



27TH EDITION

Accounting

WARREN / REEVE / DUCHAC



ACCOUNTING

27e

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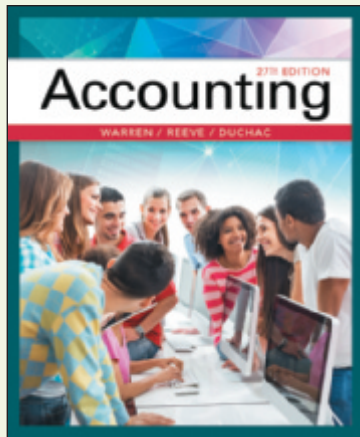
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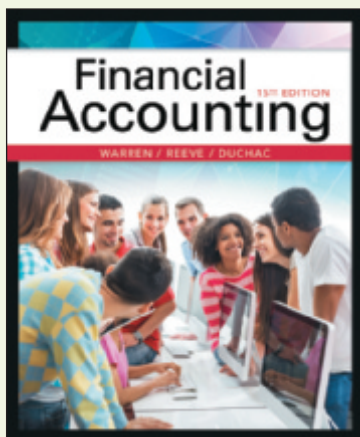
The Warren/Reeve/Duchac Family

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Sole Proprietorship Approach

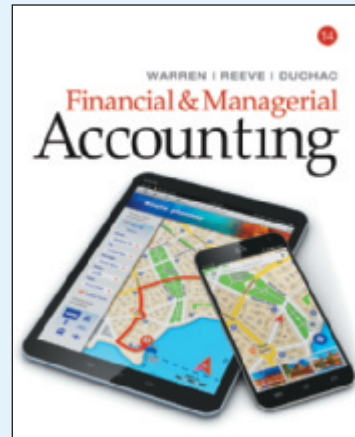


- 26 Chapters
- 65% Financial Accounting/
35% Managerial Accounting

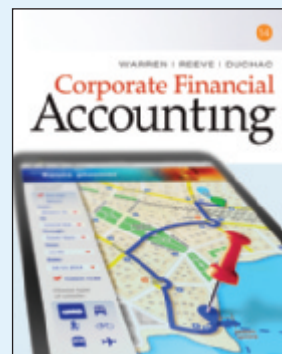


- Financial Chapters 1–17 from
Accounting, 27e

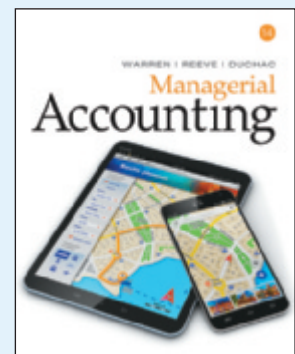
Corporate Approach



- 26 Chapters
- 50% Financial Accounting/
50% Managerial Accounting



- Chapters 1–14
from *Financial &
Managerial
Accounting, 14e*



- Chapters 13–26
from *Financial &
Managerial
Accounting, 14e*

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The Warren Vision

Warren/Reeve/Duchac's *Accounting 27e* gives students a solid foundation in accounting to prepare them for future business courses and the real world.

1. Helps students connect concepts to the bigger picture with features such as the new **Chapter-Opening Schema**.

2. **Accounting Cycle Coverage** provides an unmatched foundation so students are prepared to succeed in later chapters.



3. Helps learners appreciate why accounting is important to business and a prosperous society with new tools such as the **Why It Matters Concept Clips**.



4. A **presentation style** built for the way this generation reads and assimilates information.



Features

Roadmap for Success

Warren/Reeve/Duchac's *Accounting 27e* makes it easy for you to give students a solid foundation in accounting without overwhelming students. Warren covers the fundamentals AND motivates students to learn by showing how accounting is important to a business.

Built for Today's Students

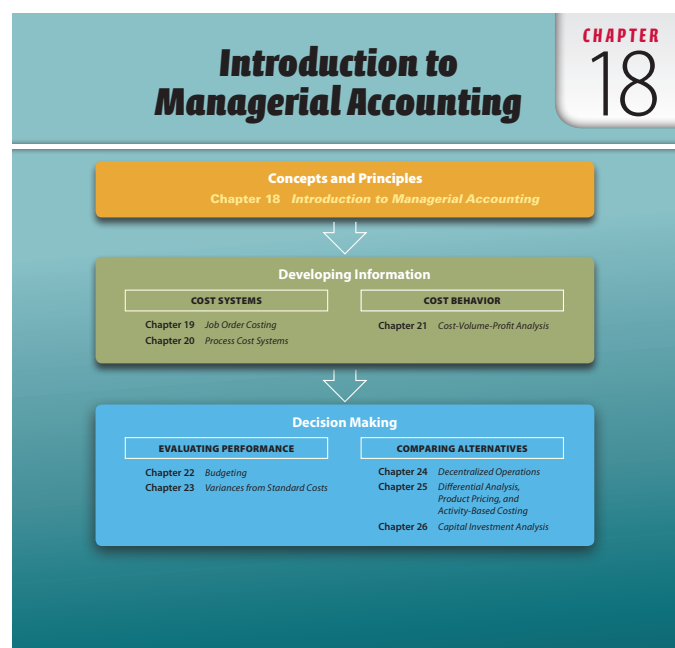
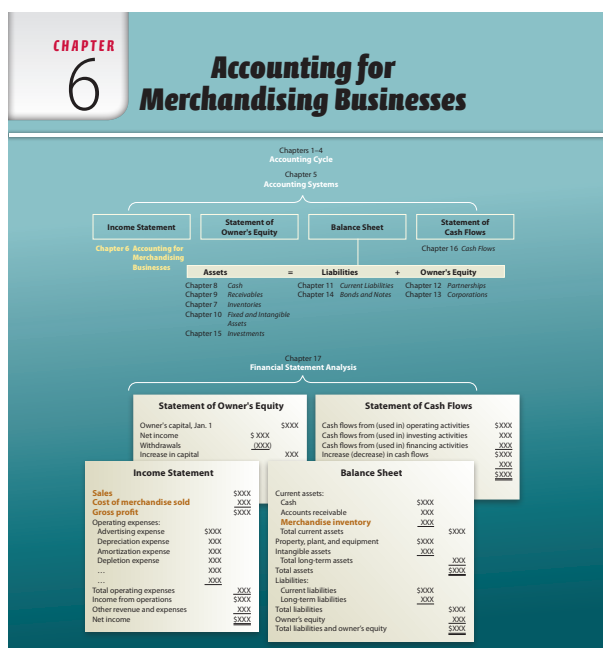
The Warren/Reeve/Duchac presentation style provides content in a way that this generation reads and assimilates information.

