

会计学
影印系列

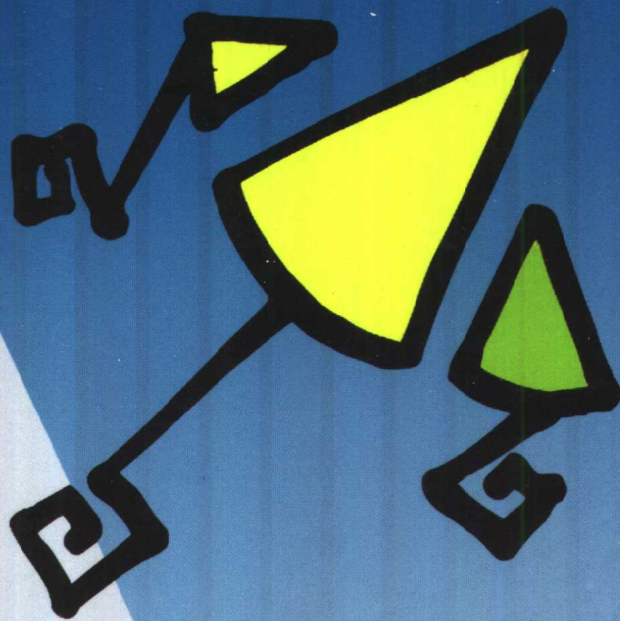
Accounting *Principles*

会计学原理

第6版

[美] 韦安特(Weygandt) 基索(Kieso)

金梅尔(Kimmel)/著



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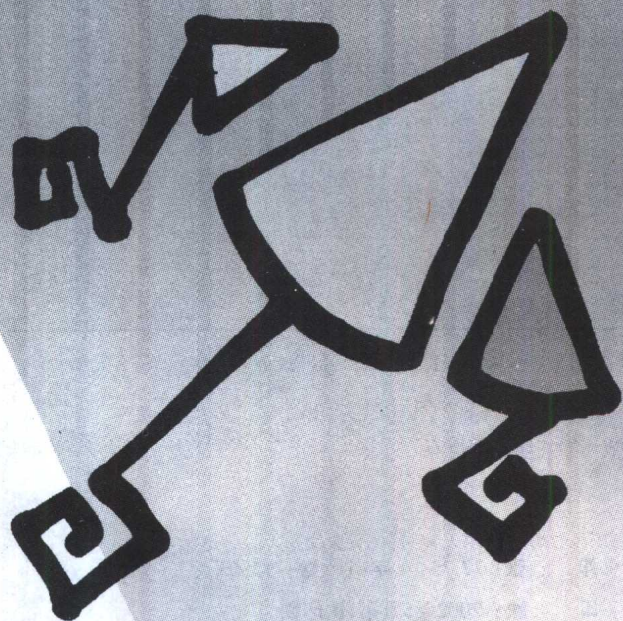
Accounting Principles

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会计学原理 (第6版)

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序

随着世界经济一体化进程的加快，会计信息作为国际通用商业语言的功能越来越强化。在中国加入WTO之后，中国经济正以更快的速度融入世界经济大潮之中。与此相适应，中国的会计标准必将进一步向国际标准靠拢。举世公认，由于多方面的原因，在会计标准国际化的过程中，美国的公认会计准则（GAAP）是最具影响力的。因此，更多地了解美国的GAAP，对于推动我国会计改革的进一步深化，加速中国会计标准的国际化，具有很重要的意义。在此背景下，中信出版社引进美国著名出版社出版的有重大影响的英文原版会计教科书，是一件很有意义的事情。

这套英文教科书，内容全面，架构完备，既包括基本的会计学原理、财务会计和管理会计，也包括高层次的专题会计、财务报告和报表分析。其中，《会计学原理》、《财务会计》、《管理会计》和《中级会计》的作者均是美国久负盛名的会计学教授，无论杰利·J.韦安特博士、唐纳德·E.基索博士，还是保罗·D.金梅尔博士、特里·D.沃菲尔德博士，在美国会计学界都具有重大影响和权威性。他们都是美国会计协会、美国注册会计师协会的成员，并曾服务于财务会计准则委员会（FASB）的重要部门，对于GAAP的修订及改革发展具有相当的影响。这些书是他们总结多年教学经验和专业研究经验精心编写而成，一经出版便备受瞩目和欢迎，并且已经成为美国高校会计教学中的必选书籍。尤其是

《中级会计》一书，自1965年首次出版，至今已出版到第10版，每个版本都受到热烈欢迎，目前的第10版不仅增加了光盘，更增加了网上相关辅导和练习，使其成为更加完善的教学用书。

另外，《高级会计》、《会计信息系统》、《国际会计与跨国企业》和《财务会计理论与分析》等书的作者也是颇具盛名的专家权威，这些作者既有多年教学经验，又有长期实际从业经验，其编写的书籍既适合普通高校会计专业本科生学习，也适用于广大实际工作者，其中《财务会计》(*Financial Accounting*)一书特别适合非会计专业的读者了解美国会计。

我衷心祝愿这套英文教科书的出版，能给广大读者带来便利。

戴德明

2002年5月8日于中国人民大学宜园

S TUDENT OWNER'S MANUAL

STUDENT TO STUDENT

Greetings!

Congratulations on your decision to take on one of the most challenging and satisfying courses offered . . . Accounting. As your semester progresses, I am sure that you will have a very good understanding of the accounting field and all that it involves. To help you through your class, here are some tips that I used to achieve academic success:

- **Read ahead!** Before going over a chapter in the classroom, take the time to read over the chapter so that while the professor is introducing the material you will already have an understanding of the objectives. Start with the *Concepts for Review*, the *Feature Story*, the *Study Objectives*, and the *Preview*; they will help you focus on the main points of the chapter. Then, as you read the chapter and follow the examples, you will be able to comprehend the material by yourself.
- **Review!** Once your instructor has presented the chapter material in class, be sure to re-read the chapter, concentrating on any areas that seem confusing. Look at the *Study Objectives* in the margins again and do the *Before You Go On* exercises to check whether you have understood and learned the material in each section. Look closely at the *Demonstration Problems* and answer the *Self-Study Questions* at the end of the chapter.
- **Do the homework!** I cannot over-stress the importance of doing the problems. The problems at the end of each chapter are the best way to gauge your understanding of the chapter material. If you can answer the problems in the chapter with confidence, you will be confident with the material.
- **Use a highlighter!** This textbook belongs to you, and if you are planning a career in business you will want to keep this book for reference material. Highlighting any material you feel is important in the chapter, or any material you are struggling with, will help you concentrate on those areas when you come back to the chapter review.
- **Stay current!** Accounting is a course where you build a foundation, and subsequent lessons stand on that foundation. Do not allow yourself to fall behind. Staying current with the lessons being taught in class is a crucial key to success in the course.

I hope that you will find these tips helpful and that your experience in accounting will be as rewarding as my own.

I wish you success,

Robert H. McNamara

Robert H. McNamara
Suffolk County Community College

HOW TO USE THE STUDY AIDS IN THIS BOOK

THE RECORDING PROCESS

THE NAVIGATOR ✓

- Understand *Concepts for Review*
- Read *Feature Story*
- Scan *Study Objectives*
- Read *Preview*
- Read text and answer *Before You Go On*
p. 49 p. 52 p. 62 p. 66
- Work *Demonstration Problem*
- Review *Summary of Study Objectives*
- Answer *Self Study Questions*
- Complete *Assignments*

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.

