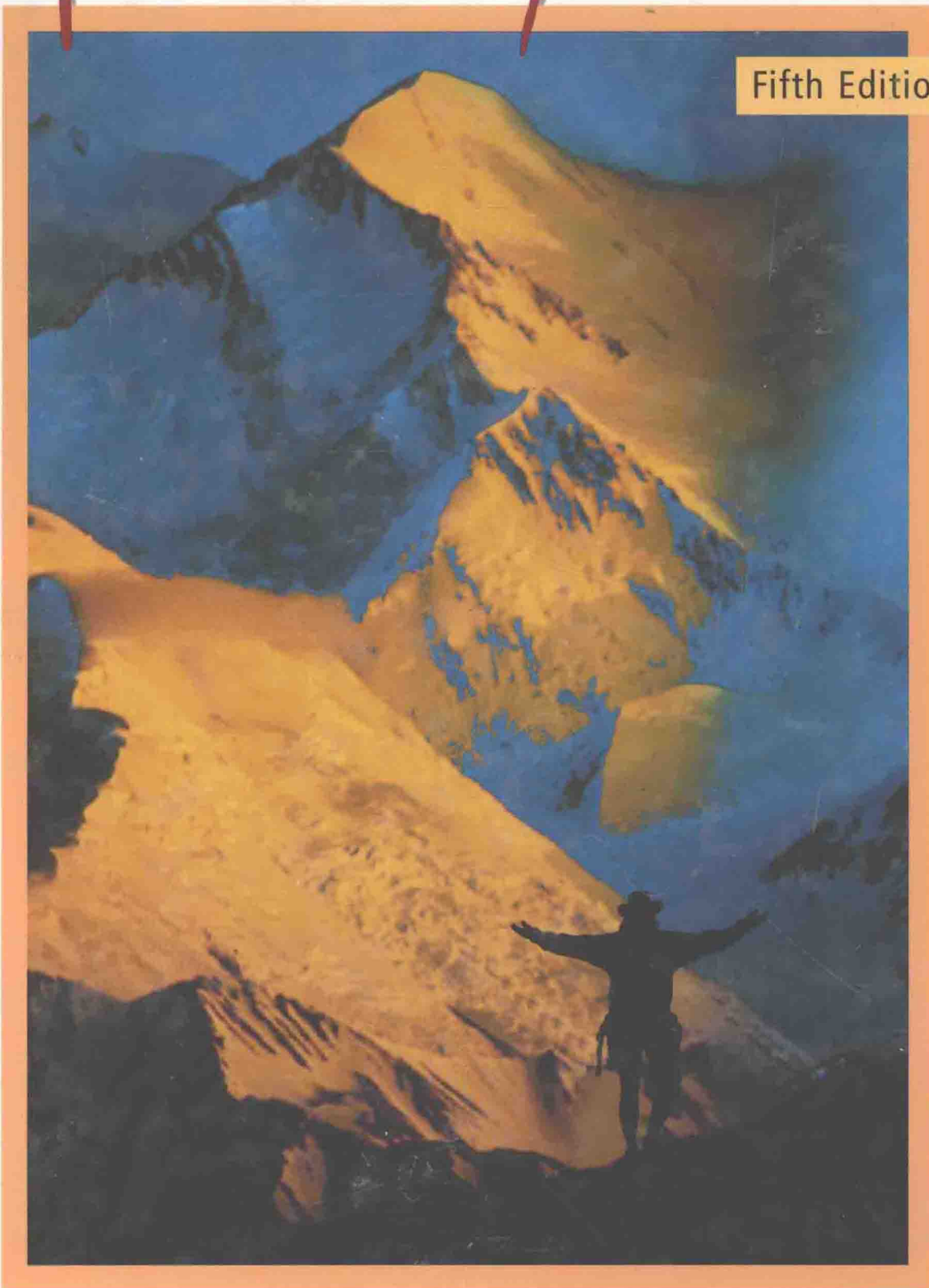


# A ACCOUNTING P PRINCIPLES

Fifth Edition



W EYGANDT / K IESO / K IMMEL

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# ACCOUNTING PRINCIPLES

*5<sup>th</sup> Edition*

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#### Library of Congress Cataloging-in-Publication Data

Weygandt, Jerry J.

Accounting principles / Jerry J. Weygandt, Donald E. Kieso,  
Paul D. Kimmel.—5th ed.

p. cm.

Includes index.

ISBN 0-471-19096-9 (alk. paper)

1. Accounting. I. Kieso, Donald E. II. Kimmel, Paul D.

III. Title.

HF5635.W524 1998

657—dc21

98-19261  
CIP

ISBN 0-471-19096-9

Printed in the United States of America

10 9 8 7 6 5 4 3 2

## STUDENT TO STUDENT

Hello!

Congratulations on the beginning of your accounting studies. I'd like to share with you a few ideas I found helpful when I took this course.

***Accounting is not only enjoyable but very exciting!*** As you continue your studies in accounting, you will gain an understanding of why accounting is vital to every business. Accounting gives you a solid background in financial statement analysis. This in turn will help you be a smarter investor. In short, accounting will open up the whole world of commerce and business to you.

Here are some tips I picked up while I used this text. Perhaps you can benefit from them.

- Accounting is a study of concepts and procedures. When studying, be sure you understand the concepts clearly. You might find that sometimes you have to review the text a few times until you fully understand the concepts. Look carefully at the illustrations; they will help you understand the main points of the text. When studying the journal entries, go over every entry until you fully understand it.
- Use the study aids in each chapter to help you understand the key concepts and learn the procedures. The *Feature Story*, list of *Study Objectives*, and *Preview* will help you understand what the chapter is about. Use the *Study Objectives* in the margins and the *Before You Go On* exercises to check whether you have understood and learned the material in each section.
- Use a highlighter. I found it very helpful both in studying and reviewing. Highlight whatever you feel is important.
- After you have done your homework, try some extra problems. Every chapter has two sets of problems on the same material. Try the alternative problems. They will help reinforce what you learned in each chapter.
- If possible, try to get some real-world practice, perhaps by doing some part-time work at an accounting office or just observing an accountant at work. It will bring alive what you study.

After a few short weeks, ***you will agree that accounting is exciting and enjoyable!***

Lots of success,

***Eli Oelbaum***

Eli Oelbaum  
Ocean County College

# HOW TO USE THE STUDY AIDS IN THIS BOOK

Concepts for Review, listed at the beginning of each chapter from Chapter 2 on, are the accounting concepts you learned in previous chapters that you will need to know in order to understand the topics you are about to learn. Page references are provided if you need to review before reading the chapter.

## CONCEPTS FOR REVIEW

Before studying this chapter, you should know or, if necessary, review:

- The cost principle (Ch. 1, p. 11) and matching principle of accounting. (Ch. 3, p. 94)
- How to record purchases, sales, and cost of goods sold under a perpetual inventory system. (Ch. 5, pp. 191–199)
- How to prepare financial statements for a merchandising company. (Ch. 5, pp. 199–201)



## FEATURE STORY



### Keeping the Books on the Books

If you go to a large college or university, chances are that your bookstore or student union has state-of-the-art computer technology for tracking inventories. In an instant, the clerk at the check-out stand “whooshes” your purchases over a

scanning machine that automatically rings up the price and deducts the item from inventory.

