

College Accounting

A Practical Approach



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Chapters 1–25

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To my best friends: Bernie and Fejjie



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Preface

NEW TO THIS EDITION

- Inventory coverage has been changed to the perpetual method to reflect the current business practice most students will encounter in the workplace. However, the text does offer a comprehensive discussion of the periodic method in a chapter appendix.
- Updated discussion of the revenue recognition principle for the newly released standard.
- New Computer Workshops for QuickBooks and Sage 50 (formerly Peachtree) give students an opportunity to practice in real-world applications.
- New American Institute of Professional Bookkeeping (AIPB) boxes: Students can get a glimpse into what it takes to be a successful certified bookkeeper with this feature found throughout the text. The Instructor Resource page will also include information on how to expand your bookkeeping program, including sample course offerings, to prepare students for both career readiness and the AIPB certifying exam.
- New discussions of modern accounting techniques and tools bring accounting practice into the 21st century while still focusing on building basic skills and background knowledge so students can critically understand their practice.
- Updated Chapter Introductions as well as updated end-of-chapter exercise and problem material.
- Updated formatting for the chapter Try Its to give students real-time feedback on their attempts.
- New Success Tip format in every chapter to assist with student learning and retention.
- Revised Chapter Learning Objectives to more easily tie to individual course student learning objectives.

SAMPLE OF CHAPTER-SPECIFIC CHANGES

- **Chapter 1:** Accounting Concepts and Procedures
 - New chapter scenarios for a better illustration of accounting in action.
 - Updated chapterwide continuing demonstration problems.
- **Chapter 4:** The Accounting Cycle Continued
 - New appendix on depreciation to help beginning accounting students in mastering the concept.
- **Chapter 6:** Banking Procedures and Control of Cash
 - A fresh update on how technology is changing the banking and finance functions including a look at some fast-developing innovations like Bitcoin.
- **Chapter 7:** Calculating Pay and Recording Payroll Taxes
 - Revisions that provide a more concise and effective explanation of the payroll process. The tables, figures, and rates have been updated to the 2017 rates. New examples provide an easier path for student learning.
- **Chapter 8:** Paying the Payroll, Depositing Payroll Taxes, and Filing the Required Quarterly and Annual Tax Forms
 - New forms that reflect the current procedures and rates as well as a more efficient approach in the presentation of material, with the goal of enhancing student understanding by easier access to the concepts.
- **Chapters 9–12:** Sales, Purchases, Merchandise Transactions, and Completion of the Accounting Cycle for a Merchandise Company

XX PREFACE

- All of these chapters have been extensively revised to reflect the Perpetual Method of Inventory Valuation. As this is the method that is most commonly in place in today's business environment, it is important that students be introduced to this concept as early as possible in their accounting education.
- To help instructors and students maintain currency with the periodic method of inventory evaluation, there is a brand new appendix to Chapter 12 that provides coverage of this topic as well as assignable exercises and problems in MyLab Accounting.

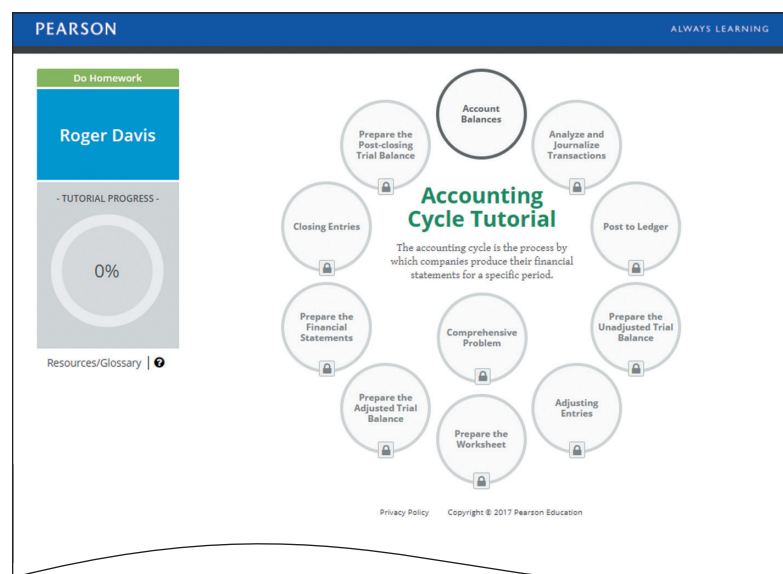
Visual Walkthrough

SOLVING TEACHING AND LEARNING CHALLENGES

Many students who take a college accounting course have difficulty understanding how they can use what they learn in the future. We use the following resources to engage students with the content and to highlight how college accounting is relevant and important for their employability and careers:

Inventory and revenue recognition accounting methods have been updated to follow current business trends so students are familiar with the rules and practices when they enter the workforce.

