FINANCIAL ACCOUNTING FUNDAMENTALS

Sixth Edition

John J. Wild

McGraw Hill Education

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John J. Wild
University of Wisconsin at Madison

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To my students and family, especially **Kimberly, Jonathan, Stephanie,** and **Trevor.**

FINANCIAL ACCOUNTING FUNDAMENTALS, SIXTH EDITION

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Adapting to Today’s Students

Whether the goal is to become an accountant, a businessperson, or simply an informed consumer of accounting information, *Financial Accounting Fundamentals* has helped generations of students succeed. Its leading-edge accounting content, paired with state-of-the-art technology, supports student learning and elevates understanding of key accounting principles.

This book excels at **engaging students** with content that shows the relevance of accounting. Its chapter-opening vignettes showcase dynamic entrepreneurial companies to highlight the **usefulness of accounting.** This edition’s featured companies—**Apple, Google,** and **Samsung—**capture student interest, and their annual reports are a pathway for learning. Need-to-Know demonstrations in each chapter apply key concepts and procedures and include guided video teaching presentations.

This book delivers innovative technology to help student performance. **Connect** provides students a media-rich eBook version of the textbook and offers instant online grading and feedback for assignments. **Connect** takes accounting content to the next level, delivering assessment material in a **more intuitive, less restrictive** format.

Our technology features:

- **A general journal interface** that looks and feels more like that found in practice.
- **An auto-calculation** feature that allows students to focus on concepts rather than rote tasks.
- **A smart (auto-fill) drop-down design.**

The result is content that prepares students for today's world.

Connect also includes digitally based, interactive, adaptive learning tools that engage students more effectively by offering varied instructional methods and more personalized learning paths that build on different learning styles, interests, and abilities.

The revolutionary technology of **SmartBook®** is available only from McGraw-Hill Education. Based on an intelligent learning system, SmartBook uses a series of adaptive questions to pinpoint each student's knowledge gaps and then provides an optimal learning path. Students spend less time in areas they already know and more time in areas they don't. The result: Students study more efficiently, learn faster, and retain more knowledge. Valuable reports provide insights into how students are progressing through textbook content and information useful for shaping in-class time or assessment.

Interactive Presentations teach each chapter's core learning objectives in a rich, multimedia format, bringing the content to life. Your students come to class prepared when you assign Interactive Presentations. Students can also review the Interactive Presentations as they study. **Guided Examples** provide students with narrated, animated, step-by-step walk-throughs of algorithmic versions of assigned exercises. Students appreciate Guided Examples, which help them learn and complete assignments outside of class.

A **General Ledger (GL) application** offers students the ability to see how transactions post from the general journal all the way through the financial statements. It uses an intuitive, less restrictive format, and it adds critical thinking components to each GL question, to ensure understanding of the entire process.

The first and only analytics tool of its kind, **Connect Insight®** is a series of visual data displays—each framed by an intuitive question—to provide information on how your class is doing on five key dimensions.

> "A great enhancement! I love the fact that GL makes the student choose from an entire chart of accounts."
>
> **—TAMMY METZKE, Milwaukee Area Technical College**

About the Author

Courtesy of John J. Wild

JOHN J. WILD is a distinguished professor of accounting at the University of Wisconsin at Madison. He previously held appointments at Michigan State University and the University of Manchester in England. He received his BBA, MS, and PhD from the University of Wisconsin.

John teaches accounting courses at both the undergraduate and graduate levels. He has received numerous teaching honors, including the Mabel W. Chipman Excellence-in-Teaching Award and the departmental Excellence-in-Teaching Award, and he is a two-time recipient of the Teaching Excellence Award from business graduates at the University of Wisconsin. He also received the Beta Alpha Psi and Roland F. Salmonson Excellence-in-Teaching Award from Michigan State University. John has received several research honors, is a past KPMG Peat Marwick National Fellow, and is a recipient of fellowships from the American Accounting Association and the Ernst and Young Foundation.

John is an active member of the American Accounting Association and its sections. He has served on several committees of these organizations, including the Outstanding Accounting Educator Award, Wildman Award, National Program Advisory, Publications, and Research Committees. John is author of *Fundamental Accounting Principles, Financial Accounting, Managerial Accounting,* and *College Accounting,* all published by McGraw-Hill Education.

John's research articles on accounting and analysis appear in *The Accounting Review; Journal of Accounting Research; Journal of Accounting and Economics; Contemporary Accounting Research; Journal of Accounting, Auditing and Finance; Journal of Accounting and Public Policy;* and other journals. He is past associate editor of *Contemporary Accounting Research* and has served on several editorial boards including *The Accounting Review*.

In his leisure time, John enjoys hiking, sports, boating, travel, people, and spending time with family and friends.

