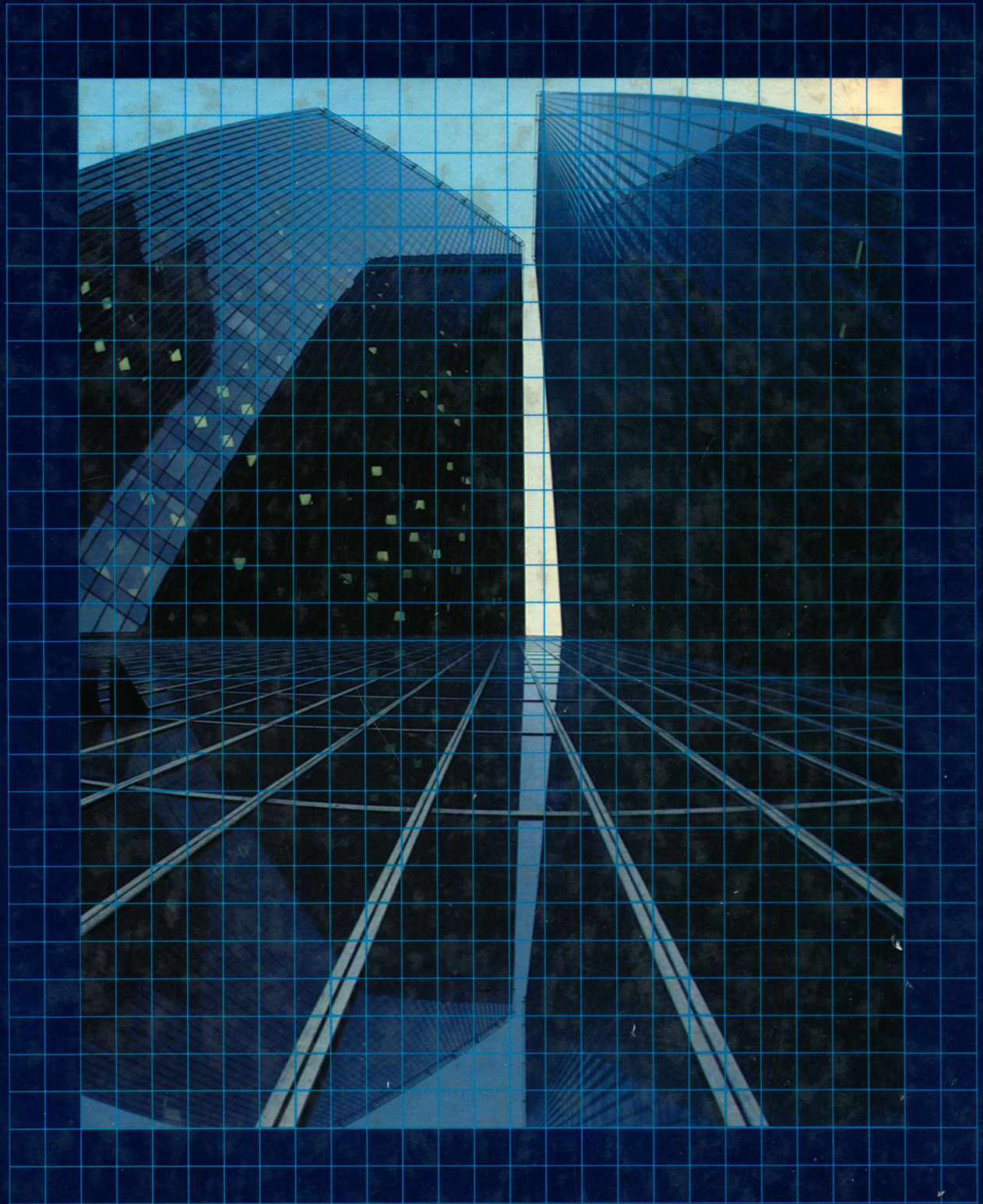


Fundamental Accounting Principles



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First Printing
See Note Inside Front Cover