- Short, concise paragraphs and bullets
- Stepwise progression
- Meaningful illustrations and graphs

Hallmarks of the Revision

New schemas provide a roadmap of accounting that emphasizes the big picture. Each chapter begins with a new graphic Schema, or Roadmap of Accounting, that shows readers how the chapter material fits within the larger context of the overall book. With this approach, students view chapter concepts as part of a larger whole rather than as mere independent pieces of knowledge, for a truly functional understanding of accounting.

Financial and managerial sections use separate schemas. A four-part schema (Chs. 1–4) demonstrates how chapter content integrates within the accounting cycle. The financial accounting chapters' schema (Chs. 5–17) highlights chapter content within a set of integrated financial statements. A separate managerial accounting schema (Chs. 18–26) shows how chapter content integrates within the managerial accounting functions.



Revised and refreshed real company chapter openers engage readers from the start. New and fresh chapter openers introduce and briefly describe a real company and how its challenges relate to the chapter content. Links to this opening company appear throughout the chapter to reinforce the importance of what readers are learning.



Link to Best Buy
Best Buy values its inventory at lower of cost or market based upon cost and the amount it expects to realize from the sale.

Thus, the merchandise would be valued at \$650, which is the lower of its cost of \$1,000 and its market value of \$650.

The lower-of-cost-or-market method can be applied in one of three ways. The cost, market price, and any declines could be determined for:

- Each item in the inventory
- Each major class or category of inventory
- Inventory as a whole

The amount of any price decline is included in the cost of merchandise sold. This, in turn, reduces gross profit and net income in the period in which the price declines occur. This matching of price declines to the period in which they occur is the primary advantage of using the lower-of-cost-or-market method.

Revised end-of-chapter assignments (homework) provide important hands-on practice. Refined, meaningful review and applications at the end of each chapter include Discussion Questions, Practice Exercises (A and B versions), Exercises, Problems (Series A and B), and Cases & Projects that emphasize ethics, teamwork, and communication skills.

Cases & Projects



CP 5-1 Ethics in Action

Netbooks Inc. provides accounting applications for business customers on the Internet for a monthly subscription. Netbooks customers run their accounting system on the Internet; thus, the business data and accounting software reside on the servers of Netbooks Inc. The senior management of Netbooks believes that once a customer begins to use Netbooks, it is very difficult to cancel the service. That is, customers are “locked in” because it is difficult to move the business data from Netbooks to another accounting application even though the customers own their own data. Therefore, Netbooks has decided to entice customers with an initial low monthly price that is half the normal monthly rate for the first year of services. After a year, the price will be increased to the regular monthly rate. Netbooks management believes that customers will have to accept the full price because customers will be “locked in” after one year of use.

- Discuss whether the half-price offer is an ethical business practice.
- Discuss whether customer “lock-in” is an ethical business practice.



CP 5-2 Team Activity

The two leading software application providers for supply chain management (SCM) and customer relationship management (CRM) software are JDA and Salesforce.com, respectively. In groups of two or three, go to the website of each company (www.jda.com and www.salesforce.com, respectively) and list the services provided by each company's software.

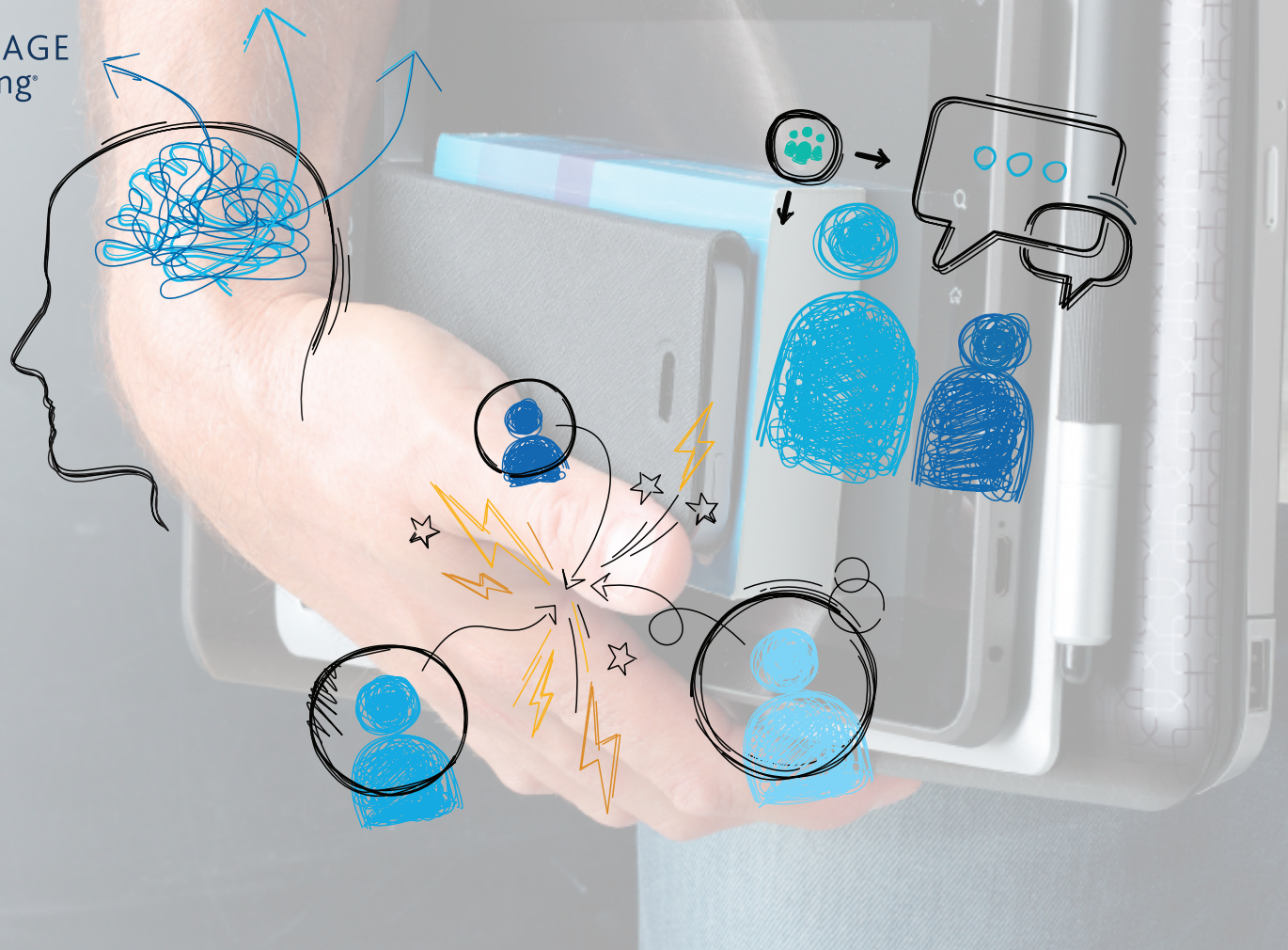


CP 5-3 Communication

Internet-based accounting software is a recent trend in business computing. Major software firms such as Oracle, SAP, and NetSuite are running their core products on the Internet using cloud computing. NetSuite is one of the most popular small-business Internet-based accounting systems.



