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Sixth Edition

College Accounting

A Contemporary Approach

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John Ellis Price
Michael J. Farina

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College Accounting





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A Contemporary Approach

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COLLEGE ACCOUNTING

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This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 LWI 28 27 26 25 24 23

ISBN 978-1-266-26107-7

MHID 1-266-26107-9

Cover Image: *ultimagaina/123RF*

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About the Authors



Courtesy of M. David Haddock Jr.

M. DAVID HADDOCK JR. serves as Chief Leadership Officer for a regional operator of senior living communities. He previously led the training efforts for one of the top 50 CPA firms in the United States. In a 35-year career in higher education, Dr. Haddock 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. At his retirement from higher education, he was professor of accounting and associate vice president for academic affairs at Chattanooga State Community College in Tennessee. In addition to his teaching, he also maintained a sole proprietorship accounting and tax practice for more than 20 years.

He received his BS in accounting and MS in adult education from the University of Tennessee and the EdD degree 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 TSCPAs for 2012–2013 and a member of AICPA Council. He is a frequent speaker for Continuing Professional Education programs.



Courtesy of John Ellis Price

JOHN ELLIS PRICE is a retired professor of accounting at the University of North Texas. Dr. Price has more than 36 years of experience in higher education with over half of those years serving in key leadership positions including as founding president and professor of accounting at the University of North Texas at Dallas. Dr. Price has previously held positions of professor and assistant professor, as well as chair and dean, at the University of North Texas, Jackson State University, and the University of Southern Mississippi. Dr. Price has also been active in the Internal Revenue Service as a member of the Commissioner's Advisory Group for two terms and as an Internal Revenue Agent.

Dr. 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.



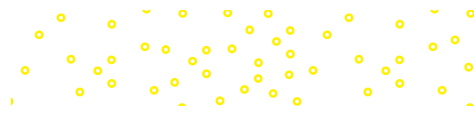
Courtesy of Michael J. Farina

MICHAEL J. FARINA retired as professor of accounting and finance at Cerritos College in California June 2018, after 30 years of service to the college. He continues to teach college accounting and other courses as an adjunct professor at Cerritos College. Professor Farina is currently a member of an advisory committee at a credit union serving the educational community 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.

He received an AA in business administration from Cerritos College; a BA in business administration from California State University, Fullerton; and an MBA from the University of California, Irvine. Professor Farina is a member of Beta Gamma Sigma, an honorary fraternity for graduate business students. He is a licensed certified public accountant in California and a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. Professor Farina is also a Chartered Global Management Accountant, a designation bestowed by a joint venture of the American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

Professor Farina has received three Outstanding Faculty awards from Cerritos College. He was the co-chair of the Accounting and Finance Department at Cerritos College for over 20 years.



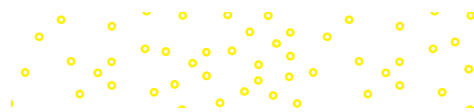
Haddock/Price/Farina



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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: A Contemporary Approach* by Haddock, Price, 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, Haddock/Price/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, Haddock/Price/Farina guides him or her 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.



How Does Haddock/Price/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 **Uber**, **Southwest**, **Starbucks**, 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.

www.uber.com

How do you get from the airport to your hotel when traveling on business? How do you get home from a party when it is not safe for you to drive? How do you get into the downtown business district for a meeting when parking is difficult and expensive? How do you get to any destination when taking your own vehicle is not convenient or possible? Taxis are not always available or affordable, and public transportation is difficult when in an unfamiliar city. Uber is a viable alternative to taxis and other forms of public transportation.



Wirestock, Inc./Alamy Stock Photo

Uber was created in 2009 as a private company in San Francisco, California, on a smartphone app used to summon personal transportation from Uber drivers who use their own vehicles to transport customers. Uber’s initial business model as a personal transportation company has transformed to a multifaceted company that provides transportation, food delivery, and bicycle-sharing, and a transfer network company that operates in over 785 metropolitan areas worldwide.

Although Uber has had a turbulent history since its founding as a private company, it has raised a massive amount of investment capital to fund its operations. In January 2018, Uber raised \$1.25 billion in cash from an investment group through a financing arrangement that valued the company at \$48 billion. On May 10, 2019, Uber became a public company through an initial public offering. Uber has incurred major losses as a result of the COVID-19 pandemic. However, the company has played a major role in offering free rides to sites and clinics offering COVID-19 vaccines.

As Uber continues to grow and seek additional investment funding, accountants are pivotal in tracking and reporting the company’s financial results and position in terms of revenues earned, expenses used, assets owned, and liabilities owed as well as calculating the company’s net income (revenues – expenses) and net worth (assets – liabilities). Accountants are essential to the company’s continued growth and success by providing financial information necessary for decision making.

thinking critically

Can you think of any organizations that would be interested in how Uber 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.

