

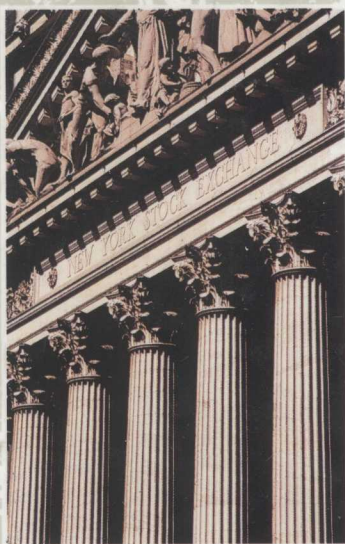


ACCOUNTING

The Basis for Business Decisions

N I N T H E D I T I O N

Meigs & Meigs





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Accounting: The Basis for Business Decisions

Ninth Edition

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ACCOUNTING

THE BASIS FOR BUSINESS DECISIONS

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Accounting: The Basis for Business Decisions



Preface

This text is an introduction to the field of accounting and to the use of accounting information as a basis for business decisions. It is intended for use in the first college-level accounting course, which usually spans either two semesters or three quarters.

OUR GOALS IN THIS NINTH EDITION

We have tried to accomplish many things in this ninth edition. Among our most important goals have been to:

1. Provide students with a better understanding of the environment in which accounting information is developed and used.
2. Shift emphasis from the preparation of accounting information to its interpretation and use.
3. Retain a course structure which meets the specific content requirements of most colleges and universities.

Providing Students with a Better Background

If students are to appreciate the nature of accounting, they first should have a basic understanding of the business environment. We find, however, that many introductory students lack this background. Often the introductory accounting course is also the students' first course in the business curriculum.

We give increased attention to explaining business practices before discussing accounting issues. Our focus is upon **current** business and accounting practices, not those of the past. For example, virtually every business with external reporting obligations now uses a perpetual inventory system. Yet many accounting textbooks continue to emphasize periodic systems. We emphasize **perpetual** inventory systems.

For purposes of illustration, textbooks traditionally assume the use of simple, manually maintained accounting records. Such records do not meet the needs of most modern businesses. We, too, find it convenient to use simple accounting records as the basis for many illustrations. However, we also explain how the information is processed in a computer-based environment.

Attention is given throughout the text to the role of **professional judgment** in both the development and interpretation of accounting information. We explain in some depth the codes of professional ethics developed by the American Institute of Certified Public Accountants and by the Institute of Management Accountants. We also discuss audits, reviews, and the independent auditors' potential liability to the users of financial statements.

Shifting to a “User Orientation”

Today, relatively few introductory students will become professional preparers of accounting information. All, however, will become life-long information **users**. For this reason, we have shifted our emphasis significantly from the preparation of accounting information to its interpretation and use.

This shift in emphasis affects the text in several ways. For example, we have added new assignment material designed specifically to develop students’ critical thinking skills and communication skills.

A user-oriented approach also affects topical content and emphasis. Topics relevant to basic business decisions now are addressed, even if these topics traditionally have been deferred to later accounting courses. Examples of such topics include accounting for postretirement costs, audits and reviews, “window dressing,” and many of the disclosures which accompany financial statements.

Throughout the text, attention is given to analytical ratios and financial relationships. The chapter on analysis of financial statements now serves primarily as a review.

Increased attention also is given to the use of accounting information **by management**. No longer is this topic addressed only in a group of “managerial” chapters; it now is integrated throughout the text.

Some “traditional” accounting topics relate primarily to the preparation of accounting information and are of little significance to the information user. Examples include reversing entries, manual special journals, and alternative methods of recording accruals and deferrals. In our user-oriented approach, such topics are given less emphasis. Often they are presented in Supplemental Topic sections or in an appendix.

Preserving a Proven Course Structure

Some universities are experimenting with radically different approaches to the introductory accounting course. We have *not* embarked upon such a path. We have great respect for the existing structure of the introductory course, which has evolved from decades of experience and research. We recognize that many students transfer credit for this course from one institution to another. Some standardization of the curriculum is therefore essential.

We regard our changes in this ninth edition as **evolutionary**, not **revolutionary**. Faculty acquainted with our past editions will find much that is familiar.

ELEMENTS OF THE TEXTBOOK

This ninth edition is accompanied by more in-the-text learning aids than ever before.