Dear Colleagues and Friends,

As I roll out the new edition of *Financial Accounting Fundamentals*, I thank each of you who provided suggestions to improve the textbook and its teaching resources. This new edition reflects the advice and wisdom of many dedicated reviewers, symposium and workshop participants, students, and instructors. Throughout the revision process, I steered this textbook and its teaching tools in the manner you directed. As you'll find, the new edition offers a rich set of features—especially digital features—to improve student learning and assist instructor teaching and grading. I believe you and your students will like what you find in this new edition.

Many talented educators and professionals have worked hard to create the materials for this product, and for their efforts, I'm grateful. **I extend a special thank-you to our contributing and technology supplement authors,** who have worked so diligently to support this product:

Contributing Author: Kathleen O'Donnell, *Onondaga Community College*

Accuracy Checkers: Dave Krug, *Johnson County Community College;* Mark McCarthy, *East Carolina University;* and Beth Kobylarz

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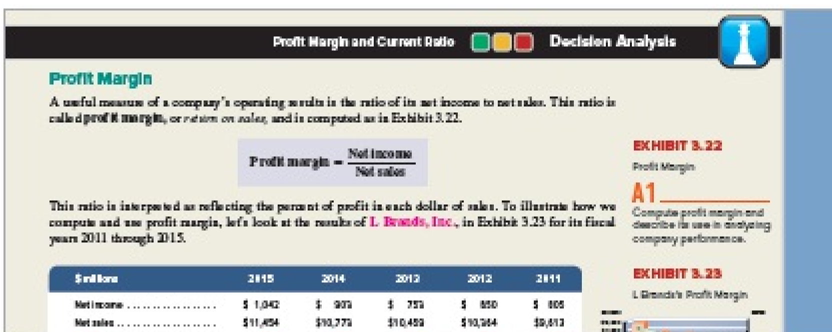
John J. Wild

Innovative Textbook Features … Bring Accounting to Life

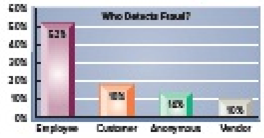
Using Accounting for Decisions

Whether we prepare, analyze, or apply accounting information, one skill remains essential: decision making. To help develop good decision-making habits and to illustrate the relevance of accounting, we use a learning framework to enhance decision making in four ways. (See the four nearby examples for the different types of decision boxes, including those that relate to fraud.) **Decision Insight** provides context for business decisions. **Decision Ethics** and **Decision Maker** are role-playing scenarios that show the relevance of accounting. **Decision Analysis** provides key tools to help assess company performance.



Decision Insight

Fraud Discovery The Association of Certified Fraud Examiners (ACFE) reports that 43% of frauds are detected from a "tip," which is much higher than the next three detection sources (13% from management review, 17% from internal audit, and 6% by accident). The top source for a tip is an employee, followed by a customer and a vendor—see graph. [Source: 2016 Report to the Nations, ACFE (acfe.com).] ■



Decision Ethics

Financial Officer At year-end, the president instructs you, the financial officer, not to record accrued expenses until next year because they will not be paid until then. The president also directs you to record in current-year sales a recent purchase order from a customer that requires merchandise to be delivered two weeks after the year-end. Your company would report a net income instead of a net loss if you carry out these instructions. What do you do? ■ *Answer:* Omitting accrued expenses and recognizing revenue early can mislead financial statement users. One action is to request a meeting with the president so you can explain what is required. If the president persists, you might discuss the situation with legal counsel and any auditors involved. Your ethical action might cost you, but the potential pitfalls for falsification of statements, reputation and personal integrity loss, and other costs are too great.

Decision Maker

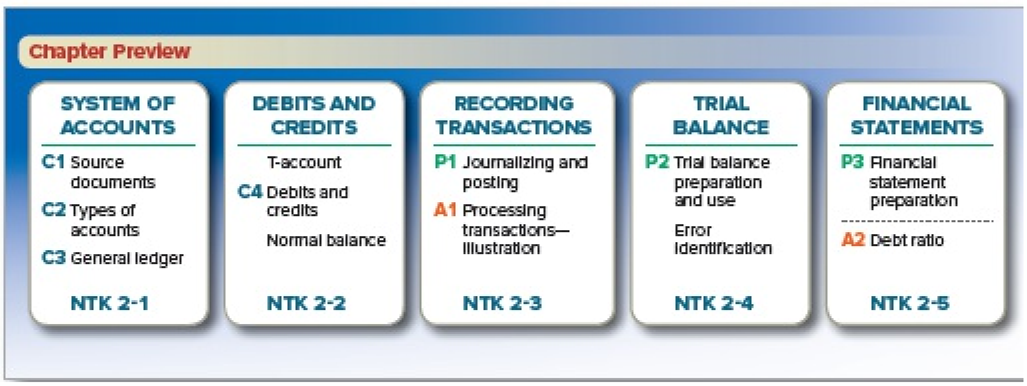
Entrepreneur Your start-up Internet services company needs cash, and you are preparing financial statements to apply for a short-term loan. A friend suggests that you treat as many expenses as possible as capital expenditures. What are the impacts on financial statements of this suggestion? What do you think is the aim of this suggestion? ■
Answer: Treating an expense as a capital expenditure means that expenses are lower and income higher in the short run. This is so because a capital expenditure is not expensed immediately but is spread over the asset's useful life. It also means that asset and equity totals are reported at higher amounts in the short run. This continues until the asset is fully depreciated. Thus, the friend's suggestion is misguided. Only an expenditure benefiting future periods is a capital expenditure.