Section 1

SECTION OBJECTIVES	TERMS TO LEARN
<p>>> 2-1 Record in equation form the financial effects of a business transaction.</p> <p>WHY IT'S IMPORTANT Learning the fundamental accounting equation is a basis for understanding business transactions.</p> <p>>> 2-2 Define, identify, and understand the relationship between asset, liability, and owner's equity accounts.</p> <p>WHY IT'S IMPORTANT The relationship between assets, liabilities, and owner's equity is the basis for the entire accounting system.</p>	<p>accounts payable</p> <p>assets</p> <p>balance sheet</p> <p>business transaction</p> <p>capital</p> <p>equity</p> <p>liabilities</p> <p>on account</p> <p>owner's equity</p>

Property and Financial Interest

The accounting process starts with the analysis of business transactions. A **business transaction** is any financial event that changes the resources of a firm. For example, purchases, sales, payments, and receipts of cash are all business transactions. The accountant analyzes each business transaction to decide what information to record and where to record it.

Beginning with Analysis

Let's analyze the transactions of Eli's Consulting Services, a firm that provides a wide range of accounting and consulting services. Trayton Eli, CPA, has a master's degree in accounting. He is the sole proprietor of Eli's Consulting Services. Sergio Sanchez, the office manager, has an associate's degree in business and has taken 12 semester hours of accounting. The firm is

>> 2-1 OBJECTIVE
Record in equation form the financial effects of a business transaction.

Learning Objectives

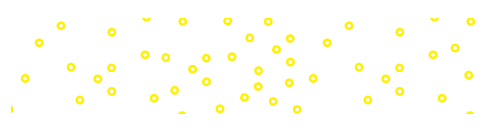
Appearing in the chapter opener, section opener, and within the margins of the text, learning objectives alert students to what they should expect as they progress through the chapter. Many students question the relevance of what they're learning, which is why we explain **"Why It's Important"** at the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

About Accounting

These 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.

ABOUT ACCOUNTING

Accounting Software
The use of accounting software eliminates the need to prepare a worksheet. However, adjusting entries must always be made to properly reflect account balances at the end of a



Recall and Important!

recall

Expense

An expense is an outflow of cash, the use of other assets, or the incurring of a liability.

important!

Balance Sheet Accounts

The amounts on the balance sheet are carried forward to the next accounting period.

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.

Business Transaction Analysis Models

Instructors say mastering the ability to properly analyze transactions is critical to success in this course. Price/Haddock/Farina'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.

BUSINESS TRANSACTION

On January 8, SB Express wrote five checks for payroll, check numbers 1601–1605.

ANALYSIS
The liability account *Salaries and Wages Payable* is decreased by \$1,840.56. The asset account *Cash* is decreased by \$1,840.56.

DEBIT-CREDIT RULES

DEBIT Decreases to liability accounts are recorded as debits. Debit *Salaries and Wages Payable* for \$1,840.56.

CREDIT Decreases to assets are credits. Credit *Cash* for \$1,840.56.

T-ACCOUNT PRESENTATION

Salaries and Wages Payable		Cash
-	+	+
1,840.56		1,840.56

GENERAL JOURNAL ENTRY

General Journal					Page 1
Date	Description	Post. Ref.	Debit	Credit	
Jan. 8	Salaries and Wages Payable		1,840.56		
	Cash			1,840.56	
	To record payment of salaries and wages for week ended Jan. 6				

THE BOTTOM LINE

Issue Paychecks

Income Statement

No effect on net income

Balance Sheet

Assets ↓ \$1,840.56

Liabilities ↓ \$1,840.56

No effect on equity

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 INFORMATION

- Managers of a business make sure that the firm's accounting system produces financial information that is timely, accurate, and fair.
- Financial statements should be based on generally accepted accounting principles.
- Each year a publicly traded company must submit financial statements, including an independent auditor's report, to the SEC.
- Internal reports for management need not follow generally accepted accounting principles but should provide useful

information that will aid in monitoring and controlling operations.

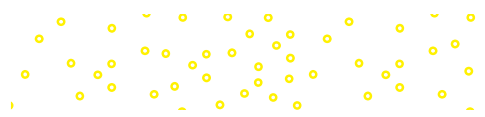
- Financial information can help managers to control present operations, make decisions, and plan for the future.
- The sound use of financial information is essential to good management.

THINKING CRITICALLY

If you were a manager, how would you use financial information to make decisions?