Chapter Introductions and Learning Objectives

Each chapter begins with a brief overview and a set of basic learning objectives. These learning objectives then are integrated with the text discussions and are summarized in the End-of-Chapter section.

Cases in Point

A distinctive feature of past editions has been the use of short **Cases in Point**, which are based upon actual events. Many new Cases in Point have been created for this edition as part of our increased focus on the contemporary business environment.

Supplemental Topics and Appendixes

A new feature in the structure of this edition is the inclusion of short **Supplemental Topic** sections at the end of several chapters. These Supplemental Topics are closely related to the content of the chapters in which they appear.

Students always should read the Supplemental Topic sections, as these discussions will enhance their overall understanding of the chapter. Instructors, however, may decide whether these topics are of sufficient general interest for inclusion in class discussions, homework assignments, and examinations. [Assignment material and examination questions relating to Supplemental Topics are preceded by an asterisk (*).]

In contrast to the Supplemental Topics, the four **Appendixes** at the end of the text provide self-contained coverage of specialized topics. We consider coverage of the Appendixes optional; students are not expected to read the appendixes unless assigned by the instructor.

Pedagogical Use of Color

The four-color design of this text is used as a learning aid. For example, a light green background shading is used in illustrations of **accounting records**, whereas a light blue background is used in illustrations of **financial statements**. Red often is used to **highlight** key elements of an illustration.

End-of-Chapter Reviews

Each chapter is followed by a variety of learning aids, including a **Summary of the Chapter Learning Objectives**, a **Glossary of Key Terms**, and a series of **Self-Test Questions**. Most chapters also include a **Demonstration Problem**, with a complete solution.

Each chapter summary concludes with a paragraph explaining the relationships between that chapter and upcoming topics. This device aids students in viewing accounting as an integrated information system, rather than as series of separate topics.

Assignment Material

One of the distinctive features of this ninth edition is the increase in the quantity and variety of the assignment material. Increased emphasis is placed upon the development of students' analytical abilities and communication skills. Much of the new assignment material is based upon the operations of well-known companies.

Five categories of assignments accompany the text. These are (1) Discussion Questions, (2) Exercises, (3) Problems, (4) Cases and Unstructured Problems, and (5) Comprehensive Problems.

Discussion Questions are short and usually call for expository answers. In addition to developing writing and communication skills, these questions explore students' conceptual understanding of accounting.



Exercises are short assignments, usually focusing upon a single concept. We have greatly increased the number and the variety of Exercises. By enabling instructors to cover basic concepts quickly, we hope to allow more time for discussing in class such assignments as our Cases and Unstructured Problems.

Problems are longer than the Exercises and address several concepts at one time. Most chapters contain both an *A* and *B* problem series, each providing thorough coverage of the chapter. A few chapters contain a single—but longer—series of problems. The single series accommodates a greater variety of assignments.

Cases and Unstructured Problems emphasize the development of analytical skills and communication skills. They also provide a wealth of assignment material well suited to in-class discussions.

To encourage the use of these assignments, we have developed Cases and Unstructured Problems covering a wide range of time requirements and difficulty levels. Many of our Exercises and Problems also call for analysis and the use of judgment.

We consider our six **Comprehensive Problems** to be among the most useful assignments in the text. Each of these problems ties together concepts presented over a span of chapters. Two of the Comprehensive Problems are similar in scope to a “practice set,” and another involves the analysis of an actual annual report.

Most chapters contain several problems designed for solution using the AIM General Ledger or Spreadsheet packages. These problems are identified by the computer disk symbol shown in the margin. A red symbol () identifies problems for the general ledger package; a blue symbol () identifies problems for the spreadsheet package.

A **Checklist of Key Figures** for Problems and Comprehensive Problems appears on the front and back inside covers of the text. The purpose of these check figures is to aid students in verifying their problem solutions and in discovering their own errors.

The Flexibility of PRIMIS

Accounting: The Basis for Business Decisions, Ninth Edition, and selected supplementary materials are available on the McGraw-Hill/Primis custom publishing database. Any materials on the database can be configured and created to your specifications. The Primis database includes several McGraw-Hill accounting texts, selected Harvard business cases, and articles from various journals.