The Feature Story helps you picture how the chapter topic relates to the real world of accounting and business. Throughout the chapter, references to the Feature Story will help you put new ideas in context, organize them, and remember them. The problem called **A Look Back at Our Feature Story** toward the end of the chapter helps you pull together the ideas learned in the chapter. Many Feature Stories end with the URL of the company cited in the story.

CONCEPTS FOR REVIEW

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

- a. What are assets, liabilities, owner's capital, owner's drawings, revenues, and expenses. (Ch. 1, pp. 13–14)
- b. Why assets equal liabilities plus owner's equity. (Ch. 1, p. 12)
- c. What transactions are and how they affect the basic accounting equation. (Ch. 1, pp. 15–20)

THE NAVIGATOR

Concepts for Review, listed at the beginning of each chapter, 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.

FEATURE STORY

No Such Thing As a Perfect World

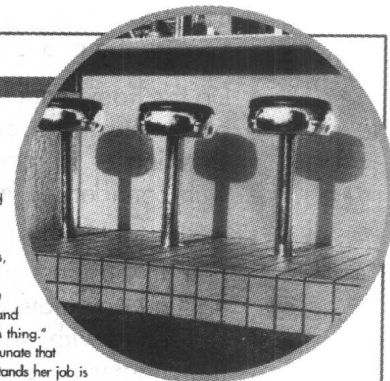
When she got a job doing the accounting for Forster's Restaurants, Tanis Anderson had almost finished her business administration degree at Simon Fraser University. But even after Tanis completed her degree requirements, her education still continued—this time, in the real world.

Tanis's responsibilities include paying the bills, tracking food and labor costs, and managing the payroll for *The Mug and Musket*, a popular destination restaurant in Surrey, British Columbia. "My title is Director of Finance," she laughs, "but really that means I take care of whatever needs doing!"

The use of judgment is a big part of the job. As Tanis says, "I learned all the fundamentals in my business classes, but school prepares you for a perfect world, and there is no such thing."

She feels fortunate that her boss understands her job is a learning experience as well as a responsibility. "Sometimes he's let me do something he knew perfectly well was a mistake so I can learn something through experience," she admits.

To help others gain the benefits of her real-world learning, Tanis is



always happy to help students in the area who want to use Forster's as the subject of a project or report. "It's the least I can do," she says.

THE NAVIGATOR

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

STUDY OBJECTIVES

After studying this chapter, you should be able to:

1. Explain what an account is and how it helps in the recording process.
2. Define debits and credits and explain how they are used to record business transactions.
3. Identify the basic steps in the recording process.
4. Explain what a journal is and how it helps in the recording process.
5. Explain what a ledger is and how it helps in the recording process.
6. Explain what posting is and how it helps in the recording process.
7. Prepare a trial balance and explain its purposes.

THE NAVIGATOR

The Preview begins by 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 narrative and visual preview gives you a mental framework upon which to arrange the new information you are learning.

PREVIEW OF CHAPTER 2

In Chapter 1, we analyzed business transactions in terms of the accounting equation. The cumulative effects of these transactions were presented in tabular form. Imagine a restaurant and gift shop such as The Mug and Musket using the same tabular format as Sofbyte to keep track of every one of its transactions. In a single day, this restaurant and gift shop engages in hundreds of business transactions. To record each transaction this way would be impractical, expensive, and unnecessary. Instead, a set of procedures and records are used to keep track of transaction data more easily.

This chapter introduces and illustrates these basic procedures and records. The content and organization of Chapter 2 are as follows.

The Account	Steps in the Recording Process	The Recording Process Illustrated	The Trial Balance
• Debits and credits • Expansion of basic equation	• Journal • Ledger	• Summary illustration of journalizing and posting	• Limitations of a trial balance • Locating errors • Use of dollar signs

THE NAVIGATOR

A CD icon at various places throughout the book refers you to the CD that came with your textbook. On the CD, you will find further discussion and examples, an Accounting Cycle Tutorial, additional Demonstration Problems, Self-Tests, and Key Term Matching Activities to help you study, and additional real-world cases.

THE ACCOUNT

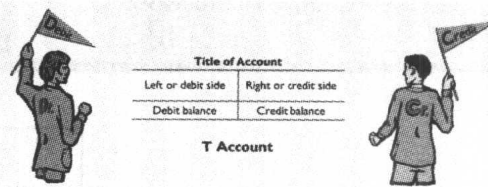
STUDY OBJECTIVE 1

Explain what an account is and how it helps in the recording process.

Accounting Cycle Tutorial—The Recording Process

Illustration 2-1
Basic form of account

An *account* is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item. For example, Sofbyte (the company discussed in Chapter 1) would have separate accounts for Cash, Accounts Receivable, Accounts Payable, Service Revenue, Salaries Expense, and so on. In its simplest form, an account consists of three parts: (1) the title of the account, (2) a left or debit side, and (3) a right or credit side. Because the alignment of these parts of an account resembles the letter T, it is referred to as a *T account*. The basic form of an account is shown in Illustration 2-1.



THE LEDGER

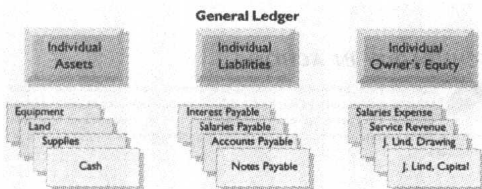
The entire group of accounts maintained by a company is called the *ledger*. The ledger keeps in one place all the information about changes in specific account balances.

Companies may use various kinds of ledgers, but every company has a general ledger. A *general ledger* contains all the assets, liabilities, and owner's equity accounts, as shown in Illustration 2-15. A business can use a looseleaf binder or card file for the ledger. Each account is kept on a separate sheet or card. Whenever we use the term ledger in this textbook without a modifying adjective, we mean the general ledger.

STUDY OBJECTIVE 5

Explain what a ledger is and how it helps in the recording process.

Illustration 2-15
The general ledger



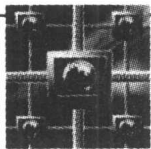
The ledger should be arranged in the order in which accounts are presented in the financial statements, beginning with the balance sheet accounts. First in order are the asset accounts, followed by liability accounts, owner's capital, owner's drawing, revenues, and expenses. Each account is numbered for easier identification.

The ledger provides management with the balances in various accounts. For example, the Cash account shows the amount of cash that is available to meet current obligations. Amounts due from customers can be found by examining Accounts Receivable, and amounts owed to creditors can be found by examining Accounts Payable.

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

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

ACCOUNTING IN ACTION  *e-Business Insight*



E-business is having a tremendous impact on how companies share information within the company, and with people outside the company, such as suppliers, creditors, and investors. A new type of software, Extensible Markup Language (XML), is enabling the creation of a universal way to exchange data. An organization called XBRL.org is using XML to develop an internationally accepted framework called the Extensible Business Reporting Model (XBRL). The organization is comprised of representatives from industry, accounting firms, investment houses, bankers, regulators, and others. The goal of this organization is to establish a framework that "the global business information supply chain will use to create, exchange, and analyze financial reporting information including, but not limited to, regulatory filings such as annual and quarterly financial statements, general ledger information, and audit schedules."

Accounting in Action boxes give you more glimpses into the real world of business. These high-interest boxes are classified by three types of issues—business, ethics, and international—each identified by its own icon. New in this edition, **e-Business Insights** describe how e-business technology is expanding the services provided by accountants.