Go to NetSuite Inc.'s website at www.netsuite.com. Read about the product and prepare a memo to management defining cloud-based accounting. Also outline the advantages and disadvantages of using cloud-based accounting compared to running software on a company's internal computer network.



Close the Gap

Between Homework and Exam Performance
with CengageNOWv2.

We've talked with hundreds of accounting instructors across the country, and we are learning that online homework systems have created a new challenge in the accounting course.

We are hearing that students perform well on the homework but poorly on the exam, which leads instructors to believe that students are not truly learning the content, but rather are memorizing their way through the system.



CengageNOWv2 better prepares students for the exam by providing an online homework experience that is similar to what students will experience on the exam and in the real world.

Read on to see how CengageNOWv2 helps close this gap.

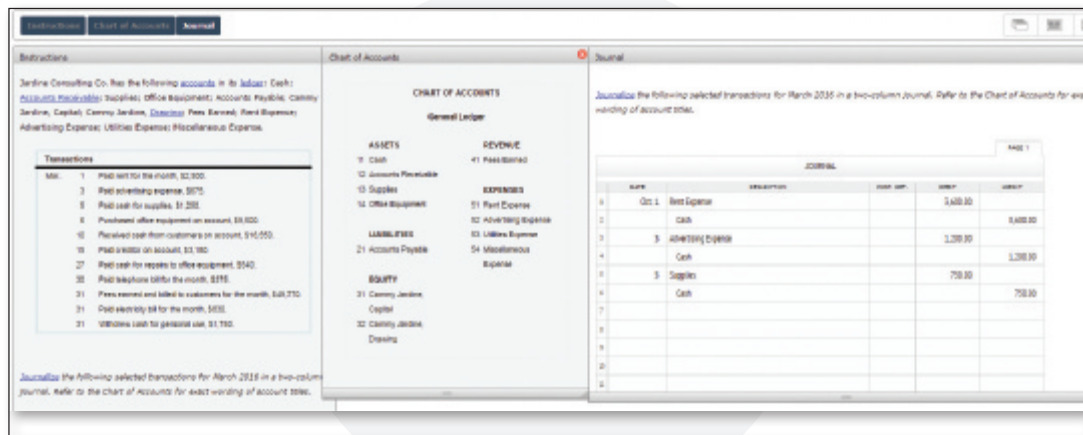
Closing the gap, one step at a time.



Multi-Panel View

One of the biggest complaints students have about online homework is the scrolling, which prevents students from seeing the big picture and understanding the accounting system. This new Multi-Panel View in CengageNOWv2 enables students to see all the elements of a problem on one screen.

- Students make connections and see the tasks as connected components in the accounting process.
- Dramatically reduced scrolling eliminates student frustration.



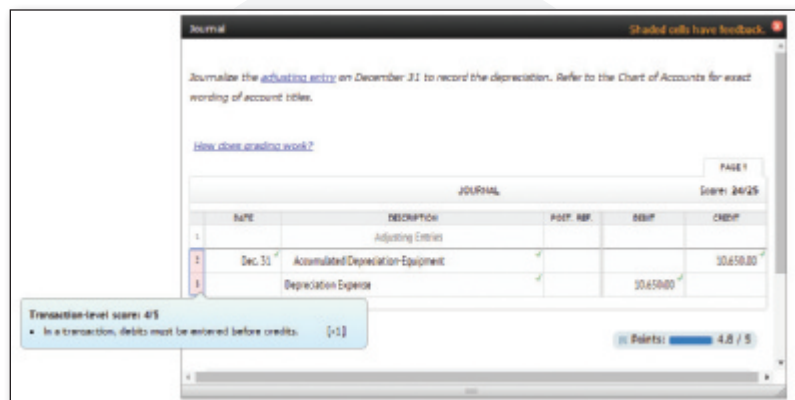
Blank Sheet of Paper Experience

Many students perform well on homework but struggle when it comes to exams. Now, with the new Blank Sheet of Paper Experience, students must problem-solve on their own, just as they would if taking a test on a blank sheet of paper. This discourages overreliance on the system.

- Students must refer to the Chart of Accounts and decide for themselves which account is impacted.
- The number of accounts in each transaction is not given away.
- Whether the account should be debited or credited is not given away.
- Transactions may be entered in any order (as long as the entries are correct).

Adaptive Feedback

Adaptive Feedback responds to students based upon their unique answers and alerts them to the type of error they have made without giving away the answer.



From Motivation to Mastery

MOTIVATION:

Engage students and better prepare them for class.

NEW Video: Animated Concept Clips

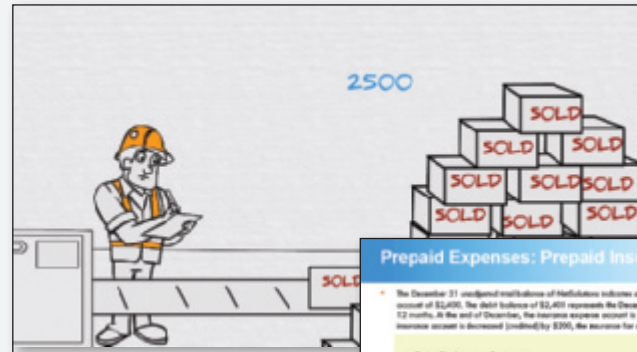
Animated Concept Clips are brief captivating video clips that expose students to why a concept is important and how the concept is used in the real world.

Video: Tell Me More

Tell Me More lecture activities explain the core concepts of the chapter through an engaging auditory and visual presentation that is ideal for all class formats—flipped mode, online, hybrid, face-to-face.

Adaptive Study Plan

The Adaptive Study Plan is an assignable/gradable study center that adapts to each student's unique needs and provides a remediation pathway to keep students progressing.



2500

Prepaid Expenses: Prepaid Insurance

- The December 31 unadjusted trial balance of Hoffelstein indicates a balance in the prepaid insurance account of \$2,400. The debit balance of \$2,400 represents the December 1 prepayment of insurance for 12 months. At the end of December, the unexpired insurance amount is increased (debited) and the expired insurance amount is decreased (credited) by \$200, the insurance for one month.

Dec. 31	Insurance Expense	200	
	Prepaid Insurance		200
	Insurance expired (\$2,400 ÷ 12)		

Accounting Equation Impact

Assets		=	Liabilities	+	Stockholders' Equity (Expense)
Prepaid Insurance	2,400				Insurance Expense
Adj. Bal.	2,200				2,200

↓ decrease ↑ increase

APPLICATION:

Help students apply accounting concepts.

Video: Show Me How

Linked to end-of-chapter problems in CengageNOWv2, Show Me How problem demonstration videos provide a step-by-step model of a similar problem.