Managerial Implications

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



Section Reviews

Each section concludes with a Self Review consisting of multiple-choice questions that are also available in Connect. A Comprehensive Self Review appears at the end of each chapter. Answers to the Comprehensive Self Review are provided at the end of the chapter.

Section 1 Review

1. The names of three accounting jobs include all but:
 - a. logistics manager.
 - b. accountant.
 - c. bookkeeper.
 - d. accounts payable clerk.
2. Accounting is called:
 - a. the language of economics.
 - b. the language of finance.
 - c. the language of business.
 - d. the language of commerce.
3. Financial statements are:
 - a. accumulated financial data summarized in periodic reports.
 - b. accumulated transactions of the firm's sales activities.
 - c. a summary of records and procedures that make up the accounting system.
 - d. a summarized description of a firm's accounting system.
4. The organization that has the final say on financial accounting issues faced by publicly owned corporations is the:
 - a. Federal Trade Commission.
 - b. Securities and Exchange Commission.
 - c. Internal Revenue Service.
 - d. U.S. Treasury.
5. As the owner of a small business, you have decided to apply for a loan to expand your locations. Information that you most likely will need to provide to the lender include all but:
 - a. current sales and expense figures.
 - b. projected sales and expense figures.
 - c. the cost of the expansion.
 - d. the average value of homes in your neighborhood.
6. One requirement for becoming a CPA is to pass the:
 - a. Final CPA Examination.
 - b. SEC Accounting Examination.

APPLICATIONS

Exercises

Determining accounting equation amounts.

Just before Ward Laboratories opened for business, Pamela Ward, the owner, had the following assets and liabilities. Determine the totals that would appear in the firm's fundamental accounting equation (Assets = Liabilities + Owner's Equity).

Cash	\$101,000
Laboratory Equipment	160,000
Laboratory Supplies	22,500
Loan Payable	28,600
Accounts Payable	18,500

Completing the accounting equation.

The fundamental accounting equations for several businesses follow. Supply the missing amounts.

Assets	=	Liabilities	=	Owner's Equity
1. \$32,350	=	\$6,720	=	?
2. \$28,900	=	\$6,380	=	?
3. \$48,075	=	\$?	=	?
4. \$?	=	\$5,700	=	?
5. \$51,000	=	\$?	=	?

End of Chapter Material

Haddock/Price/Farina includes robust end-of-chapter material to reinforce the content of the chapter, including Discussion Questions, Exercises, Problem Sets A and B, and Critical Thinking Problems. Problem Sets A and B and Critical Thinking Problems conclude with an **Analyze** question asking the student to evaluate each problem critically.

PROBLEMS

Problem Set A

Problem 5.1A ▶ **Completing the worksheet.**

The trial balance of Escobedo Company as of January 31, 20X1, after the company completed the first month of operations, is shown in the partial worksheet below.


INSTRUCTIONS

Complete the worksheet by making the following adjustments: supplies on hand at the end of the month, \$2,100; expired insurance, \$2,750; depreciation expense on equipment for the period, \$800.

Analyze: How does the insurance adjustment affect *Prepaid Insurance*?

Escobedo Company Worksheet (Partial) Month Ended January 31, 20X1					
ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		
	DEBIT	CREDIT	DEBIT	CREDIT	
1. Cash	52,500.00				
2. Accounts Receivable	10,900.00				
3. Supplies	19,700.00				
4. Prepaid Insurance	33,000.00				
5. Equipment	54,500.00				
6. Accumulated Depreciation—Equipment					
7. Accounts Payable		12,900.00			
8. Rosa Escobedo, Capital		17,500.00			
	0.00	0.00			

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

Mini-Practice Set 1 

Service Business Accounting Cycle

Eli's 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 Eli's Consulting Services for the month of January 20X2.

Assume that you are the chief accountant for Eli's 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 Eli's Consulting Services has been expanded to include a few new accounts. Follow the instructions to complete the accounting records for the month of January.

INTRODUCTION

Eli's 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 Trayton Eli, Capital	535 Insurance Expense
302 Trayton Eli, Drawing	
309 Income Summary	

1. Open the general ledger accounts and enter the balances for January 1, 20X2. Obtain the

Mini-Practice Sets

Two Mini-Practice Sets are interspersed throughout the text. These practice sets are now assignable in Connect for completion online. Additionally, there are two full-length practice sets available as resources to complete either offline or via Quickbooks Online. 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.

Internal Control and Fraud Prevention: Applies techniques discussed throughout the text for different classes of assets including cash, payroll, inventories, and property, plant, and equipment.

Financial Statement Analysis: Uses excerpts from real-world annual reports to illustrate actual business applications of chapter concepts. Excerpts from the **2021 Home Depot Financial Statements** are included in Appendix A for use with some exercises. In others, students research a company's most recent financial reports on the Internet.

