

A long-exposure photograph of the Golden Gate Bridge at night. The bridge's towers and suspension cables are illuminated with warm orange and yellow lights. The roadway is a bright, continuous line of light stretching across the water towards the second tower in the distance. The background shows the city lights of San Francisco under a dark blue night sky.

Price | Haddock | Farina

College Accounting

Chapters 1-13

Fourteenth Edition



CONNECT FEATURES

DATE TRANSACTIONS
2016

Sept. 1 Jewell Tucker invested \$47,000 in cash to start the firm.
4 Purchased office equipment for \$5,200 on credit from Den, Inc.; received Invoice 9823, payable in 30 days.
16 Purchased an automobile that will be used to visit clients; issued Check 1001 for \$13,200 in full payment.
20 Purchased supplies for \$390, paid immediately with Check 1002.
23 Returned damaged supplies for a cash refund of \$105.
30 Issued Check 1003 for \$2,900 to Den, Inc., as payment on account for Invoice 9823.
30 Withdrew \$1,700 in cash for personal expenses.
30 Issued Check 1004 for \$1,050 to pay the rent for October.
30 Performed services for \$2,900 in cash.
30 Paid \$370 for monthly telephone bill, Check 1005.

Prepare the journal entries for the above transaction at Sept 2016.

[view transaction list](#) [view general journal](#)

Journal Entry Worksheet

1 2 3 4 5 6 7 8 9 10

Jewell Tucker invested \$47,000 in cash to start the firm.

Date	General Journal	Debit	Credit
Sep 01, 2016	Cash		47,000
	301 : Jewell Tucker, Capital		
	302 : Jewell Tucker, Drawing		

Intelligent Response Technology

Intelligent Response Technology (IRT) is a redesigned student interface for our end-of-chapter assessment content. In addition to a streamlined interface, IRT provides improved answer acceptance to reduce students' frustration with formatting issues (such as rounding), and, for select questions, provides an expanded table that guides students through the process of solving the problem. Many questions have been redesigned to more fully test students' mastery of the content.

Guided Examples

Guided Examples provide narrated and animated step-by-step walkthroughs of algorithmic versions of assigned exercises. This allows students to identify, review, or reinforce the concepts and activities covered in class. Guided Examples provide immediate feedback and focus on the areas where students need the most guidance.

Cash	\$11,250	Owner withdrawals	\$2,000
Accounts receivable	23,000	Consulting fees earned	25,000
Office supplies	1,200	Rent expense	4,500
Land	30,000	Salaries expense	10,000
Office equipment	18,000	Telephone expense	850
Accounts payable	5,000	Miscellaneous expenses	700
Owner investments	71,500		

Real Answers Income Statement For Month Ended October 31		
Revenues:		
Consulting fees earned		\$ 25,000
Expenses:		
Rent expense	\$ 4,500	
Salaries expense	10,000	
Telephone expense	850	
Miscellaneous expenses	700	
Total expenses		16,050

Total expenses are \$16,050.

connect college accounting

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Chapter 2: Analyzing Business Transactions
The Accounting Equation and Financial Statements

SELLING SERVICES FOR CASH

During the month of December, Vista's Consulting Services earned a total of \$36,000 in revenue from clients who paid cash for accounting and bookkeeping services. This involved several transactions throughout the month. The total effect of these transactions is analyzed below.

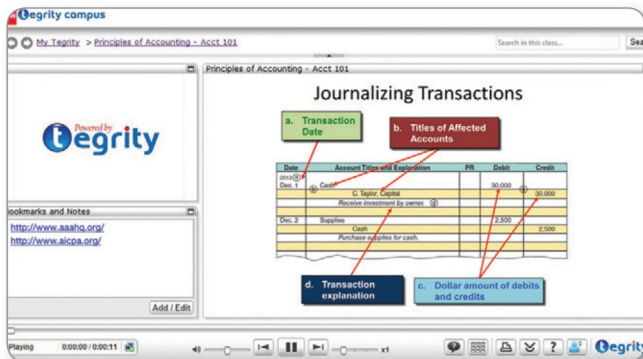
ANALYSIS

g. The firm received \$36,000 in cash for services provided to clients.
g. Revenues increased by \$36,000, which results in a \$36,000 increase in owner's equity.
The fundamental accounting equation remains in balance.

Assets		Liabilities		Owner's Equity	
Cash	Supplies	Payable	Equipment	Payable	Capital
Previous balance \$ 60,000	+ \$1,500	+ \$8,000	+ \$1,000	= \$5,500	+ \$100,000
Net increase	(\$36,000)				
Owner's equity					+ \$36,000
New balance	\$19,500	+ \$1,500	+ \$8,000	+ \$1,000	= \$5,500
					+ \$100,000
					= \$26,000

eBook

Connect Plus includes a media-rich eBook that allows you to share your notes with your students. Your students can insert and review their own notes, highlight the text, search for specific information, and interact with media resources. Using an eBook with Connect Plus gives your students a complete digital solution that allows them to access their materials from any computer.



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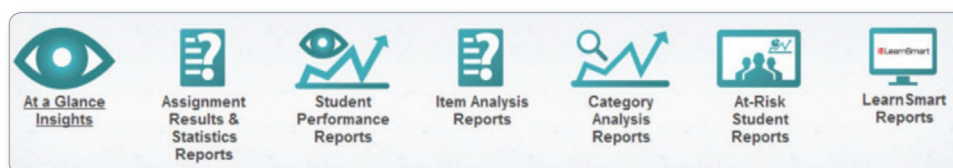
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Blackboard users also benefit from McGraw-Hill's industry-leading integration, providing single sign-on to access all Connect assignments and automatic feeding of assignment results to the Blackboard grade book.



POWERFUL REPORTING

Connect generates comprehensive reports and graphs that provide instructors with an instant view of the performance of individual students, a specific section, or multiple sections. Since all content is mapped to learning objectives, Connect reporting is ideal for accreditation or other administrative documentation.



fourteenth edition

College Accounting

Chapters 1–13

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COLLEGE ACCOUNTING, FOURTEENTH EDITION

Chapters 1-13

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This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 DOW/DOW 1 0 9 8 7 6 5 4

ISBN 978-0-07-786239-8 (chapters 1–30)

MHID 0-07-786239-2 (chapters 1–30)

ISBN 978-0-07-763992-1 (chapters 1–24)

MHID 0-07-763992-8 (chapters 1–24)

ISBN 978-0-07-763991-4 (chapters 1–13)

MHID 0-07-763991-X (chapters 1–13)

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Design: *Matthew Baldwin*

Cover Image: *Adam Jones/Getty Images*

Content Licensing Specialist: *Joanne Mennemeier*

Typeface: *10.5/12 Times Roman*

Composer: *Laserwords Private Limited*

Printer: *R. R. Donnelley*

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The Library of Congress has cataloged the single volume edition of this work as follows

Price, John Ellis.

College accounting / John Ellis Price, Ph.D., CPA, Professor of Accounting, University of North Texas, Denton, Texas, M. David Haddock, JR., Ed.D., CPA, Professor of Accounting Emeritus, Chattanooga State Community College, Director of Training, Lattimore Black Morgan & Cain, PC, Brentwood, Tennessee, Michael J. Farina, MBA, CPA, Professor of Accounting, Cerritos College, Norwalk, California. — 14th Edition.

pages cm

Includes index.

ISBN 978-0-07-786239-8 (chapters 1–30 : alk. paper) — ISBN 0-07-786239-2 (chapters 1–30 : alk. paper) — ISBN 978-0-07-763992-1 (chapters 1–24 : alk. paper) — ISBN 0-07-763992-8 (chapters 1–24 : alk. paper) — ISBN 978-0-07-763991-4 (chapters 1–13 : alk. paper) — ISBN 0-07-763991-X (chapters 1–13 : alk. paper)

1. Accounting. I. Haddock, M. David. II. Title.

HF5636.P747 2015

657'.044—dc23

2013034693

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Professor Price is a certified public accountant who has twice received the UNT College of Business Administration's Outstanding Teaching Award and the university's President's Council Award. Majoring in accounting, he received his BBA and MS degrees from the University of Southern Mississippi and his PhD in accounting from the University of North Texas.