Not all schools have such state-of-the-art technology. Some bookstores are even small enough that the person managing it can take a “mom-and-pop corner grocery” approach. One such bookstore is at Erie Community College in Buffalo, New York, which produces annual

sales of \$500,000 per year. Instead of using “point-of-sale” computer technology, the bookstore uses an old-fashioned cash register. The inventory of textbooks, notebooks, art supplies, and so on is counted every month by Joel Damiani, manager. Because the quantity of inventory is relatively small, Damiani, or his two assistants, can specifically identify each item when sold. A larger bookstore would have too much inventory to use that approach; instead, they would use inventory costing methods that do not specifically match the cost of inventory to the actual sale of goods.

Damiani is candid, too, about some problems at his store. For one thing, the accounting records were in disarray when he took the job. “They told me it was going to be a challenge,” he says. “And I like challenges.” His challenges have included working with the school’s accountant to produce a monthly balance sheet and income statement for the bookstore and making sure he has enough inventory of books and supplies on hand for the start of classes. “Sometimes, students say we’re not quick enough.”



The Feature Story helps you picture how the chapter topic relates to the real world of accounting and business. You will find references to the story throughout the chapter and in the section called A Look Back at Our Feature Story toward the end of the chapter.



The Navigator is a learning system designed to guide you through each chapter and help you succeed in learning the material. It consists of (1) a checklist at the beginning of the chapter, which outlines text features and study skills you will need, and (2) a series of check boxes that prompt you to use the learning aids in the chapter and set priorities as you study.

## CHAPTER 9

# INVENTORIES

### THE NAVIGATOR

- |  |                                     |
|--|-------------------------------------|
| ■ Understand Concepts for Review   | <input checked="" type="checkbox"/> |
| ■ Read Feature Story   | <input type="checkbox"/>            |
| ■ Scan Study Objectives  | <input type="checkbox"/>            |
| ■ Read Preview   | <input type="checkbox"/>            |
| ■ Read text and answer Before You Go On<br>p. 370 <input type="checkbox"/> p. 376 <input type="checkbox"/> p. 385 <input type="checkbox"/> p. 390 <input type="checkbox"/> |                                     |
| ■ Work Demonstration Problem   | <input type="checkbox"/>            |
| ■ Review Summary of Study Objectives   | <input type="checkbox"/>            |
| ■ Answer Self-Study Questions  | <input type="checkbox"/>            |
| ■ Complete assignments   | <input type="checkbox"/>            |

## STUDY OBJECTIVES

After studying this chapter, you should be able to:

1. Describe the steps in determining inventory quantities.
2. Prepare the entries for purchases and sales of inventory under a periodic inventory system.
3. Determine cost of goods sold under a periodic inventory system.
4. Identify the unique features of the income statement for a merchandising company using a periodic inventory system.
5. Explain the basis of accounting for inventories and describe the inventory cost flow methods.
6. Explain the financial statement and tax effects of each of the inventory cost flow methods.
7. Explain the lower of cost or market basis of accounting for inventories.
8. Indicate the effects of inventory errors on the financial statements.
9. Compute and interpret the inventory turnover ratio.

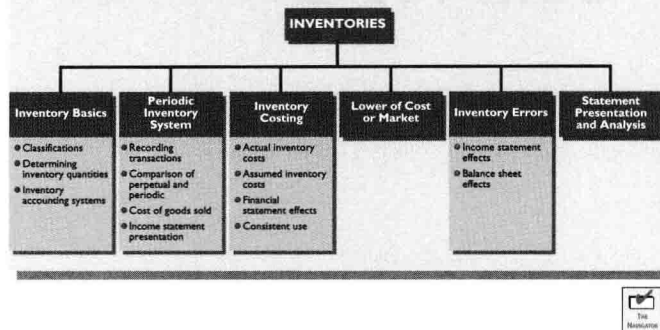


Study Objectives at the beginning of each chapter give you a framework for learning the specific concepts and procedures covered in the chapter. You will also see each study objective in the margin where the concept is discussed. Finally, you can review all the study objectives in the Summary at the end of the chapter.

The Preview starts with an introductory paragraph linking the feature story with the major topics of the chapter. It is followed by a graphic outline of major topics and subtopics that will be discussed. This preview gives you a mental framework upon which to arrange the new information you are learning.

## PREVIEW OF CHAPTER 9

As indicated in the opening story about the bookstore at Erie Community College, accounting for inventory can be time-consuming and complex. In this chapter we will explain the procedures for determining inventory quantities and the methods used in determining the cost of inventory on hand at the balance sheet date. In addition, we will discuss differences in perpetual and periodic inventory systems, and the effects of inventory errors on a company's financial statements. The content and organization of this chapter are as follows:



The Accounting Equation has been inserted in the margin next to key journal entries throughout the text. This new feature helps you understand the impact of an accounting transaction on the financial statements.

### 372 Chapter 9 • Inventories

A	=	L	+	OE
-3,430		-3,500		+70

May 14	Accounts Payable	3,500	
	Purchase Discounts		70
	Cash		3,430
	(To record payment to Highpoint Electronic within the discount period)		

Purchase Discounts is a temporary account whose normal balance is a credit.

#### Recording Sales of Merchandise

The sale of \$3,800 of merchandise to Chelsea Video on May 4 (sales invoice No. 731, Illustration 5-4) is recorded by the seller, Highpoint Electronic, as follows:

A	=	L	+	OE
+3,800				+3,800

May 4	Accounts Receivable	3,800	
	Sales		3,800
	(To record credit sales per invoice #731 to Chelsea Video)		

profit (net sales less cost of goods sold) is closely watched by management, owners, and other interested parties (as explained in Chapter 5).

#### Classifying Inventory

How a company classifies its inventory depends on whether the firm is a merchandiser or a manufacturer. In a **merchandising enterprise**, inventory consists of many different items. For example, in a grocery store, canned goods, dairy products, meats, and produce are just a few of the inventory items on hand. These items have two common characteristics: (1) they are owned by the company, and (2) they are in a form ready for sale to customers in the ordinary course of business. Thus, only one inventory classification, **merchandise inventory**, is needed to describe the many different items that make up the total inventory.

In a **manufacturing enterprise**, inventories are also owned by the company, but some goods may not yet be ready for sale. As a result, inventory is usually classified into three categories: finished goods, work in process, and raw materials. For example, General Motors classifies automobiles completed and ready for sale as **finished goods**. The automobiles on the assembly line in various stages of production are classified as **work in process**. The steel, glass, upholstery, and other components that are on hand waiting to be used in the production of automobiles are identified as **raw materials**.

The accounting principles and concepts discussed in this chapter apply to inventory classifications of both merchandising and manufacturing companies. In this chapter we will focus on merchandise inventory.

#### Determining Inventory Quantities

Many businesses take a physical inventory count on the last day of the year. Businesses using the periodic inventory system are required to take an end-of-the-period physical inventory to determine the inventory on hand at the balance sheet date and to compute cost of goods sold. Even businesses using a perpetual inventory system must take a physical inventory at some time during the year.

