

Financial Accounting

A Basic Approach

Albert Slavin

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Cash	101	500.00
Capital stock	251	
To record the issuance of capital stock to John James, Joseph Hewes, and William Hooper; issued stock certificates numbered 1001, 1002, and 1003.		
Land	151	500.00
Building	152	250.00
Cash	101	
To record purchase of land and building for cash; issued check no. 1.		
Furniture	157	800.00
Accounts Payable	201	
To record purchase of furniture on account; suppliers invoice is dated May 1, 1981.		
Golden Company \$800.00		
Accounts Payable	201	500.00
Cash		
To record payment on account;		

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*To our wives
Beatrice, Dorothy, Maple
for their patience, understanding,
and inspiration*

Preface

Financial Accounting: A Basic Approach is a book designed for an undergraduate course or for the first accounting course in a graduate program. It is built on the assumption that the student has had no previous accounting education and little, if any, introduction to business. Thus, every effort has been made to provide thorough and simple explanations and illustrations of financial accounting concepts and procedures.

Today's student is surrounded by media output regarding the corporate form of business. The first actual financial reports encountered are likely to be corporate annual reports, so the corporate approach is emphasized in this book. Beginning with Chapter 1, enough corporate accounting concepts are provided to allow that form of business to be used throughout the entire book. The opening four chapters, however, also present the procedures applicable to the single proprietorship. The text material is up to date with the current Financial Accounting Standards Board and Securities and Exchange Commission pronouncements and contains frequent references to authoritative sources.

General Organization of the Book

The book is organized into four parts with sixteen chapters. Certain material that some instructors prefer to omit is appended to the major parts. Other topics of a shorter nature that some instructors consider optional in the basic financial course are appended to chapters. There are three major appendixes to the book: (A) Special Journals, (B) Valuation Concepts, and (C) a reproduction of an actual set of corporate financial statements, complete with footnotes. Compound interest and present value tables are located inside the front and back covers for ready reference.

Each chapter follows a standard format so that users will know where to look for specific items. Learning goals are provided at the beginning of each chapter. Within each chapter are one or more demonstration problems, with solutions, a

chapter glossary, questions, exercises, and problems. The four major parts of the book are described below.

**Part One—
Basic
Concepts and
Methodology:
Service and
Merchandising
Business
(Chapters 1–5)**

In Part One, the basic accounting model is developed. It is corporate oriented, but procedures applicable to proprietorships are included in separate sections of Chapters 1–4. Because the student will need to understand certain generally accepted accounting standards, a short appendix to Chapter 3 explains such basic principles as consistency, materiality, and matching of expenses and revenues. (Later, in Chapter 11, in-depth coverage of accounting standards and authoritative bodies is presented—at a point where the student is better prepared to handle it.)

Appendix A in the back of the book covers special journals. It can be taught as a part of Part One or can be omitted without disturbing the continuity of the other material.

**Part Two—
Income
Measurement
and Valuation
Issues
(Chapters
6–11)**

Part Two begins and ends with a unique feature: Chapter 6 is probably the most thorough discussion of compound interest techniques found in any first-year book, and Chapter 11 is probably the most thorough presentation of authoritative accounting bodies. The voucher system and payroll procedures are appended to Chapter 7, “Control of Cash,” and can be taught at the discretion of the instructor. In Chapter 8, current payables and receivables are combined so that the student can study the many common features of each. Contrary to tradition, payables are presented first because they provide a better opportunity for the student to obtain a good understanding of credit relationships. Inventory procedures include coverage of both the periodic and perpetual systems, but the estimating procedures are presented in an appendix to the inventory chapter.

**Part Three—
Sources and
Uses of
Capital
(Chapters
12–14)**

In Part Three, an in-depth study of corporate equity and debt structures is presented. Because of the related nature of the material, Chapter 14 (which discusses short-term and long-term investments) is included in this part.

As an appendix to Part Three, a complete discussion of partnership accounting is provided. It can be omitted without disturbing continuity.

**Part Four—
Financial
Reporting:
Analysis and
Interpretive
Issues
Chapters
15–16)**

In Part Four, the statement of changes in financial position is explained using the T-account approach. Disclosure in accounting statements incorporates current authoritative pronouncements and includes various types of analysis techniques.