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

Certified Bookkeeper Designation: Throughout the text, end-of-chapter materials now include questions that will help aspiring bookkeepers to achieve the Certified Bookkeeper Designation.

BUSINESS CONNECTIONS

Managerial FOCUS

Know Accounting


- As an owner or manager of a business, what questions would you ask to judge the firm's performance, control operations, make decisions, and plan for the future?
- Why is financial information important?
- Besides earning a profit, what other objectives might a business have? Can financial information play an important role in these objectives?
- What kind of problems can you foresee if a business owner and/or manager does not have a basic knowledge of accounting?
- What would you tell a small business owner who says he does not see a need for an accounting system in his business because he closely supervises the day-to-day operations and knows exactly what is happening with the business?
- What is the role of the manager versus the accountant?
- Does a business owner/manager need to worry about the separate entity assumption? Why or why not?
- Why are international accounting standards important to management?

Internal Control and FRAUD PREVENTION

Choosing the Right Employees

Selecting the right employees is a critical step for enhancing the entity's system of internal control and fraud prevention. Reflected below are several possible ways to check the background of employees. For each item listed, indicate why the background check is important, what type of information should be sought, and whether or not you believe you should get the candidate's consent before acquiring the information.

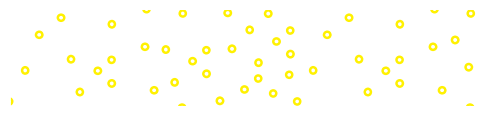
- References
- Employment history
- Education, certifications, and licenses
- Drug screening






New to the Sixth Edition

- **Practice Sets** Two Mini-Practice Sets are available in Connect for select chapters with auto grading. One full sized Practice Set for Island Video is also available for manual grading and for use with QuickBooks online. More information can be found on the Instructor Library.
- **NEW** Many bookkeepers aspire to become *Certified Bookkeepers (CB)*, a designation that assures an individual possesses the level of knowledge and skills needed to carry out all key accounting functions through the adjusted trial balance, including payroll. Throughout the text, end-of-chapter materials now include questions that will help aspiring bookkeepers to achieve the Certified Bookkeeper Designation.
- **NEW** Throughout the text, internal control and fraud prevention techniques are discussed for different classes of assets including cash, payroll, inventories, and property, plant, and equipment. **Internal Control and Fraud Prevention** problems are included in every chapter.
- **Chapter openers** have been revised, featuring companies such as Apple, Boeing, Costco, Deloitte, Dr Pepper Snapple, Facebook, Ford, Southwest, Starbucks, Uber, and UPS, and the Financial Accounting Standards Board.
- **Real-world examples** throughout the text have been updated.
- **End-of-chapter** exercises, problems, and critical thinking problems have been revised and updated throughout the text.
- **Section Reviews** have been updated throughout and are now available in Connect.
- **Chapter 1:** Chapter opener updated. Information added on CPA Exam Redesign. Information added on Accounting in Everyday Life. Table 1.1 updated. Table 1.3 Added to provide a Summary of Generally Accepted Accounting Assumptions and Principles. Critical Thinking Problem expanded.
- **Chapter 2:** Caterpillar information on page 29 updated for 2020 information. American Eagle Outfitters information updated to fiscal year ending January 30, 2021 information.
- **Chapter 5:** Chapter opener updated from KPMG to Ernst & Young. Five new exercises. Updated for latest financial information.
- **Chapter 6:** Updated company financial information.
- **Chapter 7:** Added and About Accounting box in section 2 describing how publicly traded companies report net sales. Updated Home Depot data and question in Business Connections.
- **Chapter 8:** Updated exercises, updated opening vignette, and new and revised information boxes.
- **Chapter 10:** New Exercises, problems and a new critical thinking problem. Additional clarification about independent contractors, overtime and FLSA.



- **Chapter 11:** Two new and 3 revised exercises and additional clarification on Workers' Compensation Insurance Expense.
- **Chapter 12:** Revised exercises and problems, updated company information for Starbucks, Amazon, and Microsoft. New information box on Tesla.
- **Chapter 13:** Revised exercises and problems. Updated vignette from Vitamin Shoppe to Albertson's. Newly added and revised information boxes on real world companies.



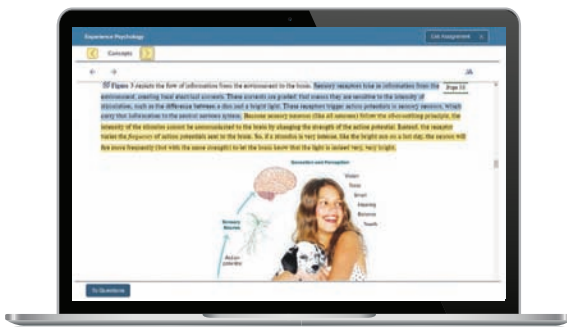
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"I really liked this app—it made it easy to study when you don't have your textbook in front of you."