Determining inventory quantities consists of two steps: (1) taking a physical inventory of goods on hand, and (2) determining the ownership of goods.

#### Inventory Basics 367

##### HELPFUL HINT

An important inventory management concept is inventory turnover. Inventory that turns means sales and profit; inventory that doesn't turn means costs and losses.

##### HELPFUL HINT

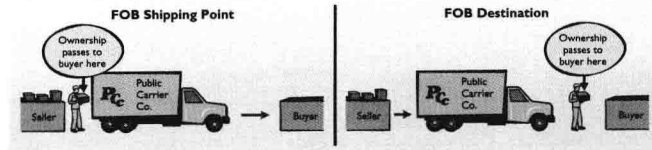
Regardless of the classification, all inventories are reported under Current Assets on the balance sheet.

**1**  
**STUDY**  
**OBJECTIVE**

Describe the steps in determining inventory quantities.

Helpful Hints in the margins help clarify concepts being discussed.

Study Objectives reappear in the margins at the point where the topic is discussed. End-of-chapter assignments are keyed to study objectives.

ILLUSTRATION 9-1  
Terms of sale

Significant errors may occur in determining inventory quantities if goods in transit at the statement date are ignored. Assume, for example, that Hargrove Company has 20,000 units of inventory on hand on December 31 and the following goods in transit: (1) sales of 1,500 units shipped December 31 FOB destination, and (2) purchases of 2,500 units shipped FOB shipping point by the seller on December 31. Hargrove has legal title to both the units sold and the units purchased. Consequently, inventory quantities would be understated by 4,000 units (1,500 + 2,500) if units in transit are ignored.

### TECHNOLOGY IN ACTION

Many companies have invested large amounts of time and money in automated inventory systems. One of the most sophisticated is Federal Express' Digitally Assisted Dispatch System (DADS). This system uses hand-held "SuperTrackers" to transmit data about the packages and documents to the firm's computer system. Based on bar codes, the system allows the firm to know where any package is at any time to prevent losses and to fulfill the firm's delivery commitments. More recently, FedEx's newly developed software enables customers to track shipments on their own PCs.



Infographics, a special type of illustration, pictorially link concepts to the real world and provide visual reminders of key concepts.

Technology in Action boxes, identified by a CD icon, show how computers are used by accountants and users of accounting information.

Financial statements appear throughout the book. Those from real companies are identified by a logo or related photo. Often, numbers or categories are highlighted in colored type to draw your attention to key information.

Accounting in Action boxes give you more glimpses into the real world of business. Each type of issue—business, ethics, and international—is identified by its own icon. Don't skip over the photos, figures, and tables.



### QUAKER OATS COMPANY Notes to the Financial Statements

**Note 1** Effective July 1, the Company adopted the LIFO cost flow assumption for valuing the majority of U.S. Grocery Products inventories. The Company believes that the use of the LIFO method better matches current costs with current revenues. The effect of this change on the current year was to decrease net income by \$16.0 million.

ILLUSTRATION 9-22

Disclosure of change in cost flow method

### ACCOUNTING IN ACTION International Insight



U.S. companies typically choose between LIFO and FIFO. Many choose LIFO because it reduces inventory profits and taxes. However, the international community recently considered rules that would ban LIFO entirely and force companies to use FIFO. This proposal was defeated, but the issue will not go away. The issue is sensitive. As John Wulff, controller for Union Carbide noted, "We were in support of the international effort up until the proposal to eliminate LIFO." Wulff says that if Union Carbide had been suddenly forced to switch from LIFO to FIFO, its reported \$632 million pretax income would have jumped by \$300 million. That would have increased Carbide's income tax bill by as much as \$120 million. Given this, do you believe that accounting principles and rules should be the same around the world?



### BEFORE YOU GO ON . . .

#### Review It

1. How do the cost and matching principles apply to inventoriable costs?
2. How are the three assumed cost flow methods applied in allocating inventoriable costs?
3. What factors should be considered by management in selecting an inventory cost flow method?
4. Which inventory cost flow method produces (a) the highest net income in a period of rising prices, and (b) the lowest income taxes?
5. What amount is reported by Kellogg Company in its 1997 Annual Report as inventories at December 31, 1997? Which inventory cost flow method does Kellogg Company use? The answer to this question is provided on p. 416.

#### Do It

The accounting records of Shumway Ag Implement show the following data:

Beginning inventory	4,000 units at \$3
Purchases	6,000 units at \$4
Sales	5,000 units at \$12

Determine the cost of goods sold during the period under a periodic inventory system using (a) the FIFO method, (b) the LIFO method, and (c) the average cost method.

**Reasoning:** Because the units of inventory on hand and available for sale may have been purchased at different prices, a systematic method must be adopted to allocate the costs between the goods sold and the goods on hand (ending inventory).

#### Solution:

- (a) FIFO:  $(4,000 \times \$3) + (1,000 \times \$4) = \$12,000 + \$4,000 = \$16,000$ .
- (b) LIFO:  $5,000 \times \$4 = \$20,000$ .
- (c) Average cost:  $[(4,000 \times \$3) + (6,000 \times \$4)] \div 10,000 = (\$12,000 + \$24,000) \div 10,000 = \$3.60 \text{ per unit}; 5,000 \times \$3.60 = \$18,000$ .

Related exercise material: BE9-6, BE9-7, E9-5, E9-6, E9-7.



Before You Go On Review It questions serve as a learning check. If you cannot answer these questions, you should go back and read the section again.

Review It questions marked with the Tony the Tiger™ icon ask you to find information in Kellogg's 1997 Annual Report, which is packaged with this text and excerpted in Appendix A at the end of the text.

Brief Do It exercises help you apply what you are learning. They outline the reasoning necessary to complete the exercise, and their solutions help you see how the problem should be solved. (Keyed to homework exercises.)



The **inventory turnover ratio** measures the number of times on average the inventory is sold during the period. Its purpose is to measure the liquidity of the inventory. The inventory turnover is computed by dividing cost of goods sold by the average inventory during the period. Unless seasonal factors are significant, average inventory can be computed from the beginning and ending inventory balances. For example, Kellogg Company reported in its 1997 Annual Report a beginning inventory of \$424,900,000, and cost of goods sold for the year 1997 of \$3,270,100,000; its inventory turnover formula and computation are shown below:

Cost of Goods Sold	÷	Average Inventory	=	Inventory Turnover
\$3,270,100,000	÷	$\frac{\$424,900,000 + \$434,300,000}{2}$	=	7.6 times

A variant of the inventory turnover ratio is the **average days to sell inventory**. For example, the inventory turnover for Kellogg Company of 7.6 times divided into 365 is approximately 48 days. There are typical levels of inventory in every industry. However, companies that are able to keep their inventory at lower levels and higher turnovers and still satisfy customer needs are the most successful.

**ILLUSTRATION 9-29**  
Inventory turnover formula and computation for Kellogg Company



Key Terms and concepts are printed in blue where they are first explained in the text and are defined again in the end-of-chapter glossary.