NEW AND EXTENSIVELY REVISED CHAPTERS

Many chapters in this ninth edition have been revised significantly. Almost every chapter contains greater emphasis upon the use of accounting information and more assignment material than ever before. Among the changes in topical content which will be noticed most readily are:

Chapter 1, “Accounting: The Language of Business,” has been rewritten to provide a more comprehensive introduction to the process of financial reporting. We have added discussions of such topics as reporting requirements of publicly owned companies, auditing, and professional ethics. Also included is a new discussion of the nature and sources of generally accepted accounting principles. Career opportunities in accounting are discussed in a Supplemental Topic section at the end of the chapter.

In **Chapter 4**, we have revised the format of the work sheet. Our goal is to focus upon the **accounting processes** illustrated within the work sheet, not to present the document itself as a component of the accounting cycle.

Chapter 5, now entitled “Merchandising Activities; Classified Financial Statements,” exemplifies many of the changes in this ninth edition. The opening pages of this chapter illustrate our concerted effort to explain business practices before discussing the accounting treatments accorded those practices.

In keeping with contemporary business practices, this chapter now emphasizes **perpetual inventory systems**—the type of system used in every large business organization. Periodic systems still receive thorough coverage; in fact, we have added an explanation of a “shortcut” periodic system that is used by many small businesses.

The final portion of Chapter 5, “Introduction to Classified Financial Statements,” typifies our increased emphasis upon the *use* of accounting information.

Chapter 6, “Accounting Systems, Internal Control, and Audits,” emphasizes the capabilities of computer-based accounting systems, rather than the use of manual special journals. Among the new features of this chapter are examples of how data bases tailor information to meet the needs of different decision makers. New elements of this chapter also include discussions of financial and operational audits, and the related topics of employee fraud and management fraud.

Chapter 8, “Accounts Receivable and Notes Receivable,” now includes discussions of the goals of credit management, accounts receivable turnover rates, strategies for quickly converting receivables into cash, and disclosure of concentrations of credit risk. These additions illustrate our increased emphasis on the use of accounting information by management, as well as by persons outside of the business organization.

Our coverage of notes receivable with interest included in the face amount has been moved to a Supplemental Topic section, as such notes are held primarily by financial institutions.

Chapter 9, “Inventories and the Cost of Goods Sold,” has been revised extensively in light of our emphasis upon perpetual inventory systems. Also included are discussions of the just-in-time concept, inventory turnover rates, and the objectives of efficient inventory management. The nature and significance of large LIFO reserves are discussed as a Supplemental Topic.

Chapter 10, dealing with plant and equipment, includes extensively revised coverage of trade-ins and a new Supplemental Topic section addressing depreciation for income tax purposes.

Our coverage of liabilities, contained in **Chapters 11** and **16**, has been revised extensively. **Chapter 11** now focuses upon the types of liabilities **common to most business entities**, including long-term installment

debt. **Chapter 16**, in contrast, addresses those types of liabilities found primarily in the financial statements of large, publicly owned corporations. This format completes our coverage of accounting for unincorporated businesses in the first semester. It also heightens students' awareness of the differences in the business environments of small businesses and of large corporations.

Our coverage of liabilities also has been expanded in terms of topical content. Chapter 11 now includes long-term installment debt, disclosure requirements relating to financial instruments, and increased emphasis on loss contingencies and commitments. Extensively revised coverage of pay-roll liabilities now appears as a Supplemental Topic.

In Chapter 16, new or expanded coverage is given to topics which, because of their materiality, are relevant to the users of corporate financial statements. Examples include deferred income taxes and an employer's obligation for postretirement benefits.

Chapter 13, "Accounting Concepts, Professional Judgment, and Ethical Conduct," is new to this edition. One objective of this chapter is to review at one time many of the generally accepted accounting principles discussed throughout the text. Another objective is to look in some depth at key elements of the AICPA and IMA (formerly NAA) codes of professional ethics.

Chapter 18, "Income Taxes and Business Decisions," has been revised along more conceptual lines and is no longer dependent upon the tax rates and regulations of a specific year. (We have also integrated throughout the textbook discussions of basic income tax concepts which affect business decisions.)

Chapter 20, "Analysis and Interpretation of Financial Statements," has been revised to reflect our emphasis of this topic throughout the textbook.

Chapter 22, "Cost Accounting Systems," contains new coverage of activity-based costing, just-in-time inventory systems, and total quality management.