- Jordan Cunningham,
Eastern Washington University

iPhone: Getty Images



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Your Connect course has everything you need—whether reading your digital eBook or completing assignments for class—Connect makes it easy to get your work done.

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Within Connect, instructors and students have a wealth of material at their fingertips to help make the most of a course in accounting.

Connect Resources

New Key Concept Videos!

Key Concept Videos have been added in Connect to promote understanding of important financial concepts. The videos include concept check questions to help reinforce student learning.

SmartBook 2.0®

A personalized and adaptive learning tool used to maximize the learning experience by helping students study more efficiently and effectively. Smartbook 2.0 highlights where in the chapter to focus, asks review questions on the materials covered, and tracks the most challenging content for later review recharge. Smartbook 2.0 is available both online and offline.

Narrated PowerPoint Presentations

For students, the additional student resources include PowerPoint presentations for each chapter, in both narrated and non-narrated versions.

General Ledger Problems

General Ledger Problems expose students to general ledger software similar to that in practice, without the expense and hassle of downloading additional software. They offer students the ability to record financial transactions and see how these transactions flow into financial statements. Easy minimal-scroll navigation, instant “Check My Work” feedback, and fully integrated hyperlinking across tabs show how input data affect each stage of the accounting process. All are auto-gradable.

Requirement	General Journal	General Ledger	Trial Balance	Income Statement	Stmt of Owners Eqty	Balance Sheet	Accounting Equation		
No input required. Each journal entry is posted automatically to the general ledger. Selecting the date below will determine which values populate the remaining tabs.									
Dates: Aug 31 to: Oct 31									
General Ledger Account									
Cash					Accounts receivable				
No.	Date	Debit	Credit	Balance	No.	Date	Debit	Credit	Balance
				0					0
1	Oct 01	70,000		70,000	7	Oct 12	1,800		1,800
2	Oct 02		4,000	66,000	11	Oct 26	4,800		6,600
4	Oct 06		4,100	61,900	13	Oct 30		4,200	2,400
5	Oct 07		1,670	60,230					
6	Oct 10		800	59,430					
7	Oct 12	4,200		63,630					
8	Oct 15	300		63,930					
9	Oct 18		1,750	62,180					
10	Oct 20		9,500	52,680					
12	Oct 27		375	52,305					
13	Oct 30	4,200		56,505					
14	Oct 30		1,000	55,425					
15	Oct 30		9,000	46,425					
Supplies					Art equipment				
No.	Date	Debit	Credit	Balance	No.	Date	Debit	Credit	Balance
				0					0

Guided Example Hint Videos

Guided Examples provide a narrated, animated, step-by-step walk-through of Exercises similar to those assigned. These short presentations, which can be turned on or off by instructors, provide reinforcement when students need it most.

Instructor Resources

Instructor’s Resource Manual

This manual provides for each chapter a map of related assignment materials; teaching objectives; a chapter overview and learning objectives; and a topical outline.

Solutions Manual

The Solutions Manual includes detailed solutions for every question, exercise, problem, and case in the text.

Test Bank / Test Builder

The Test Bank for each chapter has been updated to stay current with new and revised chapter material, with all questions available for assignment through Connect. Available within Connect, Test Builder is a cloud-based tool that enables instructors to format tests that can be printed or administered within an LMS. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs, without requiring a download. Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.



Acknowledgments

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

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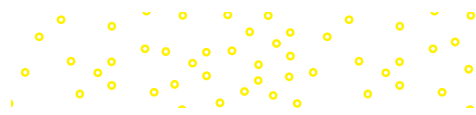
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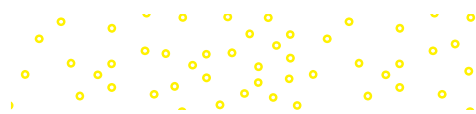
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Thank You . . .

WE ARE GRATEFUL for the outstanding support from McGraw-Hill Education. In particular, we would like to thank Tim Vertovec, managing director; Steve Schuetz, executive portfolio manager; Michele Janicek, lead product developer; Erin Quinones, senior product developer (Core); Katherine Ward, freelance product developer (Assessment); Jill Eccher and Brian Nacik, content project managers; Laura Fuller, buyer; Matt Diamond, designer; and Sarah Flynn, content licensing specialist.