One technique for determining the meaning of the information on financial statements is ratio analysis. Throughout this text, you will examine key financial ratios using data from Kellogg's financial statements.

Color illustrations visually reinforce important concepts and therefore often contain material that may appear on exams.

The last Before You Go On exercise takes you back for a critical look at the chapter-opening feature story.

Demonstration Problems review the chapter material. These problems provide you with *problem-solving strategies* and with *solutions*.

## BEFORE YOU GO ON . . .

### Review It

1. Why is it appropriate to report inventories at the lower of cost or market?
2. How do inventory errors affect financial statements?
3. What does the inventory turnover ratio reveal?

### A LOOK BACK AT OUR FEATURE STORY

Refer to the opening story concerning the bookstore at Erie Community College, and answer the following questions.

1. Why might a small bookstore use specific identification to determine inventory?
2. If the inventory is overstated at the end of the month, what effect does this error have on the balance sheet and the income statement?

#### Solution:

1. A small bookstore, as opposed to a large bookstore, might use specific identification because of:
  - a. A smaller number of any one book in inventory.
  - b. Fewer different books in inventory.
  - c. The familiarity of the owner/manager (who handles sales) with the books being sold.
2. An end-of-month, inventory overstatement will result in overstated inventory in the balance sheet along with overstated stockholders' equity, due to overstated net income on the income statement. Cost of goods sold will be understated on the income statement. The next month's income statement will have overstated beginning inventory and understated net income.



## DEMONSTRATION PROBLEM

Gerald D. Englehart Company has the following inventory, purchases, and sales data for the month of March:

Inventory, March 1	200 units @ \$4.00	\$ 800
Purchases:		
March 10	500 units @ \$4.50	2,250
March 20	400 units @ \$4.75	1,900
March 30	300 units @ \$5.00	1,500
Sales:		
March 15	500 units	
March 25	400 units	

The physical inventory count on March 31 shows 500 units on hand.

#### Instructions

Under a **periodic inventory system**, determine the cost of inventory on hand at March 31 and the cost of goods sold for March under the (a) first-in, first-out (FIFO) method, (b) last-in, first-out (LIFO) method, and (c) average cost method.

### SOLUTION TO DEMONSTRATION PROBLEM

The cost of goods available for sale is \$6,450:

Inventory	200 units @ \$4.00	\$ 800
Purchases:		
March 10	500 units @ \$4.50	2,250
March 20	400 units @ \$4.75	1,900
March 30	300 units @ \$5.00	1,500
Total cost of goods available for sale		<u>\$6,450</u>

#### PROBLEM-SOLVING STRATEGIES

1. For FIFO, the latest costs are allocated to inventory.
2. For LIFO, the earliest costs are allocated to inventory.
3. For average costs, use a weighted average for periodic and a moving average for perpetual.
4. Remember, the costs allocated to cost of goods sold can be proved.
5. Total purchases are the same under all three cost flow methods.

## SUMMARY OF STUDY OBJECTIVES

1. *Describe the steps in determining inventory quantities.* The steps in determining inventory quantities are (1) taking a physical inventory of goods on hand and (2) determining the ownership of goods in transit.

2. *Prepare the entries for purchases and sales of inventory under a periodic inventory system.* In recording purchases, entries are required for (a) cash and credit purchases, (b) purchase returns and allowances, (c) purchase discounts, and (d) freight costs. In recording sales, entries are required for (a) cash and credit sales, (b) sales returns and allowances, and (c) sales discounts.

3. *Determine cost of goods sold under a periodic inventory system.* The steps in determining cost of goods sold are (a) recording the purchase of merchandise, (b) determining the cost of goods purchased, and (c) determining the cost of goods on hand at the beginning and end of the accounting period.

4. *Identify the unique features of the income statement for a merchandising company using a periodic inventory system.* The income statement for a merchandising company contains three sections: sales revenue, cost of goods sold, and operating expenses. The cost of goods sold section under a periodic inventory system generally shows more detail by reporting beginning and ending inventory, net purchases, and total goods available for sale.

5. *Explain the basis of accounting for inventories and describe the inventory cost flow methods.* The primary basis

of accounting for inventories is cost. Cost includes all expenditures necessary to acquire goods and place them in condition ready for sale. Inventoriable costs include (1) cost of beginning inventory and (2) the cost of goods purchased. The inventory cost flow methods are: specific identification, FIFO, LIFO, and average cost.

6. *Explain the financial statement and tax effects of each of the inventory cost flow methods.* The cost of goods available for sale may be allocated to cost of goods sold and ending inventory by specific identification or by a method based on an assumed cost flow. These methods have different effects on financial statements during periods of changing prices. When prices are rising, the first-in, first-out method (FIFO) results in lower cost of goods sold and higher net income than the average and the last-in, first-out (LIFO) methods. LIFO results in the lowest income taxes (because of lower net income). The reverse is true when prices are falling. In the balance sheet, FIFO results in an ending inventory that is closest to current value, whereas the inventory under LIFO is the farthest from current value.

7. *Explain the lower of cost or market basis of accounting for inventories.* The lower of cost or market basis (LCM) is used when the current replacement cost (market) is less than cost. Under LCM, the loss is recognized in the period in which the price decline occurs. LCM may be applied to individual inventory items, major categories of inventory, or to total inventory.

The Summary of Study Objectives relates the study objectives to the key points in the chapter. It gives you another opportunity to review as well as to see how all the key topics within the chapter are related.

The Glossary defines all the terms and concepts introduced in the chapter. Page references help you find any terms you need to study further.

## 392 Chapter 9 • Inventories

8. *Indicate the effects of inventory errors on the financial statements.* In the income statement of the current year: (a) an error in beginning inventory will have a reverse effect on net income (overstatement of inventory results in understatement of net income) and (b) an error in ending inventory will have a similar effect on net income (overstatement of inventory results in overstatement of net income). If ending inventory errors are not corrected in the following period, their effect on net income for that period is reversed, and total net income for the two years will be correct. In the balance sheet, ending inventory errors will have the same

effect on total assets and total stockholders' equity and no effect on liabilities.

9. *Compute and interpret the inventory turnover ratio.* The inventory turnover ratio is calculated as cost of goods sold divided by average inventory. It can be converted to average days in inventory by dividing 365 days by the inventory turnover ratio. A higher turnover ratio or lower average days in inventory suggests that management is trying to keep inventory levels low relative to its sales level.



## GLOSSARY

**Average cost method** An inventory costing method that assumes that the goods available for sale have the same (average) cost per unit; generally they are homogeneous. (p. 381).

**Consigned goods** Goods shipped by a consignor, who retains ownership, to another party called the consignee. (p. 369).

**Cost of goods available for sale** The sum of the beginning merchandise inventory plus the cost of goods purchased. (p. 374).

**Cost of goods purchased** The sum of net purchases plus freight-in. (p. 374).

**Cost of goods sold** The total cost of merchandise sold during the period, determined by subtracting ending inventory from the cost of goods available for sale. (p. 374).