"This textbook does address many learning styles and at the same time allows for many teaching styles . . . our faculty have been very pleased with the continued revisions and supplements. I'm a 'Wild' fan!"

—RITA HAYS, Southwestern Oklahoma State University

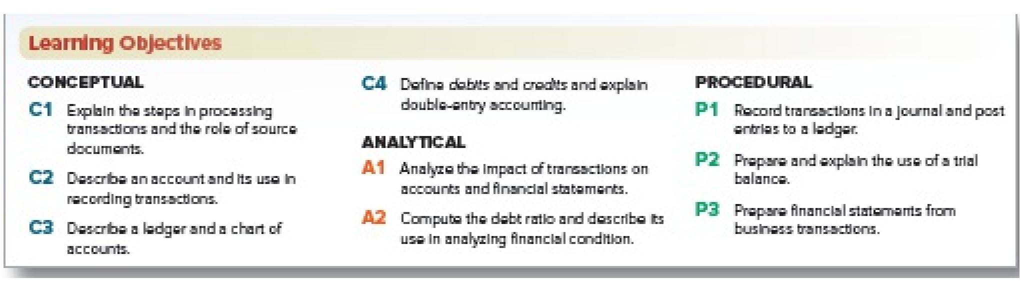
Chapter Preview

Each chapter opens with a visual chapter preview. Students can begin their reading with a clear understanding of what they will learn and when. Learning objective numbers highlight the location of related content. Each “block” of content concludes with a Need-to-Know (NTK) to aid and reinforce student learning. Organization into “blocks” aids students in quickly searching for answers to homework assignments.



CAP Model

The Conceptual/Analytical/Procedural (CAP) model allows courses to be specially designed to meet the teaching needs of a diverse faculty. This model identifies learning objectives, textual materials, assignments, and test items by C, A, or P, allowing different instructors to teach from the same materials, yet easily customize their courses toward a conceptual, analytical, or procedural approach (or a combination thereof) based on personal preferences.



Page ix

Need-to-Know Demonstrations

Need-to-Know demonstrations are located at key junctures in each chapter. These demonstrations pose questions about the material just presented—content that students “need to know” to successfully learn accounting. Accompanying solutions walk students through key procedures and analysis necessary to be successful with homework and test materials. Need-to-Know demonstrations are supplemented with narrated, animated, step-by-step walk-through videos led by an instructor and available via **Connect**.

NEED-TO-KNOW 12-2

Reporting Operating Cash Flows (Indirect)

P2

A company's current-year income statement and selected balance sheet data at December 31 of the current and prior years follow. Prepare only the operating activities section of the statement of cash flows using the indirect method for the current year.

Income Statement For Current Year Ended December 31	
Sales revenue	$120
Expenses	
Cost of goods sold	50
Depreciation expense	30
Salaries expense	17
Interest expense	3
Net income	$ 20

Selected Balance Sheet Accounts		
At December 31	Current Yr	Prior Yr
Accounts receivable	$12	$10
Inventory	6	9
Accounts payable	7	11
Salaries payable	8	3
Interest payable	1	0

Solution

Cash Flows from Operating Activities—Indirect Method For Current Year Ended December 31		
Cash flows from operating activities		
Net income		$20
Adjustments to reconcile net income to net cash provided by operating activities		
Income statement items not affecting cash		
Depreciation expense	$30	
Changes in current assets and current liabilities		
Increase in accounts receivable	(2)	
Decrease in inventory	3	
Decrease in accounts payable	(4)	
Increase in salaries payable	5	
Increase in interest payable	1	33
Net cash provided by operating activities		$53

Do More: QS 12-3, QS 12-4, E 12-4, E 12-5, E 12-6

Global View

The Global View section explains international accounting practices related to the material covered in that chapter. The aim of this section is to describe accounting practices and to identify the similarities and differences in international accounting practices versus those in the United States. The importance of student familiarity with international accounting continues to grow. This innovative section helps us begin down that path. This section is purposefully located at the very end of each chapter so that each instructor can decide what emphasis, if at all, is to be assigned to it.