SUPPLEMENTARY MATERIALS

This text is accompanied by a large number of supplementary learning and teaching aids. These supplements are listed below and in the graphic illustration at the end of this preface. A complete description of these materials is contained in the **Instructor's Guide**. If you would like information and costs on the supplemental materials, please contact your local McGraw-Hill representative. We value both your interest and our supplements.

For the Student:

Self-Study Guide, co-authored by Mary A. Meigs

Accounting Work Sheets, Group A Problems, Chapters 1–15

Accounting Work Sheets, Group A Problems, Chapters 14–26

Accounting Work Sheets, Group B Problems, Chapters 1–15

Accounting Work Sheets, Group B Problems, Chapters 14–26

Blank Forms for Problems and Cases

Accounting Information Manager: A General Ledger Program by John W. Wanlass

Accounting Information Manager: A Spreadsheet Program by John W. Wanlass

MicroGuide Computerized Accounting Tutorial by Jean Gutmann

Manual Simulations and Applications:

Premium Foods Corporation: A Financial Statement Analysis Case by Christie W. Johnson

The Next Dimension: An Accounting Cycle Application by Mary A. Meigs

Facts-by-FAX: An Accounting Cycle Application

Color Copy Co.: An Accounting Cycle Application

Echo Paint Co.: A Small Business Application with Forms by Richard A. Wright

Executive Woodcraft: A Managerial Accounting Application by Ronald W. Hilton

Printer Recharge, Inc.: A Corporate Practice Set by Phillip Ricci and Wanda G. Spruill

Computer-Based Simulations and Applications:

CYMA General Ledger Package: Shadow Mountain Hotel

CYMA General Ledger Package: Authenticity and Facts-by FAX

Echo Paint Co.: A Small Business Application with Forms, by Richard A. Wright

Remington Restaurant Supply: A Computerized Accounting Cycle Application

Electronic Spreadsheet Application to Accompany the Premium Foods Corporation Financial Statement Analysis Case by Christie W. Johnson

For the Instructor:

Annotated Instructor's Edition by David Marcinko

Lecture Video Series

Case Study Videos for Analysis and Critical Thinking

Instructor's Manual/Critical Thinking Guide to Accompany Case Study Videotapes by Mark S. Bettner

Solutions Manual

Overhead Transparencies: Solutions to Problems and Exercises and Selected Text Exhibits

Solutions to Applications

Test Bank (Manual and Computerized Versions)

Achievement Tests and Comprehensive Examinations (four series)

Instructor's Guide and Answers to Achievement Tests by David Marcinko

Electronic Classroom Presentations by Glenn E. Owen

Interactive Solutions Software

Teaching Transparencies

Report Card: Electronic Grading Software

Financial Statement Analysis Problem Set and Software

CONTRIBUTIONS BY OTHERS

The ninth edition has benefited from a number of perceptive reviews. We wish to express our sincere thanks to these reviewers, who are listed at the conclusion of this Preface.

We also want to thank the following individuals, each of whom has authored supplements which accompany the text: **Mark S. Bettner**, *Bucknell University*; **Jean Gutmann**, *University of South Maine*; **Ronald W. Hilton**, *Cornell University*; **Christie W. Johnson**, *Montana State University*; **David Marcinko**, *SUNY, Albany*; **E. James Meddaugh**, *Ohio University*; **Mary A. Meigs**, *San Diego State University*; **Glenn E. Owen**, *University of California, Santa Barbara*; **John W. Wanlass**, *DeAnza College*; **Richard A. Wright**, *American River College*; **Raymond MacFee**, *University of Colorado, Boulder*; **Phillip Ricci** and **Wanda G. Spruill**, *SUNY, Geneseo*.

We owe a special debt to Mary Meigs. Professor Meigs has authored or co-authored the Study Guide, the Test Bank, and several of the accounting applications which accompany this edition. She also has participated in virtually every stage of this project. Her contributions have improved the text and the supplementary materials in many ways.