**Current replacement cost** The amount that would be paid at the present time to acquire an identical item. (p. 386).

**First-in, first-out method (FIFO)** An inventory costing method that assumes that the costs of the earliest goods acquired are the first to be recognized as cost of goods sold. (p. 378).

**Inventoriable costs** The pool of costs that consists of two elements: (1) the cost of the beginning inventory and (2) the cost of goods purchased during the period. (p. 376).

**Inventory turnover ratio** A ratio that measures the number of times on average the inventory is sold during the period. It is computed by dividing cost of goods sold by the average inventory during the period. (p. 389).

**Last-in, first-out method (LIFO)** An inventory costing method that assumes that the costs of the latest units purchased are the first to be allocated to cost of goods sold. (p. 380).

**Lower of cost or market basis (LCM) (inventories)** A method of valuing inventory that recognizes the decline in the value when the current purchase price (market) is less than cost. (p. 386).

**Net purchases** Purchases less purchase returns and allowances and purchase discounts. (p. 374).

**Periodic inventory system** An inventory system in which inventoriable costs are allocated to ending inventory and cost of goods sold at the end of the period. Cost of goods sold is computed at the end of the period by subtracting the ending inventory (costs are assigned to a physical count of items on hand) from the cost of goods available for sale. (p. 370).

**Specific identification method** An actual physical flow costing method in which items still in inventory are specifically costed to arrive at the total cost of the ending inventory. (p. 377).

## APPENDIX 9A ESTIMATING INVENTORIES

## 10

## STUDY

## OBJECTIVE

Describe the two methods of estimating inventories.

We have assumed throughout the chapter that a company would be able to do a physical count of its inventory. But what if it cannot, as in the example of the lumber inventory destroyed by fire? In that case, we would use an estimate.

Two circumstances explain the reasons for estimating rather than counting inventories. First, management may want monthly or quarterly financial statements but a physical inventory is taken only annually. Second, a casualty such as fire, flood, or earthquake may make it impossible to take a physical inventory. The need for estimating inventories is associated primarily with a periodic inventory system because of the absence of detailed inventory records.

There are two widely used methods of estimating inventories: (1) the gross profit method and (2) the retail inventory method.

End-of-Chapter Appendixes address topics considered optional by some instructors.

\*Note: All asterisked Questions, Exercises, and Problems relate to material in the appendixes to the chapter.

## SELF-STUDY QUESTIONS

Answers are at the end of the chapter.

- (SO 2) 1. When goods are purchased for resale by a company using a periodic inventory system:
- purchases on account are debited to Merchandise Inventory.
  - purchases on account are debited to Purchases.
  - purchase returns are debited to Purchase Returns and Allowances.
  - freight costs are debited to Purchases.
- (SO 3) 2. In determining cost of goods sold:
- purchases discounts are deducted from net purchases.
  - freight-out is added to net purchases.
  - purchase returns and allowances are deducted from net purchases.
  - freight-in is added to net purchases.
8. In periods of rising prices, LIFO will produce:
- higher net income than FIFO.
  - the same net income as FIFO.
  - lower net income than FIFO.
  - higher net income than average costing.
9. Factors that affect the selection of an inventory costing method do *not* include:
- tax effects.
  - balance sheet effects.
  - income statement effects.
  - perpetual vs. periodic inventory system.
10. The lower of cost or market basis may be applied to:
- categories of inventories.
  - individual items of inventories.
  - total inventory.
  - all of the above.

**Self-Study Questions** are a practice test, keyed to Study Objectives, that gives you an opportunity to check your knowledge of important topics. Answers appear on the last page of the chapter.

**Questions** allow you to explain your understanding of concepts and relationships covered in the chapter.

## QUESTIONS

- Goods costing \$1,700 are purchased on account on July 15 with credit terms of 2/10, n/30. On July 18 a \$200 credit memo is received from the supplier for damaged goods. Give the journal entry on July 24 to record payment of the balance due within the discount period.
- Identify the accounts that are added to or deducted from purchases to determine the cost of goods purchased. For each account, indicate (a) whether it is added or deducted and (b) its normal balance.
- In the following separate mini cases, using a periodic inventory system, identify the item(s) designated by letter.
  - $\text{Purchases} - X - Y = \text{Net purchases}$ .
  - $\text{Cost of goods purchased} - \text{Net purchases} = X$ .
  - $\text{Beginning inventory} + X = \text{Cost of goods available for sale}$ .
  - $\text{Cost of goods available for sale} - \text{Cost of goods sold} = X$ .
- "The selection of an inventory cost flow method is a decision made by accountants." Do you agree? Explain. Once a method has been selected, what accounting requirement applies?
- Which assumed inventory cost flow method:
  - usually parallels the actual physical flow of merchandise?
  - assumes that goods available for sale during an accounting period are homogeneous?
  - assumes that the latest units purchased are the first to be sold?
- In a period of rising prices, the inventory reported in Jim Groat Company's balance sheet is close to the current cost of the inventory, whereas Greg Hanson Company's inventory is considerably below its current cost. Identify the inventory cost flow method being used by each company. Which company has probably been reporting the higher gross profit?

- \*25. Jana Kingston Company has net sales of \$400,000 and cost of goods available for sale of \$300,000. If the gross profit rate is 30%, what is the estimated cost of the ending inventory? Show computations.
- \*26. John Ross Shoe Shop had goods available for sale in 1999 with a retail price of \$120,000. The cost of these goods was \$84,000. If sales during the period were \$90,000, what is the ending inventory at cost using the retail inventory method?

\*27. "When perpetual inventory record under the FIFO and LIFO method would be in a periodic inventory agree? Explain.

\*28. How does the average method differ between a perpetual inventory system?

**Brief Exercises** help you focus on one Study Objective at a time and thus help you build confidence in your basic skills and knowledge. (Keyed to Study Objectives.)

## BRIEF EXERCISES

*Journalize purchases transactions.*  
(SO 2)

BE9-1 Prepare the journal entries to record the following transactions on Svenska Company's books using a periodic inventory system.

- On March 2, Svenska Company purchased \$900,000 of merchandise from Sing Tao Company, terms 2/10, n/30.
- On March 6, Svenska Company returned \$130,000 of the merchandise purchased on March 2 because it was defective.
- On March 12, Svenska Company paid the balance due to Sing Tao Company.

*Compute net purchases and cost of goods purchased.*  
(SO 3)

BE9-2 Assume that Shinhan Company uses a periodic inventory system and has the following account balances: Purchases \$440,000, Purchase Returns and Allowances \$11,000, Purchase Discounts \$8,000, and Freight-in \$16,000. Determine (a) net purchases and (b) cost of goods purchased.

## EXERCISES

E9-1 Presented below is the following information related to Brazil Co.

- On April 5, purchased merchandise from Chile Company for \$18,000 terms 2/10, net/30, FOB shipping point.
- On April 6, paid freight costs of \$800 on merchandise purchased from Chile.
- On April 7, purchased equipment on account for \$26,000.
- On April 8, returned damaged merchandise to Chile Company and was granted a \$3,000 allowance.
- On April 15, paid the amount due to Chile Company in full.