Before You Go On sections follow each key topic. *Review It* questions prompt you to stop and review the key points you have just studied. If you cannot answer these questions, you should go back and read the section again.

Review It questions marked with the **Lands' End** icon ask you to find information in Lands' End's 2000 Annual Report, which is packaged with this text and excerpted in Appendix A at the end of the text.

Brief *Do It* exercises ask you to put your newly acquired knowledge to work. They outline an **Action Plan** necessary to complete the exercise, and the accompanying **Solution** helps you see how the problem should be solved. (The *Do It* exercises are keyed to similar homework exercises.)

BEFORE YOU GO ON...

REVIEW IT

1. What is the primary criticism of the direct write-off method?
2. Explain the difference between the percentage of sales and the percentage of receivables methods.
3. **Lands' End** has a generous customer return policy. What accounting treatment does Lands' End use for customer returns? (*Hint:* Review Lands' End's notes.) The answer to this question is provided on page 396.



DO IT

Brule Co. has been in business 5 years. The ledger at the end of the current year shows: Accounts Receivable \$30,000, Sales \$180,000, and Allowance for Doubtful Accounts with a debit balance of \$2,000. Bad debts are estimated to be 10% of receivables. Prepare the entry to adjust the Allowance for Doubtful Accounts.

ACTION PLAN

- Report receivables at their cash (net) realizable value.
- Estimate the amount the company does not expect to collect.
- Consider the existing balance in the allowance account when using the percentage of receivables basis.

SOLUTION

The following entry should be made to bring the balance in the Allowance for Doubtful Accounts up to a balance of \$3,000 (0.1 × \$30,000):

	5,000	
Bad Debts Expense		
Allowance for Doubtful Accounts		5,000
<i>(To record estimate of uncollectible accounts)</i>		

Related exercise material: BE9-3, BE9-4, BE9-5, BE9-6, BE9-7, E9-2, E9-3, and E9-4



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

Technology in Action boxes show how computers are used by accountants and by users of accounting information.

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

The Recording Process



Analyze each transaction



Enter transaction in a journal



Transfer journal information to ledger accounts

Illustration 2-12
The recording process

Technology in Action examples show how computer technology is used in accounting and business.



STUDY OBJECTIVE 4

Explain what a journal is and how it helps in the recording process.

The basic steps in the recording process occur repeatedly. The analysis of transactions was illustrated in Chapter 1. Further examples will be given in this and later chapters. The other steps in the recording process are explained in the next sections.

TECHNOLOGY IN ACTION

Computerized and manual accounting systems basically parallel one another. Most of the procedures are handled by electronic circuitry in computerized systems. They seem to occur invisibly. But, to fully comprehend how computerized systems operate, you need to understand manual approaches for processing accounting data.

THE JOURNAL

Transactions are initially recorded in chronological order in a journal before being transferred to the accounts. Thus, the journal is referred to as the book of original entry. For each transaction the journal shows the debit and credit effects on specific accounts. Companies may use various kinds of journals, but every company has the most basic form of journal, a **general journal**. Typically, a general journal has spaces for dates, account titles and explanations, references, and two amount columns. Whenever we use the term journal in this textbook without a

The Basics of Adjusting Entries 101

revenues. In fact, an accrued expense on the books of one company is an accrued revenue to another company. For example, the \$200 accrual of fees by Pioneer is an accrued expense to the client that received the service.

Adjustments for accrued expenses are needed for two purposes: (1) to record the obligations that exist at the balance sheet date, and (2) to recognize the expenses that apply to the current accounting period. Prior to adjustment, both liabilities and expenses are understated. Thus, **the adjusting entry for accrued expenses results in a debit (increase) to an expense account and a credit (increase) to a liability account.**

ACCRUED INTEREST. Pioneer Advertising Agency signed a \$5,000, 3-month note payable on October 1. The note requires interest at an annual rate of 12%. The amount of the interest accumulation is determined by three factors: (1) the face value of the note, (2) the interest rate, which is always expressed as an annual rate, and (3) the length of time the note is outstanding. In this instance, the total interest due on the \$5,000 note at its due date 3 months hence is \$150 (\$5,000 × 12% × 3/12), or \$50 for one month. The formula for computing interest and its application to Pioneer Advertising Agency for the month of October² are shown in Illustration 3-12. Note that the time period is expressed as a fraction of a year.

HELPFUL HINT
Interest is a cost of borrowing money that accumulates with the passage of time.

Face Value of Note	x	Annual Interest Rate	x	Time in Terms of One Year	=	Interest
\$5,000	x	12%	x	1/12	=	\$50

Illustration 3-12
Formula for computing interest

The accrued expense adjusting entry at October 31 is:

Oct. 31	Interest Expense		50		
	Interest Payable			50	
	(To record interest on notes payable)				

$$A = L + OE$$

$$+50 = +50 -50$$

After this adjusting entry is posted, the accounts show:

Interest Expense			Interest Payable		
10/31	Adj.	50	10/31	Adj.	50

Illustration 3-13
Interest accounts after adjustment

Interest Expense shows the interest charges for the month. The amount of interest owed at the statement date is shown in Interest Payable. It will not be paid until the note comes due at the end of 3 months. The Interest Payable account is used instead of crediting (increasing) Notes Payable. The reason for using the two accounts is to disclose the two types of obligations (interest and principal) in the accounts and statements. **If this adjusting entry is not made, liabilities and interest**

Helpful Hints in the margins are like having an instructor with you as you read. They further clarify concepts being discussed.

Accounting equation analyses have been inserted in the margin next to key journal entries. They help you understand the impact of an accounting transaction on the financial statements.

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.



DELTA AIR LINES, INC.
Balance Sheet (partial)
(in millions)

Property, plant, and equipment			
Flight equipment	\$9,619		
Less: Accumulated depreciation	3,510	\$6,109	
Ground property and equipment	3,032		
Less: Accumulated depreciation	1,758	1,274	\$7,383

Illustration 4-20
Property, plant, and equipment section

Intangible Assets

Intangible assets are noncurrent resources that do not have physical substance. They are recorded at cost, and this cost is expensed over the useful life of the intangible asset. Intangible assets include patents, copyrights, and trademarks or

For example, **Lands' End** reported in its 2000 Annual Report a beginning inventory of \$219,686,000, and cost of goods sold for the year ended January 28, 2000, of \$727,291,000. The inventory turnover formula and computation for Lands' End are shown below.

Illustration 6-28
Inventory turnover formula and computation for Lands' End



Cost of Goods Sold	+	Average Inventory	=	Inventory Turnover
\$727,291,000	+	$\frac{\$219,686,000 + \$162,193,000}{2}$	=	3.8 times

A variant of the inventory turnover ratio is the **average days to sell inventory**. For example, the inventory turnover for Lands' End of 3.8 times divided into 365 is approximately 96 days. This is the approximate age of the inventory.

There are typical levels of inventory in every industry. Companies that are able to keep their inventory at lower levels and higher turnovers and still satisfy customer needs are the most successful.

One technique for determining the meaning of the information on financial statements is **ratio analysis**. Throughout this text, you will analyze key financial ratios using data from Lands' End's financial statements. (Also, Chapter 19 addresses the topic of financial statement analysis in detail.)

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

BEFORE YOU GO ON...

REVIEW IT

1. What is a trial balance and what is its primary purpose?
2. How is a trial balance prepared?
3. What are the limitations of a trial balance?