Adjusting entry for supplies

The balance in the supplies account, before adjustment at the end of the year, is \$2,300. Journalize the adjusting entry required if the amount of supplies on hand at the end of the year is \$80.

Supplies, before adjustment	\$2,300
Supplies on hand, December 31	(880)
Supplies used (amount of adjustment)	<u>\$1,420</u>

Journal

Date	Description	Post. Ref.	Debit	Credit
Dec. 31	Supplies Expense		1,420	
	Supplies			1,420

MASTERY:

Teach students to go beyond memorization to true understanding.

Interactive **Dynamic Exhibits** allow students to change the variables in a scenario and see how a change ripples through the accounting system. This helps students see connections and relationships like never before!

Mastery Problems allow students to connect concepts across multiple objectives and demonstrate mastery.

Transactions

January 5, Purchased merchandise on account from a supplier for \$11,900 with credit terms 1/10, n/30.

Move the slider to change the values.

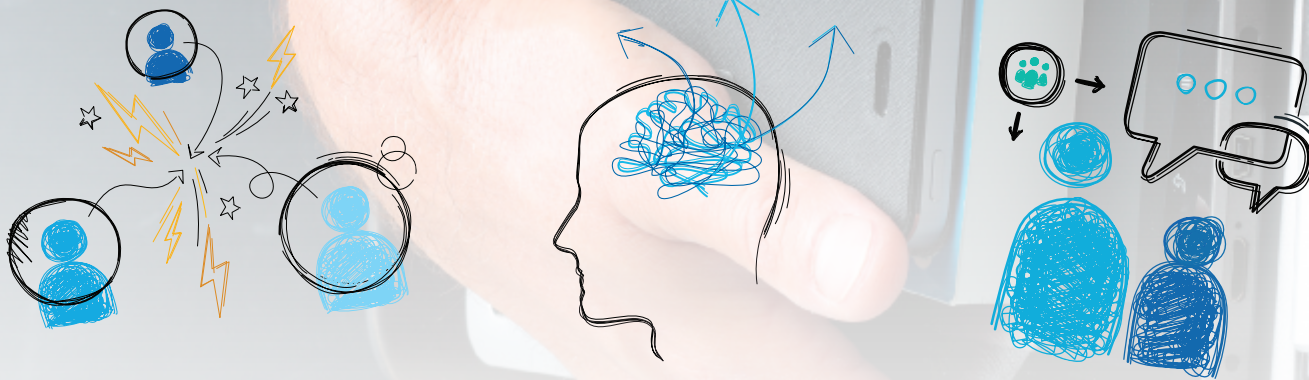
Credit period: 1/10, n/30
Amount of invoice: \$11,900
Discount: 1,183.10
Net amount: 10,716.90

Journal

Date	Description	Post. Ref.	Debit	Credit
Jan. 05	Merchandise Inventory	110	11,900	
	Accounts Payable	110		11,900

Assets = Liabilities + Owner's Equity

Merchandise Inventory	11,900	Accounts Payable	11,900
Jan. 05	11,900	Jan. 05	11,900



And that's not all...

You might also want to learn about the MindTap eReader, our LMS integration options, and more.

MindTap eReader

The MindTap eReader is the most robust digital reading experience available.

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- Note-taking, highlighting, and more.
- Offline access to smartphones.
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The MindTap eReader also features ReadSpeaker®, an online text-to-speech application that vocalizes, or “speachenables,” online educational content.

LMS Integration

CengageNOWv2 can be seamlessly integrated with most Learning Management Systems. Adopters will enjoy:

- **A Seamless User Experience**—Access your Cengage resources seamlessly using only your LMS login credentials.
- **Simplified Registration Process**—Get students up and running faster!
- **Content Customization and Deep Linking**—Use our Content Selector to create a unique learning path for students that blends your content with Cengage Learning activities, eText, and more within your LMS course.
- **Automatic Grade Synchronization***—Need to have your course grades recorded in your LMS gradebook? No problem. Simply select the activities you want synched and grades will automatically be recorded in your LMS gradebook.

* Grade synchronization is currently available with Blackboard, Brightspace (powered by D2L), Angel 8, and Canvas.

ADA Accessibility

Cengage Learning is committed to making its educational materials accessible to users of all abilities. We are steadily working to increase accessibility and create a full spectrum of usable tools, features, and choices that are accessible for users of all abilities. All new Cengage Learning products and services are designed with accessibility in mind.

- With the latest release of CengageNOWv2:
 - Images and graphics have been converted to HTML tables so that they can be read by screen readers.
 - The assignment experience now offers proper heading structure to support easy navigation with assistive technology.
- CengageNOWv2 solutions offer high contrast and well-structured HTML, which helps support screen reader interactivity.
- All videos are created with closed captioning and transcripts available for download.
- The MindTap eReader is HTML-based and compatible with most screen reading assistive software. The eReader supports browser settings for high-contrast narrative text, variable font sizes, and multiple foreground and background color options.

For more information on accessibility, please visit www.cengage.com/accessibility.

iPad Tablet Compatibility

CengageNOWv2 is fully compatible with the iPad and other tablet devices, with the exception of General Ledger (CLGL) and Excel Tutorials, which are flash based.

New to This Edition

In this edition, the following improvements have been made to all chapters:

- Added schema at the beginning of each chapter to show students how the chapter material fits within the overall textbook.
 - In financial chapters, the schema links material to the accounting cycle or the financial statements.
 - In managerial chapters, the schema moves through developing information and ultimately into evaluating and analyzing information to make decisions.
- Updated dates and real company information for currency.
- Added “Link to” for the opening company to interweave real-world references through each chapter.
- Refreshed end-of-chapter assignments with different numerical values and updated information.
- Revised Cases & Projects to include Ethics in Action, Team Activity, and Communication in every chapter.

Chapter 1

- Added new Exhibit 1 to show a more accurate nature of the flow of information to users.
- Added equality of accounting equation after each transaction A through H.
- Report form of balance sheet shown in Exhibit 9. Report form is used throughout remaining chapter and end of chapter.
- Changed account form presentations to report form presentations.
- Updated ratio of liabilities to owner’s equity.

Chapter 2

- Revised Exhibit 3 rules for debits and credits to ease student understanding.
- Inserted account numbers in trial balance of Exhibit 7. Account numbers are added to trial balances in selected end-of-chapter solutions where appropriate.
- Added account numbers to the unadjusted trial balance.
- Updated Microsoft Business Connection box.

Chapter 3

- Revised Nature of the Adjusting Process and updated for new revenue recognition standard.
- New Exhibits 1 and 2.
- Reordered discussion of adjustments from simplest to more complex as follows:
 - Accrued Revenues
 - Accrued Expenses
 - Unearned Revenues

- Prepaid Expenses
 - Depreciation
- Inserted account numbers of NetSolutions in trial balances for Exhibits 3 and 9. Account numbers are added to trial balances in selected end-of-chapter items and solutions where appropriate.