Dr. Price is a member of the Mississippi Society of Certified Public Accountants, the American Accounting Association, and the American Taxation Association (serving as past chair of the Subcommittee on Relations with the IRS and Treasury). Dr. Price has also served as chair of the American Institute of Certified Public Accountants Minority Initiatives Committee and as a member of the Foundation Trustees.



M. DAVID HADDOCK, JR., is currently director of training for Lattimore, Black, Morgan, & Cain, PC, one of the top 50 CPA firms in the US. He is located in the Brentwood, Tennessee, office. He recently retired from a 35-year career in higher education, having served in faculty and administrative roles at Auburn University at Montgomery, the University of Alabama in Birmingham, the University of West Georgia, and Chattanooga State Community College. He retired as professor of accounting at Chattanooga State Community College in Tennessee. In addition to his teaching, he maintained a sole proprietorship tax practice for 20 years prior to taking his current position.

He received his BS in accounting and MS in adult education from the University of Tennessee, and the EdD in administration of higher education from Auburn University. He is a licensed CPA in Tennessee.

Dr. Haddock served as chair of the Tennessee Society of CPAs and the Educational & Memorial Foundation of the TSCPA's for 2012–2013 and a member of AICPA Council. He is a frequent speaker for Continuing Professional Education programs.



MICHAEL J. FARINA is professor of accounting and finance at Cerritos College in California. Prior to joining Cerritos College, Professor Farina was a manager in the audit department at a large multinational firm of certified public accountants and held management positions with other companies in private industry.

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Professor Farina is currently the cochair of the Accounting and Finance Department at Cerritos College. Professor Farina has received an Outstanding Faculty award from Cerritos College.

Price/Haddock/Farina



For students just embarking on a college career, an accounting course can seem daunting, like a rushing river with no clear path to the other side. As the most trusted and readable text on the market, *College Accounting*, 14e, by Price, Haddock, and Farina presents material in a way that will help students understand the content better and more quickly. Through proven pedagogy, time-tested and accurate problem material, and a straightforward approach to the basics of accounting, Price/Haddock/Farina **bridges the rushing river**, offering first-time accounting students a path to understanding and mastery.

Whether a student is taking the course in preparation for a four-year degree or as the first step to a career in business, Price/Haddock/Farina guides them over the bridge to success. The authors represent the breadth of educational environments—a community college, a career school, and a four-year university—ensuring that the text is appropriate for all student populations. Throughout, they have adhered to a common philosophy about textbooks: they should be readable, contain many opportunities for practice, and be able to make accounting relevant for all.

Bridges College to Career

- **Encourages Reading** The authors' writing style and clear step-by-step examples make key concepts easy to grasp. *College Accounting's* concise chapters are broken into manageable sections to avoid overwhelming students who might be seeing the material for the first time. Features like the Business Transaction Analysis Model make it easy for students to see how to analyze business transactions. The Important and Recall margin elements briefly highlight important concepts and remind students of key term definitions as the topics begin to build on each other.
- **Emphasizes Practice** Self reviews at the end of each section give students the opportunity to practice what they've just learned before moving on to the next topic. The author-created end-of-chapter material includes A and B problem sets, exercises, critical thinking problems, and Business Connection problems that utilize real-world companies and scenarios and address important topics like ethics. Mini-practice sets included within the text itself allow students to put theory into practice without paying additional money for a separate practice set. Select end-of-chapter content is tied to templates in **Sage 50 Complete Accounting** and **Quickbooks**, allowing students to practice using software they are likely to encounter in the real world.
- **Answers the Question "Why Is Accounting Important?"** The "Why It's Important" explanation that accompanies each learning objective explains to students why the topics they're studying matter. Well-known companies like Google, Southwest, and Urban Outfitters are used in vignettes and examples throughout the text, making a clear bridge for students between the concepts they're learning and how those concepts are applied in the real world.

The Price College Accounting text is thoughtfully planned and well laid out. It goes into detail incorporating real-world examples and context for the accounting student, making it easier for students to understand the content and its application.

—Lora Miller,
Centura College

How Does Price/Haddock/Farina Bridge the Gap from Learning to Mastery?


College Accounting is designed to help students learn and master the material.

Chapter Opener

Brief features about **real-world companies**—like **Google, Kellogg’s, Whole Foods, and Carnival Cruise Lines**—allow students to see how the chapter’s information and insights apply to the world outside the classroom. Thinking Critically questions stimulate thought on the topics to be explored in the chapter.


Closing Entries and the Postclosing Trial Balance

Chapter 6



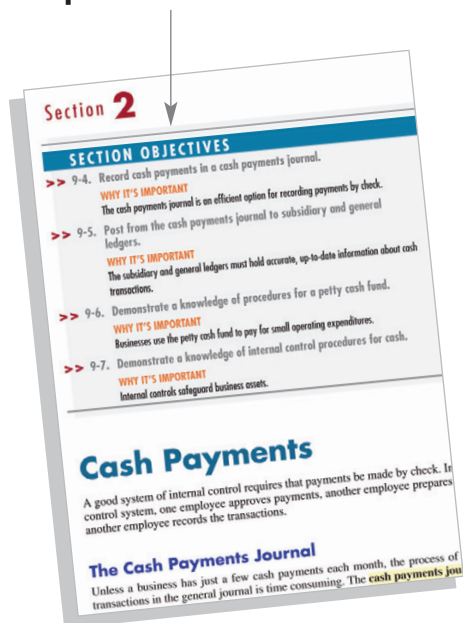
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Learning Objectives

Appearing in the chapter opener and within the margins of the text, learning objectives alert students to what they should expect as they progress through the chapter. Many students question the relevance of what they’re learning, which is why we explain **“Why It’s Important.”**



The Price/Haddock/Farina College Accounting text is designed to introduce a nonaccounting student to a succinct study of accounting concepts. Each chapter is concise using effective visual aids to motivate the student to read actively, while the additional learning resources encourage practice to improve a student’s retention.

—Gisela Dicklin,
Edmonds Community College

Recall and Important!

Recall is a series of brief reinforcements that serve as reminders of material covered in previous chapters that are relevant to the new information being presented. **Important!** draws students’ attention to critical materials introduced in the current chapter.

important!

For liability T accounts

- right side shows increases,
- left side shows decreases.

Business Transaction Analysis Models

Instructors say mastering the ability to properly analyze transactions is critical to success in this course. Price's step-by-step transaction analysis illustrations show how to identify the appropriate general ledger accounts affected, determine debit or credit activity, present the transaction in T-account form, and record the entry in the general journal.

DEBIT-CREDIT RULES

DEBIT Decreases to liabilities are debits. Debit *Accounts Payable* for \$100.
CREDIT Increases to contra cost of goods sold accounts are recorded as credits. Credit *Purchases Returns and Allowances* for \$100.

T-ACCOUNT PRESENTATION

Accounts Payable		Purchases Returns and Allowances	
100	+	-	100

GENERAL JOURNAL ENTRY

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
15 Jan. 30	Accounts Payable/International Sportsman		100.00	
16	Purchases Returns and Allowances			100.00
17	Received Credit Memo 103 for damaged merchandise returned; original Invoice 7985,			
18	January 23, 2016			
19				
20				

THE BOTTOM LINE

Purchase Allowance

Income Statement

Contra Cost of Goods Sold	↑ 100
Net Income	↑ 100

Balance Sheet

Liabilities	↓ 100
Equity	↑ 100

I love the business transaction illustrations that show students the analysis of a transaction, applies debit/credit rules, T-account presentation, and journal entry.

—Morgan Rocket
Moberly Area Community College

The Bottom Line

Appears in the margins alongside select transactions and concepts in the text. These visuals offer a summary of the effects of these transactions—the end result—on the financial statements of a business.

MANAGERIAL IMPLICATIONS <<

FINANCIAL STATEMENTS

- Recording entries into accounts provides an efficient method of gathering data about the financial affairs of a business.
- A chart of accounts is usually similar from company to company; balance sheet accounts are first, followed by income statement accounts.
- A trial balance proves the financial records are in balance.
- The income statement reports the revenue and expenses for the period and shows the net income or loss.
- The statement of owner's equity shows the change in owner's equity during the period.

- The balance sheet summarizes the assets, liabilities, and owner's equity of the business on a given date.
- Owners, managers, creditors, banks, and many others use financial statements to make decisions about the business.

THINKING CRITICALLY

What are some possible consequences of not recording financial data correctly?

Managerial Implications

Puts your students in the role of managers and asks them to apply the concepts learned in the chapter.