### Instructions

- Prepare the journal entries to record these transactions on the books of Brazil Co. using a periodic inventory system.
- Assume that Brazil Co. paid the balance due to Chile Company on May 4 instead of April 15. Prepare the journal entry to record this payment.

E9-2 The trial balance of Colombia Company at the end of its fiscal year, August 31, 1999, includes the following accounts: Merchandise Inventory \$17,200, Purchases \$142,400, Sales \$190,000, Freight-in \$4,000, Sales Returns and Allowances \$3,000, Freight-out \$1,000, and Purchase Returns and Allowances \$2,000. The ending (August 31, 1999) merchandise inventory is \$27,000.

### Instructions

Prepare a cost of goods sold section for the year ending August 31 (periodic inventory).

E9-3 Presented is information related to Mexico Co. for the month of January 1999.

Freight-in	\$10,000	Rent expense	19,000
Freight-out	5,000	Salary expense	61,000
Insurance expense	12,000	Sales discounts	8,000
Purchases	200,000	Sales returns and allowances	13,000
Purchase discounts	3,000	Sales	312,000
Purchase returns and allowances	6,000		

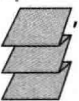
Beginning merchandise inventory was \$42,000 and ending inventory was \$63,000.

Journalize purchases transactions.  
(SO 2)

Prepare cost of goods sold section.  
(SO 3)

Prepare an income statement.  
(SO 4)

Exercises, which are more difficult than Brief Exercises, help you continue to build your confidence. (Keyed to Study Objectives.)

Spreadsheet Problems, identified by , are selected exercises and problems that can be solved using the spreadsheet software *Solving Principles of Accounting Problems Using Lotus 1-2-3 and Excel for Windows*.

## 406 Chapter 9 • Inventories

Determine merchandise lost using the gross profit method of estimating inventory.  
(SO 10)

Determine ending inventory at cost using retail method.  
(SO 10)

Apply cost flow methods to perpetual records.  
(SO 11)

Journalize, post, and prepare trial balance and partial income statement.  
(SO 2, 3, 4)

### Instructions

Calculate the inventory turnover ratio, days in inventory, and gross profit rate (from Chapter 5) for Linda Wasicko Corporation for 1997, 1998, 1999. Comment on any trends.

\*E9-12 The inventory of DeBeers Company was destroyed by fire on March 1. From an examination of the accounting records, the following data for the first 2 months of the year are obtained: Sales \$51,000, Sales Returns and Allowances \$1,000, Purchases \$28,200, Freight-in \$1,200, and Purchase Returns and Allowances \$1,400.

### Instructions

Determine the merchandise lost by fire, assuming:

- A beginning inventory of \$20,000 and a gross profit rate of 30% on net sales.
- A beginning inventory of \$25,000 and a gross profit rate of 25% on net sales.

\*E9-13 Swiss Shoe Store uses the retail inventory method for its two departments: Women's Shoes and Men's Shoes. The following information is available:

Item
Beginning inventory at cost
Cost of goods purchased at cost
Net sales
Beginning inventory at retail
Cost of goods purchased at retail

### Instructions

Compute the estimated cost of the ending inventory using the retail method.

\*E9-14 Morocco Appliance uses a perpetual inventory system. The January 1 inventory was four sets at \$60 each. During the month, the following transactions were made: Jan. 10, 6 units at \$640 each. The sales: Jan. 8, 2 units and Jan. 15, 4 units.

### Instructions

Compute the ending inventory under (1) FIFO, (2) LIFO, and (3) average cost.


## PROBLEMS: SET A

P9-1A Chi Chi Lopez, a former professional golf star, operates Chi Chi's Pro Shop at Bay Golf Course. At the beginning of the current season on April 1, 1999, the ledger of Chi Chi's Pro Shop showed Cash \$2,500, Merchandise Inventory \$3,500, and Capital \$6,000. The following transactions were completed during April.

- Apr. 5 Purchased golf bags, clubs, and balls on account from Balata Co. \$1,600, FOB shipping point, terms 2/10, n/60.
- 7 Paid freight on Balata purchase \$80.
- 9 Received credit from Balata Co. for merchandise returned \$100.
- 10 Sold merchandise on account to members \$900, terms n/30.
- 12 Purchased golf shoes, sweaters, and other accessories on account from Arrow Sportswear \$660, terms 1/10, n/30.
- 14 Paid Balata Co. in full.
- 17 Received credit from Arrow Sportswear for merchandise returned \$60.
- 20 Made sales on account to members \$700, terms n/30.
- 21 Paid Arrow Sportswear in full.
- 27 Granted credit to members for clothing that did not fit \$30.
- 30 Made cash sales \$600.
- 30 Received payments on account from members \$1,100.

The chart of accounts for the pro shop includes the following: No. 101 Cash, No. 112 Accounts Receivable, No. 120 Merchandise Inventory, No. 201 Accounts Payable, No. 301 Capital, No. 401 Sales, No. 412 Sales Returns and Allowances, No. 510 Purchases, No. 512 Purchase Returns and Allowances, No. 514 Purchase Discounts, No. 516 Freight-in.

Two sets of Problems—Sets A and B—help you pull together and apply several concepts from the chapter. Included in these are problems that help you develop the writing skills that are so important in business. (Keyed to multiple Study Objectives.)

General Ledger Problems, identified by , are selected problems that can be solved using the *General Ledger Software* package.

The Broadening Your Perspective section helps you pull together various concepts covered in the chapter and apply them to real-world business decisions.

## BROADENING YOUR PERSPECTIVE

### FINANCIAL REPORTING AND ANALYSIS



#### FINANCIAL REPORTING PROBLEM: Kellogg Company

**BYP9-1** The notes that accompany a company's financial statements provide informative details that would clutter the amounts and descriptions presented in the statements. Refer to the financial statements of Kellogg Company and the Notes to Consolidated Financial Statements in Appendix A.

#### Instructions

Answer the following questions. Complete the requirements in millions of dollars, as shown in Kellogg's annual report.

- (a) What did Kellogg report for the Sheet at December 31, 1997? Dec

A Financial Reporting Problem directs you to study various aspects of the financial statements in Kellogg Company's 1997 Annual Report, which is packaged with the text and excerpted in Appendix A at the end of the text.

A Comparative Analysis Problem offers the opportunity to compare and contrast the financial reporting of Kellogg with that of a competitor, General Mills, whose financial statements are excerpted in Appendix B.

Financial Reporting and Analysis 413

and does

Kellogg use?

- (d) What is the cost of sales (cost of goods sold) reported by Kellogg for 1997, 1996, and 1995? Compute the percentage of cost of sales to net sales in 1997.

#### COMPARATIVE ANALYSIS PROBLEM: Kellogg Company vs. General Mills

**BYP9-2** Kellogg's financial statements are presented in Appendix A; General Mills's financial statements are presented in Appendix B.

#### Instructions

- (a) Based on the information contained in these financial statements, compute the following 1997 ratios for each company:
1. Inventory turnover ratio
  2. Average days to sell inventory
- (b) What conclusions concerning the management of the inventory can be drawn from these data?

