develop good decision-making habits and to illustrate the relevance of accounting, our book uses a unique pedagogical framework we call the Decision Center. This framework is comprised of a variety of approaches and subject areas, giving students insight into every aspect of business decision-making; see three examples to the right and one below. Answers to Decision Maker and Ethics boxes are at the end of each chapter.

Inventory Turnover and Days' Sales in Inventory Decision Analysis

Inventory Turnover
Earlier chapters described two important ratios useful in evaluating a company's short-term liquidity: current ratio and acid-test ratio. A merchandiser's ability to pay its short-term obligations also depends on how quickly it sells its merchandise inventory. **Inventory turnover**, also called **merchandise inventory turnover**, is one ratio used to assess this and is defined in Exhibit 6.13.

Cost of goods sold
Average inventory

Inventory turnover =

EXHIBIT 6.13
Inventory Turnover

A3 Assess inventory management using both inventory turnover and days' sales in inventory.

Learning Objectives

CAP

CONCEPTUAL	ANALYTICAL	PROCEDURAL
C1 Explain the importance of periodic reporting and the time period assumption. (p. 94)	A1 Explain how accounting adjustments link to financial statements. (p. 105)	P1 Prepare and explain adjusting entries. (p. 97)
C2 Explain accrual accounting and how it improves financial statements. (p. 95)	A2 Compute profit margin and describe its use in analyzing company performance. (p. 109)	P2 Explain and prepare an adjusted trial balance. (p. 106)
C3 Identify the types of adjustments and their purpose. (p. 96)		P3 Prepare financial statements from an adjusted trial balance. (p. 106)
		P4 Appendix 3A—Explain the alternatives in accounting for prepaids. (p. 113)

LP3

GLOBAL VIEW

This section discusses differences between U.S. GAAP and IFRS in the items and costs making up merchandise inventory, in the methods to assign costs to inventory, and in the methods to estimate inventory values.

Items and Costs Making Up Inventory Both U.S. GAAP and IFRS include broad and similar guidance for the items and costs making up merchandise inventory. Specifically, under both accounting systems, merchandise inventory includes all items that a company owns and holds for sale. Further, merchandise inventory includes costs of expenditures necessary, directly or indirectly, to bring those items to a salable condition and location.

Assigning Costs to Inventory Both U.S. GAAP and IFRS allow companies to use specific identification in assigning costs to inventory. Further, both systems allow companies to apply a *cost flow assumption*. The usual cost flow assumptions are: FIFO, Weighted Average, and LIFO. However, IFRS does not (currently) allow use of LIFO. As the convergence project progresses, this prohibition may or may not persist.

Estimating Inventory Costs The value of inventory can change while it awaits sale to customers. That value can decrease or increase.

Decreases in Inventory Value Both U.S. GAAP and IFRS require companies to write down (reduce the cost recorded for) inventory when its value falls below the cost recorded. This is referred to as the *lower of cost or market* method explained in this chapter. U.S. GAAP prohibits any later increase in the recorded value of that inventory even if that decline in value is reversed through value increases in later periods. However, IFRS allows reversals of those write downs up to the original acquisition cost. For example, if **RIM** Research In Motion wrote down its 2010 inventory from \$622 million to \$600 million, it could not reverse this in future periods even if its value increased to more than \$622 million. However, if RIM applied IFRS, it could reverse that previous loss. (Another difference is that value refers to *replacement cost* under

Decision Insight

Revenue Spread The **New Orleans Saints** have *Unearned Revenues* of about \$60 million in advance ticket sales. When the team plays its home games, it settles this liability to its ticket holders and then transfers the amount earned to *Ticket Revenues*.



Decision Ethics

Answer — p. 206

Credit Manager As a new credit manager, you are being trained by the outgoing manager. She explains that the system prepares checks for amounts net of favorable cash discounts, and the checks are dated the last day of the discount period. She also tells you that checks are not mailed until five days later, adding that "the company gets free use of cash for an extra five days, and our department looks better. When a supplier complains, we blame the computer system and the mailroom." Do you continue this payment policy?

Decision Maker

Answer — p. 253

Financial Planner One of your clients asks if the inventory account of a company using FIFO needs any "adjustments" for analysis purposes in light of recent inflation. What is your advice? Does your advice depend on changes in the costs of these inventories?

CAP Model

The Conceptual/Analytical/Procedural (CAP) Model allows courses to be specially designed to meet your teaching needs or those of a diverse faculty. This model identifies learning objectives, textual materials, assignments, and test items by C, A, or P, allowing different instructors to teach from the same materials, yet easily customize their courses toward a conceptual, analytical, or procedural approach (or a combination thereof) based on personal preferences.