GLOBAL VIEW

This section discusses differences between U.S. GAAP and IFRS in the items and costs making up merchandise inventory, in the methods to assign costs to inventory, and in the methods to estimate inventory values.

Estimating Inventory Costs Inventory value can decrease or increase as it awaits sale.

Decreases in Inventory Value Both U.S. GAAP and IFRS require companies to write down (reduce the cost recorded for) inventory when its value falls below the cost recorded. This is referred to as the *lower of cost or market* method explained in this chapter. U.S. GAAP prohibits any later increase in the recorded value of that inventory even if that decline in value is reversed through value increases in later periods. However, IFRS allows reversals of those write-downs up to the original acquisition cost. For example, if Apple wrote down its 2015 inventory from $2,349 million to $2,300 million, it could not reverse this in future periods even if its value increased to more than $2,349 million. However, if Apple applied IFRS, it could reverse that previous loss. (Another difference is that value refers to *replacement cost* under U.S. GAAP, but *net realizable value* under IFRS.)

APPLE

Increases in Inventory Value Neither U.S. GAAP nor IFRS allows inventory to be adjusted upward beyond the original cost. (One exception is that IFRS requires agricultural assets such as animals, forests, and plants to be measured at fair value less point-of-sale costs.)

Nokia provides the following description of its inventory valuation procedures:

> Inventories are stated at the lower of cost or net realizable value. Cost approximates actual cost on a FIFO (first-in first-out) basis. Net realizable value is the amount that can be realized from the sale of the inventory in the normal course of business after allowing for the costs of realization.

Global View Assignments

Discussion Questions 16 & 17

Quick Study 5-23

Exercise 5-18

BTN 5-9

Sustainability and Accounting

This edition has brief sections that highlight the importance of sustainability within the broader context of global accounting (and accountability). Companies increasingly address sustainability in their public reporting and consider the sustainability accounting standards (from the Sustainability Accounting Standards Board) and the expectations of our global society. These sections cover different aspects of sustainability, often within the context of the chapter's featured entrepreneurial company.

SUSTAINABILITY AND ACCOUNTING

© Helen H. Richardson/The Denver Post via Getty Images

ReGreen Corporation, featured in this chapter's opening story, is committed to improving the environment by helping businesses apply sustainable solutions. ReGreen's website touts its mission: "to improve the health of our planet and economy through the implementation of profitable energy solutions."

So far, ReGreen has been able to reduce their clients' energy consumption and water costs by an average of 60%. It offers customers guaranteed payback on sustainable investments within two years. "We're pleased to have met those challenges," proclaims co-founder David Duel.

David explains that the two-year payback guarantee on sustainable investments requires use of a reliable accounting system. ReGreen uses its accounting system to track investments in assets and the cost savings associated with these assets. This information is used to make sure ReGreen can meet its two-year payback guarantee. Without such a guarantee, businesses may be less willing to invest in sustainable solutions.

ReGreen also uses accounting data to track clients' progress on sustainability initiatives. ReGreen reviews its customers' accounting systems to analyze energy and water expenses. The entrepreneurs use these data to make recommendations on how ReGreen's customers can "achieve significant energy cost savings" and reduce their impact on the environment, explains David.

Outstanding Assignment Material … Helps Students Master Key Concepts

Once a student has finished reading the chapter, how well he or she retains the material can depend greatly on the questions, brief exercises, exercises, and problems that reinforce it. This book leads the way in comprehensive, accurate assignments.

Comprehensive Need-to-Know Problems present both a problem and a complete solution, allowing students to review the entire problem-solving process and achieve success. The problems draw on material from the entire chapter.

NEED-TO-KNOW 8-6

COMPREHENSIVE

On July 14, 2016, Tulsa Company pays $600,000 to acquire a fully equipped factory. The purchase involves the following assets and information.

Asset	Appraised Value	Salvage Value	Useful Life	Depreciation Method
Land	$160,000			Not depreciated
Land improvements............	80,000	$ 0	10 years	Straight-line
Building	320,000	100,000	10 years	Double-declining-balance
Machinery....................	240,000	20,000	10,000 units	Units-of-production*
Total	$800,000			

* The machinery is used to produce 700 units in 2016 and 1,800 units in 2017.

Required

1. Allocate the total $600,000 purchase cost among the separate assets.
2. Compute the 2016 (six months) and 2017 depreciation expense for each asset, and compute the company's total depreciation expense for both years.
3. On the last day of calendar-year 2018, Tulsa discarded machinery that had been on its books for five years. The machinery's original cost was $12,000 (estimated life of five years) and its salvage value was $2,000. No depreciation had been recorded for the fifth year when the disposal occurred. Journalize the fifth year of depreciation (straight-line method) and the asset's disposal.
4. At the beginning of year 2018, Tulsa purchased a patent for $100,000 cash. The company estimated the patent's useful life to be 10 years. Journalize the patent acquisition and its amortization for the year 2018.
5. Late in the year 2018, Tulsa acquired an ore deposit for $600,000 cash. It added roads and built mine shafts for an additional cost of $80,000. Salvage value of the mine is estimated to be $20,000. The company estimated 330,000 tons of available ore. In year 2018, Tulsa mined and sold 10,000 tons of ore. Journalize the mine's acquisition and its first year's depletion.