Accounting Cycle Tutorial – accessed by computer, smartphone, or tablet, the ACT provides students with brief explanations of each concept in the accounting cycle through engaging interactive activities.



Discussion Questions and Critical Thinking/Ethical Case

1. What are the functions of accounting?
2. Define, compare, and contrast sole proprietorships, partnerships, and corporations.
3. How are businesses classified?
4. How has technology affected the role of the bookkeeper?
5. List the three elements of the basic accounting equation.
6. Define *capital*.
7. The total of the left-hand side of the accounting equation must equal the total of the right-hand side. True or false? Please explain.
8. A balance sheet tells a company where it is going and how well it performs. True or false? Please explain.
9. Revenue is an asset. True or false? Please explain.
10. Owner's equity is subdivided into what categories?
11. A withdrawal is a business expense. True or false? Please explain.
12. As expenses increase they cause owner's equity to increase. Defend or reject.
13. What does an income statement show?
14. The statement of owner's equity only calculates ending withdrawals. True or false? Please explain.
15. Paul Kloss, accountant for Lowe & Co., traveled to New York on company business. His total expenses came to \$350. Paul felt that because the trip extended over the weekend he would "pad" his expense account with an additional \$100 of expenses. After all, weekends represent his own time, not the company's. What would you do? Write your specific recommendations to Paul.

Concept Checks

Classifying Accounts

1. Classify each of the following items as an Asset (A), Liability (L), or part of Owner's Equity (OE).
a. iPad

 L01 (5 min)

Discussion Questions, Critical Thinking, Ethical Cases, and Concept Checks afford an opportunity for students to think critically about what they've just learned. This content can be used to generate discussion in class or assigned as homework.

Designed to help students achieve success in their course, Success Tips have been placed strategically throughout the text where students are known to need a hint or reminder.


SUCCESS TIP

In accounting, capital does not mean cash. Capital is the owner's current investment, or equity, in the assets of the business.

The Exercises and Problems (Sets A and B) have been updated for the new edition. Short exercises can be assigned or used in class to focus on building skills. The longer problems give students a chance to do one learning unit at a time or combine many units in one problem. These problems help put the pieces together. They're a great reinforcement of the accounting principles.

SUCCESS COACH

The following Success Tips are from Learning Units 1-1 through 1-4. Take the Do It Right Now Checkup and use the Check Your Score at the bottom of the page to see how you are doing. The Success Coach provides tips before each Checkup to help you avoid common accounting errors.



1

LU 1-1 Accounting, Business, and the Accounting Equation

Do It Right Tips: After a transaction is recorded in the accounting equation, the sum of all the assets must equal the total of all the liabilities and owner's equity.

Do It Right Now Checkup: Answer true or false to the following statements.

1. Capital is cash.
2. Accounts Payable is a liability.
3. A shift in assets means liabilities will increase.
4. Assets - Liabilities = Owner's Equity.
5. Assets represent what is owned by the business.

LU 1-2 The Balance Sheet

Do It Right Tips: The Balance Sheet is a formal report listing assets, liabilities, and owner's equity as of a particular date.

LU 1-3 The Accounting Equation Expanded: Revenue, Expenses, and Withdrawals

Do It Right Tips: Revenue is recorded when earned even if cash is not received. Expenses are recorded when they happen (incurred) whether they are paid or to be paid later.

Do It Right Now Checkup: Answer true or false to the following statements.

1. Revenue is an asset.
2. Withdrawals increase owner's equity.
3. As expenses go down, owner's equity goes down.
4. An advertising bill incurred but unpaid is recorded as an increase in Advertising Expense and a decrease in a liability.
5. Revenue inflows can only be in the form of cash.

LU 1-4 The Three Financial Statements

Do It Right Tips: Net income from the income statement is

Each Learning Unit of the chapter is summarized in the Success Coach section as a “Do It Right Tip” for students to review before taking the “Do It Right Now Checkup.” These true/false questions, created by the authors, challenge the student to apply what’s learned in each section and help students focus on the key topics in each chapter.

MYLAB ACCOUNTING

Reach every student with MyLab Accounting

MyLab is the teaching and learning platform that empowers you to reach *every* student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and improves results for each student. Learn more about MyLab Accounting at www.pearsonmylabs.com/accounting.

Students get the benefit of immediate feedback, on-demand help, and continuous practice to achieve success.

Deliver trusted content

You deserve teaching materials that meet your own high standards for your course. That’s why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged.