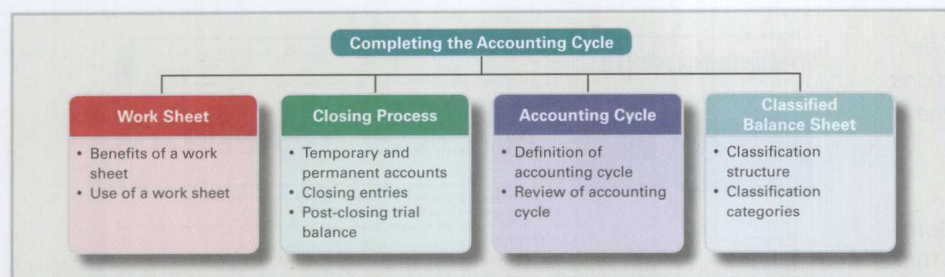
New Global View

This section explains international accounting practices relating to the material covered in that chapter. This section is purposefully located at the end of each chapter so that each instructor can decide what emphasis, if at all, is to be assigned to it. The aim of this Global View section is to describe accounting practices and to identify the similarities and differences in international accounting practices versus that in the U.S. As we move toward global convergence in accounting practices, and as we witness the likely conversion of U.S. GAAP to IFRS, the importance of student familiarity with international accounting grows. This innovative section helps us begin down that path of learning and teaching global accounting practices.

"...the chapter openers are absolutely excellent and include entrepreneurs that the students can easily relate to. This helps the students understand the need/importance of accounting in a small business."

—Michelle Grant, Bossier Parish Community College

Bring Accounting To Life



Chapter Preview With Flowchart

This feature provides a handy textual/visual guide at the start of every chapter. Students can now begin their reading with a clear understanding of what they will learn and when, allowing them to stay more focused and organized along the way.

Quick Check

Answers — p. 156



7. Classify the following assets as (1) current assets, (2) plant assets, or (3) intangible assets:
(a) land used in operations, (b) office supplies, (c) receivables from customers due in 10 months, (d) insurance protection for the next 9 months, (e) trucks used to provide services to customers, (f) trademarks.
8. Cite at least two examples of assets classified as investments on the balance sheet.
9. Explain the operating cycle for a service company.

Quick Check

These short question/answer features reinforce the material immediately preceding them. They allow the reader to pause and reflect on the topics described, then receive immediate feedback before going on to new topics. Answers are provided at the end of each chapter.

"The author(s) are doing an excellent job of using learning and study aids. The examples are real-world and easy to understand. I cannot think of anything else that I would add."

—Shirly Kleiner, Johnson County Community College

g transactions is to post journal entries to ledger is up-to-date, entries are posted as en time permits. All entries must be posted l to ensure that account balances are up-to-bits in journal entries are transferred into

Point: Computerized systems often provide a code beside a balance such as *dr.* or *cr.* to identify its balance. Posting is automatic and immediate with accounting software.

Marginal Student Annotations

These annotations provide students with additional hints, tips, and examples to help them more fully understand the concepts and retain what they have learned. The annotations also include notes on global implications of accounting and further examples.

Outstanding Assignment Material

Once a student has finished reading the chapter, how well he or she retains the material can depend greatly on the questions, exercises, and problems that reinforce it. This book leads the way in comprehensive, accurate assignments.

Demonstration Problems present both a problem and a complete solution, allowing students to review the entire problem-solving process and achieve success.

Chapter Summaries provide students with a review organized by learning objectives. Chapter Summaries are a component of the CAP model (see page xii), which recaps each conceptual, analytical, and procedural objective.

DEMONSTRATION PROBLEM
The partial work sheet of Midtown Repair Co.

PLANNING THE SOLUTION

- Extend the adjusted trial balance account balances to the appropriate financial statement columns.
- Prepare entries to close the revenue accounts to Income Summary, to close the expense accounts to Income Summary, to close Income Summary to the capital account, and to close the withdrawals account to the capital account.
- Post the first and second closing entries to the Income Summary account. Examine the balance of income summary and verify that it agrees with the net income shown on the work sheet.
- Post the third and fourth closing entries to the capital account.
- Use the work sheet's two right-most columns and your answer in part 4 to prepare the classified balance sheet.

SOLUTION TO DEMONSTRATION PROBLEM
1. Completing the work sheet.