6.[A] (This question applies this chapter's Appendix coverage.) On the first day of 2018, Tulsa exchanged the machinery that was acquired on July 14, 2016, along with $5,000 cash for machinery with a $210,000 market value. Journalize the exchange of these assets assuming the exchange has commercial substance. (Refer to background information in parts 1 and 2.)

PLANNING THE SOLUTION

- Complete a three-column table showing the following amounts for each asset: appraised value, percent of total value, and apportioned cost.

Chapter Summaries provide students with a review organized by learning objectives. Chapter Summaries are a component of the CAP model (as discussed in the "Innovative Textbook Features" section), which recaps each conceptual, analytical, and procedural objective.

Summary

C1 Explain the steps in processing transactions and the role of source documents. Transactions and events are the starting points in the accounting process. Source documents identify and describe transactions and events and provide objective and reliable evidence. The effects of transactions and events are recorded in journals. Posting along with a trial balance helps summarize and classify these effects.

C2 Describe an account and its use in recording transactions. An account is a detailed record of increases and decreases in a specific asset, liability, equity, revenue, or expense. Information from accounts is analyzed, summarized, and presented in reports and financial statements.

C3 Describe a ledger and a chart of accounts. The ledger (or general ledger) is a record containing all accounts used by a company and their balances. It is referred to as the *books*. The chart of accounts is a list of all accounts and usually includes an identification number assigned to each account.

C4 Define *debits* and *credits* and explain double-entry accounting. *Debit* refers to left, and *credit* refers to right. Debits increase assets, expenses, and withdrawals while credits decrease them. Credits increase liabilities, owner capital, and

A1 Analyze the impact of transactions on accounts and financial statements. We analyze transactions using concepts of double-entry accounting. This analysis is performed by determining a transaction's effects on accounts.

A2 Compute the debt ratio and describe its use in analyzing financial condition. A company's debt ratio is computed as total liabilities divided by total assets. It reveals how much of the assets are financed by creditor (nonowner) financing. The higher this ratio, the more risk a company faces because liabilities must be repaid at specific dates.

P1 Record transactions in a journal and post entries to a ledger. Transactions are recorded in a journal. Each entry in a journal is posted to the accounts in the ledger. This provides information that is used to produce financial statements. Balance column accounts are widely used and include columns for debits, credits, and the account balance.

P2 Prepare and explain the use of a trial balance. A trial balance is a list of accounts from the ledger showing their debit or credit balances in separate columns. The trial balance is a summary of the ledger's contents and is useful in preparing financial statements and in revealing recordkeeping errors.

Key Terms are bolded in the text and repeated at the end of the chapter. A complete glossary of key terms is available online through **Connect.**

Key Terms

Accounting period
Accrual basis accounting
Accrued expenses
Accrued revenues
Accumulated depreciation
Adjusted trial balance
Adjusting entry
Annual financial statements
Book value
Cash basis accounting
Contra account
Depreciation
Expense recognition (or matching) principle
Fiscal year
Interim financial statements
Natural business year
Plant assets
Prepaid expenses
Profit margin
Revenue recognition principle
Straight-line depreciation method
Time period assumption
Unadjusted trial balance
Unearned revenues

Multiple Choice Quiz questions quickly test chapter knowledge before a student moves on to complete Quick Studies, Exercises, and Problems.

Multiple Choice Quiz

1. A company forgot to record accrued and unpaid employee wages of $350,000 at period-end. This oversight would

a. Understate net income by $350,000.
b. Overstate net income by $350,000.
c. Have no effect on net income.
d. Overstate assets by $350,000.
e. Understate assets by $350,000.

2. Prior to recording adjusting entries, the Supplies account has a $450 debit balance. A physical count of supplies shows $125 of unused supplies still available. The required adjusting entry is:

a. Debit Supplies $125; Credit Supplies Expense $125.
b. Debit Supplies $325; Credit Supplies Expense $325.
c. Debit Supplies Expense $325; Credit Supplies $325.
d. Debit Supplies Expense $325; Credit Supplies $125.
e. Debit Supplies Expense $125; Credit Supplies $125.

Quick Study assignments are short exercises that often focus on one learning objective. Most are included in **Connect.** There are at least 10–15 Quick Study assignments per chapter.