Chapter 4

- Revised Exhibit 1 for report form of balance sheet.
- Revised discussion of closing entries from four closing entries to just two closing entries.
 - The temporary account Income Summary is no longer used in the closing process.
 - Updated closing process to the one used in modern, computerized accounting systems.
 - Simpler for students to understand.
 - First closing entry closes revenues and expenses yielding net income or net loss, which is transferred to owner’s capital, and ties into the income statement.
 - Second closing entry closes owner’s drawing account to owner’s capital account.
- Revised Exhibits 3 and 4 to reflect new two-entry closing method.
- Added new Exhibit 8 that ties the Chapters 1–4 schema into the accounting cycle and summarizes the accounting cycle.
- Inserted account numbers into trial balances for Exhibits 7 (NetSolutions), 11, 14, and 17 (Kelly Consulting). Account numbers are added to trial balances in selected end-of-chapter items and solutions where appropriate.
- Added new Appendix 2, Reversing Entries, at the end of the chapter. Reversing entries are consistent with most modern, computerized accounting systems.

Chapter 5

- Added a new dedicated schema for Chapter 5, which shows the revenue collection cycle and purchase payment cycle as part of an accounting system.

Chapter 6

- Integrated the new revenue recognition standard (Revenue from Contracts with Customers) throughout the chapter and the NetSolutions illustration.
- Added new Exhibit 2, which shows the chart of accounts for NetSolutions. The chart of accounts includes accounts for Estimated Returns Inventory and Customer Refunds Payable.

- Added journal entry for purchases discounts “not taken.”
 - Reorganized sales transactions discussion:
 - Journal entry for sales discount “not taken” has been added.
 - Adjusting entries for customer refunds, allowances, and returns have been moved to the end of the chapter with the adjusting entry for inventory shrinkage. This simplifies the initial discussion of customer refunds, allowances, and returns.
 - Discussion of customer refunds, allowances, and returns has been changed so that the discussion flows from simple to complex as follows:
 - ⊙ Customer cash refunds (no return)
 - ⊙ Customer allowance against their accounts receivable (no return; credit memorandum)
 - ⊙ Customer return with refund or allowance
 - Revised Exhibit 9 (Recording Merchandise Inventory Transactions) to exclude the effects of adjusting entries for customer refunds, allowances, and returns.
 - Revised Exhibit 10 (Illustration of Merchandise Inventory Transactions for Seller and Buyer) to include a customer cash refund and a return with an allowance (credit) memorandum to the customer’s accounts receivable.
 - Revised discussion of the adjusting process for a merchandise business to include the adjustments for customer refunds, allowances, and returns. The discussion is ordered from simple to complex with the first adjustment (the simplest) for inventory shrinkage followed by the more complex adjustments for customer refunds, allowances, and returns.
 - Updated NetSolutions financial statements (Exhibits 11, 12, 13, and 14) include the effects of the new revenue recognition standard. For example, the balance sheet (Exhibit 14) includes Estimated Returns Inventory and Customer Refunds Payable. Note that this is consistent with the chart of accounts presented in Exhibit 2.
 - The closing process has been changed to use only two closing entries. This is consistent with the closing entries in Chapter 4. The first closing entry closes the revenue and expense accounts to the owner’s capital account. Owner’s capital account is credited for net income and debited for a net loss. The second closing entry closes the owner’s drawing account to the owner’s capital account.
 - The chapter appendix (The Periodic Inventory System) using NetSolutions has been revised to include the effects of the new revenue recognition standard.
 - The end-of-chapter materials have been revised to include the effects of the chapter reorganization.
- Chapter 7**
- Added new Business Connection boxes:
 - *Pawn Stars* and Specific Identification
 - Computerized Perpetual Inventory Systems
 - Good Samaritan
- Chapter 8**
- Revised chapter title to delete reference to Sarbanes-Oxley.
 - Exhibit 2 changed from Nike to eBay (consistent with chapter opener).
 - Updated example in Ethics box.
 - Added new Business Connection boxes:
 - Mobile Payments
 - Managing Apple’s Cash
- Chapter 9**
- New opening company, Keurig Green Mountain, Inc.
 - Added new Business Connection boxes:
 - Warning Signs
 - Failure to Collect
- Chapter 10**
- Changed title to Long-Term Assets: Fixed and Intangible.
 - New Business Connection box on Fixed Assets.
 - Reorganized chapter as follows:
 - Capital and Revenue Expenditures now appears after discussion of depreciation and before the discussion of disposal of fixed assets. Capital and Revenue Expenditures section is now titled Repair and Improvements.
 - Partial-Year Depreciation is now covered as a separate section after all three depreciation methods have been discussed.
 - New Exhibit 3 (Depreciation Expense).
 - New Exhibit 4 (Straight-Line Method).
 - Added journal entry for recording straight-line depreciation.
 - Book value emphasized in discussion of all three depreciation methods.
 - New Exhibit 5 (Straight-Line Method: Depreciation Expense and Book Value).
 - Added journal entry for recording units-of-activity method.
 - New Exhibit 6 (Units-of-Activity Method).
 - Added journal entry for recording double-declining-balance method.
 - New Exhibit 7 (Double-Declining-Balance Method).

- New Partial-Year Depreciation section.
- Added new Repair and Improvements section.
- Added new Business Connection box on Downsizing.

Chapter 11

- Refreshed Financial Analysis and Interpretation discussion of quick ratio.
- Added Business Connection box on State Pension Obligations.
- Updated federal wage bracket withholding information.

Chapter 12

- Closing entries are changed to reflect a single-stage approach to closing—closing revenues and expenses to partnership capital directly, without using an income summary account.
- New entries are provided to illustrate closing the partner drawing accounts.
- The term “net assets” is more clearly defined.
- Revised Exhibit 7, Statement of Partnership Liquidation: Loss on Realization—Capital Deficiency, to provide a clearer presentation of the transactions steps.

Chapter 13

- Google name changed to Alphabet (Google), Inc.
- Moved Stock Splits earlier in the chapter. It is now Objective 5, which follows dividends (Obj. 4).
- Treasury stock is now Objective 6.
- New Business Connections boxes:
 - Excerpts from Alphabet (Google)’s Bylaws
 - You Have No Vote
 - Treasury Stock or Dividends?

Chapter 14

- Added Business Connection box on Investor Bond Price Risk.
- Refreshed Financial Analysis and Interpretation discussion of times interest earned, focusing on intra-industry comparisons.

Chapter 15

- Refreshed Interest Timeline exhibits to clearly illustrate the timing of interest accruals.

Chapter 16

- Added Business Connection boxes:
 - Cash Crunch!
 - Growing Pains at Twitter
- Updated and expanded Financial Analysis and Interpretation discussion of free cash flow.