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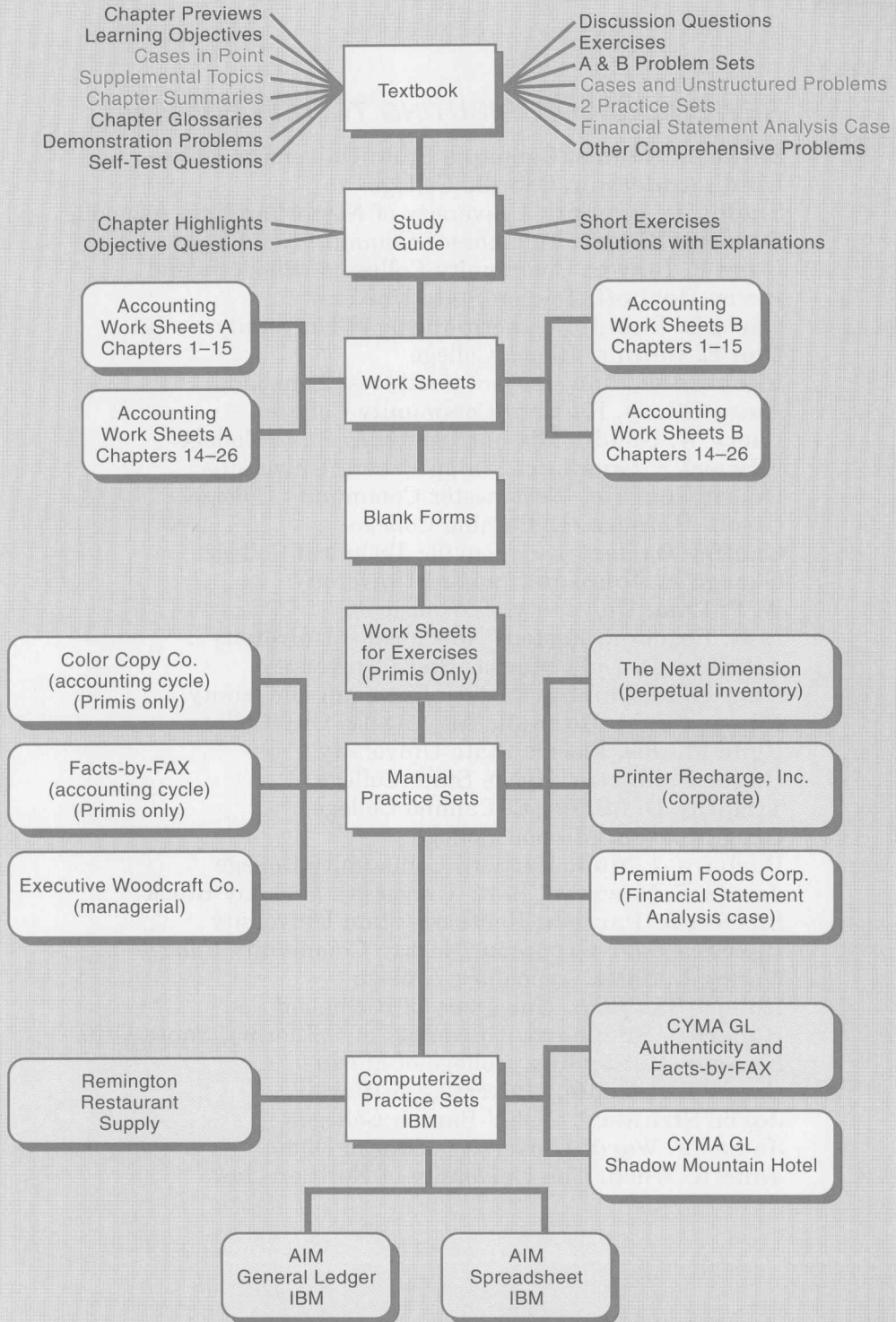