Empower each learner

Each student learns at a different pace. Personalized learning pinpoints the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful.

Teach your course your way

Your course is unique. So whether you'd like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create *your* course to fit *your* needs.

Improve student results

When you teach with MyLab, student performance improves. That's why instructors have chosen MyLab for over 15 years, touching the lives of over 50 million students.

Developing Employability Skills

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. In this book and MyLab, we focus on developing these skills in the following ways:

TRY IT! Learning Unit 1-2

From the following prepare a balance sheet in proper form:
 Farell Company; November 30, 201X; iPads \$7,000; Accounts Payable \$6,000;
 Porter Farell, Capital \$16,000; Cash \$15,000

TRY IT! Solution Learning Unit 1-2

Assets		Liabilities and Owner's Equity	
Cash	\$15,000	Liabilities	
iPads	7,000	Accounts Payable	\$ 6,000
		Owner's Equity	
		P. Farell, Capital	16,000
Total Assets	<u>\$22,000</u>	Total Liabilities and Owner's Equity	<u>\$22,000</u>

Try It! Interactive Questions

Found at the end of each Learning Unit, these questions provide students a chance to check their understanding of key concepts in the unit. Linking in the eText will allow students to practice in MyLab Accounting without interrupting their interaction with the eText. Students' performance on the questions creates a precise adaptive study plan for additional practice.

American Institute of Professional Bookkeepers (AIPB) Boxes

American Institute of Professional Bookkeepers (AIPB) boxes have been added throughout the text so students are introduced to a future employability path as a bookkeeper.

American Institute of Professional Bookkeepers (AIPB) –
 The AIPB is the bookkeeping profession's national association. AIPB's mission is to achieve recognition of bookkeepers as accounting profession and to certify bookkeepers who meet high, national standards. More on the AIPB can found at <https://www.aipb.org>

Sage50 and Quickbooks Software Simulations

Computer workshops allow students to experience software companies use in the real world, like Quickbooks and Sage 50.

SAGE 50 SOFTWARE SIMULATION

S50

Computerized Accounting Application for Chapter 3

Preparing to use Sage 50 Complete Accounting

Before starting this assignment, visit the multimedia library of the MyAccountingLab website and read the following PDF documents for your version of Sage 50.

1. An Introduction to Computerized Accounting
2. Installing Sage 50 and Student Data Files
3. An Introduction to Sage 50
4. Correcting Sage 50 Transactions
5. How to Repeat or Restart a Sage 50 Assignment
6. Backing Up and Restoring Your Work in Sage 50

QUICKBOOKS SOFTWARE SIMULATION

QB

Computerized Accounting Application for Chapter 3

Preparing to use QuickBooks Accountant

Before starting this assignment, visit the multimedia library of the MyAccountingLab website and read the following PDF documents for your version of QuickBooks.

1. An Introduction to Computerized Accounting
2. Installing QuickBooks and Student Data Files
3. An Introduction to QuickBooks
4. Correcting QuickBooks Transactions
5. How to Repeat or Restart a QuickBooks Assignment
6. Backing Up and Restoring Your Work in QuickBooks

Financial Report Problem

Reading Amazon's Annual Report

Go to <https://tinyurl.com/slaterca14e> to access Amazon's 2016 Annual Report. Find the Consolidated Statement of Operations. How much did Amazon's net product sales increase or decrease from 2015 to 2016?

L03 (5 min)

Financial Report Problem

Using Amazon's 2016 annual financial report, students can apply theory and applications learned throughout the chapter to a real company.

Keeping It Real Continuing Problem

Students follow the activities of a fictional company, *Suarez Computer Center*, and then are asked to apply concepts to solve specific accounting problems for the company. Problems can be found in Chapters 1–15 and can be solved manually or by using Sage50 or Quickbooks.

KEEPING IT REAL SUAREZ COMPUTER CENTER

MyLabAccounting

The computer center's business is picking up, so Troy Falco, the owner, has decided to expand his bookkeeping system to a general journal/ledger system. The balances from August have been forwarded to the ledger accounts.

L01,2,3 (45 min)

Assignment

1. Use the chart of accounts in Chapter 2 to record the following transactions in Figures 3.37 through 3.47.

Mini Practice Set

Sherman Realty

Reviewing the Accounting Cycle Twice

Est. Time: 5 hours

This comprehensive review problem requires you to complete the accounting cycle for Sherman Realty twice. This practice set allows you to review Chapters 1–5 while reinforcing the relationships between all parts of the accounting cycle. By completing two cycles, you will see how the ending April balances in the ledger are used to accumulate data in May. First, look at the chart of accounts for Sherman Realty.