Section 1 Self Review

QUESTIONS

- How is the *Income Summary* account classified?
- What are the four steps in the closing process?
- What is the journal entry to close the drawing account?

EXERCISES

- After closing, which accounts have zero balances?
 - asset and liability accounts
 - liability and capital accounts
 - liability, drawing, and expense accounts
 - revenue, drawing, and expense accounts
- After the closing entries are posted, which account normally has a balance other than zero?
 - Capital
 - Foot Income
 - Income Summary
 - Ret Expense

ANALYSIS

- The business owner removes supplies that are worth \$900 from the company stockroom. She intends to take them home for personal use. What effect will this have on the company's net income?

(Answers to Section 1 Self Review are on page 184.)

ABOUT ACCOUNTING

Employee Fraud

According to the U.S. Chamber of Commerce, businesses lose billions of dollars each year to employee fraud. The best defense against fraud is to use good internal controls: Have multiple employees in contact with suppliers and screen employees and vendors to reduce fraud opportunities.

About Accounting

These marginal notes contain interesting examples of how accounting is used in the real world, providing relevance to students who might not be going on to a career in accounting.

Self Review

Each section concludes with a Self Review that includes questions, multiple-choice exercises, and an analysis assignment. A Comprehensive Self Review appears at the end of each chapter. Answers are provided at the end of the chapter.

How Can Price/Haddock/Farina Bridge the Gap from Learning to “Doing”?

Problem Sets A and B and Critical Thinking Problems conclude with an **Analyze** question asking the student to evaluate each problem critically.

Mini-Practice Set 1
Service Business Accounting Cycle
Wells' Consulting Services

This project will give you an opportunity to apply your knowledge of accounting principles and procedures by handling all the accounting work of Wells' Consulting Services for the month of January 2017.

Assume that you are the chief accountant for Wells' Consulting Services. During January, the business will use the same types of records and procedures that you learned about in Chapters 1 through 6. The chart of accounts for Wells' Consulting Services has been expanded to include a few new accounts. Follow the instructions to complete the accounting records for the month of January.

Wells' Consulting Services Chart of Accounts	
Assets	Revenue
101 Cash	401 Fees Income
111 Accounts Receivable	Expenses
121 Supplies	511 Salaries Expense
134 Prepaid Insurance	514 Utilities Expense
137 Prepaid Rent	517 Supplies Expense
141 Equipment	520 Rent Expense
142 Accumulated Depreciation—Equipment	523 Depreciation Expense—Equipment
Liabilities	526 Advertising Expense
202 Accounts Payable	529 Maintenance Expense
Owner's Equity	532 Telephone Expense
301 Carolyn Wells, Capital	535 Insurance Expense
302 Carolyn Wells, Drawing	
309 Income Summary	

INSTRUCTIONS

1. Open the general ledger accounts and enter the balances for January 1, 2017. Obtain the necessary figures from the postclosing trial balance prepared on December 31, 2016, which appears on page 166.

Mini-Practice Sets

In addition to two full-length practice sets that are available to your students for purchase with the textbook, Price/Haddock/Farina offers a number of mini-practice sets right in the book. This means additional practice, but less cost, for your students.

Business Connections

Reinforces chapter materials from practical and real-world perspectives:

Managerial Focus: Applies accounting concepts to business situations.

Ethical Dilemma: Provides the opportunity for students to discuss ethics in the workplace, formulate a course of action for certain scenarios, and support their opinions.

Financial Statement Analysis:

A brief excerpt from a real-world annual report and questions that lead the student through an analysis of the statement, concluding with an Analyze Online activity where students research the company's most recent financial reports on the Internet.

TeamWork: Each chapter contains a collaborative learning activity to prepare students for team-oriented projects and work environments.

Internet Connection: These activities give students the opportunity to conduct online research about major companies, accounting trends, organizations, and government agencies.

BUSINESS CONNECTIONS

Interpreting Financial Statements

1. An officer of Westway Corporation recently commented that when he receives the firm's financial statements, he looks at just the bottom line of the income statement—the line that shows the net income or net loss for the period. He said that he does not bother with the rest of the income statement because “it's only the bottom line that counts.” He also does not read the balance sheet. Do you think this manager is correct in the way he uses the financial statements? Why or why not?
2. The president of Brown Corporation is concerned about the firm's ability to pay its debts on time. What items on the balance sheet would help her to assess the firm's debt-paying ability?
3. Why is it important that a firm's financial records be kept up-to-date and that management receive the financial statements promptly after the end of each accounting period?
4. What kinds of operating and general policy decisions might be influenced by data on the financial statements?

Timing of a Check

On the last day of the fiscal year, Stanley Carpenter comes to you for a favor. He asks that you enter a check for \$2,000 to CD Company for Miscellaneous Expense. You notice the invoice looks a little different from other invoices that are processed. Stanley needs the check immediately to get supplies today to complete the project for a favorite customer. You know that by preparing the closing entries tomorrow, Miscellaneous Expense will be set to zero for the beginning of the new year. Should you write this check and record the expense or find an excuse to write the check tomorrow? What would be the effect if the invoice to CD Company was erroneous and you had written the check?

Income Statement

In 2012, CSX Corporation, which operates under the name Surface Transportation, reported operating expenses of \$8,299 million. A partial list of the company's operating expenses follows. CSX Corporation reported revenues from external customers to be \$11,756 million for the year.

College Accounting is an excellent textbook to introduce students to the world of accounting. The way Haddock/Price/Farina break down the steps in the Accounting Cycle, then move on to other topics, makes it very easy for students to grasp the accounting concepts. The wide variety of student and instructor resources is very helpful.

—Kathy Bowen,
Murray State College

New to the Fourteenth Edition

- Chapter Openers have been revised featuring companies such as: AT&T, Kellogg's, Marek Brothers, Williams-Sonoma, Urban Outfitters, Green Mountain Coffee Roasters, Best Buy, HJ Heinz, Teva Pharmaceuticals, Ford, and Avon
- Real-world examples throughout text have been updated
- End-of-chapter exercises, problems, and critical thinking problems have been revised and updated throughout the text
- Business Connections section of end-of-chapter Financial Statement Analysis questions have been updated to include the latest financial data
- **NEW** section on the perpetual inventory system has been added to Chapters 8 and 9
- Examples in Chapter 10 reflect the latest earnings base for the Social Security tax and minimum hourly rate of pay
- Section on Reporting and Paying State unemployment taxes has been completely revised in Chapter 11
- **NEW** section on Accounts Receivable turnover has been added in Chapter 13
- **NEW** McGraw-Hill *Connect Accounting* Intelligent Response Technology is an online assignment and assessment solution that connects students with the tools and resources needed to achieve success through faster learning, more efficient studying, and higher retention of knowledge

NEW McGraw-Hill LearnSmart™ is an adaptive learning program that identifies what an individual student knows and doesn't know. LearnSmart's adaptive learning path helps students learn faster, study more efficiently, and retain more knowledge.

Also, NEW with this edition is McGraw-Hill SmartBook, part of McGraw-Hill's LearnSmart suite of products.