LOOK BACK AT OUR FEATURE STORY

Refer back to the Feature Story about **The Mug and Masket** at the beginning of the chapter, and answer the following questions.

1. What accounting entries would Tanis likely make to record (a) the receipt of cash from a customer in payment of their bill, (b) payment of a utility bill, and (c) payment of wages for the waiters?
2. How did Tanis's job as Director of Finance help in her studies as she finished her business administration degree?

SOLUTION

1. Tanis would likely make the following entries.
 - (a) Cash
Food Sales Revenue
(Receipt of payment for food services)
 - (b) Utility Expense
Cash
(Payment of electric bill)
 - (c) Salaries (or Wages) Expense
Cash
(Paid waiters' wages)
2. As a result of her accounting position, Tanis was able to relate the subject matter as well as much of the assignment material in her business courses to a real-world context. From her job, she knew how bills were paid, how supplies were determined, how employees were hired, managed, evaluated, and paid.



Demonstration Problem 67



Additional Demonstration Problem

DEMONSTRATION PROBLEM

Bob Sample opened the Campus Laundromat on September 1, 2002. During the first month of operations the following transactions occurred.

1. Invested \$20,000 cash in the business.
2. Paid \$1,000 cash for store rent for the month of September.
3. Purchased washers and dryers for \$25,000, paying \$10,000 in cash and signing a \$15,000, 6-month, 12% note payable.
4. Paid \$1,200 for one-year accident insurance policy.
10. Received bill from the *Daily News* for advertising the opening of the laundromat \$200.
20. Withdrew \$700 cash for personal use.
30. Determined that cash receipts for laundry services for the month were \$6,200.

The chart of accounts for the company is the same as in Pioneer Advertising Agency except for the following: No. 154 Laundry Equipment and No. 610 Advertising Expense.

Instructions

- (a) Journalize the September transactions. (Use J1 for the journal page number.)
- (b) Open ledger accounts and post the September transactions.
- (c) Prepare a trial balance at September 30, 2002.

SOLUTION TO DEMONSTRATION PROBLEM

(a) GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2002 Sept. 1	Cash	101	20,000		
	Bob Sample, Capital	301		20,000	
	(Owner's investment of cash in business)				
2	Rent Expense	729	1,000		
	Cash	101		1,000	
	(Paid September rent)				
3	Laundry Equipment	154	25,000		
	Cash	101		10,000	
	Notes Payable	209		15,000	
	(Purchased laundry equipment for cash and 6-month, 12% note payable)				
4	Prepaid Insurance	130	1,200		
	Cash	101		1,200	
	(Paid one-year insurance policy)				
10	Advertising Expense	610	200		
	Accounts Payable	201		200	
	(Received bill from <i>Daily News</i> for advertising)				
20	Bob Sample, Drawing	306	700		
	Cash	101		700	
	(Withdrew cash for personal use)				
30	Cash	101		6,200	
	Service Revenue	400	6,200		
	(Received cash for services provided)				

ACTION PLAN

- Make separate journal entries for each transaction.
- In journalizing, make sure debits equal credits.
- In journalizing, use specific account titles taken from the chart of accounts.
- Provide appropriate description of journal entry.
- Arrange ledger in statement order, beginning with the balance sheet accounts.
- Post in chronological order.
- Use numbers in the reference column to indicate the amount has been posted.
- In the trial balance, list accounts in the order in which they appear in the ledger.
- List debit balances in the left column, and credit balances in the right column.

Demonstration Problems review the chapter material. These sample problems provide you with **Action Plans** that list the strategies needed to solve the problem and with **Solutions**. The **CD icon** tells you there is an additional demonstration problem you can work through on the CD that came with your textbook.

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. The **CD icon** tells you that there is a Key Term Matching Activity on the CD that came with your textbook that will help you master the material.

SUMMARY OF STUDY OBJECTIVES

1. Explain what an account is and how it helps in the recording process. An account is a record of increases and decreases in specific asset, liability, and owner's equity items.
2. Define debits and credits and explain how they are used to record business transactions. The terms debit and credit are synonymous with left and right. Assets, drawings, and expenses are increased by debits and decreased by credits. Liabilities, owner's capital, and revenues are increased by credits and decreased by debits.
3. Identify the basic steps in the recording process. The basic steps in the recording process are (a) analyze each transaction in terms of its effects on the accounts, (b) enter the transaction information in a journal, (c) transfer the journal information to the appropriate accounts in the ledger.
4. Explain what a journal is and how it helps in the recording process. The initial accounting record of a transaction is entered in a journal before the data are entered in the accounts. A journal (a) discloses in one place the complete effects of a transaction, (b) provides a chronological record

- of transactions, and (c) prevents or locates errors because the debit and credit amounts for each entry can be readily compared.
5. Explain what a ledger is and how it helps in the recording process. The entire group of accounts maintained by a company is referred to as the ledger. The ledger keeps in one place all the information about changes in specific account balances.
 6. Explain what posting is and how it helps in the recording process. Posting is the procedure of transferring journal entries to the ledger accounts. This phase of the recording process accumulates the effects of journalized transactions in the individual accounts.
 7. Prepare a trial balance and explain its purposes. A trial balance is a list of accounts and their balances at a given time. Its primary purpose is to prove the equality of debits and credits after posting. A trial balance also uncovers errors in journalizing and posting and is useful in preparing financial statements.



Key Term Matching Activity

GLOSSARY

- Account** A record of increases and decreases in specific asset, liability, or owner's equity items. (p. 44)
- Chart of accounts** A list of accounts and the account numbers that identify their location in the ledger. (p. 56)
- Compound entry** A journal entry that involves three or more accounts. (p. 52)
- Credit** The right side of an account. (p. 45)
- Debit** The left side of an account. (p. 45)
- Double-entry system** A system that records in appropriate accounts the dual effect of each transaction. (p. 45)
- General journal** The most basic form of journal. (p. 50)
- General ledger** A ledger that contains all asset, liability, and owner's equity accounts. (p. 53)
- Journal** An accounting record in which transactions are initially recorded in chronological order. (p. 50)

- Journalizing** The entering of transaction data in the journal. (p. 50)
- Ledger** The entire group of accounts maintained by a company. (p. 53)
- Posting** The procedure of transferring journal entries to the ledger accounts. (p. 54)
- Simple entry** A journal entry that involves only two accounts. (p. 51)
- T account** The basic form of an account. (p. 44)
- Three-column form of account** A form with columns for debit, credit, and balance amounts in an account. (p. 54)
- Trial balance** A list of accounts and their balances at a given time. (p. 64)

Chapter 2 Self-Test

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- (ISO 2) 4. Accounts that normally have debit balances are:
- a. assets, expenses, and revenues.
 - b. assets, expenses, and owner's capital.
 - c. assets, liabilities, and owner's drawings.
 - d. assets, owner's drawings, and expenses.
- (ISO 3) 5. Which of the following is *not* part of the recording process?
- a. Analyzing transactions.
 - b. Preparing a trial balance.
 - c. Entering transactions in a journal.
 - d. Posting transactions.
- (ISO 4) 6. Which of the following statements about a journal is false?
- a. It is not a book of original entry.
 - b. It provides a chronological record of transactions.
 - c. It helps to locate errors because the debit and credit amounts for each entry can be readily compared.
 - d. It discloses in one place the complete effect of a transaction.
- (ISO 5) 7. A ledger:
- a. contains only asset and liability accounts.
 - b. should show accounts in alphabetical order.
 - c. is a collection of the entire group of accounts maintained by a company.
 - d. is a book of original entry.