Eleventh Edition

Fundamental Accounting Principles

Kermit D. Larson The University of Texas at Austin

William W. Pyle

Eleventh Edition 1987

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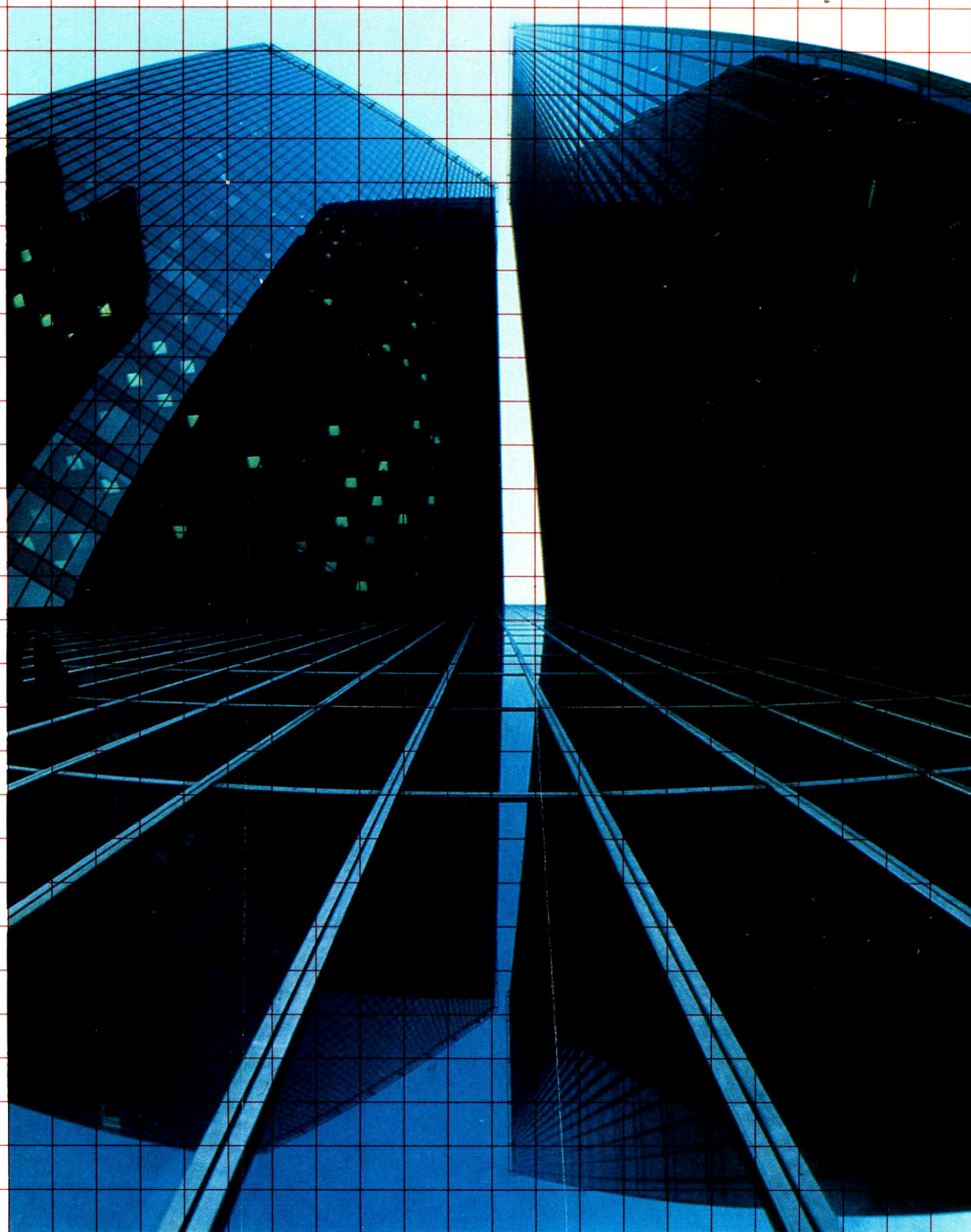
Appendix A