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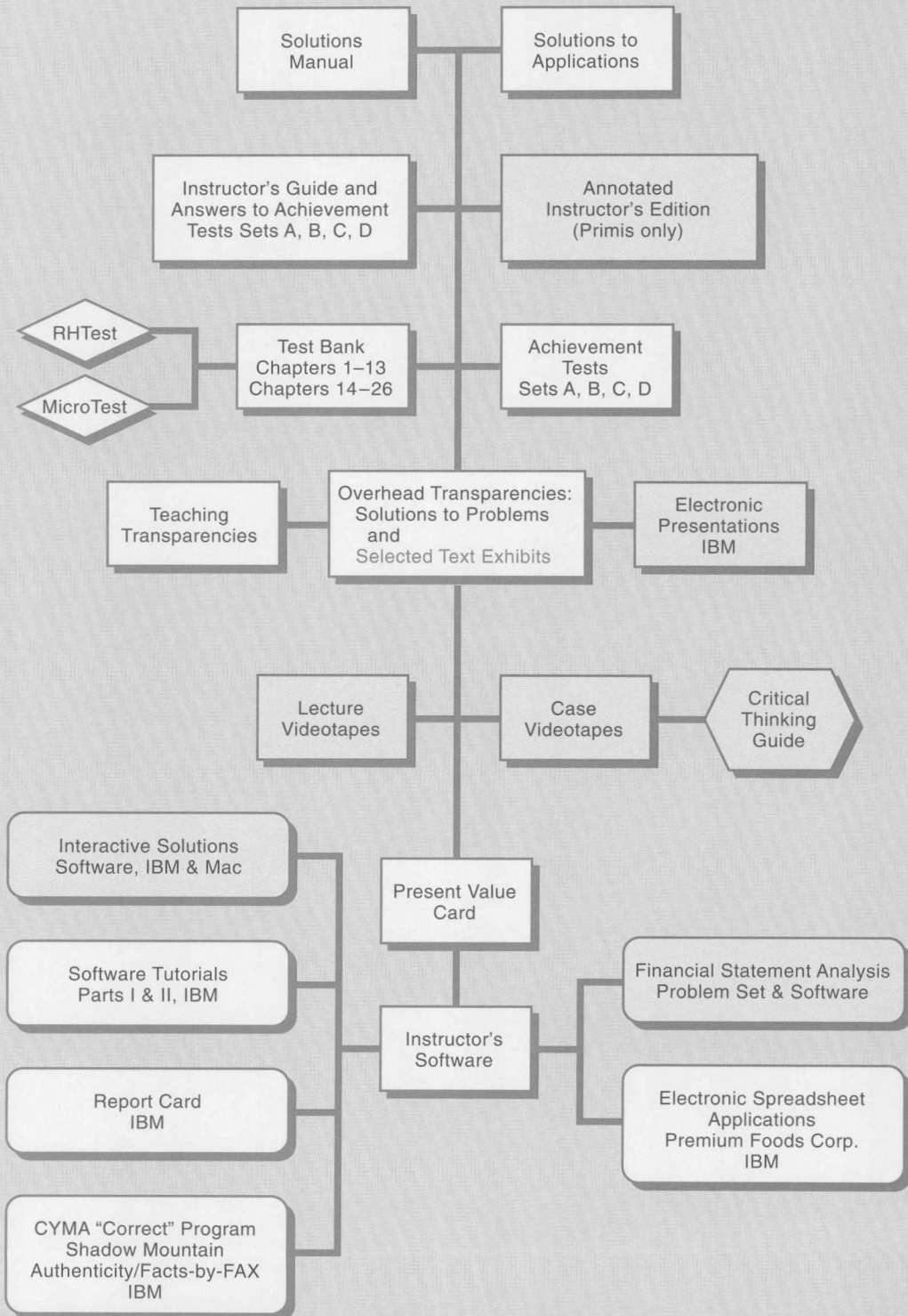
TEXTBOOK AND STUDENT SUPPLEMENTS