Chapter 17

- Revised learning objectives on liquidity analysis and solvency analysis.
- Added learning objective on Analyzing and Interpreting Financial Statements.
- Name changes to several ratios:
 - From “number of times interest charges are earned” to “times interest earned”
 - From “ratio of assets to sales” to “asset turnover”
 - From “rate earned on total assets” to “return on total assets”
 - From “rate earned on stockholders’ equity” to “return on stockholders’ equity”
 - From “rate earned on common stockholders’ equity” to “return on common stockholders’ equity”
- Refreshed Exhibit 13, Summary of Analytical Measures.
- Added Business Connection boxes:
 - Flying off the Shelves
 - Liquidity Crunch at Radio Shack
 - Gearing for Profit
- Updated Comprehensive Problem for Nike’s recent financial statements.

Chapter 18

- Revised chapter title.
- Added new learning objective on Sustainability and Accounting.
- Added Business Connection box on Line and Staff for Service Companies.

Chapter 19

- Added Business Connection boxes:
 - 3D Printing
 - Advanced Robotics

Chapter 20

- References to “just-in-time processing” are changed to “lean manufacturing” to reflect use of more contemporary terms.
- Added new Business Connection box on Sustainable Papermaking.

Chapter 21

- Added Business Connection boxes:
 - Booking Fees
 - Airline Industry Break-Even

Chapter 22

- Added new Business Connection box on Mad Men; it shows the U.S. companies with the largest advertising budgets.

Chapter 23

- Revised chapter title.

Chapter 24

- Revised chapter title.
- Refreshed Exhibit 3, Responsibility Accounting Reports for Cost Centers.
- Added Business Connection box on Coca-Cola Company: Go West Young Man.

Chapter 25

- Eliminated the step structure at the beginning of the chapter to provide a less complex analysis framework.

- Improved the explanation of the differential analysis table illustration at the beginning of the chapter.
- The differential make vs. buy analysis table has an added revenue line that is set at “zero.” Thus, income and loss can now be arithmetically determined.
- Added new Business Connection box on The ABC’s of Schwab; it shows how Charles Schwab Corporation uses activity-based costing.

Chapter 26

- Added new section on capital investment analysis for sustainability.
- Added new exercises for capital investment analysis for sustainability.

Instructor Resources

Solutions Manual

Author-written and carefully verified multiple times to ensure accuracy and consistency with the text, the Solutions Manual contains answers to the Discussion Questions, Practice Exercises, Exercises, Problems (Series A and Series B), Continuing Problems, Comprehensive Problems, and Cases & Projects that appear in the text. These solutions help you easily plan, assign, and efficiently grade assignments.

Test Bank

Test Bank content is delivered via Cengage Learning Testing, powered by Cognero®, a flexible, online system that allows you to:

- Author, edit, and manage test bank content
- Create multiple test versions in an instant
- Deliver tests from your LMS, from your classroom, or through CengageNOWv2
- Export tests in Word format

Companion Website

This robust companion website provides immediate access to a rich array of teaching and learning resources—including the Instructor’s Manual, PowerPoint slides, and Excel Template Solutions. Easily download the instructor resources you need from the password-protected, instructor-only section of the site.

Instructor’s Manual Discover new ways to engage your students by using the Instructor’s Manual ideas for class discussion, group learning activities, writing exercises, and Internet activities. Moreover, simplify class preparation by reviewing a brief summary of each chapter, a detailed chapter synopsis, teaching tips regarding a suggested approach to the material, questions students frequently ask in the classroom, lecture aids, and demonstration problems in the Instructor’s Manual. Quickly identify the assignments that best align your course with the

assignment preparation grid that includes information about learning objective coverage, difficulty level and Bloom’s taxonomy categorization, time estimates, and accrediting standard alignment for business programs, AICPA, ACBSP, and IMA.

PowerPoint Slides Bring your lectures to life with slides designed to clarify difficult concepts for your students. The lecture PowerPoints include key terms and definitions, equations, examples, and exhibits from the textbook. Descriptions for all graphics in the PowerPoints are included to enhance PowerPoint usability for students with disabilities.

Excel Template Solutions Excel Templates are provided for selected long or complicated end-of-chapter exercises and problems to assist students as they set up and work the problems. Certain cells are coded to display a red asterisk when an incorrect answer is entered, which helps students stay on track. Selected problems that can be solved using these templates are designated by an icon in the textbook and are listed in the assignment preparation grid in the Instructor’s Manual. The Excel Template Solutions provide answers to these templates.



Practice Set Solutions Establish a fundamental understanding of the accounting cycle for your students with Practice Sets, which require students to complete one month of transactions for a fictional company. Brief descriptions of each Practice Set are provided in the Table of Contents. The Practice Set Solutions provide answers to these practice sets.

Student Resources

Study Guide

Now available free in CengageNOWv2, the Study Guide allows students to easily assess what they know with a “Do You Know” checklist covering the key points in each chapter. To further test their comprehension, students can work through Practice Exercises, which include a “strategy” hint and solution so they can continue to practice applying key accounting concepts.

Working Papers

Students will find the tools they need to help work through end-of-chapter assignments with the Working Papers. The preformatted templates provide a starting point by giving students a basic structure for problems and journal entries. Working Papers are available in a printed format as a bundle option.

Practice Sets

For more in-depth application of accounting practices, instructors may choose from among six different Practice Sets for long-term assignments. Each Practice Set requires students to complete one month of transactions for a fictional company. Practice Sets can be solved manually or with the Cengage Learning General Ledger software.



Website

Designed specifically for your students' accounting needs, this website features student PowerPoint slides and Excel Templates, along with the Study Guides.

- **PowerPoint Slides:** Students can easily take notes or review difficult concepts with the student version of this edition's PowerPoint slides.
- **Excel Templates:** These Excel Templates help students stay on track. If students enter an incorrect answer in certain cells, a red asterisk will appear to let them know something is wrong. Problems that can be solved using these templates are designated by an icon.



Acknowledgments

The many enhancements to this edition of *Accounting* are the direct result of one-on-one interviews, surveys, reviews, and focus groups with instructors at institutions across the country. We would like to take this opportunity to thank those who helped us better understand the challenges of the principles of accounting course and provided valuable feedback on our content and digital assets.

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Practice Set: Lawn Ranger Landscaping

This set covers the complete accounting cycle for a service business operated as a sole proprietorship. Students follow a narrative of transactions to make general journal entries. Includes instructions for an optional solution with no debits and credits. This set can be completed manually or with the General Ledger software.

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Practice Set: Fit & Fashionable

This set is a merchandising business operated as a sole proprietorship. It includes a general journal, special journals, and source documents and can be completed manually or with the General Ledger software.

Practice Set: Chic Events by Jada

This set is a merchandising business operated as a proprietorship. It includes payroll transactions and purchases and sales with discounts, along with source documents. It can be completed manually or with the General Ledger software.