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Appendix B

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Fundamental Accounting Principles



Preface

Fundamental Accounting Principles and its companion materials are intended to be a complete learning system for use in the first year-long accounting course at the college and university level. The students in this course have varied backgrounds and educational goals. In fact, this course provides many students with their first educational exposure to such business topics as alternative forms of business organization, typical business practices, financial statements, financial analysis, and legal instruments such as notes, bonds, and stocks. Objectives of this course generally include: (1) developing a general understanding of financial reports and analyses that students will be able to use in their personal affairs regardless of their fields of specialization, (2) introducing students to managerial decision processes and the use of accounting information by the managers of a business, (3) providing a strong foundation for subsequent courses in business and finance, and (4) initiating the coursework leading to a career in accounting. **Fundamental Accounting Principles** serves all of these objectives.

A hallmark of **Fundamental Accounting Principles** is the careful integration of conceptual principles and their applications to specific business situations. Throughout the book, the definitions and explanations of important concepts and principles are presented in close proximity to illustrations and practical applications of those concepts and principles. As a result, students do not need to hold abstract concepts in limbo before they see how the concepts are applied.

In studying the book, students learn how accounting data are accumulated, how the resulting reports and analyses are prepared, and how to interpret and use accounting information intelligently and effectively. The concepts and principles that guide the preparation of accounting information are persistently emphasized and explained so that students will be able to generalize and apply their knowledge to a variety of new situations.

New Features and Important Changes in the 11th Edition

In this revision, the broad objectives were to: (1) dramatically expand the range and quantity of assignment material; (2) make coverage more exciting, up-to-date, and rigorous while retaining the book's tradition of exceptional readability; (3) incorporate several important new areas of topical coverage; and (4) supplement the package with more examination material, more complete solutions to problems, and more computer-based learning aids for student use. Extraordinary measures have been

taken to avoid errors in the text and in all supplementary materials. We believe students will find the book interesting to read and highly understandable. Instructors will find it rigorous, comprehensive, and flexible.

Many important new features have been introduced in the 11th edition. Some of the more significant include the following:

Many New Problem Assignments One of the most noticeable changes is a dramatic increase in the number of exercises and problems at the end of each chapter. The number of exercises alone has been increased by more than 76 percent. In all, there are approximately 170 new and varied problem assignments. This greatly accelerates a trend that was initiated in the previous edition as a direct result of adopters' requests. The result is a much more diverse set of assignment materials.

Complete Revision of Assignment Materials All of the exercises, problems, and provocative problems have been newly revised, and the number of questions for class discussion has been substantially increased.

Expanded Chapter Glossaries with Improved Definitions Many adopters report that they are focusing increased attention on the definition of important concepts and terms. In response to this emphasis, over 50 important new terms have been added to the chapter glossaries, and a large number of the definitions have been carefully rewritten to clarify the conceptual essence of the terms. The glossaries now contain well over 500 definitions. As in the past, the glossaries are located at the end of each chapter so that students can easily locate the definitions that are relevant to their chapter-by-chapter review before examinations. Furthermore, in the index at the end of the book, each glossary term is listed and highlighted in color with appropriate page references.

More Supporting Calculations in the Solutions Manuals The additional length of the Solutions Manuals for the 11th edition is only partially due to the expansion of assignment material. In response to adopters' requests, the solutions now include many more supporting calculations.

New, Real-World Illustrations and Problems This edition reflects a substantially increased use of real company financial information in illustrations and particularly in the provocative problems. For example, factual data has been drawn from the annual reports of such companies as Adolph Coors, Black and Decker, CBS, Apple Computer, Chrysler, Time, and Crown Cork & Seal.

Expanded Coverage of Computers in Accounting In at least six different chapters, greater attention is given to the role of computers in accounting. For example, (a) a new section discusses the effect of computers on internal control, (b) the discussion of cash controls explains the direct linkage of cash registers with computers, (c) the section on control of plant assets was rewritten to be consistent with computerized accounting systems, and (d) the effective use of computerized systems in obtaining departmental information is described.