#### RESEARCH ASSIGNMENT

**BYP9-3** The September 23, 1994, edition of *The Wall Street Journal* includes an article entitled "CompUSA Auctions Notebook Computers Through Bulk Sale."

#### Instructions

Read the article and answer the following inventory-related questions.

- (a) At what amount did CompUSA estimate the retail value of the computers? What was the estimate made by one of the bidders?
- (b) What was wrong with the computers?
- (c) What were the rules of the auction as specified by CompUSA?
- (d) CompUSA had just recorded a \$3 million inventory writedown in the preceding quarter. Based on the information in the article, does it appear that additional writedowns were called for?

#### INTERPRETING FINANCIAL STATEMENTS: Nike and Reebok

**BYP9-4** Nike and Reebok compete head-to-head in the sport shoe and sport apparel business. For both companies, inventory is a significant portion of their total assets. The following information was taken from each company's financial statements and notes to those financial statements.



#### NIKE, INC.

#### Inventory note

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for substantially all U.S. inventories. Non-U.S. inventories are valued on a first-in, first-out (FIFO) basis.

Inventories by major classification are as follows (in thousands):

	May 31	
	1997	1996
Finished goods	\$1,248,401	\$ 874,700
Work-in-process	50,245	28,940
Raw materials	39,994	27,511

Other information for Nike:

	May 31	
	1997	1996
Inventory	\$1,338,640	\$ 931,151
Cost of goods sold	5,502,993	3,906,746

Research Assignments lead you to reports and articles published in various popular business periodicals for further study and analysis of key topics.

Interpreting Financial Statements ask you to read parts of financial statements of actual companies and to interpret that information in light of concepts presented in the chapter.



## REAL-WORLD FOCUS: General Motors Corporation

BYP9-5 General Motors is the largest producer of automobiles in the world, as well as the world's biggest industrial enterprise. After stumbling in the early 1990s, GM has enacted numerous cost-cutting measures, including downsizing and renegotiating contracts with suppliers. In addition, it has shifted more of its resources to the hot-selling truck market.

The annual report of General Motors Corporation disclosed the following information about its accounting for inventories:

GENERAL MOTORS CORPORATION  
Notes to the Financial Statements

## Note 5. Inventories

Major Classes of Inventories (in millions)

	December 31	
	1995	1994
Productive material, work in process, and supplies	\$ 6,570.4	\$5,478.3
Finished product, service parts, etc.	4,959.1	4,649.5
Total	<u>\$11,529.5</u>	<u>\$10,127.8</u>
Memo: Increase in LIFO inventories if valued at FIFO	\$ 2,424.4	\$2,535.9

Inventories are stated generally at cost, which is not in excess of market. The cost of substantially all U.S. inventories other than the inventories of Saturn Corporation (Saturn) and Hughes is determined by the last-in, first-out (LIFO) method. The cost of non-U.S., Saturn, and Hughes inventories is determined generally by the first-in, first-out (FIFO) or average cost methods.

The Real-World Focus asks you to apply concepts presented in the chapter to specific situations faced by actual companies.

Critical Thinking 413

## Instructions

- What is meant by "inventories are stated generally at cost, which is not in excess of market"?
- The company uses LIFO for most of its inventory. What impact does this have on reported ending inventory if prices are increasing?
- General Motors uses different inventory methods for different types of inventory. Why might it do this?

## CRITICAL THINKING

## GROUP DECISION CASE

BYP9-6 On April 10, 1998, fire damaged the office and warehouse of Gibson Company. Most of the accounting records were destroyed but the following account balances were determined as of March 31, 1998: Merchandise Inventory, January 1, 1998, \$80,000; Sales (January 1–March 31, 1998), \$150,000; Purchases (January 1–March 31, 1998), \$84,000.

The company's fiscal year ends on December 31, and it uses a periodic inventory system. From an analysis of the April bank statement you discover cancelled checks of \$4,200 during the period April 1–10 for cash purchases. Deposits during the same period totaled \$18,500 of which 60% were collections on accounts receivable and the balance was cash sales.

Correspondence with the company's principal suppliers revealed \$12,400 of purchases on account from April 1 to April 10 of which \$1,800 was for merchandise in transit on April 10 that was shipped FOB destination.

Correspondence with the company's principal customers produced acknowledgments of credit sales totaling \$28,000 from April 1 to April 10. It was estimated that \$4,600 of credit sales will never be acknowledged or recovered from customers.

Gibson Company reached an agreement with the insurance company that its fire-loss claim should be based on the average of the gross profit rates for the preceding 2 years. The financial statements for 1996 and 1997 showed the following data:

	1997	1996
Net sales	\$600,000	\$480,000
Cost of goods purchased	416,000	356,000
Beginning inventory	60,000	40,000
Ending inventory	80,000	60,000

cost of \$19,000 was salvaged from the fire.

vided into groups, answer the following:

- the balances in (1) Sales and (2) Purchases at April 10.
- the average profit rate for the years 1996 and 1997. (Hint: Find the gross profit for each year and divide the sum by 2.)

\*(c) Determine the inventory loss as a result of the fire, using the gross profit method.

## COMMUNICATION ACTIVITY

BYP9-7 You are the controller of Small Toys Inc. Joe Paisley, the president, recently mentioned to you that he found an error in the 1998 financial statements which he believes has corrected itself. He determined, in discussions with the Purchasing Department, that 1998 ending inventory was overstated by \$1 million. Joe says that the 1999 ending inventory is correct, thus he assumes that 1999 income is correct. Joe says to you, "What happened has happened—there's no point in worrying about it anymore."

## Instructions

You conclude that Joe is incorrect. Write a brief, tactful memo to Joe, clarifying the situation.

## ETHICS CASE

BYP9-8 Loneragan Wholesale Corp. uses the LIFO method of inventory costing. In the current year, profit at Loneragan is running unusually high. The corporate tax rate is also high this

The Group Decision Case helps you build decision-making skills by analyzing accounting information in a less structured situation. These cases require evaluation of a manager's decision or lead to a decision among alternative courses of action. As group activities, they prepare you for the business world, where you will be working with many people, by giving you practice in solving problems with colleagues.

Communication Activities ask you to engage in real-world business situations using writing, speaking, or presentation skills.

Through the Ethics Cases, you will reflect on typical ethical dilemmas and decide on an appropriate course of action.

year, but it is scheduled to decline significantly next year. In an effort to lower current year's net income and to take advantage of the changing income tax rate, the president of Loneragan Wholesale instructs the plant accountant to recommend to the purchasing department a large purchase of inventory for delivery 3 days before the end of the year. The price of the inventory to be purchased has doubled during the year and the purchase will represent a major portion of the ending inventory value.

Surfing the Net exercises guide you to Net sites where you can find and analyze information related to the chapter topic.

of this transaction on this year's and next year's income statement expense? Why?

ale had been using the FIFO method of inventory costing, would the same directive?

accountant order the inventory purchase to lower income? What are the ethical implications of this order?

## SURFING THE NET



**BYP9-9** A company's annual report usually will identify the inventory method used. Knowing that, you can analyze the effects of the inventory method on the income statement and balance sheet.