1. Use the accounting equation to compute the missing financial statement amounts (*a*), (*b*), and (*c*).

QS 1-8
Applying the accounting equation
A1

	A	B		C		D
1	Company	Assets	=	Liabilities	+	Equity
2	1	$75,000		$ (a)		$ 40,000
3	2	(b)		25,000		70,000
4	3	85,000		20,000		(c)

Exercises are one of this book's many strengths and a competitive advantage. There are at least 10–15 per chapter, and most are included in **Connect**.

Ford Motor Company, one of the world's largest automakers, reports the following income statement accounts for the year ended December 31, 2015 ($ in millions). Use this information to prepare Ford's income statement for the year ended December 31, 2015.

Exercise 1-20
Preparing an income statement for a global company
P2

Selling and administrative costs	$ 14,999
Cost of sales	124,041
Revenues	149,558
Other expenses	3,145

Problem Sets A & B are proven problems that can be assigned as homework or for in-class projects. All problems are coded according to the CAP model (see the "Innovative Textbook Features" section), and Set A is included in **Connect.**

connect

PROBLEM SET A

Problem 7-3A
Aging accounts receivable and accounting for bad debts
P2 P3

Jarden Company has credit sales of $3,600,000 for year 2017. On December 31, 2017, the company's Allowance for Doubtful Accounts has an unadjusted credit balance of $14,500. Jarden prepares a schedule of its December 31, 2017, accounts receivable by age. On the basis of past experience, it estimates the percent of receivables in each age category that will become uncollectible. This information is summarized here.

	A	B	C
1–2	December 31, 2017, Accounts Receivable	Age of Accounts Receivable	Expected Percent Uncollectible
3	$830,000	Not yet due	1.25%
4	254,000	1 to 30 days past due	2.00
5	86,000	31 to 60 days past due	6.50
6	38,000	61 to 90 days past due	32.75
7	12,000	Over 90 days past due	68.00

Required

1. Estimate the required balance of the Allowance for Doubtful Accounts at December 31, 2017, using the aging of accounts receivable method.
2. Prepare the adjusting entry to record bad debts expense at December 31, 2017.

Check (2) Dr. Bad Debts Expense, $27,150

PROBLEM SET B

Problem 7-3B
Aging accounts receivable and accounting for bad debts
P2 P3

Hovak Company has credit sales of $4,500,000 for year 2017. At December 31, 2017, the company's Allowance for Doubtful Accounts has an unadjusted debit balance of $3,400. Hovak prepares a schedule of its December 31, 2017, accounts receivable by age. On the basis of past experience, it estimates the percent of receivables in each age category that will become uncollectible. This information is summarized here.

	A	B	C
1–2	December 31, 2017, Accounts Receivable	Age of Accounts Receivable	Expected Percent Uncollectible
3	$396,400	Not yet due	2.0%
4	277,800	1 to 30 days past due	4.0
5	48,000	31 to 60 days past due	8.5
6	6,600	61 to 90 days past due	39.0
7	2,800	Over 90 days past due	82.0

Required

1. Compute the required balance of the Allowance for Doubtful Accounts at December 31, 2017, using the aging of accounts receivable method.
2. Prepare the adjusting entry to record bad debts expense at December 31, 2017.

Check (2) Dr. Bad Debts Expense, $31,390

"I like the layout of the text and the readability. The illustrations and comics in the book make the text seem less intimidating and boring for students. The PowerPoint slides are easy to understand and use, the pictorials are great, and the text has great coverage of accounting material. The addition of IFRS information and the updates to the opening stories are great. I like that the Decision Insights are about businesses the students can relate to."

—JEANNIE LIU, Chaffey College

Beyond the Numbers exercises ask students to use accounting figures and understand their meaning. Students also learn how accounting applies to a variety of business situations. These creative and fun exercises are all new or updated and are divided into nine types:

- Reporting in Action
- Comparative Analysis
- Ethics Challenge
- Communicating in Practice
- Taking It to the Net
- Team ork in Action
- Hitting the Road
- Entrepreneurial Decision
- Global Decision

Beyond the Numbers

BTN 7-2 Comparative figures for Apple and Google follow.

COMPARATIVE ANALYSIS
A1 P2

APPLE
GOOGLE

	Apple			Google		
$ millions	Current Year	One Year Prior	Two Years Prior	Current Year	One Year Prior	Two Years Prior
Accounts receivable, net . . .	$ 16,849	$ 17,460	$ 13,102	$ 11,556	$ 9,383	$ 8,882
Net sales	233,715	182,795	170,910	74,989	66,001	55,519

Required

1. Compute the accounts receivable turnover for Apple and Google for each of the two most recent years using the data shown.
2. Using the results from part 1, compute how many days it takes each company, *on average*, to collect receivables. Compare the collection periods for Apple and Google, and suggest at least one explanation for the difference.
3. Which company is more efficient in collecting its accounts receivable? Explain.