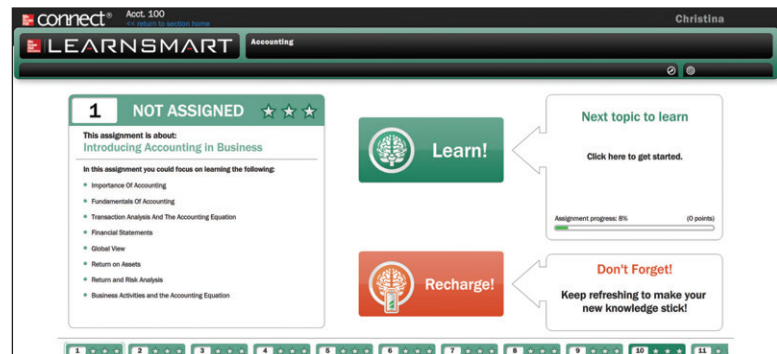
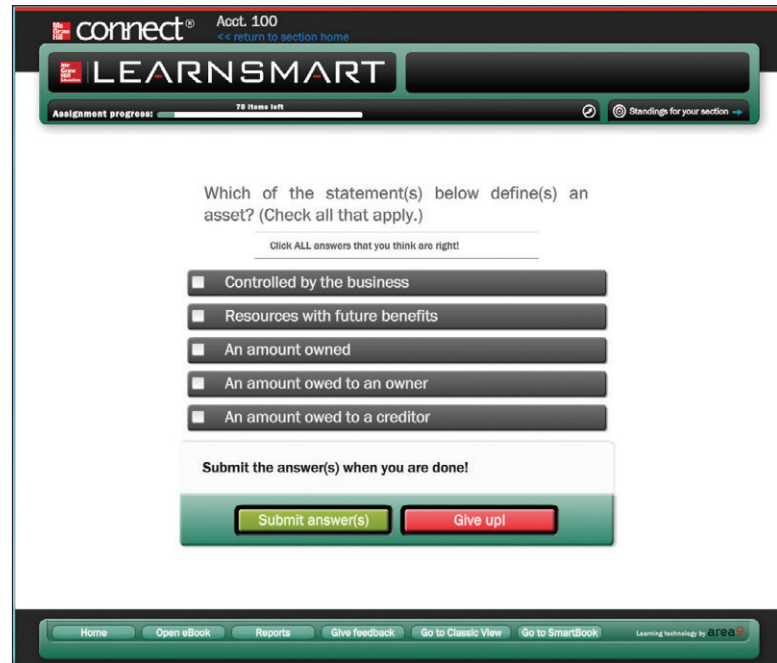
Learn with Adaptive

LEARNSMART®

LearnSmart is one of the most effective and successful adaptive learning resources available on the market today. More than 2 million students have answered more than 1.3 billion questions in LearnSmart since 2009, making it the most widely used and intelligent adaptive study tool that's proven to strengthen memory recall, keep students in class, and boost grades. Students using LearnSmart are 13% more likely to pass their classes and 35% less likely to drop out.

Distinguishing what students know from what they don't, and honing in on concepts they are most likely to forget, LearnSmart continuously adapts to each student's needs by building an individual learning path so students study smarter and retain more knowledge. Turnkey reports provide valuable insight to instructors, so precious class time can be spent on higher-level concepts and discussion.

This revolutionary learning resource is available only from McGraw-Hill Education, and because LearnSmart is available for most course areas, instructors can recommend it to students in almost every class they teach.



Technology

SMARTBOOK™

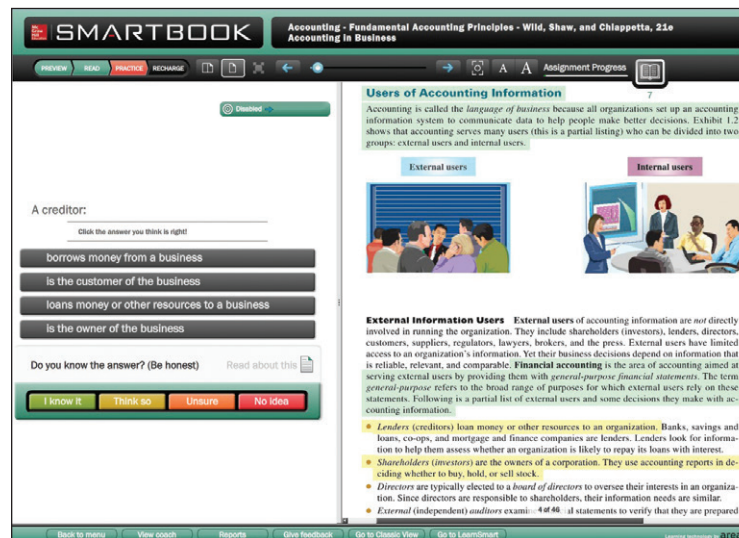
Fueled by LearnSmart—the most widely used and intelligent adaptive learning resource—SmartBook is the first and only adaptive reading experience available today.

Distinguishing what a student knows from what they don't, and honing in on concepts they are most likely to forget, SmartBook personalizes content for each student in a continuously adapting reading experience. Reading is no longer a passive and linear experience, but an engaging and dynamic one where students are more likely to master and retain important concepts, coming to class better prepared. Valuable reports provide instructors insight as to how students are progressing through textbook content, and are useful for shaping inclass time or assessment. As a result of the adaptive reading experience found in SmartBook, students are more likely to retain knowledge, stay in class, and get better grades.

This revolutionary technology is available only from McGraw-Hill Education and for hundreds of course areas as part of the LearnSmart Advantage series.

How Does SmartBook Work?

Each SmartBook contains four components: Preview, Read, Practice, and Recharge. Starting with an initial preview of each chapter and key learning objectives, students read the material and are guided to topics that need the most practice based on their responses to a continuously adapting diagnostic. Read and practice continue until SmartBook directs students to recharge important material they are most likely to forget to ensure concept mastery and retention.



Leading Technology Extends Learning

McGraw-Hill Connect Accounting



Get Connect Accounting. Get Results.

McGraw-Hill *Connect Accounting* is a digital teaching and learning environment that gives students the means to better connect with their coursework, with their instructors, and with the important concepts that they will need to know for success now and in the future. With *Connect Accounting*, instructors can deliver assignments, quizzes, and tests easily online. Students can practice important skills at their own pace and on their own schedule.

Online Assignments

Connect Accounting helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. *Connect Accounting* grades homework automatically and gives immediate feedback on any questions students may have missed.

Intelligent Response Technology (IRT)

IRT is a redesigned student interface for our end-of-chapter assessment content. The benefits include improved answer acceptance to reduce students' frustration with formatting issues (such as rounding). Also, select questions have been redesigned to test students' knowledge more fully. They now include tables for students to work through rather than requiring that all calculations be done offline.

DATE TRANSACTIONS
2016

Sept. 1 Jewell Tucker invested \$47,000 in cash to start the firm.
4 Purchased office equipment for \$5,200 on credit from Den, Inc.; received Invoice 9823, payable in 30 days.
16 Purchased an automobile that will be used to visit clients; issued Check 1001 for \$13,200 in full payment.
20 Purchased supplies for \$390, paid immediately with Check 1002.
23 Returned damaged supplies for a cash refund of \$105.
30 Issued Check 1003 for \$2,900 to Den, Inc., as payment on account for Invoice 9823.
30 Withdrew \$1,700 in cash for personal expenses.
30 Issued Check 1004 for \$1,050 to pay the rent for October.
30 Performed services for \$2,900 in cash.
30 Paid \$370 for monthly telephone bill, Check 1005.

Prepare the journal entries for the above transaction at Sept 2016.

[view transaction list](#) [view general journal](#)

Journal Entry Worksheet

Jewell Tucker invested \$47,000 in cash to start the firm.

Date	General Journal	Debit	Credit
Sep 01, 2016	Cash	47,000	
	Je		
	301 : Jewell Tucker, Capital		
	302 : Jewell Tucker, Drawing		

*Enter debits before credits

[done](#) [clear transaction](#) [record transaction](#)

value:
10.00 points

Wilson Cleaning Service has the following account balances on December 31, 2016.

Cash	\$ 18,400	Accounts Payable	\$ 23,600
Equipment	\$ 45,400	James Wilson, Capital	\$ 40,200

Enter the above balances on the proper side of the T account.

Cash		Equipment	
18,400		45,400	

value:
10.00 points

At the beginning of September, Alexandria Perez started Perez Investment Services, a firm that offers advice about investing and managing money. On September 30, the accounting records of the business showed the following information.

Cash	\$ 32,900	Fees Income	\$ 76,880
Accounts Receivable	3,800	Advertising Expense	6,300
Office Supplies	3,200	Salaries Expense	15,800
Office Equipment	37,300	Telephone Expense	780
Accounts Payable	5,500	Withdrawals	8,800
Alexandria Perez, Capital, September 1, 2016	26,500		

Prepare an income statement for the month of September 2016.

PEREZ INVESTMENT SERVICES		
Income Statement		
Month Ended September 30, 2016		
Revenue		
Fees income		\$ 76,880
Expenses		
Advertising expense	\$ 6,300	
Salaries expense	15,800	
Telephone expense		
Total expenses		22,100
		\$ 54,780

Beyond the Classroom

Guided Examples

The Guided Examples in *Connect Accounting* provide a narrated, animated, step-by-step walk-through of select exercises similar to those assigned. These short presentations provide reinforcement when students need it most.

On October 1, Keisha King organized Real Answers, a new consulting firm; on October 3, the owner contributed \$71,500 cash. On October 31, the company's records show the following items and amounts. Use this information to prepare an October statement of owner's equity for Real Answers.