New Computer Supplements for Students In addition to revised versions of the KC's Deals on Wheels and Lite Flight supplements, the 11th edition's computer-based supplements for students include a new corporate practice set (Kellogg Business Systems, Inc.) that may be assigned after Chapter 20, two examination review and study guides, and two software packages for solving selected problems from the text.

Examination Exercises on the Computer Test Bank The number of true/false and multiple choice questions in the computer bank of examination questions has been expanded. In addition, the bank now includes a large number of exercise-type problems.

Expanded Discussion of Internal Control In Chapter 7 the discussion of internal control principles and procedures has been expanded. Also, the importance of internal control is emphasized in several chapters.

New Illustrations of Modern Bank Statements The reconciliation of bank statements is now based on up-to-date, real-world bank statements. Also, an informal calculation or summary of petty cash payments has replaced the illustration of a Petty Cash Record.

A Clearer and More Complete Explanation of Bad Debts Chapter 8 includes a thoroughly new, more complete, and easier to understand discussion of bad debts. Both the income statement and balance sheet approaches to estimating bad debts are explained. Discussion of the balance sheet approach includes both a simplified version and an improved treatment of aging.

New Coverage of Credit Card Sales and Installment Accounts Receivable These timely topics are discussed in Chapter 8, which has been retitled "Credit Sales and Receivables."

Expanded Coverage of Perpetual Inventories The coverage of perpetual inventory systems has been rewritten and now includes journal entries comparing periodic and perpetual. LIFO under perpetual is discussed and illustrated, as is the difference between LIFO periodic and LIFO perpetual. The usefulness of the perpetual method in computerized accounting systems has also been clarified.

Easier to Understand Discussion of Lower of Cost or Market The discussion of inventory valuation under lower of cost or market has been completely rewritten. The new version has better illustrations, includes more descriptive headings, and is easier for students to understand.

New Coverage of Estimated Liabilities Chapter 12 contains a new section on the definition and classification of liabilities. In addition to distinguishing between current and long-term liabilities, it explains the difference between definite and estimated liabilities. New coverage of property taxes payable and product warranty liabilities is used to illustrate estimated liabilities.

Expanded Coverage of Contingent Liabilities A new section in Chapter 12 covers contingent liabilities and expands on the introduction to this topic in Chapter 8.

Improved Discussion of Mortgages The discussion of mortgages has been totally rewritten to more accurately describe mortgages as a form of security that may apply to both notes payable and bonds.

New Coverage of Installment Notes Payable A new section of Chapter 11 explains installment notes payable with two alternative payment patterns. This topical coverage corrects the typical failure of introductory accounting courses to explain this most popular form of long-term financing by businesses and individuals.

New Coverage of Discontinued Operations, Extraordinary Items, Accounting Changes, and Prior Period Adjustments Over half of the material in Chapter 19 is new. The first part of the chapter explains the income and retained earnings presentations of items that are unrelated to continuing operations. These items include discontinued operations, unusual, infrequent, and extraordinary items, changes in accounting principles, and prior period adjustments.

More Concise Coverage of Accounting for Price Changes The material on accounting for price changes has been compressed, simplified, and updated.

A Concise Introduction to International Accounting This edition introduces the special problems of companies that have transactions in foreign currencies or that have operations in more than one country—without excessive elaboration. This material and the coverage of price changes are conveniently located in separate sections at the end of Chapter 19 to facilitate variations in course design.

An Expanded Explanation of Earnings per Share A completely new discussion of earnings per share is presented in Chapter 20. This section illustrates calculations for companies with simple capital structures and explains the concepts of primary and fully diluted earnings per share without requiring complex calculations.

A New Discussion of Manufacturing Costs Several sections of Chapter 21 have been rewritten to clarify the differences between periodic and perpetual systems of accounting for manufacturing costs and to more clearly explain the flow of direct and indirect material costs. The discussions of inventory valuation and overhead allocation problems of manufacturing companies have been expanded and improved.