- a. normal
 - b. transfer
 - c. is an d
 - d. transfer
9. A trial balance is a list of
 - a. proved
 - b. transfer
 - c. will not
 - d. proved
 10. A trial balance is a
 - a. correct
 - b. the purpose is to
 - c. a \$100
 - d. a \$450

SELF-STUDY QUESTIONS

Answers are at the end of the chapter.

- (ISO 1) 1. Which of the following statements about an account is true?
- a. In its simplest form, an account consists of two parts.
 - b. An account is an individual accounting record of increases and decreases in specific asset, liability, and owner's equity items.
 - c. There are separate accounts for specific assets and liabilities but only one account for owner's equity items.
 - d. The left side of an account is the credit or decrease side.

2. Debits:
- a. increase both assets and liabilities.
 - b. decrease both assets and liabilities.
 - c. increase assets and decrease liabilities.
 - d. decrease assets and increase liabilities.
3. A revenue account:
- a. is increased by debits.
 - b. is decreased by credits.
 - c. has a normal balance of a debit.
 - d. is increased by credits.

QUESTIONS

1. Describe the parts of a T account.
2. "The terms *debit* and *credit* mean increase and decrease, respectively." Do you agree? Explain.
3. José Amaro, a fellow student, contends that the double-entry system means each transaction must be recorded twice. Is José correct? Explain.
4. Teresa Alvarez, a beginning accounting student, believes debit balances are favorable and credit balances are unfavorable. Is Teresa correct? Discuss.
5. State the rules of debit and credit as applied to (a) asset accounts, (b) liability accounts, and (c) the owner's equity accounts (revenue, expenses, owner's drawing, and owner's capital).
6. What is the normal balance for each of the following accounts? (a) Accounts Receivable. (b) Cash. (c) Owner's Drawing. (d) Accounts Payable. (e) Service Revenue. (f) Salaries Expense. (g) Owner's Capital.
7. Indicate whether each of the following accounts is an asset, a liability, or an owner's equity account and whether it has a normal debit or credit balance: (a) Accounts Receivable, (b) Accounts Payable, (c) Equipment, (d) Owner's Drawing, (e) Supplies.
8. For the following transactions, indicate the account debited and the account credited.
 - (a) Supplies are purchased on account.
 - (b) Cash is received on signing a note payable.
 - (c) Employees are paid salaries in cash.
9. Indicate whether the following accounts generally will have (a) debit entries only, (b) credit entries only, or (c) both debit and credit entries.

- (1) Cash.
- (2) Accounts Receivable.
- (3) Owner's Drawing.
- (4) Accounts Payable.
- (5) Salaries Expense.
- (6) Service Revenue.
10. What are the basic steps in the recording process?
11. What are the advantages of using a journal in the recording process?
 - (a) When entering a transaction in the journal, should the debit or credit be written first?
 - (b) Which should be indented, the debit or credit?
12. Describe a compound entry, and provide an example.
13. (a) Should business transaction debits and credits be recorded directly in the ledger accounts?
 - (b) What are the advantages of first recording transactions in the journal and then posting to the ledger?
14. The account number is entered as the last step in posting the amounts from the journal to the ledger. What is the advantage of this step?
15. Journalize the following business transactions.
 - (a) Doris Wang invests \$9,000 cash in the business.
 - (b) Insurance of \$800 is paid for the year.
 - (c) Supplies of \$1,500 are purchased on account.
 - (d) Cash of \$7,500 is received for services rendered.
16. (a) What is a ledger?
 - (b) What is a chart of accounts and why is it important?
17. What is a trial balance and what are its purposes?
18. Kap Shin is confused about how accounting information flows through the accounting system. He believes the flow of information is as follows.
 - (a) Debits and credits posted to the ledger.
 - (b) Business transaction occurs.

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. The **CD icon** tells you that there is an additional Self-Test on the CD that came with your textbook to help you master the material.

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

- (c) Information entered in the journal.
 - (d) Financial statements are prepared.
 - (e) Trial balance is prepared.
- Is Kap correct? If not, indicate to Kap the proper flow of the information.
20. Two students are discussing the use of a trial balance. They wonder whether the following errors, each consid-

- ered separately, would prevent the trial balance from balancing.
- (a) The bookkeeper debited Cash for \$600 and credited Wages Expense for \$600 for payment of wages.
- (b) Cash collected on account was debited to Cash for \$900 and Service Revenue was credited for \$90. What would you tell them?

BRIEF EXERCISES

BE2-1 For each of the following accounts indicate the effects of (a) a debit and (b) a credit on the accounts and (c) the normal balance of the account.

1. Accounts Payable.
2. Advertising Expense.
3. Service Revenue.
4. Accounts Receivable.
5. B. C. Jardine, Capital.
6. B. C. Jardine, Drawing.

Indicate debit and credit effects and normal balance. (SO 2)

BE2-2 Transactions for the H. J. Oslo Company for the month of June are presented below. Identify the accounts to be debited and credited for each transaction.

Identify accounts to be debited and credited. (SO 2)

- June 1 H. J. Oslo invests \$3,000 cash in a small welding business of which he is the sole proprietor.
- 2 Purchases equipment on account for \$900.
- 3 \$800 cash is paid to landlord for June rent.
- 12 Bills J. Kronaoble \$300 for welding work done on account.

BE2-3 Using the data in BE2-2, journalize the transactions. (You may omit explanations.)

Journalize transactions. (SO 4)

BE2-4 Tige Shumway, a fellow student, is unclear about the basic steps in the recording process. Identify and briefly explain the steps in the order in which they occur.

Identify and explain steps in recording process. (SO 3)

BE2-5 J. A. Norris has the following transactions during August of the current year. Indicate (a) the effect on the accounting equation and (b) the debit-credit analysis illustrated on pages 57-61 of the text.

Indicate basic and debit-credit analysis. (SO 4)

- Aug. 1 Opens an office as a financial advisor, investing \$6,000 in cash.
- 4 Pays insurance in advance for 6 months \$1,800 cash.
- 16 Receives \$800 from clients for services rendered.
- 27 Pays secretary \$500 salary.

BE2-6 Using the data in BE2-5, journalize the transactions. (You may omit explanations.)

Journalize transactions. (SO 4)

BE2-7 Selected transactions for the Gonzales Company are presented in journal form below. Post the transactions to T accounts. Make one T account for each item and determine each account's ending balance.

Post journal entries to T accounts. (SO 6)

		J1		
Date	Account Titles and Explanation	Ref.	Debit	Credit
May 5	Accounts Receivable		5,000	
	Service Revenue			5,000
	(Billed for services provided)			
12	Cash		2,400	
	Accounts Receivable			2,400
	(Received cash in payment of account)			
15	Cash		2,000	
	Service Revenue			2,000
	(Received cash for services provided)			

Brief Exercises help you focus on one Study Objective at a time and thus help you build confidence in your basic skills and knowledge. A pencil icon in any of the end-of-chapter materials marks an exercise or problem that will help you practice business writing skills. (Keyed to Study Objectives.)

entries for the Gonzales Company are presented in BE2-7. Post the standard form of account.

per balances given below, prepare a trial balance for the P. J. Carland 002. List the accounts in the order shown on page 65 of the text. All ac-

mal.