Finally, we would like to thank our supplement authors and accuracy checkers for their significant contributions: Eric Weinstein, Suffolk County Community College; Teresa Alenikov, Cerritos College; Debra Johnson, Cerritos College; Mark McCarthy, East Carolina University; M. Jeff Quinlan, Madison Area Technical College; Brian Schmoltd, Madison College; April Mohr, Jefferson Community and Technical College, SW; and Helen Roybark, Radford University.

Davide Haddock • John Price • Michael Farina





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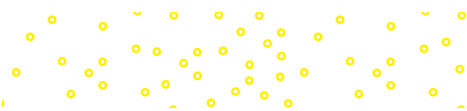


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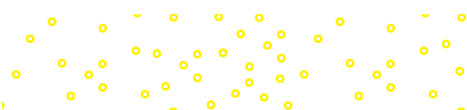
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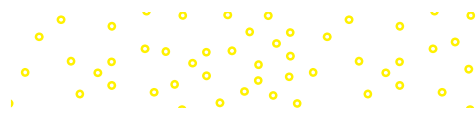


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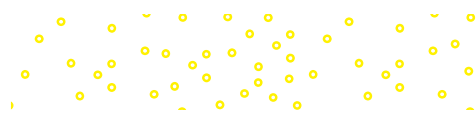
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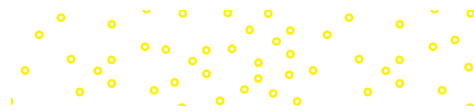
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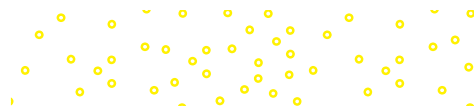


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Mini-Practice Set 2

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The Fashion Rack

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Appendix A The Home Depot 2018 Financial Statements

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Glossary

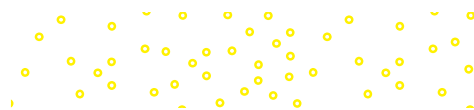
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Sample General Ledger Accounts

Rules of Debit and Credit



College Accounting

Accounting: The Language of Business

Chapter 1

www.uber.com

How do you get from the airport to your hotel when traveling on business? How do you get home from a party when it is not safe for you to drive? How do you get into the downtown business district for a meeting when parking is difficult and expensive? How do you get to any destination when taking your own vehicle is not convenient or possible? Taxis are not always available or affordable, and public transportation is difficult when in an unfamiliar city. Uber is a viable alternative to taxis and other forms of public transportation.



Wirestock, Inc./Alamy Stock Photo

Uber was created in 2009 as a private company in San Francisco, California, on a smart-phone app used to summon personal transportation from Uber drivers who use their own vehicles to transport customers. Uber's initial business model as a personal transportation company has transformed to a multifaceted company that provides transportation, food delivery, and bicycle-sharing, and a transfer network company that operates in over 785 metropolitan areas worldwide.

Although Uber has had a turbulent history since its founding as a private company, it has raised a massive amount of investment capital to fund its operations. In January 2018, Uber raised \$1.25 billion in cash from an investment group through a financing arrangement that valued the company at \$48 billion. On May 10, 2019, Uber became a public company through an initial public offering. Uber has incurred major losses as a result of the COVID-19 pandemic. However, the company has played a major role in offering free rides to sites and clinics offering COVID-19 vaccines.

As Uber continues to grow and seek additional investment funding, accountants are pivotal in tracking and reporting the company's financial results and position in terms of revenues earned, expenses used, assets owned, and liabilities owed as well as calculating the company's net income (revenues – expenses) and net worth (assets – liabilities). Accountants are essential to the company's continued growth and success by providing financial information necessary for decision making.

thinking critically

Can you think of any organizations that would be interested in how Uber is performing?

LEARNING OBJECTIVES	NEW TERMS	
<p>1-1 Define accounting.</p> <p>1-2 Identify and discuss career opportunities in accounting.</p> <p>1-3 Identify the users of financial information.</p> <p>1-4 Compare and contrast the three types of business entities.</p> <p>1-5 Describe the process used to develop generally accepted accounting principles.</p> <p>1-6 Define the accounting terms new to this chapter.</p>	<p>accounting</p> <p>Accounting Standards Codification</p> <p>Accounting Standards Update</p> <p>accounting system</p> <p>auditing</p> <p>auditor's report</p> <p>Certified Bookkeeper (CB)</p> <p>certified public accountant (CPA)</p> <p>corporation</p> <p>creditor</p> <p>discussion memorandum</p> <p>economic entity</p> <p>entity</p> <p>exposure draft</p> <p>financial statements</p> <p>fraud</p>	<p>generally accepted accounting principles (GAAP)</p> <p>governmental accounting</p> <p>internal control</p> <p>international accounting</p> <p>management advisory services</p> <p>managerial accounting</p> <p>partnership</p> <p>public accountants</p> <p>separate entity assumption</p> <p>social entity</p> <p>sole proprietorship</p> <p>Statements of Financial Accounting Standards</p> <p>stock</p> <p>stockholders</p>