Improved Explanations of Job Order and Process Cost Systems New introductions have been written for each of these topics. Account titles have been modified to eliminate confusion about differences between the various types of cost accounting systems. This edition also includes an improved diagram of cost flows in process cost systems.

More Emphasis on Capital Budgeting Methods The Chapter 27 discussion of payback has been expanded to include instances where cash flows are not uniform from year to year. In addition, the chapter includes new discussions evaluating the strengths and weaknesses of different capital budgeting methods as a means of evaluating alternative investments.

Expanded Discussion of the Effect of Taxes on Business Decisions

Chapter 28 reflects the latest changes in tax laws. A new section discusses the changing nature of the tax laws and its effect on business planning. The expanded coverage also includes the topic of tax-free employee compensation.

Expanded Coverage of Present and Future Values A new appendix at the end of the book provides an expanded analysis of present and future values. Instructors may choose to restrict the present value coverage to the material contained in Chapter 12. Or they may also assign the appendix and expand the coverage to include future values and a more detailed analysis of present values. The appendix concludes with large tables of present and future values and 19 exercises.

Additional Changes Numerous additional changes and editorial refinements have been made to increase clarity and provide a thoroughly current work. Some examples include:

- New introductions to several chapters.
- An updated discussion of conservatism.
- A change in terminology from “premium on stock” to “contributed capital in excess of par value.”
- An updated discussion of accelerated depreciation for tax purposes.
- More realistic interest rates and dollar amounts.
- Increased use of headings in selected areas.
- A new discussion of capital and revenue expenditures.
- A change in footnote citations to **Accounting Standards, Current Text**.
- An expanded number of problems in the Study Guide.
- Clearer discussions of employment taxes and of bond characteristics.

**A Word about
the Provocative
Problems**

Among the sharply expanded array of assignment material in **Fundamental Accounting Principles**, the 11th edition includes approximately 80 homework assignments that are described as *provocative problems*. This description stems from the fact that these problems are somewhat more thought-provoking than other problem assignments. Provocative problems are more like the real world, confronting students with somewhat more complexity and often requiring students to reach decisions about the illustrated situations. In this edition, many of the provocative problems are based on factual situations drawn from the financial reports of real companies. Provocative problems tend to be more challenging than other problem assignments. Although the Working Papers are plentiful enough to allow adaptation to the provocative problems, they have not been specifically designed to fit these problems. Students are therefore required to take greater responsibility for organizing their solutions.

We encourage instructors to include several provocative problems in their teaching plan as a means of enriching the diversity of assignment material and exposing students to the real-world applicability of accounting issues. Provocative problems can help instructors challenge their best students and demonstrate the contemporary relevance of the course to the entire class.

Computer-Based Supplements

A full complement of computer-based items support the teaching effectiveness of **Fundamental Accounting Principles**. Three items for student use were written by Christine Sprenger, Keith Weidkamp, and Clifford Burns. They are:

1. **Lite Flight—II**, a microcomputer practice set that may be assigned after Chapter 6.
2. **KC's Deals on Wheels—II**, a microcomputer practice set with expanded features that may be assigned after Chapter 11.
3. **Examination Review and Study Guide, Chapters 1–14 and Chapters 15–28**, tutorials for student use in private study and review.

Leland Mansuetti joined the Sprenger, Weidkamp, and Burns team of authors to provide:

4. **Kellogg Business Systems, Inc.**, an extended corporate practice set that may be assigned after Chapter 20.
5. **Problem Solvers I and II**. These software packages allow students to use a microcomputer in solving selected problems from the text and introduce the use of spreadsheets.

For instructor use, the computer-based testing material includes:

6. **Computest**, a greatly enlarged bank of examination materials that now includes exercise-type problems as well as multiple-choice and true/false questions.
7. **Teletest**, a system whereby an adopter may obtain, via telephone request to the publisher, a laser-printed copy of examinations that consists of questions the adopter has selected from the computerized test bank.
8. **Compugrade**, a program for recording and weighting exam grades.