\$7,000, Cash \$6,800, P. J. Carland, Capital \$20,000, P. J. Carland, Draw-

\$17,000, Service Revenue \$6,000, Accounts Receivable \$3,000, Salaries

ent Expense \$1,000.

nced bookkeeper prepared the following trial balance. Prepare a correct

all account balances are normal.

GOMEZ COMPANY Trial Balance December 31, 2002

	Debit	Credit
Cash	\$18,800	
Prepaid Insurance		\$ 3,500
Accounts Payable		3,000
Unearned Revenue	4,200	
P. Gomez, Capital		15,000
P. Gomez, Drawing		4,500
Service Revenue		25,600
Salaries Expense	18,600	
Rent Expense		2,400
	<u>\$41,600</u>	<u>\$54,000</u>

Exercises, which are more difficult than Brief Exercises, help you continue to build confidence in your ability to use the material learned in the chapter. (Keyed to Study Objectives.)

EXERCISES

Identify debits, credits, and normal balances. (SO 2)

E2-1 Selected transactions for A. Mane, an interior decorator, in her first month of business, are as follows.

- Jan. 2 Invested \$10,000 cash in business.
- 3 Purchased used car for \$4,000 cash for use in business.
- 9 Purchased supplies on account for \$500.
- 11 Billed customers \$1,800 for services performed.
- 16 Paid \$200 cash for advertising start of business.
- 20 Received \$700 cash from customers billed on January 11.
- 23 Paid creditor \$300 cash on account.
- 28 Withdrew \$1,000 cash for personal use of owner.

Instructions

For each transaction indicate the following.

- (a) The basic type of account debited and credited (asset, liability, owner's equity).
- (b) The specific account debited and credited (cash, rent expense, service revenue, etc.).
- (c) Whether the specific account is increased or decreased.
- (d) The normal balance of the specific account.

Use the following format, in which the January 2 transaction is given as an example.

Date	Account Debited				Account Credited			
	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance
Jan. 2	Asset	Cash	Increase	Debit	Owner's Equity	A. Mane, Capital	Increase	Credit

Accounts Receivable	\$ 8,642	Prepaid Insurance	\$ 1,988
Accounts Payable	8,396	Repair Expense	961
Cash	7	Service Revenue	10,610
Delivery Equipment	49,360	I. M. Tardy, Drawing	700
Gas and Oil Expense	758	I. M. Tardy, Capital	44,636
Insurance Expense	523	Salaries Expense	4,428
Notes Payable	21,450	Salaries Payable	815

Instructions
Prepare a trial balance with the accounts arranged as illustrated in the chapter and fill in the missing amount for Cash.

PROBLEMS: SET A

P2-1A Frontier Park was started on April 1 by C. J. Sanculi. The following selected events and transactions occurred during April.

- Apr. 1 Sanculi invested \$40,000 cash in the business.
- 4 Purchased land costing \$30,000 for cash.
- 8 Incurred advertising expense of \$1,800 on account.
- 11 Paid salaries to employees \$1,500.
- 12 Hired park manager at a salary of \$4,000 per month, effective May 1.

Journalize a series of transactions. (SO 2, 4)



Each Problem helps you pull together and apply several concepts from the chapter. Two sets of Problems—A and B—are keyed to the same Study Objectives and provide additional opportunities to apply concepts learned in the chapter.

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

Problems marked with the Peachtree icon can be worked using *Peachtree Complete® Accounting to Accompany Accounting Principles, Sixth Edition*. A separate student workbook that includes the newly released software is available for purchase.

Marginal check figures provide a key number part way through your problem solution, to help you know you're on the right track with your work.

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

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Trial balance totals \$26,630

Journalize transactions, post, and prepare a trial balance. (SO 2, 4, 6, 7)



Instructions

Prepare a correct trial balance. Note: The chart of accounts includes the following: T. Santos, Drawing, and Supplies. (*Hint:* It helps to prepare the correct journal entry for the transaction described and compare it to the mistake made.)

P2-5A The Lake Theater is owned by Avtar Sandhu. All facilities were completed on March 31. At this time, the ledger showed: No. 101 Cash \$6,000; No. 140 Land \$10,000; No. 145 Buildings (concession stand, projection room, ticket booth, and screen) \$8,000; No. 157 Equipment \$6,000; No. 201 Accounts Payable \$2,000; No. 275 Mortgage Payable \$8,000; and No. 301 Avtar Sandhu, Capital \$20,000. During April, the following events and transactions occurred.

- Apr. 2 Paid film rental of \$800 on first movie.
- 3 Ordered two additional films at \$500 each.
- 9 Received \$1,800 cash from admissions.
- 10 Made \$2,000 payment on mortgage and \$1,000 on accounts payable.
- 11 Lake Theater contracted with R. Thoms Company to operate the concession stand. Thoms is to pay 17% of gross concession receipts (payable monthly) for the right to operate the concession stand.
- 12 Paid advertising expenses \$300.
- 20 Received one of the films ordered on April 3 and was billed \$500. The film will be shown in April.
- 25 Received \$4,200 cash from admissions.
- 29 Paid salaries \$1,600.
- 30 Received statement from R. Thoms showing gross concession receipts of \$1,000 and the balance due to The Lake Theater of \$170 (\$1,000 × 17%) for April. Thoms paid one-half of the balance due and will remit the remainder on May 5.
- 30 Prepaid \$900 rental on special film to be run in May.

In addition to the accounts identified above, the chart of accounts shows: No. 112 Accounts Receivable, No. 136 Prepaid Rentals, No. 405 Admission Revenue, No. 406 Concession Revenue, No. 610 Advertising Expense, No. 632 Film Rental Expense, and No. 726 Salaries Expense.

Instructions

- (a) Enter the beginning balances in the ledger as of April 1. Insert a check mark (✓) in the reference column of the ledger for the beginning balance.
- (b) Journalize the April transactions.
- (c) Post the April journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.
- (d) Prepare a trial balance on April 30, 2002.

Trial Balance totals \$33,670

PROBLEMS: SET B

Journalize a series of transactions. (SO 2, 4)



P2-1B Surepar Miniature Golf and Driving Range was opened on March 1 by Jane McLunes. The following selected events and transactions occurred during March:

- Mar. 1 Invested \$50,000 cash in the business.
- 3 Purchased Lee's Golf Land for \$38,000 cash. The price consists of land \$23,000, building \$9,000, and equipment \$6,000. (Make one compound entry.)
- 5 Advertised the opening of the driving range and miniature golf course, paying

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Prepare a correct trial balance. (SO 7)



P2-4B The trial balance of Thom Wargo Co. shown below does not balance.

THOM WARGO CO.
Trial Balance
June 30, 2002

	Debit	Credit
Cash		\$ 3,840
Accounts Receivable	\$ 3,231	
Supplies	800	
Equipment	3,000	
Accounts Payable		2,666
Unearned Revenue	2,200	
T. Wargo, Capital		9,000
T. Wargo, Drawing	800	
Service Revenue		2,380
Salaries Expense	3,400	
Office Expense	910	
	\$14,341	\$17,886

Each of the listed accounts has a normal balance per the general ledger. An examination of the ledger and journal reveals the following errors.