Cash	\$11,250	Owner withdrawals	\$2,000
Accounts receivable	23,000	Consulting fees earned	25,000
Office supplies	1,200	Rent expense	4,500
Land	30,000	Salaries expense	10,000
Office equipment	18,000	Telephone expense	850
Accounts payable	5,000	Miscellaneous expenses	700
Owner investments	71,500		

Real Answers Income Statement For Month Ended October 31		
Revenues:		
Consulting fees earned		\$ 25,000
Expenses:		
Rent expense	\$ 4,500	
Salaries expense	10,000	
Telephone expense	850	
Miscellaneous expenses	700	
Total expenses		16,050

Total expenses are \$16,050.

Student Library

The *Connect Accounting* Student Library gives students access to additional resources such as recorded lectures, online practice materials, an eBook, and more.

Financial Accounting
Tuesday/Thursday
my courses

connect ACCOUNTING

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library

Essential resources for practice and study.

- ebook: access and search your textbook
- course files: download files for the course.
- LearnSmart: identify your study needs and practice to improve
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The online *Connect* component has changed the way I teach accounting! It is a central location for everything that I need to teach my course.

—Laura Bantz,
McHenry Community College

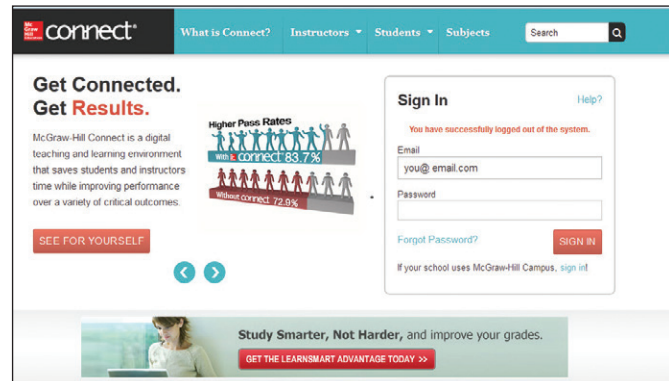
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- Access and review each response; manually change grades or leave comments for students to review.
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Instructor Library

The *Connect Accounting* Instructor Library is a repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The *Connect Accounting* Instructor Library includes access to the eBook version of the text, videos, slide presentations, Solutions Manual, Instructor's Manual, and Test Bank. The *Connect Accounting* Instructor Library also allows you to upload your own files.

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To learn more about Tegrity, watch a 2-minute Flash demo at <http://tegritycampus.mhhe.com>.

The screenshot shows the McGraw-Hill Connect Accounting library interface. The top navigation bar includes 'Home', 'Library', and 'Reports'. The 'Library' tab is active, displaying a search bar and a list of eBooks. One eBook, 'College Accounting, Price, 14e', is highlighted. The main content area shows 'Chapter2: Analyzing Business Transactions' and 'The Accounting Equation and Financial Statements'. A section titled 'SELLING SERVICES FOR CASH' describes a transaction where a firm received \$36,000 in cash for services. Below this is an 'ANALYSIS' box with a T-account diagram showing a debit to Cash and a credit to Revenues, resulting in a \$36,000 increase in owner's equity. At the bottom, a T-account table summarizes the accounting equation: Assets (Cash, Supplies, Rent, Equipment) equals Liabilities (Accounts Payable) plus Owner's Equity (Previous balance, Retained cash, Owner's equity by earning revenue). The final balances are \$110,000 for Assets, \$8,000 for Liabilities, and \$102,000 for Owner's Equity.

Assets				= Liabilities +		Owner's Equity	
Cash	Supplies	Rent	Equipment	Accounts Payable	Capital	Retained Cash	Revenue
Previous balance	\$ 03,000	+ \$1,500	+ \$8,000	+ \$11,000	= \$1,500	+ \$100,000	
(+) Retained cash	+ \$36,000						
(+) Increased owner's equity by earning revenue							+ \$36,000
New balances	\$110,000	+ \$1,500	+ \$8,000	+ \$11,000	= \$1,500	+ \$100,000	+ \$36,000



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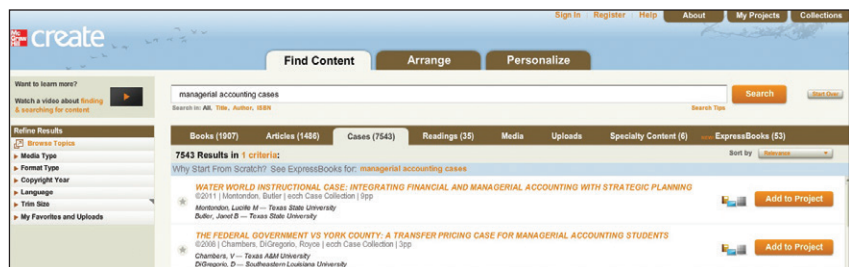
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This supplement contains completed step-by-step calculations to all assignment and Study Guide material, as well as a general discussion of the Thinking Critically questions that appear throughout the text.

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This comprehensive Test Bank includes more than 2,000 true/false, multiple-choice, and completion questions and problems.

Online Learning Center (OLC)

www.mhhe.com/price14e

The Online Learning Center (OLC) that accompanies *College Accounting* provides a wealth of extra material for both instructors and students. With content specific to each chapter of the book, the Price OLC doesn't require any building or maintenance on your part.

A secure **Instructor Edition** stores your essential course materials to save you prep time before class. The **Instructor's Resource Guide, Solutions Manual, PowerPoint® Slides, Test Bank, and EZ Test Online Test Bank** are now just a couple of clicks away.

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Each test bank question for *College Accounting, 14e*, maps to a specific chapter learning objective listed in the text. You can use our test bank software, *EZ Test, EZ Test Online*, or *Connect Accounting* to easily query for learning objectives that directly relate to the learning objectives for your course. You can then use the reporting features of *EZ Test* to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

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The statements contained in *College Accounting, 14e*, are provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment clearly within the realm and control of individual schools, the mission of the school, and the faculty. While *College Accounting, 14e*, and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within *College Accounting, 14e*, labeled selected questions according to the six general knowledge and skills areas.

Student Supplements

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Chapters 1–13—ISBN: 9780077639884

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Chapters 14–24—ISBN: 9780077639907

(MHID: 0077639901)

Chapters 1–30—ISBN: 9780077639891

(MHID: 0077639898)

This study aid summarizes essential points in each chapter, tests students' knowledge using self-test questions, and contains forms that help students organize their solutions to homework problems.

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Action Video Productions is a sole proprietorship service business that uses source documents, a general journal, a general ledger, worksheets, and a filing system to provide students with a usable practice set. The strength of this set is the use of source documents in conjunction with the daily business activities. This set can be completed after Chapter 6 of *College Accounting*.

Home Team Advantage Practice Set

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Home Team Advantage is a sole proprietorship merchandising business that uses source documents, special journals, a general ledger, a subsidiary ledger, a worksheet, accounting forms, and a filing system for student use. This very realistic retail business will

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Student Guide for QuickBooks Accountant with QuickBooks Accountant Templates

ISBN: 9780077639877 (MHID: 0077639871)

To better prepare students for accounting in the real world, end-of-chapter material in Price is tied to QuickBooks Accountant 2014 software. The accompanying study guide provides a step-by-step walkthrough for students on how to complete the problem in the software.

Sage 50 Complete Accounting Templates

Available on the Online Learning Center. Selected problems in the text are tied to templates created in Sage 50 Complete Accounting. Students use the accompanying guide to complete the problem in the software.

Online Learning Center (OLC)

www.mhhe.com/price14e

The Online Learning Center (OLC) is full of resources for students, including: Online Quizzing, PowerPoint Presentations, and Sage 50 Templates.

Excellent textbook for our community college students and dual credit accounting. Has all the bells and whistles we need to keep students interested in the topics and help them improve their grades.

—Marina Grau,
Houston Community College
—Southwest College

Acknowledgments

The authors are deeply grateful to the following accounting educators for their input during development of *College Accounting*, 14e. The feedback from these knowledgeable instructors provided the authors with valuable assistance in meeting the changing needs of the college accounting classroom.