Other Supplements

The teaching package for **Fundamental Accounting Principles** also includes the following items:

- **Working Papers, Chapter 1–14 and Chapters 14–28**. These are designed so that each volume can be used for assignments of problems or alternate problems.
- **Study Guides, Chapters 1–14 and Chapters 14–28**. Each chapter presents learning objectives, an outline of the topical coverage in the chapter, and a series of self-examination questions with answers.
- **List of Check Figures** (available in quantity to adopters).
- **Hilltop Hardware Store**, a manual, single proprietorship practice set with business papers that may be assigned after Chapter 6.
- **Builders Supplies, Inc.**, a manual practice set that contains a narrative of transactions covering two accounting cycles; this set may be assigned after Chapter 8.
- **Kroy Manufacturing Company**, a manual practice set containing a narrative of transactions for a manufacturing corporation. The set may be assigned after Chapter 21.
- **Solutions Manual, Chapters 1–14 and Chapters 15–28**.
- Transparencies of the solutions to all exercises and problems.

- **Instructor's Lecture Guide**, by Elliott S. Levy, Laurie W. Pant, and Michael Haselkorn. For each chapter, this guide includes a topical analysis of available assignment material, suggested lecture objectives and areas for emphasis, a detailed lecture outline, suggested assignments, sample syllabi, and selected enrichment materials.
- A special set of teaching transparencies.
- **Achievement Tests, Series A, B, and C**. Each series contains 10 examinations plus two final examinations: five examinations plus one final examination for Chapters 1–14, and five examinations plus one final examination for Chapters 15–28. They are available, free to adopters, in packages of 30 copies each.
- **Supplementary Examination Materials**, a book of examination questions that includes machine-gradable examinations, a variety of additional questions for each chapter, and the solutions to all of the printed examination materials. This book also includes a large number of short, exercise-type questions.

Acknowledgments

In preparing the 11th edition, the constructive input from numerous adopters has been the cornerstone of the revision plan. We are indebted to many individuals who have contributed comments, criticisms, and suggestions. At the risk of omitting many who have provided stimulation and guidance for the revision, several individuals should be recognized for their insightful contributions: Anna Fowler and Mary Christ, The University of Texas at Austin; Daniel J. Galvin, Diablo Valley College; L. L. Price, Ft. Steilacoom Community College; Bill Wells, Tulsa Junior College; Kenneth Miller, San Antonio College; Blanca M. Gonzalez, Miami-Dade Community College; Lee Baker, Alvin Community College; Court Huber, Trinity University; Jim Carr, New Hampshire College; Norman Sunderman, Texas A&I University; Ed Clanten, Solano Community College; James Gray, Robert LeRosen, and Lynn Pape, Northern Virginia Community College.

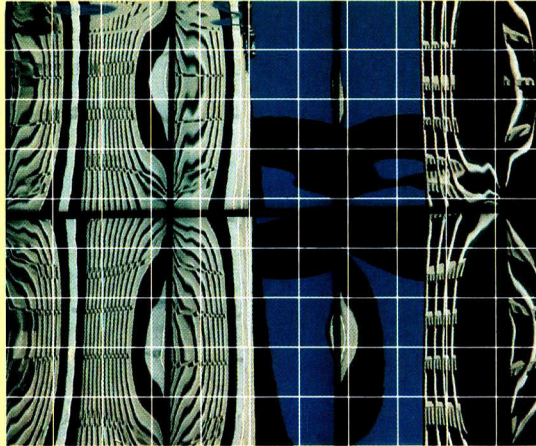
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Kermit D. Larson
William W. Pyle