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SUPPLEMENTS FOR INSTRUCTORS

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Contents

Preface	xxi
Acknowledgments	xxix
Part 1 The Accounting Cycle	1
CHAPTER 1 Accounting: The Language of Business	3
WHAT IS ACCOUNTING?	4
The Purpose of Accounting	
THE FINANCIAL REPORTING PROCESS	6
Financial Statements ■ The Functions of an Accounting System ■ Internal Control ■ Audits of Financial Statements ■ Annual Reports ■ <i>CASE IN POINT</i> ■ Financial Reporting: A Multimedia Process ■ <i>CASE IN POINT</i> ■ The Use of Computers in Accounting Systems ■ The Distinction between Accounting and Bookkeeping	
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)	11
The Nature of Accounting Principles ■ Organizations Influencing Accounting Practice	
FINANCIAL STATEMENTS: THE STARTING POINT IN THE STUDY OF ACCOUNTING	14
The Balance Sheet ■ Assets ■ Liabilities ■ Owner's Equity ■ The Accounting Equation ■ Effects of Business Transactions upon the Balance Sheet ■ Effect of Business Transactions upon the Accounting Equation	
FORMS OF BUSINESS ORGANIZATIONS	25
Sole Proprietorships ■ Partnerships ■ Corporations ■ Reporting Ownership Equity in the Balance Sheet	
THE USE OF FINANCIAL STATEMENTS BY OUTSIDERS	27
<i>CASE IN POINT</i> ■ The Need for Adequate Disclosure ■ The Reliability of Financial Statements ■ Management's Interest in Financial Statements	
COMPETENCE, INTEGRITY, AND PROFESSIONAL JUDGMENT	30
*Supplemental Topic: Careers in Accounting	32
END-OF-CHAPTER REVIEW	36
Summary of Chapter Learning Objectives ■ Key Terms Introduced or Emphasized in Chapter 1 ■ Demonstration Problem for Your Review ■ Solution to Demonstration Problem ■ Self-Test Questions	
ASSIGNMENT MATERIAL	42
Discussion Questions ■ Exercises ■ Problems ■ Cases and Unstructured Problems ■ Answers to Self-Test Questions	
CHAPTER 2 Recording Changes in Financial Position	57
The Role of Accounting Records	
THE LEDGER	58
The Use of Ledger Accounts ■ Debit and Credit Entries ■ Double-Entry Accounting—The Equality of Debits and Credits ■ Recording Transactions in Ledger Accounts: Illustration ■ Running Balance Form of Accounts	

THE JOURNAL	67
Why Use a Journal? ■ The General Journal: Illustration of Entries ■ Posting	
THE TRIAL BALANCE	73
Uses and Limitations of the Trial Balance ■ Locating Errors ■ Some Tips on Record-Keeping Procedures	
THE ACCOUNTING CYCLE: AN INTRODUCTION	76
Manual and Computer-Based Systems: A Comparison	
JOURNALS, LEDGERS, AND ACCOUNTING EDUCATION	80
The Usefulness of Journals and Ledgers to Managers	
END-OF-CHAPTER REVIEW	81
Summary of Chapter Learning Objectives ■ Key Terms Introduced or Emphasized in Chapter 2 ■ Demonstration Problem for Your Review ■ Solution to Demonstration Problem ■ Self-Test Questions	
ASSIGNMENT MATERIAL	87
Discussion Questions ■ Exercises ■ Problems ■ Cases and Unstructured Problems ■ Answers to Self-Test Questions	
COMPREHENSIVE PROBLEM 1: Little Bear Railroad, Inc.	102
CHAPTER 3 Measuring Business Income	104
WHAT IS NET INCOME?	105
<i>CASE IN POINT</i> ■ The Income Statement: A Preview ■ <i>CASE IN POINT</i> ■ <i>CASE IN POINT</i> ■ Revenue ■ Expenses ■ Debit and Credit Rules for Revenue and Expense ■ Ledger Accounts for Revenue and Expenses ■ Investments and Withdrawals by the Owner ■ Recording Revenue and Expense Transactions: An Illustration ■ The Ledger ■ The Trial Balance	
ADJUSTING ENTRIES: THE NEXT STEP IN THE ACCOUNTING CYCLE	118
The Adjusted Trial Balance	
PREPARING A "SET" OF FINANCIAL STATEMENTS	121
The Income Statement ■ The Statement of Owner's Equity ■ The Balance Sheet ■ Relationship among the Financial Statements	
CLOSING THE TEMPORARY ACCOUNTS	124
Closing Entries for Revenue Accounts ■ Closing for Expense Accounts ■ Closing the Income Summary Account ■ Closing the Owner's Drawing Account ■ Summary of the Closing Process ■ After-Closing Trial Balance	
SEQUENCE OF PROCEDURES IN THE ACCOUNTING CYCLE	130
Accounting Procedures in a Computer-Based System ■ The Accrual Basis of Accounting ■ <i>CASE IN POINT</i> ■ The Usefulness of Revenue and Expense Data to Managers	
END-OF-CHAPTER REVIEW	133
Summary of Chapter Learning Objectives ■ Key Terms Introduced or Emphasized in Chapter 3 ■ Demonstration Problem for Your Review ■ Solution to Demonstration Problem ■ Self-Test Questions	
ASSIGNMENT MATERIAL	139
Discussion Questions ■ Exercises ■ Problems ■ Cases and Unstructured Problems ■ Answers to Self-Test Questions	