	Adjusted Trial Balance		Income Statement		Balance Sheet and Statement of Owner's Equity	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	95,600				95,600	
Notes receivable (current)	50,000				50,000	
Prepaid insurance	16,000				16,000	
Prepaid rent	4,000				4,000	
Equipment	170,000				170,000	
Accumulated depreciation—Equipment		57,000				57,000

Key Terms
Average cost (p. 234)
Conservatism constraint (p. 238)
Consignee (p. 228)
Consignor (p. 228)
Consistency concept (p. 237)
Days' sales in inventory
First-in, first-out (FIFO) (p. 233)
Gross profit method (p. 252)
Interim statements (p. 251)
Inventory turnover (p. 241)
Last-in, first-out (LIFO) (p. 233)

Multiple Choice Quiz Answers on p. 269
Additional Quiz Questions are available at the book's Website.
Use the following information from Marvel Company for the month of July to answer questions 1 through 4.
July 1 Beginning inventory 75 units @ \$25 each
July 3 Purchase 348 units @ \$27 each
July 8 Sale 300 units
3. Assume that Marvel Company uses a perpetual inventory system. If beginning inventory consists of 45 units from the previous period and its ending inventory is 155 units, what is the cost of the 155 units that remain in ending inventory at the end of the month? (Round to the nearest dollar.)
a. \$2,940
b. \$2,955
c. \$2,970
d. \$2,985

QUICK STUDY
QS 6-1 Inventory costing with FIFO perpetual
P1
beginning inventory and purchases for the month of January. On January 1, the beginning inventory consists of 320 units at a cost of \$6.00 each. During the month, the following purchases and sales occurred:
January 9 85 units @ \$6.40
January 25 110 units @ 6.60
What is the cost of the 155 units that remain in ending inventory at the end of the month? (Round to the nearest dollar.)
a. \$960
b. \$975
c. \$990
d. \$1,005

Key Terms are bolded in the text and repeated at the end of the chapter with page numbers indicating their location. The book also includes a complete Glossary of Key Terms.

Multiple Choice Quiz Questions quickly test chapter knowledge before a student moves on to complete Quick Studies, Exercises, and Problems.

Quick Study assignments are short exercises that often focus on one learning objective. Most are included in *Connect Accounting*. There are usually 8-10 Quick Study assignments per chapter.

Exercises are one of this book's many strengths and a competitive advantage. There are about 10-15 per chapter and most are included in *Connect Accounting*.

500 of goods to China Co., and China Co. has arranged to sell the goods or the consignee. Which company should include any unsold goods in its year-end inventory?
a. China Co.
b. Duke Associates
c. Both companies
d. Neither company

EXERCISES
Exercise 6-1 Inventory ownership C1
Exercise 6-2 Inventory costs

PROBLEM SET A
Problem 3-1A Preparing adjusting and subsequent journal entries C1 A1 P1

PROBLEM SET B
Problem 3-1B Preparing adjusting and subsequent journal entries C1 A1 P1

Problem Sets A & B are proven problems that can be assigned as homework or for in-class projects. All problems are coded according to the CAP model (see page xii), and Set A is included in *Connect Accounting*.

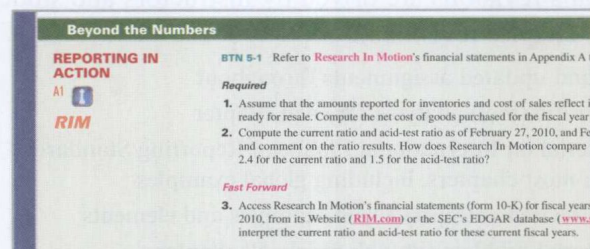
PUT AWAY YOUR RED PEN!

We pride ourselves on the accuracy of this book's assignment materials. Independent research reports that instructors and reviewers point to the accuracy of this book's assignment materials as one of its key competitive advantages.

Helps Students Master Key Concepts

Beyond the Numbers exercises ask students to use accounting figures and understand their meaning. Students also learn how accounting applies to a variety of business situations. These creative and fun exercises are all new or updated, and are divided into sections:

- Reporting in Action
- Comparative Analysis
- Ethics Challenge
- Communicating in Practice
- Taking It To The Net
- Teamwork in Action
- Hitting the Road
- Entrepreneurial Decision
- Global Decision



SERIAL PROBLEM
Business Solutions
P1 P2 P3

SP 3 After the success of the company's first two months, Santana Rey continues to operate Business Solutions. (Transactions for the first two months are described in the serial problem of Chapter 2.) The November 30, 2011, unadjusted trial balance of Business Solutions (reflecting its transactions for October and November of 2011) follows.

No.	Account Title	Debit	Credit
101	Cash		\$38,264
106	Accounts receivable	12,618	

Serial Problem uses a continuous running case study to illustrate chapter concepts in a familiar context. The Serial Problem can be followed continuously from the first chapter or picked up at any later point in the book; enough information is provided to ensure students can get right to work.

"Well planned, and very organized. A very thorough coverage of all topics. Easy to read and comprehend."

— Linda Bolduc, Mount Wachusett Community College

The End of the Chapter Is Only the Beginning Our valuable and proven assignments aren't just confined to the book. From problems that require technological solutions to materials found exclusively online, this book's end-of-chapter material is fully integrated with its technology package.