Cornelia Alsheimer,
Santa Barbara City College

Julia Angel,
North Arkansas College

James R. Armbruster,
*Lawson State Community College –
Bessemer Campus*

Laura Bantz,
McHenry County College

Victoria Bentz,
Yavapai College

Anne Bikofsky,
College of Westchester

David Bland,
Cape Fear Community College

Patrick Borja,
Citrus College

Kathy Bowen,
Murray State College

Gerald Caton,
Yavapai College

Steven L. Christian,
Jackson Community College

Marilyn Ciolino,
Delgado Community College

Jean Condon,
*Mid-Plains Community College
Area (Nebraska)*

Joan Cook,
Milwaukee Area Technical College

Gisela Dicklin,
Edmonds Community College

Michael Discello,
Pittsburgh Technical Institute

Sid Downey,
Cochise College

Steven Ernest,
Baton Rouge Community College

Ann Esarco,
McHenry County College

Paul Fisher,
Rogue Community College

Allen Ford,
*Institute for the Deaf, Rochester
Institute of Tech*

Jeff Forrest,
Saint Louis Community College

David Forsyth,
Palomar College

Mark Fronke,
Cerritos College

Nancy Goehring,
Monterey Peninsula College

Renee Goffinet,
Spokane Community College

Jane Goforth,
North Seattle Community College

David Grooms,
Maui Community College

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College*

Gretchen Graham,
*Community College of Allegheny
County*

Marina Grau,
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Chad Grooms,
*Gateway Community and
Technical College*

Sue Gudmunson,
Lewis-Clark State College

Becky Hancock,
El Paso Community College

Christina Hata,
Miracosta College

Scott Hays,
*Central Oregon Community
College*

Mary Jane Hollars,
Vincennes University

R. Stephen Holman,
*Elizabethtown Community and
Technical College*

Ray Ingram,
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College*

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Jon Nitschke,
Montana State University

Joel Peralto,
University of Hawaii–Hawaii Community College

Shirley Powell,
Arkansas State University

Carol Reinke,
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Barbara Rice,
Gateway Community and Technical College

Reynold Robles,
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Morgan Rockett,
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Joan Ryan,
Clackamas Community College

Patricia Scales,
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Domenico Tavella,
Pittsburgh Technical Institute

Judy Toland,
Bucks County Community College

Donald Townsend,
Forsyth Technical Community College

Patricia Walczak,
Lansing Community College

Linda Whitten,
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Thank You . . .

WE ARE GRATEFUL for the outstanding support from McGraw-Hill/Irwin. In particular, we would like to thank Tim Vertovec Director; Steve Schuetz, Executive Brand Manager; Christina Sanders, Managing Development Editor; Bruce Gin, Senior Project Manager; Michael McCormick, Senior Buyer; Matt Baldwin, Senior Designer; Joanne Mennemeier, Photo Research Coordinator; and Ron Nelms, Media Project Manager.

Finally, we would like to thank our supplement authors and accuracy checkers: David Krug, Johnson County Community College; Mark McCarthy, East Carolina University; Debra Schmidt, Cerritos College; Anna Boulware, St. Charles Community College; Linda Muren, Cuyahoga Community College; Jeanine Metzler, Northampton Community College; Dominique Svarc, William Rainey Harper College; Jeannie Folk, College of DuPage; Kathleen O'Donnell, Onongada Community College; Jason Bess, Stautzenberger College; Beth Woods; Carol Yacht; Linda Flowers, Houston Community College; Matt Lowenkron; Renee Goffinet, Spokane Community College; and Teresa Alenikov, Cerritos College.

John Price • David Haddock • Michael Farina

The Price College Accounting textbook is a well written and planned out approach to a college accounting approach. It goes into more detail and coverage of topics than most college accounting textbooks that I have seen. Each chapter includes great examples and transactional analysis as the topics progress.

—Roger McMillian
Mineral Area College

To the Student

Welcome to *College Accounting*. This book and the accompanying study materials will help you bridge the gap from your first course in accounting to your next business course . . . and beyond, to your career.

Marginal Icons are used throughout the text to link content to support materials on the web or via other media, or to highlight consistent elements throughout the text:

This icon indicates that the content being discussed is related to internal control.

Continuing problems build on one another from chapter to chapter, allowing you to use the concepts you've just been introduced to in a chapter to revisit and further reinforce material you've learned in previous chapters.

The Quickbooks software grew out of the success of the personal finance software Quicken. Problems are pulled into Quickbooks, giving you another way to practice using software that you are likely to run into in the business world. There is also a Student Guide for Quickbooks Pro available to you as a printed supplement that will assist you in working with Quickbooks.

Sage 50 Complete Accounting (formerly known as Peachtree) is an accounting tool that you are likely to encounter if you decide to make accounting your career. This icon indicates that you can work the problem in Sage 50, gaining experience that will be invaluable once you graduate. The Sage 50 templates are available on the Online Learning Center.

McGraw-Hill's *Connect Accounting* system allows you to submit homework online if your professor chooses to utilize it in the classroom. Your professor will request that you obtain this software when you purchase your book if he/she plans to ask you to submit your homework online.

Self Reviews are a great way to double-check that you've understood what you've just read in your book or what your professor has just covered in lecture. There is a Self Review at the end of every section. Answers to the self reviews can be found at the end of each chapter so you can check your work and make sure you understand a topic before moving on to the next section.

Learning Objectives can be found at the beginning of each chapter as well as at the beginning of each section. The section opener objectives also contain a brief explanation for "Why It's Important" to study the concept presented.



Sage 50
Complete Accounting



Online Learning Center (www.mhhe.com/price14e) The website that accompanies Price/Haddock/Farina's *College Accounting*, 14e, is a great resource for you. Don't be afraid to use it! On the Online Learning Center (OLC), there are a lot of great materials that will help you not only get through your course, but also get a good grade and remember what you learned. You will find things like Practice Quizzes and PowerPoint® Slides.

To access the OLC, just go to the link above and look to the left. You'll see a link to the "Student Edition"—click on this and you will find a variety of Course-Wide Content in the top left corner, including accounting videos. Under this, you will see a drop-down menu from which you can choose whatever chapter you want and find additional resources.

Practice Sets *College Accounting*, 14e, comes with two different full-length practice sets (in addition to the Mini-Practice Sets included inside the textbook) that you can purchase to get additional practice applying the concepts you've learned in class. Your instructor can provide you with the answers so you can check your work.

Study Guide and Working Papers In addition to giving you a hard copy place to enter the answers to the questions, exercises, and problems your instructor assigns you in class, the Study Guide and Working Papers also include additional activities, exercises, true/false questions, and a demonstration problem that you can work—all of which give you more chances to practice what you're going to see on the test!

Our two main goals are to help you understand and apply accounting and prepare you for the future, whether that includes additional study or a new workplace. We hope the aids we've provided for you as listed above will help enhance your study and ultimately give you a greater understanding of accounting and how it applies in the real world.

Good luck with your studies. We think it will be well worth your efforts.

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College Accounting

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Accounting: The Language of Business

Google

www.google.com

There are so many careers out there for students to be curious about.

How do you find out about them? Most of us turn to the Internet—We get directions, check the local weather, and research news using *Google*.

Google's features and performance have grown over the years and attracted new users at an astounding rate. By 2000, *Google* officially became the world's largest search engine with its introduction of a billion-page index. As a publicly owned global Internet communications, commerce, and media company, *Google* hires a lot of accountants to record its business transactions.

You might be curious about a career in accounting. Maybe you're wondering what accountants do every day at companies like *Google* and who looks at the reports generated by their efforts. This information is not only essential to *Google's* management team, but many other groups rely on it as well. A final question, you may want to *Google*, is why can users trust the information that accountants have prepared?



thinking critically

Can you think of any of the organizations that would be interested in how *Google* is performing?

LEARNING OBJECTIVES

- 1-1.** Define accounting.
- 1-2.** Identify and discuss career opportunities in accounting.
- 1-3.** Identify the users of financial information.
- 1-4.** Compare and contrast the three types of business entities.
- 1-5.** Describe the process used to develop generally accepted accounting principles.
- 1-6.** Define the accounting terms new to this chapter.