- 1. Cash received from a customer on account was debited for \$570, and Accounts Receivable was credited for the same amount. The actual collection was for \$750.
- 2. The purchase of a typewriter on account for \$340 was recorded as a debit to Supplies for \$340 and a credit to Accounts Payable for \$340.
- 3. Services were performed on account for a client for \$890. Accounts Receivable was debited for \$890, and Service Revenue was credited for \$89.

(b) Trial balance \$16,900
 (c) Adjusted trial balance \$18,600
 (d) Net income \$4,200
 Total assets \$15,100
 (g) Post-closing trial balance \$15,300

- 25 Billed customers \$3,000 for cleaning services.
- 31 Paid gas and oil for month on truck \$200.
- 31 Withdrew \$900 cash for personal use.

The chart of accounts for Terry's Window Washing contains the following accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 128 Cleaning Supplies, No. 130 Prepaid Insurance, No. 157 Equipment, No. 158 Accumulated Depreciation—Equipment, No. 201 Accounts Payable, No. 212 Salaries Payable, No. 301 Terry Duffy, Capital, No. 306 Terry Duffy, Drawing, No. 350 Income Summary, No. 400 Service Revenue, No. 633 Gas & Oil Expense, No. 634 Cleaning Supplies Expense, No. 711 Depreciation Expense, No. 722 Insurance Expense, No. 726 Salaries Expense.

Instructions

- (a) Journalize and post the July transactions. Use page J1 for the journal and the three-column form of account.
- (b) Prepare a trial balance at July 31 on a work sheet.
- (c) Enter the following adjustments on the work sheet and complete the work sheet.
 - (1) Services provided but unbilled and uncollected at July 31 were \$1,100.
 - (2) Depreciation on equipment for the month was \$200.
 - (3) One-twelfth of the insurance expired.
 - (4) An inventory count shows \$600 of cleaning supplies on hand at July 31.
 - (5) Accrued but unpaid employee salaries were \$400.
- (d) Prepare the income statement and owner's equity statement for July and a classified balance sheet at July 31.
- (e) Journalize and post adjusting entries. Use page J2 for the journal.
- (f) Journalize and post closing entries and complete the closing process. Use page J3 for the journal.
- (g) Prepare a post-closing trial balance at July 31.

In selected chapters, a **Comprehensive Problem** follows the A and B Problem sets. The Comprehensive Problem pulls together and uses topics you have learned over several chapters.

COMPREHENSIVE PROBLEM: CHAPTERS 2 TO 4

Bill Murphy opened Bill's Window Washing on July 1, 2002. During July, the following transactions were completed.

- July 1 Invested \$10,000 cash in the business.
- 1 Purchased a used truck for \$8,000, paying \$3,000 cash and the balance on account.
- 3 Purchased cleaning supplies for \$800 on account.
- 5 Paid \$2,400 on a one-year insurance policy, effective July 1.
- 12 Billed customers \$3,500 for cleaning services.
- 18 Paid \$1,000 of amount owed on truck, and \$400 of amount owed on cleaning supplies.
- 20 Paid \$1,600 for employee salaries.
- 21 Collected \$1,400 from customer billed on July 12.

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- 3) Received statement from M. Brewer showing gross receipts from concessions of \$8,000 and the balance due to Sabo Theater of \$1,200 (\$8,000 × 15%) for March. Brewer paid one-half the balance due and will remit the remainder on April 5.
- 3) Received \$15,000 cash from admissions.

In addition to the accounts identified above, the chart of accounts includes: No. 112 Accounts Receivable, No. 405 Admission Revenue, No. 406 Concession Revenue, No. 610 Advertising Expense, No. 632 Film Rental Expense, and No. 726 Salaries Expense.

Instructions

- (a) Enter the beginning balances in the ledger. Insert a check mark (✓) in the reference column of the ledger for the beginning balance.
- (b) Journalize the March transactions.
- (c) Post the March journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.
- (d) Prepare a trial balance on March 31, 2002.

Trial balance totals \$118,900

BROADENING YOUR PERSPECTIVE

FINANCIAL REPORTING AND ANALYSIS

FINANCIAL REPORTING PROBLEM: Lands' End, Inc.

BYP2-1 The financial statements of **Lands' End, Inc.** are presented in Appendix A. The notes accompanying the statements contain the following selected accounts, stated in thousands of dollars.

Accounts Payable	\$ 74,510	Income Taxes Payable	\$ 10,255
Accounts Receivable	17,753	Interest Expense	1,890
Property, Plant, and Equipment	283,139	Inventory	162,193



Instructions

- (a) Answer the following questions.
 - (1) What is the increase and decrease side for each account?
 - (2) What is the normal balance for each account?
- (b) Identify the probable other account in the transaction and the effect on that account when:
 - (1) Accounts Receivable is decreased.
 - (2) Accounts Payable is decreased.
 - (3) Inventory is increased.
- (c) Identify the other account(s) that ordinarily would be involved when:
 - (1) Interest Expense is increased.
 - (2) Property, Plant, and Equipment is increased.

COMPARATIVE ANALYSIS PROBLEM: Lands' End vs. Abercrombie & Fitch

BYP2-2 Lands' End's financial statements are presented in Appendix A. Abercrombie & Fitch's financial statements are presented in Appendix B.

Instructions

- (a) Based on the information contained in the financial statements, determine the normal balance of the listed accounts for each company.

Lands' End	Abercrombie & Fitch
1. Inventory	1. Accounts Receivable
2. Property, Plant, and Equipment	2. Cash and Equivalents
3. Accounts Payable	3. Cost of Goods Sold
4. Interest Expense	4. Sales (revenue)



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

The **Financial Reporting Problem** directs you to study various aspects of the financial statements in Lands' End's 2000 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 Lands' End with that of a competitor, Abercrombie & Fitch, whose financial statements are excerpted in Appendix B.

INTERPRETING FINANCIAL STATEMENTS: A Global Focus

BYP2-3 Doman Industries Ltd., whose products are sold in 30 countries worldwide, is an integrated Canadian forest products company.

Doman sells the majority of its lumber products in the United States and a significant amount of its pulp products in Asia. Doman also has loans from other countries. For example, on June 18, 1999, the Company borrowed US\$160 million at an annual interest rate of 12%. Doman must repay this loan, and interest, in U.S. dollars.

One of the challenges global companies face is to make themselves attractive to investors from other countries. This is difficult to do when different accounting rules in different countries blur the real impact of earnings. For example, in 1998 Doman reported a loss of \$2.3 million, using Canadian accounting rules. Had it reported under U.S. accounting rules, its loss would have been \$12.1 million.

Many companies that want to be more easily compared with U.S. and other global competitors have switched to U.S. accounting principles. **Canadian National Railway, Corel, Cott, Inco,** and the **Thomson Corporation** are but a few examples of large Canadian companies whose financial statements are now presented in U.S. dollars, which adhere to U.S. GAAP, or are reconciled to U.S. GAAP.

Instructions

- (a) Identify advantages and disadvantages that companies should consider when switching to U.S. reporting standards.
- (b) Suppose you wish to compare Doman Industries to a U.S.-based competitor. Do you believe the use of country-specific accounting policies would hinder your comparison? If so, explain how.
- (c) Suppose you wish to compare Doman Industries to a Canadian-based competitor. If the companies chose to apply generally acceptable Canadian accounting policies differently, how could this affect your comparison of their financial results?
- (d) Do you see any significant distinction between comparing statements prepared using generally accepted accounting principles of different countries and comparing statements prepared using generally accepted accounting principles of the same country (e.g., U.S.) but that apply the principles differently?