- Quick Studies, Exercises, and Problems available in *Connect* are marked with an icon.



- Problems supported by the General Ledger Application Software, Peachtree, or Quickbooks are marked with an icon.



- Online Learning Center (OLC) includes Interactive Quizzes, Excel template assignments, and more.



- Problems supported with Microsoft Excel template assignments are marked with an icon.



- Material that receives additional coverage (slide shows, videos, audio, etc.) available in iPod ready format are marked with an icon.



- Assignments that focus on global accounting practices and companies are often identified with an icon.

The authors extend a special thanks to accuracy checkers Barbara Schnathorst, The Write Solution, Inc.; Helen Roybark, Radford University; Beth Woods, CPA, Accuracy Counts; and David Krug, Johnson County Community College.

Enhancements in This Edition

This edition's revisions are driven by instructors and students. General revisions to the entire book follow (including chapter-by-chapter revisions):

- Revised and updated assignments throughout
- Updated ratio (tool) analyses for each chapter
- New material on International Financial Reporting Standards (IFRS) in most chapters, including global examples
- New and revised entrepreneurial examples and elements
- Revised serial problem through nearly all chapters
- New art program, visual info-graphics and text layout
- New **Research In Motion** (maker of BlackBerry) annual report with comparisons to **Apple**, **Palm**, and **Nokia** (IFRS) with new assignments
- Updated graphics added to each chapter's analysis section
- New technology content integrated and referenced in the book
- New Global View section in each chapter referencing international accounting including examples using global companies
- New assignments covering international accounting

Chapter 1

Facebook NEW opener with new entrepreneurial assignment
Streamlined and consolidated learning objectives
New section on International Standards and convergence
Revised section on accounting principles, assumptions, and constraints
New visual layouts for conceptual framework and the building blocks of GAAP
New discussion of conceptual framework linked to IFRSs
New graphic discussing fraud control in accounting
Updated compensation data in exhibit

Chapter 2

CitySlips NEW opener with new entrepreneurial assignment
Reorganized and streamlined learning objectives
Revised introduction of double-entry accounting
New 4-step process for analyzing, recording, and posting transactions
Revised layout for transaction analysis
New discussion on accounting quality

Chapter 3

Cheezburger Network NEW opener with new entrepreneurial assignment
Updated 3-step process for adjusting accounts
Enhanced and streamlined presentation of accounting adjustments
Revised info-graphics for adjusting entries
Enhanced exhibit on steps in preparing financial statements
Expanded discussion of global accounting

Chapter 4

Gamer Grub NEW opener with new entrepreneurial assignment
Slightly revised steps 1 and 2 of work sheet

Enhanced graphics for closing process
Enhanced details for general ledger after the closing process
Updated color-coded work sheet

Chapter 5

Heritage Link Brands NEW opener with new entrepreneurial assignment
Streamlined learning objectives
New 2-step presentation for recording merchandise sales and its costs
Revised presentation on purchase returns
New discussion on fraud and invoices
Revised discussion of gross margin

Chapter 6

Fitness Anywhere NEW opener with new entrepreneurial assignment
Streamlined presentation for lower of cost or market (LCM)
Color-coded graphic for introducing cost flow assumptions
Enhanced graphics for learning inventory errors
Expanded discussion on inventory controls
Expanded explanation of inventory accounting under IFRS

Chapter 7

New Belgium Brewing Company NEW opener with new entrepreneurial assignment
Streamlined learning objectives
Enhanced graphics for special journals
Detailed four benefits from subsidiary ledgers
Updated ERP presentation
Revised discussion of segment returns

Chapter 8

Dylan's Candy Bar REVISED opener with new entrepreneurial assignment
Enhanced SOX discussion of controls, including the role of COSO
Streamlined learning objectives
New material on drivers of human fraud

New graphic introducing a bank reconciliation with links to bank and book balances
Updated graphic on frequent cyber frauds
New graphic on drivers of financial misconduct

Chapter 9

LaserMonks NEW opener with new entrepreneurial assignment
Streamlined learning objectives
Reorganized recording of credit sales
Further clarification of interest formula
Enhanced graphics for bad debts estimation

Chapter 10

Games2U NEW opener with new entrepreneurial assignment
Reorganized learning objectives
Added entry to record impairment
Enhanced discussion of asset sales
Expanded explanation of asset valuation under IFRS
Updated all real world examples and graphics

Chapter 11

SnorgTees NEW opener with new entrepreneurial assignment
Updated tax illustrations and assignments using most recent government rates
New data on frauds involving employee payroll
New entry to reclassify long- to short-term debt
Updated all real world examples and graphics

Chapter 12

Kids Konserve NEW opener with new entrepreneurial assignment
New 3-step process for partnership liquidation
New *statement of liquidation* introduced
Enhanced discussion of partnership liquidation