Sherman Realty Chart of Accounts

Assets	Revenue
111 Cash	411 Commissions Earned
112 Accounts Receivable	Expenses
114 Prepaid Rent	511 Rent Expense
115 Office Supplies	512 Salaries Expense
121 Office Equipment	513 Gas Expense
122 Accumulated Depreciation, Office Equipment	514 Repairs Expense
123 Automobile	515 Telephone Expense
124 Accumulated Depreciation, Automobile	516 Advertising Expense

Mini Practice Sets

The in-text Sherman Realty Practice Set (Chapter 5) includes actual source documents for each transaction and The Fantastic Dress Shop Practice Set (Chapter 12) enable students to complete two cycles of transactions (either manually or with Sage50 or Quickbooks).

Table of Contents Overview

Chapter 1: Accounting Concepts and Procedures	Introduces the recording of business transactions into the basic and expanded accounting equation. The three financial statements are introduced.
Chapter 2: Debits and Credits: Analyzing and Recording Business Transactions	The T accounts and chart of accounts are introduced. Focus is on using debits and credits to prepare financial statements and the trial balance.
Chapter 3: Beginning the Accounting Cycle	Business transactions are journalized and posted to the ledger. A trial balance is prepared from the ledger.
Chapter 4: The Accounting Cycle Continued	Explanation of adjustments are done step by step and placed one at a time on a worksheet. The worksheet is completed and financial statements are prepared from the worksheet. The Appendix provides an introduction to different methods of depreciation.
Chapter 5: The Accounting Cycle Completed	From a worksheet, the adjusting and closing entries are journalized. Focus is on preparing a post-closing trial balance. The mini practice set shows a two-cycle problem including source documents.
Chapter 6: Banking Procedures and Control of Cash	The latest trends in banking are covered. Time is spent illustrating the completion of a bank reconciliation. Petty cash establishment and replenishment are covered.
Chapter 7: Calculating Pay and Recording Payroll Taxes: The Beginning of the Payroll Process	New circular E is included for income tax calculations. New rates for Social Security and Medicare have been updated. Payroll register is completed. Discussion of FUTA and SUTA are included.
Chapter 8: Paying the Payroll, Depositing Payroll Taxes, and Filing the Required Quarterly and Annual Tax Forms: The Conclusion of the Payroll Process	New streamlined chapter that simplifies the payroll responsibilities of the employer. Form for 941 is illustrated along with W-2 and W-3. Discussion of when deposits are made is visually illustrated.
Chapter 9: Sales and Cash Receipts in a Perpetual Inventory System	New: Perpetual approach is now used to explain sales and cash receipts. A periodic approach can be found in the appendix after Chapter 12.
Chapter 10: Purchases and Cash Payments in a Perpetual Inventory System	New: Continued from Chapter 9, the perpetual approach is used to illustrate and explain the purchase and cash payments journal. A periodic approach can be found in the Appendix after Chapter 12.
Chapter 11: Preparing a Worksheet for a Merchandise Company Using the Perpetual Method	New: Perpetual approach is now used to complete a worksheet for a merchandise company. Emphasis is placed on cost of goods sold and merchandise inventory.
Chapter 12: Completion of the Accounting Cycle for a Merchandise Company Using the Perpetual Inventory Method	New: Using the perpetual approach, the completion of the merchandise cycle is illustrated. Financial statements are prepared from a worksheet and a post-closing trial balance is prepared. Following the chapter is an appendix covering the periodic method. Problem material is included.
Chapter 13: Corporations: Organizations and Stock	Accrual accounting is explained. The allowance method as well as the direct method are illustrated. Estimating bad debts is covered.
Chapter 14: Notes Receivable and Notes Payable	Introduction presents interest calculations and determining maturity dates. Focus on chapter is to illustrate journal entries to record notes as well as the discounting process.
Chapter 15: Accounting for Merchandise Inventory	Both the periodic as well as perpetual methods are used to calculate cost of goods sold and ending inventory. Discussion also includes the retail and gross profit methods.
Chapter 16: Accounting for Property, Plant, Equipment, and Intangible Assets	Introduces how to calculate cost of Property, Plant, and Equipment. Depreciation methods are illustrated along with journal entries involving capital and revenue expenditures. Intangible assets are discussed.
Chapter 17: Partnership	Journal entries are illustrated to record forming a partnership. Calculations are illustrated to record division of net income and loss among partners. Discussion includes journal entries for admission and withdrawal of a partner. Liquidation of a partnership is illustrated.
Chapter 18: Organizations and Stock	Completion of stockholders' equity is illustrated. Calculations of dividends is shown along with journal entries. A subscription plan is journalized.
Chapter 19: Corporations: Stock Values, Dividends, Treasury Stocks, and Retained Earnings	Redemption, market, and book values are calculated. Journal entries are shown to record dividends. Treasury stock transactions are journalized. A statement of retained earnings is prepared.