EXPLORING THE WEB

BYP2-4 Much information about specific companies is available on the World Wide Web. Such information includes basic descriptions of the company's location, activities, industry, financial health, and financial performance.

Address: biz.yahoo.com (or go to www.wiley.com/college/weygandt)

Steps:

- 1. Type in a company name, or use index to find company name.
- 2. Choose **Profile**. Perform instructions (a)–(c) below.
- 3. Click on the company's specific industry to identify competitors. Perform instructions



Interpreting Financial Statements: A Global Focus asks you to apply concepts presented in the chapter to specific situations faced by actual foreign companies.

Exploring the Web exercises guide you to Internet sites where you can find and analyze information related to the chapter topic. The Internet sites referred to in the Exploring the Web exercises can be accessed directly, or by going through the textbook's Web site at www.wiley.com/college/weygandt. At the book's Web site you also can find many other valuable resources and activities, such as additional Internet exercises, Interactive Quizzing, and PowerPoint slides.

The **Group Decision Cases** require teams of students to evaluate a manager's decision or choose from among alternative courses of action. They help prepare you for the business world by giving you practice in solving problems with colleagues.

Communication Activities help you build business communication skills by asking 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, learn how to analyze such situations, and decide on an appropriate course of action.

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

Answers to Review It Questions based on the **Lands' End** financial statements provide feedback to your search for information in the **Lands' End Annual Report**.



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.

GROUP DECISION CASE

BYP2-5 Lucy Lars operates Lucy Lars Riding Academy. The academy's primary sources of revenue are riding fees and lesson fees, which are paid on a cash basis. Lucy also boards horses for owners, who are billed monthly for boarding fees. In a few cases, boarders pay in advance of expected use. For its revenue transactions, the academy maintains the following accounts: No. 1 Cash, No. 5 Boarding Accounts Receivable, No. 27 Unearned Boarding Revenue, No. 51 Riding Revenue, No. 52 Lesson Revenue, and No. 53 Boarding Revenue.

The academy owns 10 horses, a stable, a riding corral, riding equipment, and office equipment. These assets are accounted for in accounts No. 11 Horses, No. 12 Building, No. 13 Riding Corral, No. 14 Riding Equipment, and No. 15 Office Equipment.

For its expenses, the academy maintains the following accounts: No. 6 Hay and Feed Supplies, No. 7 Prepaid Insurance, No. 21 Accounts Payable, No. 60 Salaries Expense, No. 61 Advertising Expense, No. 62 Utilities Expense, No. 63 Veterinary Expense, No. 64 Hay and Feed Expense, and No. 65 Insurance Expense.

COMMUNICATION ACTIVITY

BYP2-6 Merlynn's Maid Company offers home cleaning service. Two recurring transactions for the company are billing customers for services rendered and paying employee salaries. For example, on March 15, bills totaling \$6,000 were sent to customers and \$2,000 was paid in salaries to employees.

Instructions

Write a memo to your instructor that explains and illustrates the steps in the recording process for each of the March 15 transactions. Use the format illustrated in the text under the heading, "The Recording Process Illustrated" (p. 57).

ETHICS CASE

BYP2-7 Megan Menard is the assistant chief accountant at Hoke Company, a manufacturer of computer chips and cellular phones. The company presently has total sales of \$20 million. It is the end of the first quarter. Megan is hurriedly trying to prepare a general ledger trial balance so that quarterly financial statements can be prepared and released to management and the regulatory agencies. The total credits on the trial balance exceed the debits by \$1,000. In order to meet the 4 p.m. deadline, Megan decides to force the debits and credits into balance by adding the amount of the difference to the Equipment account. She chose Equipment because it is one of the larger account balances; percentage-wise, it will be the least misstated. Megan "plugs" the difference! She believes that the difference will not affect anyone's decisions. She wishes that she had another few days to find the error but realizes that the financial statements are already late.

Instructions

- (a) Who are the stakeholders in this situation?
- (b) What are the ethical issues involved in this case?
- (c) What are Megan's alternatives?

Answers to Self-Study Questions

1. b 2. c 3. d 4. d 5. b 6. a 7. c 8. d 9. a 10. c

Answer to Lands' End Review It Question 4, p. 49

Cash—debit; Accounts Payable—credit; Interest Expense—debit.

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

HOW DO I LEARN BEST?



This questionnaire aims to find out something about your preferences for the way you work with information. You will have a preferred learning style and one part of that learning style is your preference for the intake and the output of ideas and information.

Circle the letter of the answer that best explains your preference. Circle more than one if a single answer does not match your perception. Leave blank any question that does not apply.

- You are about to give directions to a person who is standing with you. She is staying in a hotel in town and wants to visit your house later. She has a rental car. Would you
 - draw a map on paper?
 - tell her the directions?
 - write down the directions (without a map)?
 - pick her up at the hotel in your car?
- You are not sure whether a word should be spelled "dependent" or "dependant." Do you
 - look it up in the dictionary?
 - see the word in your mind and choose by the way it looks?
 - sound it out in your mind?
 - write both versions down on paper and choose one?
- You have just received a copy of your itinerary for a world trip. This is of interest to a friend. Would you
 - call her immediately and tell her about it?
 - send her a copy of the printed itinerary?
 - show her on a map of the world?
 - share what you plan to do at each place you visit?
- You are going to cook something as a special treat for your family. Do you
 - cook something familiar without the need for instructions?
 - thumb through the cookbook looking for ideas from the pictures?
 - refer to a specific cookbook where there is a good recipe?
- A group of tourists has been assigned to you to find out about wildlife reserves or parks. Would you
 - drive them to a wildlife reserve or park?
 - show them slides and photographs?
 - give them pamphlets or a book on wildlife reserves or parks?
 - give them a talk on wildlife reserves or parks?
- You are about to purchase a new CD player. Other than price, what would most influence your decision?
 - The salesperson telling you what you want to know.
 - Reading the details about it.
 - Playing with the controls and listening to it.
 - Its fashionable and upscale appearance.
- 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
 - visual clues — pictures, diagrams, charts?
 - written instructions?
 - listening to somebody explaining it?
 - doing it or trying it?
- You have an eye problem. Would you prefer that the doctor
 - tell you what is wrong?
 - show you a diagram of what is wrong?
 - use a model to show what is wrong?
- You are about to learn to use a new program on a computer. Would you
 - sit down at the keyboard and begin to experiment with the program's features?
 - read the manual that comes with the program?
 - call a friend and ask questions about it?
- 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
 - draw you a map on paper?
 - tell you the directions?
 - write down the directions (without a map)?
 - pick you up at the hotel in their car?
- Apart from price, what would most influence your decision to buy a particular book?
 - You have used a copy before.
 - A friend talking about it.
 - Quickly reading parts of it.
 - The appealing way it looks.
- A new movie has arrived in town. What would most influence your decision to go (or not go)?
 - You heard a radio review about it.
 - You read a review about it.
 - You saw a preview of it.
- Do you prefer a lecturer or teacher who likes to use
 - a textbook, handouts, readings?
 - flow diagrams, charts, graphs?
 - field trips, labs, practical sessions?
 - discussion, guest speakers?

Count your choices:

a.	b.	c.	d.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
V	A	R	K

Now match the letter or letters you have recorded most to the same letter or letters in the Learning Styles Chart. You may have more than one learning style preference—many people do. Next to each letter in the chart are suggestions that will refer you to different learning aids throughout this text.

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