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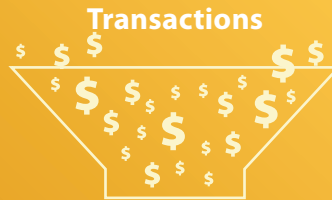
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Introduction to Accounting and Business

Chapter 1



Accounting System

Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

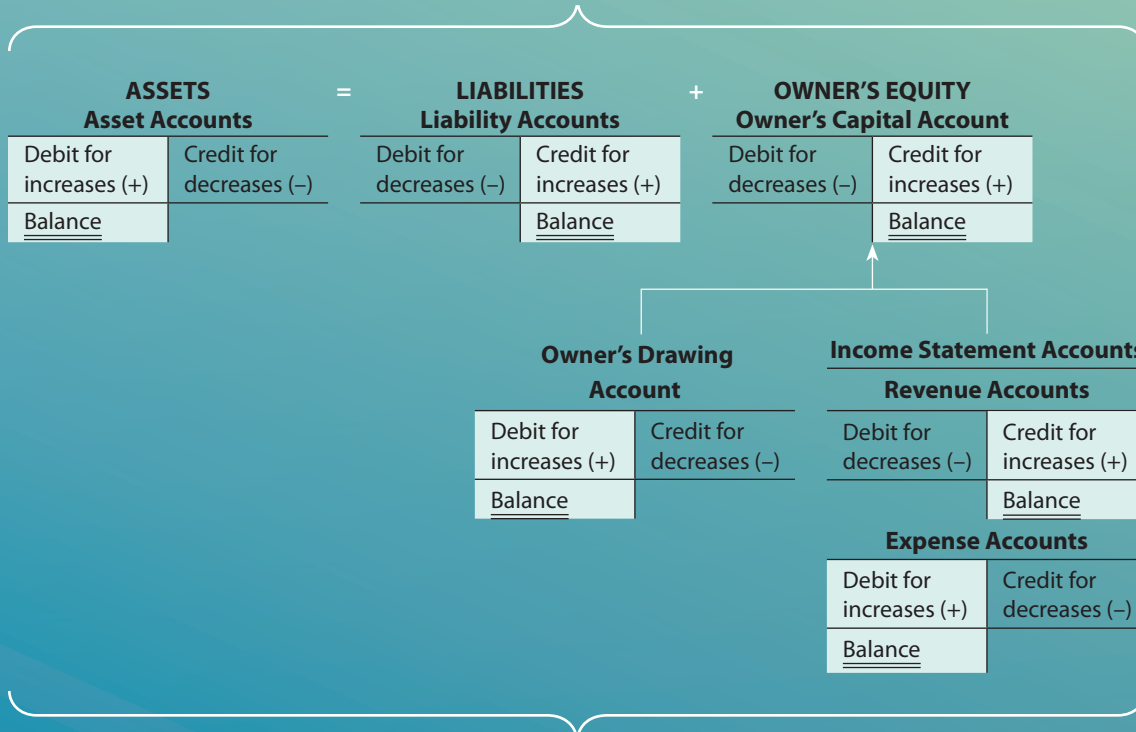
Chapter 2

Account

Debits | Credits

Rules of Debit and Credit

BALANCE SHEET ACCOUNTS

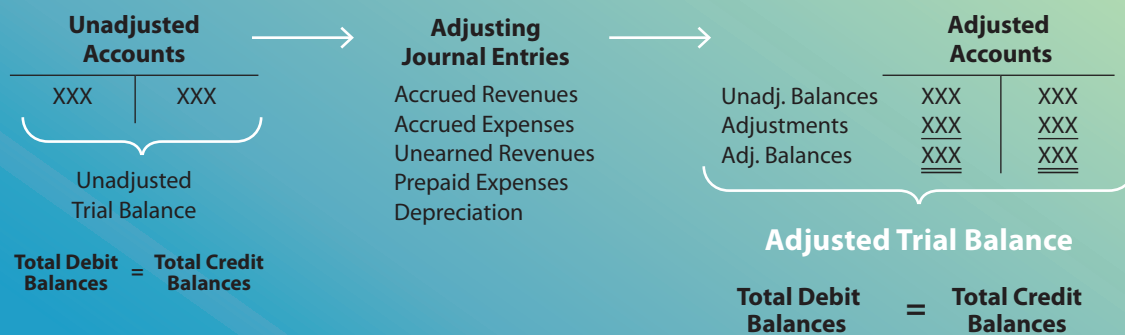


Unadjusted Trial Balance

$$\text{Total Debit Balances} = \text{Total Credit Balances}$$

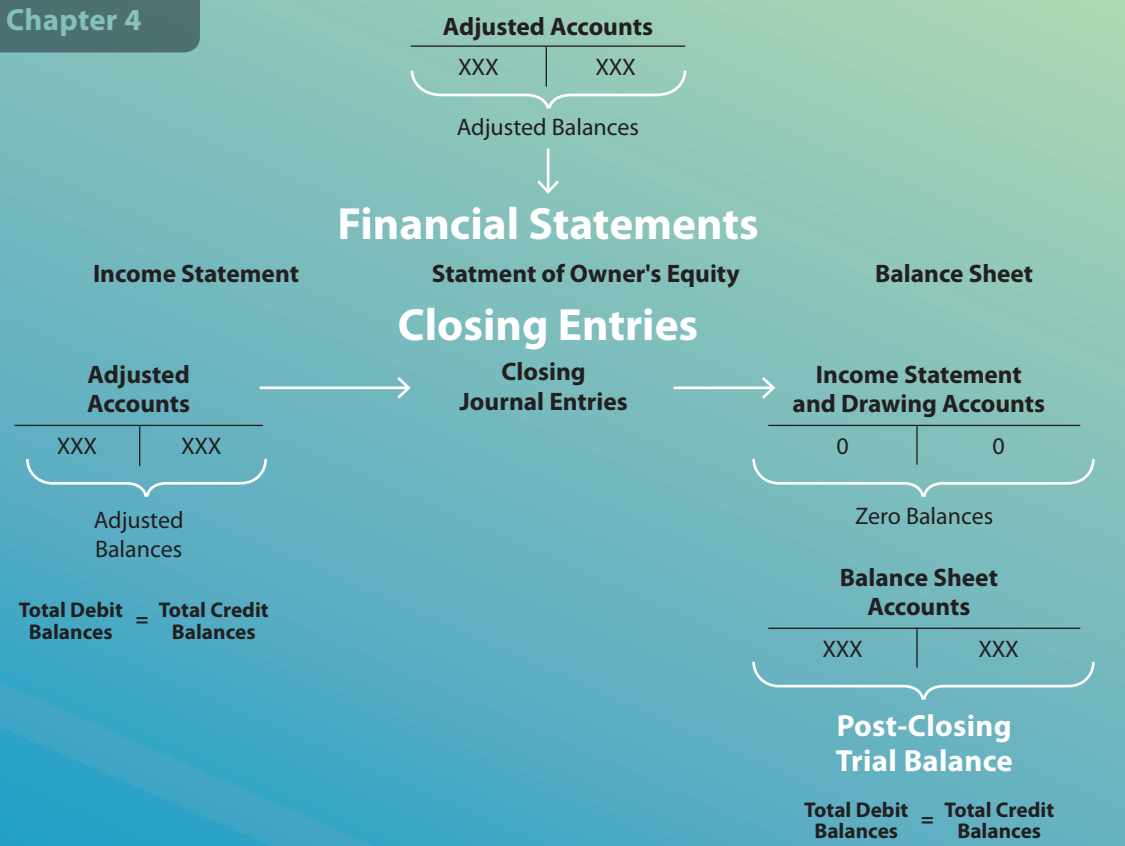
Chapter 3

Adjusting Entries



Chapter 4

Financial Statements





Twitter

When two teams pair up for a game of football, there is often a lot of noise. The band plays, the fans cheer, and fireworks light up the scoreboard. Obviously, the fans are committed and care about the outcome of the game. Just like fans at a football game, the owners of a business want their business to “win” against their competitors in the marketplace. While having your football team win can be a source of pride, winning in the marketplace goes beyond pride and has many tangible benefits. Companies that are winners are better able to serve customers, provide good jobs for employees, and make money for their owners.

Twitter is one of the most visible companies on the Internet. It provides a real-time information network where members can post messages, called tweets, for free. Millions post tweets every day throughout the world.

Do you think Twitter is a successful company? Does it make money? How would you know? Accounting helps to answer these questions.

This textbook introduces you to accounting, the language of business. Chapter 1 begins by discussing what a business is, how it operates, and the role that accounting plays.

Learning Objectives

After studying this chapter, you should be able to:

Example Exercises (EE) are shown in **green**.

Obj. 1 Describe the nature of business and the role of accounting and ethics in business.

Nature of Business and Accounting

Types of Businesses
Role of Accounting in Business
Role of Ethics in Accounting and Business
Opportunities for Accountants

Obj. 2 Summarize the development of accounting principles and relate them to practice.

Generally Accepted Accounting Principles

Business Entity Concept
Cost Concept

EE 1-1

Obj. 3 State the accounting equation and define each element of the equation.

The Accounting Equation

Solving the Accounting Equation

EE 1-2

Obj. 4 Describe and illustrate how business transactions can be recorded in terms of the resulting change in the elements of the accounting equation.

Business Transactions and the Accounting Equation

Recording Transactions

EE 1-3

Obj. 5 Describe the financial statements of a proprietorship and explain how they interrelate.

Financial Statements

Income Statement
Statement of Owner's Equity
Balance Sheet
Statement of Cash Flows
Interrelationships Among Financial Statements

EE 1-4

EE 1-5

EE 1-6

EE 1-7

Obj. 6 Describe and illustrate the use of the ratio of liabilities to owner's equity in evaluating a company's financial condition.

Financial Analysis and Interpretation: Ratio of Liabilities to Owner's Equity

Computing and Interpreting Ratio of Liabilities to Owners' Equity

EE 1-8

At a Glance 1

Page 28

Nature of Business and Accounting

A **business**¹ is an organization in which basic resources (inputs), such as materials and labor, are assembled and processed to provide goods or services (outputs) to customers. Businesses come in all sizes, from a local coffee house to **Starbucks**, which sells over \$19 billion of coffee and related products each year.

The objective of most businesses is to earn a **profit**. Profit is the difference between the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services. This text focuses on businesses operating to earn a profit. However, many of the same concepts and principles also apply to not-for-profit organizations such as hospitals, churches, and government agencies.

Types of Businesses

Three types of businesses operating for profit include service, merchandising, and manufacturing businesses. Some examples of each type of business follow:

- **Service businesses** provide services rather than products to customers.