NEW TERMS

- | | |
|---|---|
| <ul style="list-style-type: none"> accounting Accounting Standards Codification Accounting Standards Update accounting system auditing auditor's report certified public accountant (CPA) corporation creditor discussion memorandum economic entity entity exposure draft financial statements | <ul style="list-style-type: none"> generally accepted accounting principles (GAAP) governmental accounting international accounting management advisory services managerial accounting partnership public accountants separate entity assumption social entity sole proprietorship Statements of Financial Accounting Standards stock stockholders tax accounting |
|---|---|

Section 1

SECTION OBJECTIVES	TERMS TO LEARN
<p>>> 1-1. Define accounting. WHY IT'S IMPORTANT Business transactions affect many aspects of our lives.</p>	<p>accounting accounting system auditing certified public accountant (CPA) financial statements governmental accounting management advisory services managerial accounting public accountants tax accounting</p>
<p>>> 1-2. Identify and discuss career opportunities in accounting. WHY IT'S IMPORTANT There's something for everyone in the field of accounting. Accounting professionals are found in every workplace from public accounting firms to government agencies, from corporations to nonprofit organizations.</p>	
<p>>> 1-3. Identify the users of financial information. WHY IT'S IMPORTANT A wide variety of individuals and businesses depend on financial information to make decisions.</p>	

What Is Accounting?

Accounting provides financial information about a business or a nonprofit organization. Owners, managers, investors, and other interested parties need financial information in order to make decisions. Because accounting is used to communicate financial information, it is often called the “language of business.”

The Need for Financial Information

Suppose a relative leaves you a substantial sum of money and you decide to carry out your life-long dream of opening a small sportswear shop. You rent space in a local shopping center, purchase fixtures and equipment, purchase goods to sell, hire salespeople, and open the store to customers. Before long you realize that, to run your business successfully, you need financial information about the business. You probably need information that provides answers to the following questions:

- How much cash does the business have?
- How much money do customers owe the business?
- What is the cost of the merchandise sold?
- What is the change in sales volume?
- How much money is owed to suppliers?
- What is the profit or loss?

As your business grows, you will need even more financial information to evaluate the firm's performance and make decisions about the future. An efficient accounting system allows owners and managers to quickly obtain a wide range of useful information. The need for timely information is one reason that businesses have an accounting system directed by a professional staff.

Accounting Defined

Accounting is the process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties. An **accounting system** is designed to accumulate data about a firm's financial

>>1-1. OBJECTIVE

Define accounting.

affairs, classify the data in a meaningful way, and summarize it in periodic reports called **financial statements**. Owners and managers obtain a lot of information from financial statements. The accountant:

- establishes the records and procedures that make up the accounting system,
- supervises the operations of the system,
- interprets the resulting financial information.

Most owners and managers rely heavily on the accountant's judgment and knowledge when making financial decisions.

Accounting Careers

Many jobs are available in the accounting profession, and they require varying amounts of education and experience. Bookkeepers and accountants are responsible for keeping records and providing financial information about the business. Generally, bookkeepers are responsible for recording business transactions. In large firms, bookkeepers may also supervise the work of accounting clerks. Accounting clerks are responsible for recordkeeping for a part of the accounting system—perhaps payroll, accounts receivable, or accounts payable. Accountants usually supervise bookkeepers and prepare the financial statements and reports of the business.

Newspapers and websites often have job listings for accounting clerks, bookkeepers, and accountants:

- Accounting clerk positions usually require one to two accounting courses and little or no experience.
- Bookkeeper positions usually require one to two years of accounting education plus experience as an accounting clerk.
- Accountant positions usually require a bachelor's degree but are sometimes filled by experienced bookkeepers or individuals with a two-year college degree. Most entry-level accountant positions do not have an experience requirement. Both the education and experience requirements for accountant positions vary according to the size of the firm.

Accountants usually choose to practice in one of three areas:

- public accounting
- managerial accounting
- governmental accounting

Table 1.1 on page 6 shows a list of occupations with job duties that are similar to those of accountants and auditors.

PUBLIC ACCOUNTING

Public accountants work for public accounting firms. Public accounting firms provide accounting services for other companies. Usually they offer three services:

- auditing
- tax accounting
- management advisory services

The largest public accounting firms in the United States are called the “Big Four.” The “Big Four” are Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers.

Many public accountants are **certified public accountants (CPAs)**. To become a CPA, an individual must have a certain number of college credits in accounting courses, demonstrate good personal character, pass the Uniform CPA Examination, and fulfill the experience requirements of the state of practice. CPAs must follow the professional code of ethics.

Auditing is the review of financial statements to assess their fairness and adherence to generally accepted accounting principles. Accountants who are CPAs perform financial audits.

>> 1-2. OBJECTIVE

Identify and discuss career opportunities in accounting.

ABOUT ACCOUNTING

Accounting Services

The role of the CPA is expanding. In the past, accounting firms handled audits and taxes. Today accountants provide a wide range of services, including financial planning, investment advice, accounting and tax software advice, and profitability consulting. Accountants provide clients with information and advice on electronic business, health care performance measurement, risk assessment, business performance measurement, and information system reliability.

TABLE 1.1 Occupations with Similar Job Duties to Accountants and Auditors

Occupation	Job Duties	Entry-Level Education
Bookkeeping, Accounting, and Auditing Clerks	Bookkeeping, accounting, and auditing clerks produce financial records for organizations. They record financial transactions, update statements, and check financial records for accuracy.	High school diploma or equivalent
Budget Analysts	Budget analysts help public and private institutions organize their finances. They prepare budget reports and monitor institutional spending.	Bachelor's degree
Cost Estimators	Cost estimators collect and analyze data to estimate the time, money, resources, and labor required for product manufacturing, construction projects, or services. Some specialize in a particular industry or product type.	Bachelor's degree
Financial Analysts	Financial analysts provide guidance to businesses and individuals making investment decisions. They assess the performance of stocks, bonds, and other types of investments.	Bachelor's degree
Financial Examiners	Financial examiners ensure compliance with laws governing financial institutions and transactions. They review balance sheets, evaluate the risk level of loans, and assess bank management.	Bachelor's degree
Financial Managers	Financial managers are responsible for the financial health of an organization. They produce financial reports, direct investment activities, and develop strategies and plans for the long-term financial goals of their organization.	Bachelor's degree
Management Analysts	Management analysts, often called management consultants, propose ways to improve an organization's efficiency. They advise managers on how to make organizations more profitable through reduced costs and increased revenues.	Bachelor's degree
Personal Financial Advisors	Personal financial advisors give financial advice to people. They help with investments, taxes, and insurance decisions.	Bachelor's degree
Postsecondary Teachers	Postsecondary teachers instruct students in a wide variety of academic and vocational subjects beyond the high school level. They also conduct research and publish scholarly papers and books.	Doctoral or professional degree
Tax Examiners and Collectors, and Revenue Agents	Tax examiners and collectors, and revenue agents ensure that governments get their tax money from businesses and citizens. They review tax returns, conduct audits, identify taxes owed, and collect overdue tax payments.	Bachelor's degree
Top Executives	Top executives devise strategies and policies to ensure that an organization meets its goals. They plan, direct, and coordinate operational activities of companies and public or private-sector organizations.	Bachelor's degree

Source: Bureau of Labor Statistics, U.S. Department of Labor, Occupational Outlook Handbook, 2012–13 Edition, Accountants and Auditors, on the Internet at <http://www.bls.gov/ooh/business-and-financial/accountants-and-auditors.htm> (visited March 25, 2013).

Tax accounting involves tax compliance and tax planning. *Tax compliance* deals with the preparation of tax returns and the audit of those returns. *Tax planning* involves giving advice to clients on how to structure their financial affairs in order to reduce their tax liability.

Management advisory services involve helping clients improve their information systems or their business performance.

MANAGERIAL ACCOUNTING

Managerial accounting, also referred to as *private accounting*, involves working for a single business in industry. Managerial accountants perform a wide range of activities, including:

- establishing accounting policies,
- managing the accounting system,
- preparing financial statements,
- interpreting financial information,
- providing financial advice to management,
- preparing tax forms,
- performing tax planning services,
- preparing internal reports for management.

GOVERNMENTAL ACCOUNTING

Governmental accounting involves keeping financial records and preparing financial reports as part of the staff of federal, state, or local governmental units. Governmental units do not earn profits. However, governmental units receive and pay out huge amounts of money and need procedures for recording and managing this money.

Some governmental agencies hire accountants to audit the financial statements and records of the businesses under their jurisdiction and to uncover possible violations of the law. The Securities and Exchange Commission, the Internal Revenue Service, the Federal Bureau of Investigation, and Homeland Security employ a large number of accountants.