Section 1

SECTION OBJECTIVES	TERMS TO LEARN
<p>>> 1-1 Define accounting.</p> <p>WHY IT'S IMPORTANT Business transactions affect many aspects of our lives.</p>	<p>accounting accounting system auditing</p>
<p>>> 1-2 Identify and discuss career opportunities in accounting.</p> <p>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>Certified Bookkeeper (CB) certified public accountant (CPA) financial statements fraud governmental accounting internal control</p>
<p>>> 1-3 Identify the users of financial information.</p> <p>WHY IT'S IMPORTANT A wide variety of individuals and businesses depend on financial information to make decisions.</p>	<p>management advisory services managerial accounting public accountants tax accounting</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 lifelong 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 in Everyday Life

Accounting is not only used by business entities. With every choice we make, we are unconsciously using principles of accounting. We use accounting in everyday life through activities such as (1) creating a personal budget for expending our earned income, (2) tracking the inflows and outflows of funds that we deposit in a checking or savings account, (3) saving for the future, (4) investing funds to earn additional income, and (5) keeping track of our investments.

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 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, and
- 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. Many bookkeepers are **Certified Bookkeepers (CB)**, a designation that assures an individual possesses the level of knowledge and skills needed to carry out all key accounting functions through the adjusted trial balance, including payroll. To become a CB, one must meet three requirements: You must (1) pass the national certified bookkeepers exam, (2) sign a code of ethics, and (3) submit evidence of at least two years of full-time bookkeeping experience or 3,000 hours of part-time or freelance experience. Accounting clerks are responsible for the recordkeeping 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 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

>> 1-1 OBJECTIVE

Define accounting.

>> 1-2 OBJECTIVE

Identify and discuss career opportunities in accounting.

ABOUT ACCOUNTING

Certified Bookkeeper Exam

The Certified Bookkeeper exam consists of four parts. Part one deals with Adjustments and Error Corrections. Part two covers Payroll and Depreciation. Part three covers Inventory, and part four covers Internal Control and Fraud Prevention. To pass the exam, you must score 75% or higher on parts one and two (which are closed-book exams administered by computer), and you must score 70% or higher on parts three and four (which are open-work-book exams). In addition to passing the exam, you must also sign a code of ethics and meet either a full-time or part-time experience requirement.

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.	Some college, no degree
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 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*, Accountants and Auditors, <http://www.bls.gov/ooh/business-and-financial/accountants-and-auditors.htm> (visited July 22, 2022).

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.

The CPA exam is developed by the American Institute of Certified Public Accountants (AICPA).

targeted for January 2024. Present plans are for the exam to be assessed in three sections that will comprise the core of the exam. Additionally, the exam will test candidates in one of three disciplines they choose under the new CPA Evolution licensure model. A draft blueprint of the redesigned CPA exam is scheduled to be published in July 2022. For additional information on the structure of the current exam and plans for the redesigned exam, visit the AICPA website at AICPA.org.

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.

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, and
- 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?

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 as well as plan and make decisions for the future. Questions such as the following are difficult to answer without financial information:

- Should you drop from the product line the long-sleeved pullover that is not selling well, 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?

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.

>> 1-3 OBJECTIVE

Identify the users of financial information.

A major responsibility of owners and managers of an entity is **internal control** and the prevention of **fraud**. Internal controls are the company's policies and procedures in place to safeguard assets, ensure reliability of accounting data, and promote compliance with management policies and applicable laws. The goal of internal control policies and procedures is the prevention of fraud, which is intentional or reckless acts that result in the confiscation of a firm's assets or the misrepresentation of the firm's accounting data. Common internal control and fraud prevention policies and procedures include written proof that transactions and payments are authorized and separating duties among employees. Throughout this text and end-of-chapter problems, internal control and fraud prevention techniques are discussed for different classes of assets including cash, payroll, inventories, and property, plant, and equipment.

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 George W. 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 created a five-member Public Company Accounting Oversight Board. The Board has investigative and enforcement powers to oversee the accounting profession and to discipline corrupt accountants and auditors. The Securities and Exchange Commission oversees the Board. Two members of the Board are 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 Act 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 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 next several years in order to service the computer, replace parts, and provide additional components. The business analyzes the financial information about the computer manufacturer in order to determine its economic health and the likelihood that it will remain in business.

