

HORNGREN & HARRISON ACCOUNTING

CLASS TESTED
FOR
ACCURACY



ACCOUNTING

Charles T. Horngren

Stanford University

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For our wives, Joan and Nancy



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ACCOUNTING

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The Class-Test Edition

To ensure that we have delivered to you a completely error-free text, we extended the development process of **Accounting** and established the *Prentice Hall Class-Testing Program*. Over sixty community colleges and universities—listed below—participated. Instructors at these educational institutions taught their students from our limited first printing of **Accounting**. *Each chapter* of **Accounting** has been thoroughly checked by your colleagues and their students. Any errors found by instructors or students and sent to Prentice Hall have been corrected in this second printing—the *Class-Test Edition*. Copies of the limited first printing have been destroyed. We guarantee that all orders placed for Fall 1989 classes have been filled with copies of the *Class-Test Edition* of **Accounting**.

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West Virginia State College

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The Business Context of **ACCOUNTING**

To enhance our presentation of accounting, we set out to create a business context for the student. As accounting educators, we know that students benefit from perceiving accounting as more than mere numbers set apart from the rest of their lives and education. We have constructed this business context in two ways.

(1) As often as possible, we have integrated real-world companies and their data into our text and assignment material. Students reading about companies familiar to them find the material more interesting and also develop a deeper appreciation for accounting's importance in today's business world. We have not used boxes to set aside this real-world material. Our references to the world of business are woven into our text narrative.

(2) When information drawn from real companies would be too advanced for introductory students, we have illustrated the accounting point at hand by using realistic examples, building a framework of relevance that makes learning the topic more inviting for the student.

The following list presents only a sampling of how our narrative creates a business context in Chapter 1, *Accounting and Its Environment*, and Chapter 22, *Manufacturing Accounting and Job Order Costing*. These two chapters contain many other realistic business examples. We invite readers to examine these two chapters and other chapters to see how we incorporate the world of business throughout the entire book.

Chapter 1

p.1. A student's decision about which college to attend depends in part on accounting information, including the costs and benefits of various education choices.

p. 2. Investors and creditors use accounting information reported in *The Wall Street Journal*, *Business Week*, *Forbes*, and *Fortune*.

p. 4. Private accountants may work for a local department store, the McDonald's restaurant chain, or the Eastman Kodak Company.

p. 5. Price Waterhouse estimated that it took 630,720 hours—72 years of nonstop work—to complete one audit.

p. 7. Procter & Gamble and General Electric are leaders in budgeting. Motorola, Bank of America, and 3M Company have internal auditors.

p. 9. To illustrate the entity concept, the income from Mazzio's personal business dealings is distinguished from his pizzeria's operations.

p. 12. Gary Lyon, CPA, is introduced. His accounting practice is used to illustrate proprietorships throughout Chapters 1 through 4.

p. 20. Campus Apartment Locators, owned by Jill Smith, is the subject of a *Summary Problem for Your Review*, which asks students to record transactions and prepare financial statements.

p. 25. In Exercise 1-2, students use the accounting equation to analyze the first month's events for the medical practice of Gloria Hill, M.D.

p. 26. Exercise 1-5 uses the business of Fadal Travel Agency to focus on income statement preparation.

p. 27. Stevens Interiors in Problem 1-1A provides the data with which students analyze transactions and prepare financial statements.

p. 28. In Problem 1-2A, Zane Jones, attorney, opens up his own law office. Students are tested on the entity concept, transaction analysis, and the accounting equation using his business.

p. 36. The *Decision Problem* centers on whether to loan money to Butler Department Store or to Nielsen Home Decorators.

p. 37. The *Financial Statement Problem* requires students to turn to the actual balance sheet of Gulf+Western Inc., which appears in Appendix C, and asks them to write the accounting equation at October 31, 1987. Many chapters feature a *Financial Statement Problem*, which ties the chapter's topic directly to Gulf+Western's actual financial statements.