**Special
Features of
This Book**

Financial Accounting: A Basic Approach contains many features that will enhance the teaching of accounting to students who have had limited business experience:

1. Learning goals at the beginning of each chapter are listed. The student is informed about the major concepts to understand.
2. Every key term is defined in the chapter and in the glossary at the end of each chapter.
3. The T form of ledger account is emphasized throughout the book; the debit-credit-balance form is illustrated for subsidiary ledgers.
4. The totality of accounting is emphasized in the early chapters. This should enable the student to see the big picture while learning specific techniques and relationships.
5. Many of the key concepts are highlighted for easy recognition.
6. A wealth of teaching diagrams and flowcharts is contained in the book.
7. Some optional topics are placed as appendixes to chapters and to sections. Any of the appendixes can be omitted with no loss of continuity.
8. End-of-chapter material includes a wealth of questions, exercises, and problems for in-class or out-of-class assignments. The exercises and problems are of three kinds: (a) brief, single-concept exercises, one for each concept presented in each chapter; (b) longer, integrative problems, and (c) case-type problems requiring decisions by people acting as administrators, owners, and investors.
9. The coverage of financial topics is thorough and complete. Illustrations are fully explained.
10. In both text and end-of-chapter material, a specific effort is made to move from the simple and easy to the more complex in a gradual way.
11. Frequent reference is made to pronouncements of the FASB, APB, and other authoritative bodies.
12. The following section, entitled "For the Student," includes hints and suggestions on how to study accounting. Students should read this material carefully.

For the Student

Why Study Accounting?

A group of accounting educators joined together in 1971 to study the approach to teaching the introductory college courses in accounting. This group was sponsored by a national accounting firm, Price Waterhouse and Company. Its report said: "The purpose of accounting is to provide information that is useful in decision making affecting resource allocation . . . at all levels in society."¹ Each of us must make financial decisions daily. Those decisions will be much better if the person who makes them understands how the information upon which he or she relies was developed. In business and in personal transactions, the person with a knowledge of accounting will have a distinct advantage.

Another reason to study accounting is that many persons work directly in that field. They may record purchases and sales, compute payrolls, or obtain cost and expense information in business firms. Others may work in not-for-profit organizations or in government. Some work as accountants; others work at tasks involving sales, production management, personnel, and many other functions. They all need record systems to show how the organization's money is used, and they need to be able to read and understand financial reports.

Many persons work in public accounting. Some keep records for organizations that are too small to afford their own accounting departments. Others perform a function known as *auditing*, which involves an independent review of the financial records of an organization. Public accountants also perform management services such as designing accounting systems or helping businesses prepare their tax returns.

Practically everybody must use accounting information in their personal and business lives. Chapter 1 gives some examples of people not in accounting jobs who depend upon accounting information. These persons need to know how to interpret the information that is available to them. If they understand account-

1. *A New Introduction to Accounting: Report of the Study Group on Introductory Accounting* (New York: Price Waterhouse, 1971), p. 11.

ing, their interpretations will be more likely to lead to sound choices among the many possible courses of action open to them.

How to Study Accounting

As in any course or program, a good start is of the utmost importance. Habits of regular, systematic work, developed early and based on a planned time schedule, form the foundation for efficient study habits. Because each succeeding lesson in accounting builds upon prior work, complete preparation for each class is of great importance.

Use of the Textbook

Assignments in the text can be best read by first scanning the material to acquire a general idea of the contents. The material should then be studied carefully, with particular attention devoted to difficult portions. Such portions should be reread until they are understood. Special attention should be given to charts, diagrams, and model forms and statements. Headings, indentions, and captions should be observed carefully, and the origin or derivation of all amounts should be determined. Ample marginal notations and underscoring will highlight the significant data for later review, class discussion, and examinations. A set of symbols to indicate reactions to the material should be developed.

Self-Study Guide

The *Self-Study Guide* has been developed especially for this textbook. Its chapters should be read after thorough study of the textbook chapter. If it is used exactly as its design intends, it should be a great help in determining whether important ideas and concepts in the chapter are understood.

Answering Questions and Problems

In answering questions and problems, it is most important to read them with great care so as to assimilate the facts and, particularly, the requirements. Most accounting problems require some kind of schedule, statement, exhibit, work sheet, journal entry, or T account. Statements should always include a heading that gives the name of the business, the name of the statement, and the date or period covered. Solutions should be neat and uncrowded, with ample space between questions and problems. Care should be given to regularity of margins, indentions, rulings, and neatness of erasures. Scratch paper work also should be neat and methodical to facilitate the review and rechecking of the problem solution. All computations should be checked either exactly or by approximation. Totals and balances should not be copied directly from a text or examination sheet. Computed totals and balances should be derived and then compared with the source material for similarity. Answers to essay-type questions should be based on logical reasoning and should be expressed in acceptable form with regard to sentence structure, grammatical correctness, spelling, and punctuation.

If a problem allows for two or more solutions, an assumption should be made and the problem should be solved on the basis of that assumption. If time permits, alternative solutions should be furnished to correspond with alternative

assumptions. This is especially desirable if the problem is intentionally vague or, because of its content, is open to several possible interpretations. The main purpose of homework problems and exercises is to achieve practice in applying concepts from the chapter. The correct answer, while important, is not the primary aim. It is the “hands on” experience that comes only from putting concepts to use that is most effective in the learning process. However, corrected problems can be used effectively in preparing for examinations. It is therefore helpful to rework problems and then to compare the reworked solutions with the original corrected solutions. Solved problems should be filed systematically for future use.