**Address:** <http://www.cisco.com>

### Steps:

1. From Cisco System's homepage, use the **quick search**, type annual report.
2. Choose **Search**.
3. Choose **Cisco System Annual Report**.
4. Choose **Financial Review**.
5. Use the financial statements and relating notes to the financial statements to answer the questions below.

### Instructions

Answer the following questions:

- (a) At Cisco's fiscal year-end, what was the net income?
- (b) How has this changed from the previous fiscal year?
- (c) How much of the inventory was finished goods?
- (d) What inventory method do they use?

Answers to Self-Study Questions provide feedback on your understanding of concepts.

### Answers to Self-Study Questions

1. b   2. d   3. a   4. a   5. b   6. c   7. d   8. c   9. d   10. d   \*11. b  
12. b   13. d   \*14. d



**Answer to Kellogg Review It Question 5, p. 385.**

Kellogg Company reported inventories of \$434,300,000 at December 31, 1997. Kellogg reports in Note 1—Accounting Policies that it uses the **average cost method** in applying product costs to inventories and cost of goods sold.



Remember to go back to the Navigator box on the chapter-opening page and check off your completed work.

After you complete your homework assignments, it's a good idea to go back to The Navigator checklist at the start of the chapter to see if you have used all the study aids of the chapter.

# How Do You Learn Best?

Now that you have looked at your Owner's Manual, take time to find out how you learn best. This quiz was designed to help you find out something about your preferred learning method. Research on left brain/right brain differences and also on learning and personality differences suggests that each person has preferred ways to receive and communicate information. After taking the quiz, we will help you pinpoint

the study aids in this text that will help you learn the material based on your learning style.

Circle the letter of the answer that best explains your preference. If a single answer does not match your perception, please circle two or more choices. Leave blank any question that does not apply.

1. You are about to give directions to a person. She is staying in a hotel in town and wants to visit your house. She has a rental car. Would you  
V) draw a map on paper?  
R) write down the directions (without a map)?  
A) tell her the directions?  
K) pick her up at the hotel in your car?
  2. You are staying in a hotel and have a rental car. You would like to visit friends whose address/location you do not know. Would you like them to  
V) draw you a map on paper?  
R) write down the directions (without a map)?  
A) tell you the directions by phone?  
K) pick you up at the hotel in their car?
  3. You have just received a copy of your itinerary for a world trip. This is of interest to a friend. Would you  
A) call her immediately and tell her about it?  
R) send her a copy of the printed itinerary?  
V) show her on a map of the world?
  4. You are going to cook a dessert as a special treat for your family. Do you  
K) cook something familiar without need for instructions?  
V) thumb through the cookbook looking for ideas from the pictures?  
R) refer to a specific cookbook where there is a good recipe?  
A) ask for advice from others?
  5. A group of tourists has been assigned to you to find out about national parks. Would you  
K) drive them to a national park?  
R) give them a book on national parks?  
V) show them slides and photographs?  
A) give them a talk on national parks?
  6. You are about to purchase a new stereo. Other than price, what would most influence your decision?  
A) A friend talking about it.  
K) Listening to it.  
R) Reading the details about it.  
V) Its distinctive, upscale appearance.
  7. Recall a time in your life when you learned how to do something like playing a new board game. (Try to avoid choosing a very physical skill, e.g., riding a bike.) How did you learn best? By  
V) visual clues—pictures, diagrams, charts?  
A) listening to somebody explaining it?  
R) written instructions?  
K) doing it?
  8. Which of these games do you prefer?  
V) *Pictionary*  
R) *Scrabble*  
K) Charades
  9. You are about to learn to use a new program on a computer. Would you  
K) ask a friend to show you?  
R) read the manual that comes with the program?  
A) telephone a friend and ask questions about it?
  10. You are not sure whether a word should be spelled "dependent" or "dependant." Do you  
R) look it up in the dictionary?  
V) see the word in your mind and choose the best way it looks?  
A) sound it out in your mind?  
K) write both versions down?
  11. Apart from price, what would most influence your decision to buy a particular textbook?  
K) Using a friend's copy.  
R) Skimming parts of it.  
A) A friend talking about it.  
V) It looks OK.
  12. A new movie has arrived in town. What would most influence your decision to go or not to go?  
A) Friends talked about it.  
R) You read a review of it.  
V) You saw a preview of it.
  13. Do you prefer a lecturer/teacher who likes to use  
R) handouts and/or a textbook?  
V) flow diagrams, charts, slides?  
K) field trips, labs, practical sessions?  
A) discussion, guest speakers?
- Results:** To determine your learning preference, add up the number of individual Vs, As, Rs, and Ks you have circled. Match the letter you have recorded most frequently to the same letter in the Learning Styles Chart. Next to each letter in the Chart are suggestions that will refer you to different learning aids throughout this text.

# LEARNING STYLES CHART

## V

### VISUAL



#### WHAT TO DO IN CLASS

Underline.  
Use different colors.  
Use symbols, charts,  
arrangements on  
the page.

#### WHAT TO DO WHEN STUDYING

Use the "In Class"  
strategies.  
Reconstruct images in  
different ways.  
Redraw pages from  
memory.  
Replace words with  
symbols and initials.

#### TEXT FEATURES THAT MAY HELP YOU THE MOST

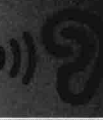
The Navigator  
Feature Story  
Preview  
Infographics/Illustrations  
Photos  
Accounting in Action  
Accounting Equation  
Analyses  
Key Terms in blue  
Words in bold  
Questions/Exercises/  
Problems  
Financial Reporting  
Problem  
Comparative Analysis  
Problem  
Interpreting Financial  
Statements  
Research Assignments  
Surfing the Net

#### WHAT TO DO PRIOR TO AND DURING EXAMS

Recall the "pictures of  
the pages."  
Draw, use diagrams  
where appropriate.  
Practice turning visuals  
back into words.

## A

### AURAL



#### WHAT TO DO IN CLASS

Attend lectures and  
tutorials.  
Discuss topics with  
students.  
Explain new ideas to  
other people.  
Use a tape recorder.  
Describe overheads,  
pictures, and visuals  
to somebody not  
there.  
Leave space in your  
notes for later  
recall.

#### WHAT TO DO WHEN STUDYING

You may take poor  
notes because you  
prefer to listen.  
Therefore:  
Expand your notes.  
Put summarized  
notes on tape and  
listen.  
Read summarized  
notes out loud.  
Explain notes to  
another "aural"  
person.

#### TEXT FEATURES THAT MAY HELP YOU THE MOST

Infographics/Illustrations  
Accounting in Action  
Review It/Do It  
Summary of Study  
Objectives  
Glossary  
Demonstration Problem  
Self-Study Questions  
Questions/Exercises/  
Problems  
Financial Reporting  
Problem  
Comparative Analysis  
Problem  
Real-World Focus  
Group Decision Case  
Communication Activity  
Ethics Case

#### WHAT TO DO PRIOR TO AND DURING EXAMS

Listen to your "voices"  
and write them  
down.  
Speak your answers.  
Practice writing  
answers to old exam  
questions.