Users of Financial Information

The results of the accounting process are communicated to many individuals and organizations. Who are these individuals and organizations, and why do they want financial information about a particular firm?

>> 1-3. OBJECTIVE

Identify the users of financial information.

OWNERS AND MANAGERS

Assume your sportswear shop is in full operation. One user of financial information about the business is you, the owner. You need information that will help you evaluate the results of your operations and plan and make decisions for the future. Questions such as the following are difficult to answer without financial information:

- Should you drop the long-sleeved pullover that is not selling well from the product line, or should you just reduce the price?
- How much should you charge for the denim jacket that you are adding to the product line?
- How much should you spend on advertising?
- How does this month's profit compare with last month's profit?
- Should you open a new store?

SUPPLIERS

A number of other people are interested in the financial information about your business. For example, businesses that supply you with sportswear need to assess the ability of your firm to pay its bills. They also need to set a credit limit for your firm.

BANKS

What if you decide to ask your bank for a loan so that you can open a new store? The bank needs to be sure that your firm will repay the loan on time. The bank will ask for financial information prepared by your accountant. Based on this information, the bank will decide whether to make the loan and the terms of the loan.

TAX AUTHORITIES

The Internal Revenue Service (IRS) and other state and local tax authorities are interested in financial information about your firm. This information is used to determine the tax base:

- Income taxes are based on taxable income.
- Sales taxes are based on sales income.
- Property taxes are based on the assessed value of buildings, equipment, and inventory (the goods available for sale).

The accounting process provides all of this information.

REGULATORY AGENCIES AND INVESTORS

If an industry is regulated by a governmental agency, businesses in that industry have to supply financial information to the regulating agency. For example, the Federal Communications Commission receives financial information from radio and television stations. The Securities and Exchange Commission (SEC) oversees the financial information provided by publicly owned corporations to their investors and potential investors. Publicly owned corporations trade their shares on stock exchanges and in over-the-counter markets. Congress passed the Securities Act of 1933 and the Securities Exchange Act of 1934 in order to protect those who invest in publicly owned corporations.

The SEC is responsible for reviewing the accounting methods used by publicly owned corporations. The SEC has delegated this review to the accounting profession but still has the final say on any financial accounting issue faced by publicly owned corporations. If the SEC does not agree with the reporting that results from an accounting method, the SEC can suspend trading of a company's shares on the stock exchanges.

Major changes were made to the regulatory environment in the accounting profession with the passage of the Public Company Accounting Reform and Investor Protection Act of 2002 (also known as the Sarbanes-Oxley Act) that was signed into law by President Bush on August 2, 2002. The Act was the most far-reaching regulatory crackdown on corporate fraud and corruption since the creation of the Securities and Exchange Commission in 1934.

The Sarbanes-Oxley Act was passed in response to the wave of corporate accounting scandals starting with the demise of Enron Corporation in 2001, the arrest of top executives at WorldCom and Adelphia Communications Corporation, and ultimately the demise of Arthur Andersen, an international public accounting firm formerly a member of the "Big Five." Arthur Andersen was found guilty of an obstruction of justice charge after admitting that the firm destroyed thousands of documents and electronic files related to the Enron audit engagement. Although on May 31, 2008, the Supreme Court of the United States reversed the Andersen guilty verdict, Arthur Andersen has not returned as a viable business. As a result of the demise of Arthur Andersen, the "Big Five" are now the "Big Four."

The Act significantly tightens regulation of financial reporting by publicly held companies and their accountants and auditors. The Sarbanes-Oxley Act creates a five-member Public Company Accounting Oversight Board. The Board will have investigative and enforcement powers to oversee the accounting profession and to discipline corrupt accountants and auditors. The Securities and Exchange Commission will oversee the Board. Two members of the Board will be certified public accountants, to regulate the accountants who audit public companies,

and the remaining three must not be and cannot have been CPAs. The chair of the Board may be held by one of the CPA members, provided that the individual has not been engaged as a practicing CPA for five years.

Major provisions of the bill include rules on consulting services, auditor rotation, criminal penalties, corporate governance, and securities regulation. The Act prohibits accountants from offering a broad range of consulting services to publicly traded companies that they audit and requires accounting firms to change the lead audit or coordinating partner and the reviewing partner for a company every five years. Additionally, it is a felony to “knowingly” destroy or create documents to “impede, obstruct or influence” any existing or contemplated federal investigation. Auditors are also required to maintain all audit or review work papers for seven years. Criminal penalties, up to 20 years in prison, are imposed for obstruction of justice and the Act raises the maximum sentence for defrauding pension funds to 10 years.

Chief executives and chief financial officers of publicly traded corporations are now required to certify their financial statements and these executives will face up to 20 years in prison if they “knowingly or willfully” allow materially misleading information into their financial statements. Companies must also disclose, as quickly as possible, material changes in their financial position. Wall Street investment firms are prohibited from retaliating against analysts who criticize investment-banking clients of the firm. The Act contains a provision with broad new protection for whistle-blowers and lengthens the time that investors have to file lawsuits against corporations for securities fraud.

By narrowing the type of consulting services that accountants can provide to companies that they audit, requiring auditor rotation, and imposing stiff criminal penalties for violation of the Act, it appears that this new legislation will significantly help to restore public confidence in financial statements and markets and change the regulatory environment in which accountants operate.

CUSTOMERS

Customers pay special attention to financial information about the firms with which they do business. For example, before a business spends a lot of money on a new computer system, the business wants to know that the computer manufacturer will be around for the

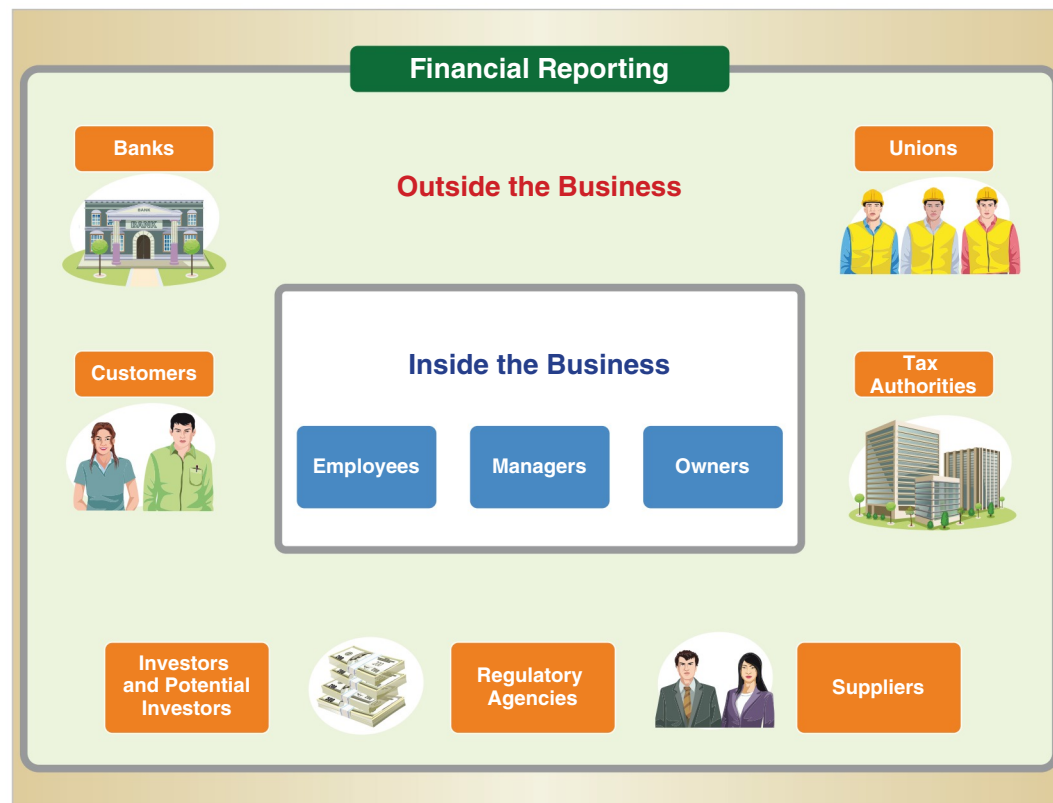


FIGURE 1.1

Users of Financial Information