Chapter 22

p. 855. The Sportster, a merchandiser, specializes in athletic shoes. How do we account for the companies—Nike, Reebok, Adidas—that manufacture the shoes The Sportster sells? The process of converting materials—cloth, rubber, and plastic for athletic shoes—into finished products makes it more difficult to measure a manufacturer's inventory cost than The Sportster's inventory cost.

p. 856. Nike managers, using cost data, may learn that the company is losing money on children's shoes and decide to drop that product line.

p. 857. *Raw materials* for Bethlehem Steel include iron ore, coal, and chemicals. . . . For a petroleum refiner, *work in process* is the crude oil being distilled into gasoline. . . . Procter & Gamble manufactures soap and toothpaste, which it sells as *finished goods* to K mart and other stores.

p. 858. For General Motors, *direct labor* is the pay to employees who work on production lines manufacturing automobiles. The efforts of these persons can be traced directly to finished goods.

p. 863. Ramirez Furniture Company produces recliner chairs for sale to Macy's in New York City. This example looks in detail at the costs of the lumber, padding, upholstery fabric, nails, thread, and other materials, plus the labor and overhead costs, incurred in manufacturing a job order of 10 recliners. As materials, labor, and overhead are added, the text builds the job cost record sequentially, ending in the complete document on p. 872.

p. 885. In Problem 22-3A, students prepare Stride-Rite's statement of cost of goods manufactured for their brown leather Top-Sider shoe. They also compute cost of goods sold and cost of materials purchased.

p. 886. In Problem 22-5A, students prepare a job cost record for the Maxell Magnetic Tape Company, which manufactures diskettes.

p. 894. MultiMedia, Inc., is experimenting with a new laser technology for manufacturing telephones. The goal is to lower product cost and selling price in the hope of capturing a larger market share. The *Decision Problem* directs students to compare cost per unit at present to expected unit cost using the new technology to decide whether to proceed with the new process.

p. 895. In the *Financial Statement Problem*, students use the Gulf+Western financial statements and related notes to identify specific jobs, direct materials, direct labor, and overhead cost of the company. Also, students determine how much Gulf+Western could afford to pay former President Reagan to star in a movie about this presidency and still earn a target net income.

Preface

Accounting provides full introductory coverage of both financial and management accounting. We have written the book for use throughout a two-semester or three-quarter sequence of accounting courses.

In content and emphasis, instructors will find that **Accounting** is in the mainstream for courses in introductory accounting. This book focuses on the most widely used accounting theory and practice. This text and its supplements supply the most effective tools available for learning fundamental accounting concepts and procedures.

Clarity and Accuracy

Two themes have directed our writing of this text—*clarity* and *accuracy*. We believe that we have produced the clearest prose, learning objectives, exhibits, definitions, and assignment material for courses in principles of accounting. Students will find this book easy to study. We have assumed that students have no previous education in accounting or business.

The contributions of technical reviewers, general reviewers, and class testers and their students have guided us in writing an accurate text. We and the publishers have sought input on our work from an unprecedented number of accounting educators and students in order to publish a book that meets your strict demands for accuracy.

Distinctive Features

Accounting offers many features that make this text special and superior.

1. **Accounting** has more—and better—exercises and problems than the leading competitors. Exercises and problems tie directly with the text in terminology, setup, and difficulty level. They progress from simple to complex, from short to long.
2. The emphasis on real-world examples promotes student interest.
3. The four-color design enlivens and eases learning. A strong program of visual features—exhibits and tables—helps reinforce the text. Note that the two-tone beige color in exhibits denotes financial statements. The green color in exhibits is used with ledgers, journals, work sheets, and the like. The learning objectives appear with a purple tint at the chapter's opening and in the text. Key headings appear in blue.
4. An up-to-the-minute chapter on the statement of cash flows, Chapter 18, presents a framework for understanding both the concepts and procedures underlying the statement and its preparation.