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Contents

Part One Basic Concepts and Methodology: Service and Merchandising Businesses

Chapter 1 The Nature and Function of Accounting

Introduction	2
Learning Goals	2
Definition of Accounting	3
History of Accounting	4
Who Uses Accounting Information?	6
What Accountants Do	8
Relation of Accounting to Other Disciplines	8
The Entity Concept	9
Assets	10
Equities: Liabilities and Owners' Equity	10
Forms of Business Organization	11
The Accounting Equation	17
The Balance Sheet	18
Need for Classification in a Financial Statement	20
Relationship of Financial Statements	24
Demonstration Problem with Solution	24
Glossary of Key Terms	25
Questions	27
Exercises	27
Problems	29

Chapter 2 The Development of the Basic Accounting Model

Introduction	32
Learning Goals	32

Objective Evidence—The Business Document	32
Transactions of the Jamestown Realty Corporation	33
Expansion of the Accounting Equation	38
Division of Each Accounting Page into Columns—Creation of Accounts	39
Tools of Accounting	42
A Simple Accounting System	44
A Demonstration Problem with Explanations—	
The Accounting Sequence for the Jamestown Realty Corporation	46
Procedures Applicable for a Single Proprietorship	53
Glossary of Key Terms	54
Questions	54
Exercises	55
Problems	60

Chapter 3

The Basic Accounting Model: Operating and Earnings Withdrawal Measurements

Introduction	69
Learning Goals	69
Three-Amount-Column Form of Ledger Account	70
Recording Changes in Stockholders' Equity	70
The General Ledger and Subsidiary Ledgers	75
An Overview of the Accounting Sequence	78
A Demonstration Problem with Explanations—	
Roadrunner Repair Shop	78
Statement of Retained Earnings with Beginning Balance	
Procedures Applicable to a Single Proprietorship	95
The Accounting System—A Review	99
Appendix: Accounting Standards	100
Glossary of Key Terms	103
Questions	104
Exercises	105
Problems	110

Chapter 4

The Basic Accounting Model: Completion of the Accounting Cycle

Introduction	117
Learning Goals	117
Part A: End-of-Period Adjusting Entries	118
The Accounting Bases	118
An Overview of Five Types of Adjustments	119
Demonstration Problem—The Franklin Delivery Company	121
Short-Term Cost Apportionments	123
Short-Term Revenue Apportionment—Adjustment of Unearned Rent	126
Long-Term Cost Apportionments	127
Accrued Revenues	130
Accrued Expenses	131
Application of the Materiality Concept to Adjustments	134
Part B: Completion of the Accounting Cycle	135

The Work Sheet	135
Preparation of Financial Statements from the Work Sheet	139
Updating of Accounts after Preparation of the Work Sheet	141
The Postclosing Trial Balance	144
Subsequent Period Entries Related to Accruals	146
The Accounting Cycle—A Review	148
Procedures Applicable to a Single Proprietorship	150
Glossary of Key Terms	150
Questions	152
Exercises	152
Problems	156

Chapter 5 Merchandising: Measuring and Reporting the Results of Operations

Introduction	165
Learning Goals	165
Net Sales Revenue	166
Cost of Goods Sold	167
Gross Margin on Sales	171
Functions of the Merchandise Accounts	171
The Operating Expense Accounts	173
Net Operating Margin	174
Other Revenue and Other Expenses	174
Work Sheet for a Merchandising Business	176
Closing Entries	178
Management Control—The Exception Principle	179
Trade Discounts	182
Demonstration Problem with Solution	183
Glossary of Key Terms	186
Questions	187
Exercises	188
Problems	191

Part Two Income Measurement and Valuation Issues

Chapter 6 Simple and Compound Interest

Introduction	198
Learning Goals	198
Simple Interest versus Compound Interest	199
Compound Interest Techniques	200
Demonstration Problem with Solution	204
Demonstration Problem with Solution	208
Demonstration Problem with Solutions	213
Demonstration Problem with Solutions	218
Glossary of Key Terms	221

Questions	221
Exercises	222
Problems	224

Chapter 7

Control of Cash

Introduction	228
Learning Goals	228
Internal Control	229
Cash Control	229
The Bank Statement	232
Reconciliation Procedure	234
Cash Forecasts	239
Demonstration Problem with Solution	242
Appendix 1: The Voucher System	244
Introduction	244
Learning Goals	244
The Voucher	245
The Voucher Register	245
The Check Register	246
Control of Unpaid Vouchers	246
Elimination of the Accounts Payable Ledger	247
Advantages and Limitations of the Voucher System	247
Appendix 2: Payroll Procedures	247
Introduction	247
Learning Goals	248
Payroll Deductions	248
Social Security Act and Payroll Deductions	248
Federal Income Tax Withholding	248
Federal Insurance Contributions Act	250
Federal Medicare Program	250
Federal Unemployment Tax Act	250
State Unemployment Compensation Tax	250
Other Deductions	251
Wage Bases and Tax Rates	251
Recording the Payroll	251
Recording the Employer's Payroll Tax Expense	253
Accrual of Salaries and Wages	254
Fair Labor Standards Act	254
Managerial Control of Payroll	255
Glossary of Key Terms	255
Questions	256
Exercises	257
Problems	261