Contents

Part One	Introduction	
1	Accounting, an Introduction to Its Concepts	5
Part Two	Processing Accounting Data	
2	Recording Transactions	41
3	Adjusting the Accounts and Preparing the Statements	79
4	The Work Sheet and Closing the Accounts of Proprietorships, Partnerships, and Corporations	117
5	Accounting for a Merchandising Concern	157
6	Accounting Systems	197
Part Three	Accounting for Assets	
7	Accounting for Cash	243
8	Credit Sales and Receivables	287
9	Inventories and Cost of Goods Sold	323
10	Plant and Equipment	357
11	Plant and Equipment, Natural Resources, and Intangible Assets	387
Part Four	Accounting for Equities: Liabilities and Partners' Equities	
12	Current and Long-Term Liabilities	419
13	Payroll Accounting	451
14	Partnership Accounting	483
Part Five	Corporation Accounting	
15	Organization and Operation of Corporations	521
16	Additional Corporation Transactions and Stock Investments	553
17	Installment Notes Payable and Bonds	593
Part Six	Financial Statements, Interpretation and Modifications	
18	Statement of Changes in Financial Position	629
19	Additional Financial Reporting Issues	665
20	Analyzing Financial Statements	707
Part Seven	Managerial Accounting for Costs	
21	Accounting for Manufacturing Companies	749
22	Cost Accounting, Job Order, and Process	783
23	Accounting for the Segments and Departments of a Business; Responsibility Accounting	825
Part Eight	Planning and Controlling Business Operations	
24	Cost-Volume-Profit Analysis	869
25	The Master Budget: A Formal Plan for the Business	897
26	Flexible Budgets; Standard Costs	927
27	Capital Budgeting; Managerial Decisions	957
28	Tax Considerations in Business Decisions	985
Appendix A	Present and Future Values: An Expansion	1023
Appendix B	CBS Inc. and Subsidiaries 1985 Financial Statements	1039
	Index	1065

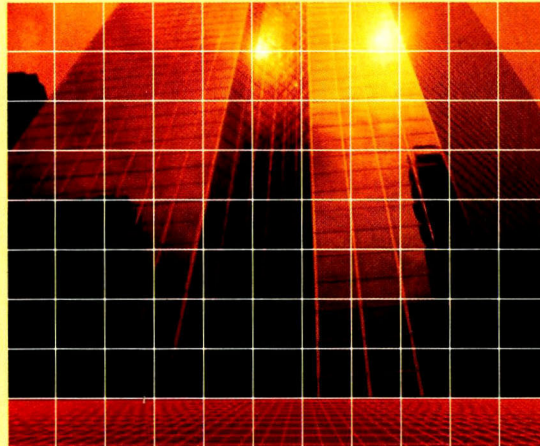
Part One Introduction



1 Accounting, an Introduction to Its Concepts 5

Why Study Accounting	6
Accountancy as a Profession	6
The Work of an Accountant	7
Public Accounting	7
Private Accounting	8
Governmental Accounting	9
Accounting and Bookkeeping	9
Accounting and Computers	9
Accounting Statements	10
The Income Statement	10
The Balance Sheet	11
Assets, Liabilities, and Owner's Equity	12
Generally Accepted Accounting Principles	12
Source of Accounting Principles	13
Understanding Accounting Principles	14
Business Entity Concept	14
Cost Principle	15
Objectivity Principle	15
Continuing-Concern Concept	16
The Stable-Dollar Concept	16
Business Organizations	17
Single Proprietorships	17
Partnerships	17
Corporations	18
The Balance Sheet Equation	18
Effects of Transactions on the Accounting Equation	19
Realization Principle	21
Important Transaction Effects	22
Bases of Revenue Recognition	22

Part Two Processing Accounting Data



2 Recording Transactions 41

- Business Papers 42
- Accounts 42
 - Balance of an Account 44
- Accounts Commonly Used 44
 - Asset Accounts 44
 - Liability Accounts 45
 - Owner's Equity Accounts 46
 - Real and Nominal Accounts 47
- The Ledger 47
- Debit and Credit 48
- Mechanics of Double-Entry Accounting 48
- Transactions Illustrating the Rules of Debit and Credit 49
- The Accounts and the Equation 53
- Preparing a Trial Balance 53
- The Proof Offered by a Trial Balance 54
- Balance Column Accounts 54
- Need for a Journal 56
- The General Journal 56
- Recording Transactions in a General Journal 56
- Posting Transaction Information 57
- Account Numbers 59
- Locating Errors 59
- Correcting Errors 59
- Bookkeeping Techniques 60
 - Commas and Decimal Points in Dollar Amounts 60
 - Dollar Signs 60
 - Omission of Zeros in the Cents Columns 60