Hint: Average collection period equals 365 divided by the accounts receivable turnover.

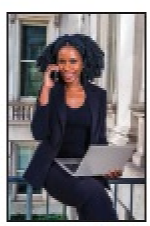
Serial Problems use a continuous running case study to illustrate chapter concepts in a familiar context. The Serial Problem can be followed continuously from the first chapter or picked up at any later point in the book; enough information is provided to ensure students can get right to work.

(This serial problem began in Chapter 1 and continues through most of the book. If previous chapter segments were not completed, the serial problem can begin at this point.)

SERIAL PROBLEM
Business Solutions
P3

SP 6 Santana Rey receives the March bank statement for Business Solutions on April 11, 2018. The March 31 bank statement shows an ending cash balance of $67,566. A comparison of the bank statement with the general ledger Cash account, No. 101, reveals the following.

a. S. Rey notices that the bank erroneously cleared a $500 check against her account in March that she did not issue. The check documentation included with the bank statement shows that this check was actually issued by a company named Business Systems.
b. On March 25, the bank lists a $50 charge for the safety deposit box expense that Business Solutions agreed to rent from the bank beginning March 25.
c. On March 26, the bank lists a $102 charge for printed checks that Business Solutions ordered from the bank.
d. On March 31, the bank lists $33 interest earned on Business Solutions's checking account for the month of March.
e. S. Rey notices that the check she issued for $128 on March 31, 2018, has not yet cleared the bank.
f. S. Rey verifies that all deposits made in March do appear on the March bank statement.
g. The general ledger Cash account, No. 101, shows an ending cash balance per books of $68,057 as of March 31 (prior to any reconciliation).



Required

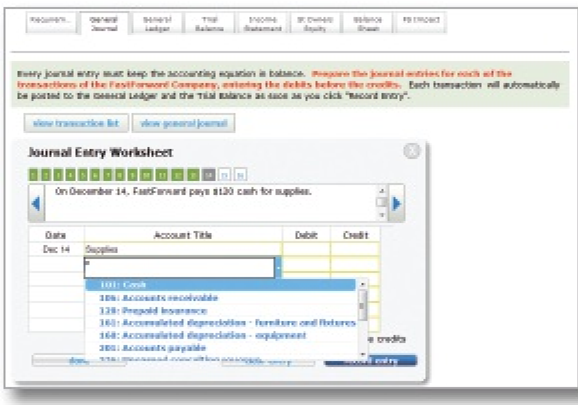
1. Prepare a bank reconciliation for Business Solutions for the month ended March 31, 2018.
2. Prepare any necessary adjusting entries. Use Miscellaneous Expenses, No. 677, for any bank charges. Use Interest Revenue, No. 404, for any interest earned on the checking account for the month of March.

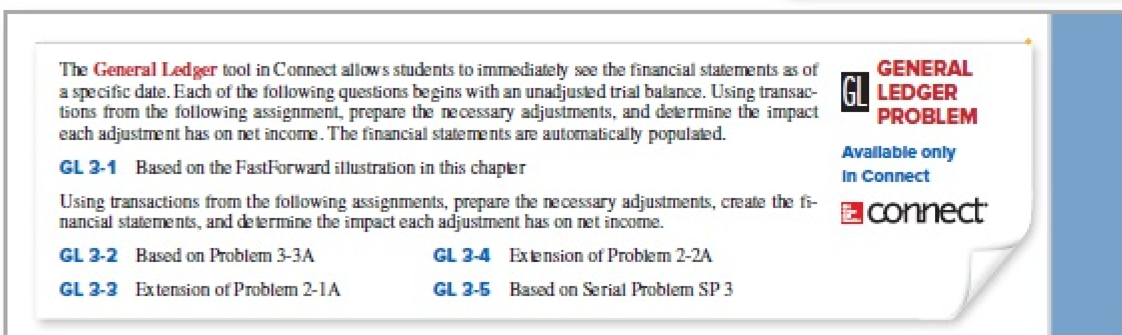
Check (1) Adj. bank bal. $67,938

“The Serial Problems are excellent. . . . I like the continuation of the same problem to the next chapters if applicable. I use the Quick Studies as practice problems. . . . Students have commented that this really works for them if they work (these questions) before attempting the assigned exercises and problems. I also like the discussion (questions) and make this an assignment. You have done an outstanding job presenting accounting to our students.”

—JERRI TITTLE, Rose State College

General Ledger Problems enable students to see ho transactions are entered in the journal, post to the ledger, listed in a trial balance, and reported in financial statements. Students can track an amount in any financial statement all the ay back to the original journal entry. Critical thinking components then challenge students to analyze the business activities in the problem.