XXVI VISUAL WALKTHROUGH

Chapter 20: Corporations and Bonds Payable	The straight-line method and the interest method are compared and contrasted. All calculations and tables are illustrated. Transactions for sinking funds are journalized.
Chapter 21: Statement of Cash Flows	Statements of cash flow are prepared by the indirect as well as direct method.
Chapter 22: Analyzing Financial Statements	Horizontal and vertical analyses are completed for the income statement as well as balance sheet. Financial ratio explanations and calculations are provided.
Chapter 23: The Voucher System	Using a perpetual system, transactions are journalized in a voucher system.
Chapter 24: Departmental Accounting	Various income statements illustrated how gross profit can be shown by departments. A discussion of operating expenses is illustrated. Contribution margin is calculated and illustrated on income statement.
Chapter 25: Manufacturing Accounting	Cost of goods manufactured is calculated. The flow of manufacturing costs are journalized. A worksheet is prepared for a merchandise company.

INSTRUCTOR TEACHING RESOURCES

This program comes with the following teaching resources.

Supplements available to instructors www.pearsonhighered.com/slater	Features of the Supplement
Instructor’s Manual authored by Carolyn Strauch from Crowder College accuracy checked by Ron Premuroso	<ul style="list-style-type: none"> • Chapter-by-chapter summaries • Examples and activities not in the main book • Teaching outlines • Teaching tips
Solutions Manual authored by Robert Chamberlain from MiraCosta College and Connie Belden from Butler Community College accuracy checked by Carolyn Streuly	Solutions to the end-of-chapter content
Test Bank authored by William Jefferson from Metropolitan Community College accuracy checked by Ron Premuroso	Over 3,000 multiple-choice, true/false, and computational questions with these annotations: <ul style="list-style-type: none"> • Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) • Learning Objective to which the question correlates • Learning outcome • AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)
Computerized TestGen	TestGen allows instructors to: <ul style="list-style-type: none"> • Customize, save, and generate classroom tests • Edit, add, or delete questions from the test item files • Analyze test results • Organize a database of tests and student results
PowerPoints authored by Kim Potts from North Arkansas College	Slides include tables and equations from the textbook PowerPoints meet accessibility standards for students with disabilities. Features include but are not limited to: <ul style="list-style-type: none"> • Keyboard and Screen Reader access • Alternative text for images • High color contrast between background and foreground colors

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Jeff Slater has taught at North Shore Community College for 48 years. He has published 12 different texts selling over 2 million copies. Jeff has also worked as a consultant for the federal government. Jeff's teaching philosophy is to keep it simple. Over the years he has been known for his innovative ideas. Jeff received the Nisod Excellence Award for his teaching. He resides in Lexington, Massachusetts, with his wife Shelley and their two golden doodles Bernie and Fejjie. Jeff loves what he does and understands that students are his customers that need to be served in a professional manner. Jeff is available at jeffslater@aol.com, and promises to get back to any student queries within 24 hours or less.



Mike Deschamps received a Bachelor of Science degree in accounting, graduating from the University of San Diego, where he served as the chapter president for Beta Alpha Psi, the national accounting honor society. Mike transferred to USD after completing several years at San Diego City Community College, where he really found his direction as a student, which was a significant factor in his desire to become a community college instructor.

After working in public accounting and obtaining his CPA license, Mike returned to San Diego State University, where he earned a master's degree in Accounting and a Certificate in Financial Planning. In addition, he earned his Enrolled Agent certification in 2004. He is currently pursuing a Master's degree in Online Teaching and Learning in the School of Education at California State University-East Bay. He believes that the delivery of meaningful accounting instruction for students must keep up with the changing technology environment in which accounting operates.

He is currently in his tenth year at MiraCosta Community College and previously was a tenured professor of accounting and financial services at Chaffey Community College, where he also served as the program coordinator for 6 years. He is an active member of Teachers of Accounting at Two-Year Colleges (TACTYC) and has presented at the National Convention a number of times, including the 2017 convention, where he presented on developing tax curriculum for community colleges. He is also a member of the American Institute of Professional Bookkeepers and was instrumental in redesigning the bookkeeping curriculum at MiraCosta to better reflect the skills needed in today's bookkeeping environment. Having a curriculum that not only prepares students for the workplace but also assists them in preparing for a professional bookkeeping certification exam, such as the AIPB's Certified Bookkeeper Designation, was a key goal of that effort.