 - **Delta Air Lines** (transportation services)
 - **The Walt Disney Company** (entertainment services)

¹ A complete glossary of terms appears at the end of the text.

Obj. 1 Describe the nature of business and the role of accounting and ethics in business.

Link to Twitter

Twitter is a service company that provides a platform for individuals to send text messages called *tweets*.

Note

Accounting is an information system that provides reports to users about the economic activities and condition of a business.

Link to Twitter

One of the ways **Twitter** provides information to its investors is by publishing an annual report, which includes general-purpose financial statements.

- **Merchandising businesses** sell products they purchase from other businesses to customers.
 - **Wal-Mart** (general merchandise)
 - **Amazon.com** (Internet books, music, videos)
- **Manufacturing businesses** convert basic inputs into products that are sold to customers.
 - **Ford Motor Co.** (cars, trucks, vans)
 - **Dell Inc.** (personal computers)

Role of Accounting in Business

The role of accounting in business is to provide information for managers to use in operating the business. In addition, accounting provides information to other users in assessing the economic performance and condition of the business.

Thus, **accounting** can be defined as an information system that provides reports to users about the economic activities and condition of a business. You could think of accounting as the “language of business.” This is because accounting is the means by which businesses’ financial information is communicated to users.

The process by which accounting provides information to users is as follows:

1. Identify users.
2. Assess users’ information needs.
3. Design the accounting information system to meet users’ needs.
4. Record economic data about business activities and events.
5. Prepare accounting reports for users.

As illustrated in Exhibit 1, users of accounting information can be divided into two groups: internal users and external users.

Managerial Accounting Internal users of accounting information include managers and employees. These users are directly involved in managing and operating the business. The area of accounting that provides internal users with information is called **managerial accounting** or **management accounting**.

The objective of managerial accounting is to provide relevant and timely information for managers’ and employees’ decision-making needs. Oftentimes, such information is sensitive and is not distributed outside the business. Examples of sensitive information might include information about customers, prices, and plans to expand the business. Managerial accountants employed by a business are employed in **private accounting**.

Financial Accounting External users of accounting information include investors, creditors, customers, and the government. These users are not directly involved in managing and operating the business. The area of accounting that provides external users with information is called **financial accounting**.

The objective of financial accounting is to provide relevant and timely information for the decision-making needs of users outside the business. For example, financial reports on the operations and condition of the business are useful for banks and other creditors in deciding whether to lend money to the business. **General-purpose financial statements** are one type of financial accounting report that is distributed to external users. The term *general-purpose* refers to the wide range of decision-making needs that these reports are designed to serve. Later in this chapter, general-purpose financial statements are described and illustrated.

Role of Ethics in Accounting and Business

The objective of accounting is to provide relevant, timely information for user decision making. Accountants must behave in an ethical manner so that the information they provide users will be trustworthy and, thus, useful for decision making. Managers and employees must also behave in an ethical manner in managing and operating a business. Otherwise, no one will be willing to invest in or loan money to the business.



Ethics