3 Adjusting the Accounts and Preparing the Statements 79

- Need for Adjustments at the End of an Accounting Period 80
- Adjusting the Accounts 80
 - Prepaid Expenses 80
 - Depreciation 82
 - Accrued Expenses 84
 - Unearned Revenues 85
 - Accrued Revenues 86
- The Adjusted Trial Balance 86

Preparing Statements from the Adjusted Trial Balance	86
The Adjustment Process	86
Arrangement of the Accounts in the Ledger	90
Disposing of Accrued Items	90
Accrued Expenses	90
Accrued Revenues	91
Cash and Accrual Bases of Accounting	91
Classification of Balance Sheet Items	91
Current Assets	92
Long-Term Investments	93
Plant and Equipment	94
Intangible Assets	94
Current Liabilities	94
Long-Term Liabilities	94
Owner's Equity on the Balance Sheet	94
Single Proprietorship	94
Partnerships	95
Corporations	95
Arrangement of Balance Sheet Items	96
Account Numbers	96

4 The Work Sheet and Closing the Accounts of Proprietorships, Partnerships, and Corporations 117

Work Sheet in the Accounting Process	118
Preparing a Work Sheet	118
Work Sheet and the Financial Statements	122
Work Sheet and Adjusting Entries	122
Closing Entries	122
Why Closing Entries Are Made	123
Closing Entries Illustrated	123
Closing Revenue Accounts	123
Closing Expense Accounts	125
Closing the Income Summary Account	125
Closing the Withdrawals Account	127
Temporary Accounts	127
Sources of Closing Entry Information	127
The Accounts after Closing	128
The Post-Closing Trial Balance	132
Accounting for Partnerships and Corporations	132
Partnership Accounting	132
Corporation Accounting	133
The Accounting Cycle	135

5 Accounting for a Merchandising Concern 157

Revenue from Sales	158
Gross Sales	159
Sales Returns and Allowances	159
Sales Discounts	159
Cost of Goods Sold	160
Cost of Goods Sold, Periodic Inventory System	161
Merchandise Inventories	161
Cost of Merchandise Purchased	162
Cost of Goods Sold	164
Inventory Losses	164
Income Statement of a Merchandising Concern	165
Work Sheet of a Merchandising Concern	165
Account Titles Column	166
Trial Balance Columns	167
Adjustments Columns	167
Income Statement Columns	167

Cost of Goods Sold on the Work Sheet	170
Completing the Work Sheet	171
Preparing the Statements	171
Retained Earnings Statement	172
Retained Earnings Account	172
Adjusting and Closing Entries	173
Closing Entries and the Inventories	173
Other Inventory Methods	175
Income Statement Forms	175
Combined Income and Retained Earnings Statement	176
Statement of Changes in Financial Position	176
Debit and Credit Memoranda	176
Trade Discounts	177

6 Accounting Systems 197

Reducing Writing and Posting Labor	198
Subsidiary Ledgers	200
Posting the Sales Journal	200
Identifying Posted Amounts	201
Controlling Accounts	201
Cash Receipts Journal	201
Cash from Charge Customers	201
Cash Sales	203
Miscellaneous Receipts of Cash	203
Month-End Postings	203
Posting Rule	204
Creditor Accounts	204
Purchases Journal	205
The Cash Disbursements Journal and Its Posting	205
Proving the Ledgers	205
Sales Taxes	208
Sales Invoices as a Sales Journal	209
Sales Returns	209
General Journal Entries	210
Machine Methods	210
Computerized Data Processing	211
The Program	211
Instructions to Be Programmed for Processing	
Customers' Orders	212
Designing the Program	212
Modes of Operation	213
Time Sharing	214
Microcomputers	214
Recording Actual Transactions	214

Computerized Accounting Simulation

Lite Flight—II

Business Papers Practice Set

Hilltop Hardware Store