Chapter 8

Current Payables and Receivables

Introduction	268
Learning Goals	268
Part A: Review of Current Liabilities	269

Definition	269
Valuation	269
A Brief Overview	270
Part B: Promissory Notes	271
Maturity Date of Notes	272
Time at Interest	273
Notes Payable: Short-Term Financing	274
Notes Receivable	279
Part C: Accounts Receivable	287
Sources:	287
Bad Debts Expense	287
Valuation Accounts for Returns and Allowances and Cash Discounts	296
Credit Card Fees	296
Opposite Balances in Accounts Receivable and Accounts Payable	297
Internal Control: Accounts Receivable	298
Demonstration Problem with Solution	298
Glossary of Key Terms	300
Questions	302
Exercises	303
Problems	305

Chapter 9 Measurement and Control of Inventory

Introduction	310
Learning Goals	310
Basis of Inventory Valuation: Cost	310
Two Inventory Systems	311
Periodic Inventory	312
Perpetual Inventory	315
Two Systems Compared and Analyzed	318
Accounting for a Perpetual Inventory System	320
Lower of Cost or Market (LCM)	321
Consistency in the Application of Inventory Valuation Procedures	322
The Effect of Inventory Errors	323
Demonstration Problem with Solution	324
Appendix: Estimation of Inventory Valuation	326
Gross Margin Method	326
Retail Method	328
Glossary of Key Terms	329
Questions	330
Exercises	330
Problems	332

Chapter 10 Long-Lived Assets

Introduction	338
Learning Goals	338
Definition of Terms	338
Valuation of Plant and Equipment	339
Depreciation of Plant Items	340

Guidelines for Depreciation Methods	347
Capital and Revenue Expenditures	348
Disposal of Plant and Equipment	349
Changing of Depreciation Charges	354
Depletion of Wasting Assets	355
Intangible Assets	356
Financial Statement Disclosure	359
Demonstration Problem with Solution	359
Glossary of Key Terms	360
Questions	361
Exercises	362
Problems	364

Chapter 11 The Establishment of Accounting Standards

Introduction	368
Learning Goals	368
Authoritative Bodies	369
On the International Scene	378
Standards, Objectives, and Practices	379
Financial Statements Illustrated	379
Demonstration Problem with Solution	383
Glossary of Key Terms	383
Questions	385
Exercises	385
Problems	388

Part Three Sources and Uses of Capital

Chapter 12 Accounting for Corporate Equity

Introduction	392
Learning Goals	392
Part A: Paid-In Capital	393
Sources of Capital	393
Recording Capital Stock Transactions	397
Part B: Retained Earnings	400
Retained Earnings—Restricted or Appropriated	400
Dividends	401
Part C: Treasury Stock and Other Corporate Issues	408
Treasury Stock	408
Book Value of Capital Stock	410
Earnings Per Share (EPS)	411
Taxation of Income	413
Stockholders' Equity	413
Demonstration Problem with Solution	415

Glossary of Key Terms	417
Questions	419
Exercises	420
Problems	423

Chapter 13 Long-Term Liabilities

Introduction	428
Learning Goals	428
Bonds Payable	428
Classification of Bonds	429
Bonds Compared to Capital Stock	432
The Bond Issue	434
Retirement and Refunding of Bonds Payable	448
Other Bond Issues	450
Mortgages Payable	450
Long-Term Unsecured Notes Payable	451
Demonstration Problem with Solution	452
Glossary of Key Terms	454
Questions	455
Exercises	456
Problems	459

Chapter 14 Short-Term and Long-Term Investments

Introduction	465
Learning Goals	465
Temporary Investments	465
Long-Term Investments in Stocks and Bonds	473
Accounting for Investments in Stocks	473
Accounting for Investments in Bonds	479
Other Long-Term Investment Items	490
Demonstration Problem with Solution	491
Glossary of Key Terms	493
Questions	495
Exercises	495
Problems	499

Appendix to Accounting for Partnerships **Part Three**

Introduction	503
Learning Goals	503
Accounting Methods for Partnerships	503
Admission of a New Partner	507
Liquidation of a Partnership	509
Demonstration Problem with Solution	512
Glossary of Key Terms	515
Questions	515