The General Ledger tool in Connect allows students to immediately see the financial statements as of a specific date. Each of the following questions begins with an unadjusted trial balance. Using transactions from the following assignment, prepare the necessary adjustments, and determine the impact each adjustment has on net income. The financial statements are automatically populated.

GENERAL LEDGER PROBLEM

Available only in Connect

GL 3-1 Based on the FastForward illustration in this chapter

Using transactions from the following assignments, prepare the necessary adjustments, create the financial statements, and determine the impact each adjustment has on net income.

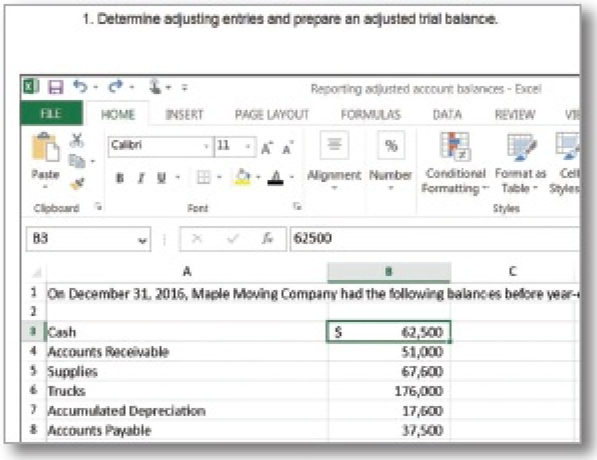
GL 3-2 Based on Problem 3-3A

GL 3-3 Extension of Problem 2-1A

GL 3-4 Extension of Problem 2-2A

GL 3-5 Based on Serial Problem SP 3

Excel Simulations allo you to practice your Excel skills, such as basic formulas and formatting, ithin the context of accounting. These questions feature animated, narrated Help and Sho Me tutorials (hen enabled by your instructor).



The End of the Chapter Is Only the Beginning Our valuable and proven assignments aren't just confined to the book. From problems that require technological solutions to materials found exclusively online, this book's end-of-chapter material is fully integrated ith its technology package.

Content Revisions Enhance Learning

This edition's revisions are driven by feedback from instructors and students. They include:

- Many new, revised, and updated assignments throughout, including entrepreneurial and real-world assignments.
- Many Need-to-Know (NTK) demonstrations added to each chapter at key junctures to reinforce learning.
- Updated Sustainability section for each chapter, with examples linked to the new chapter-opening company.
- New annual reports and comparative (BTN) assignments: **Apple**, **Google**, and **Samsung**.
- Revised art program, visual infographics, and text layout.
- Updated ratio/tool analysis using data from well-known firms.
- Revised General Ledger assignments for most chapters.
- New and revised entrepreneurial examples and elements.
- New technology content integrated and referenced throughout.
- Revised Global View section moved to the very end of each chapter following assignments.

Chapter 1

Updated opener—Apple and entrepreneurial assignment.

Updated salary info for accountants and for those with college degrees.

Streamlined “Fraud Triangle” section.

Updated “Cooking the Books” Fraud box.

Moved “Enforcing Ethics” section to earlier in chapter.

Streamlined the “Fundamentals of Accounting” section.

Streamlined the “International Standards” section.

Updated the revenue recognition section.

New margin point to highlight layout of statement of retained earnings.

Updated Sustainability section for **Apple**’s renewable energy efforts, including SASB.

Updated Decision Insight box on sustainability returns.

New company, **Verizon**, for Decision Analysis section.

Streamlined Appendix 1A and 1B.

Added new Exercise.

Chapter 2

NEW opener—Soko and entrepreneurial assignment.

Simplified discussion on analyzing and recording process.

Streamlined discussion of classified vs. unclassified balance sheet.

Enhanced explanation of computing equity.

Enhanced Exhibit 2.4 to identify account categories.

Improved summary of transactions in the ledger.

Streamlined explanation of error correction in entries.

New accounting quality box with reference to KPMG data.

Revised Sustainability section on cost savings for small business.

Updated debt ratio analysis using **Skechers**.

Added two Quick Study assignments.

Updated **Piaggio**’s (IFRS) balance sheet.

Chapter 3

NEW opener—LuminAID and entrepreneurial assignment.
Streamlined accrual-basis vs. cash-basis section.
New box on how accounting is used to claw back false gains.
Streamlined introduction to accounting adjustments.
Continue to emphasize 3-step adjusting process.
Simplified the “Explanation” section for each adjustment.
Enhanced Exhibit 3.12 on summary of adjustments.
New art distinguishing between temporary and permanent accounts.
Enhanced Exhibit 3.19 on steps of the accounting cycle.
Sustainability section on key to tracking numbers for **LuminAID**.
Updated profit margin and current ratio analysis using **L Brands**.
Added one Quick Study and one Exercise.
Reorganized Global View section.
Updated **Piaggio**’s classified balance sheet.