5. A separate chapter, Chapter 28, provides a thorough introduction to computers as they apply to accounting, including discussion of general ledger software programs, spreadsheets, and Lotus 1-2-3. The chapter offers students hands-on instruction in the preparation of accounting documents. In addition, the text addresses the role of computers in accounting within appropriate chapters. For example, Chapter 9, Merchandise Inventory, and Chapter 21, Cost-Volume-Profit Relationships and the Contribution Margin Approach to Decision Making, contain discussions of the role of the computer in those accounting areas.
6. Management accounting chapters follow an improved, more logical order. Chapter 20 begins our study of management accounting by explaining how budgets are prepared. Chapter 21 introduces a model of cost-volume-profit relationships, an important planning tool of managers. Our first two chapters on management accounting are confined to nonmanufacturing organizations. In this way, we can explore two major tools (budgets and the cost-volume-profit model) without contending with the many new terms associated with manufacturing organizations. Chapters 22 and 23 describe manufacturing accounting systems. Chapters 24, 25, and 26 pursue management accounting tools in more depth. We want students to recognize that management accounting applies to all kinds of organizations, not just to manufacturing companies.
7. Appendix A: Mathematical Presentations, presents the mathematical operations essential to accounting. Students may refer to this appendix to refresh their knowledge of necessary math skills.
8. Appendix B: Reversing Entries, offers instructors the opportunity to teach reversing entries. This appendix is presented in a standard text chapter format, complete with learning objectives and assignment material.

Chapter Organization

1. Each chapter begins with *Learning Objectives*, which also appear in the margin, keyed to the relevant chapter material.
2. Most chapters offer two *Summary Problems for Your Review*. Each *Summary Problem* includes its fully worked-out solution. These features, which generally appear at the halfway point and at the end of each chapter, provide students with immediate feedback and serve as key review aids.
3. Each chapter presents three important tools for student review. A text *Summary* recaps the chapter discussion. *Self-Study Questions* allow students to test their understanding of the chapter. The text that supports the answer is referenced by page number, and the answers appear on the last page of the chapter. *Accounting Vocabulary* presents the key terms introduced in the chapter, referenced by page number. A complete Glossary, also with terms keyed by page number, appears at the end of the book.
4. *Assignment Material* is more varied and plentiful than in competing texts. *Questions* (covering the major definitions, concepts, and procedures) may be assigned as homework or used to promote in-class discussion. **Accounting** has more exercises and more problems than the competitors. *Exercises*, identified by topic area, cover the full spectrum of the chapter text. These "short problems" allow instructors to cover a wide range of topics in a limited time. *Problems*, also identified by topic area, come in A and B sets. The two sets allow instructors to vary assignments from term to term and to solve the A or B problem in class and assign the related problem for homework. Those exercises and problems that can be solved using the Lotus® 1-2-3 or Microsoft Excel templates are designated by a computer disk.



5. Each chapter presents a *Decision Problem*, which helps students to develop critical thinking skills. Analysis, interpretation, and determining a course of action are ordinarily required.
6. Most chapters feature a *Financial Statement Problem*. In these problems, the chapter's subject matter is directly linked to the actual financial statements of Gulf+Western Inc., which appears in Appendix C. As students progress through the course, they will grow increasingly comfortable with the real-world financial report of a large company.

The Supplements Package _____

We have a far-reaching, highly developed package of teaching and learning tools to supplement the text. A team of twenty-seven contributors, five editors, five coordinators, and dozens of reviewers devoted hundreds of hours to perfecting the supplements. The coordinators are professional accounting teachers who worked with the contributors and editors to ensure maximum instructional value, accuracy, and consistency with the text and within the supplements package. All of the supplements are uniquely useful, and fuller descriptions of them are available in the *Annotated Instructor's Edition* and from the publisher's representatives.

Resources for the Instructor _____

Annotated Instructor's Edition

Solutions Manuals (Volume I, Chapters 1–13 and Appendix B; Volume II, Chapters 12–28)

Test Bank and Achievement Tests

Prentice Hall Test Generator Version 3.0

Telephone Test-Preparation Service

Solutions & Teaching Transparencies

Electronic Transparencies

Instructor's Resource Package

Resources for the Student _____

Study Guide with Demonstration and Practice Problems (Volume I, Chapters 1–13; Volume II, Chapters 12–28)

Working Papers (Volume I, Chapters 1–13; Volume II, Chapters 12–28)

Videos

Manual and Computerized Practice Sets

Software Packages

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