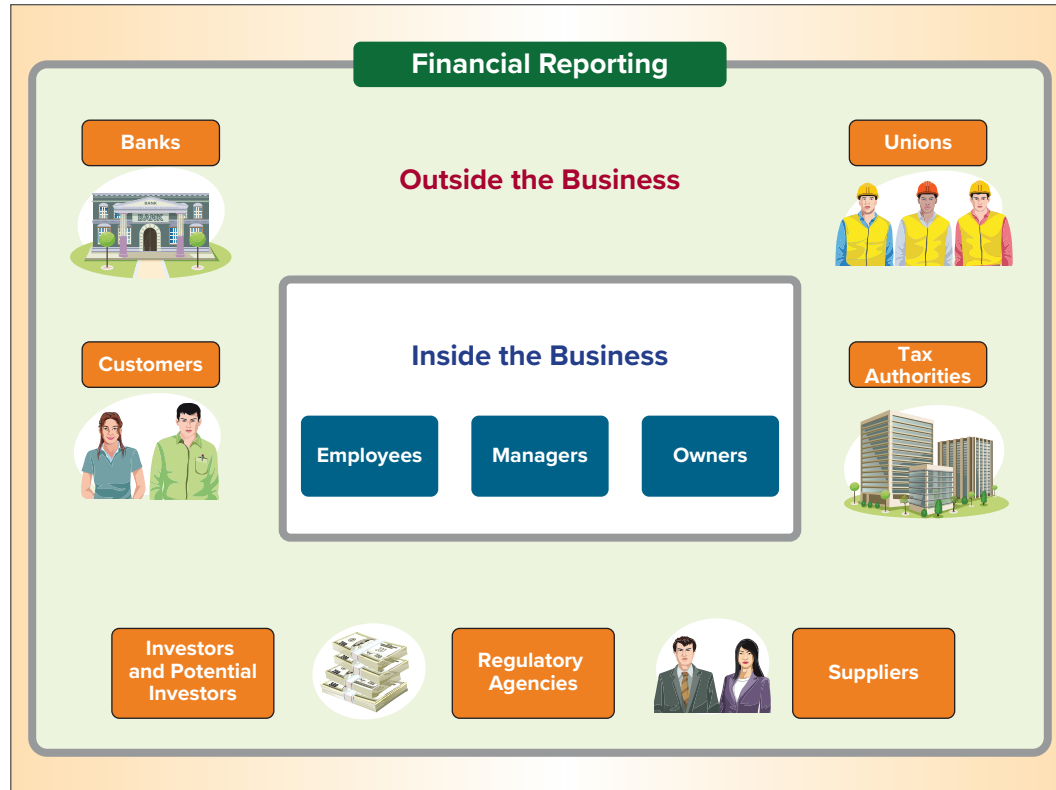
Employees and Unions

Often employees are interested in the financial information of the business that employs them. Employees who are members of a profit-sharing plan pay close attention to the financial results because they affect employee income. Employees who are members of a labor union use financial information about the firm to negotiate wages and benefits.

Figure 1.1 illustrates different financial information users. As you learn about the accounting process, you will appreciate why financial information is so important to these individuals and organizations. You will learn how financial information meets users’ needs.

FIGURE 1.1

Users of Financial Information



Section 1 Review



- The names of three accounting jobs include all but:
 - logistics manager.
 - accountant.
 - bookkeeper.
 - accounts payable clerk.
- Accounting is called:
 - the language of economics.
 - the language of finance.
 - the language of business.
 - the language of commerce.
- Financial statements are:
 - accumulated financial data summarized in periodic reports.
 - accumulated transactions of the firm's sales activities.
 - a summary of records and procedures that make up the accounting system.
 - a summarized description of a firm's accounting system.
- The organization that has the final say on financial accounting issues faced by publicly owned corporations is the:
 - Federal Trade Commission.
 - Securities and Exchange Commission.
 - Internal Revenue Service.
 - U.S. Treasury.
- As the owner of a small business, you have decided to apply for a loan to expand your locations. Information that you most likely will need to provide to the lender include all but:
 - current sales and expense figures.
 - projected sales and expense figures.
 - the cost of the expansion.
 - the average value of homes in your neighborhood.
- One requirement for becoming a CPA is to pass the:
 - Final CPA Examination.
 - SEC Accounting Examination.

- c. Uniform CPA Exam.
 - d. State Board Examination.
7. The CPA designation stands for:
- a. Certified Public Analyst.
 - b. Certified Public Appraiser.
 - c. Certified Public Accountant.
 - d. Certified Public Associate.
8. The Certified Bookkeeper exam includes all of the parts below except:
- a. Business Law.
 - b. Adjustments and Error Corrections.
 - c. Inventory.
 - d. Payroll and Depreciation.
9. To become a Certified Bookkeeper, one must meet all requirements below except:
- a. Pass the national certified bookkeeper exam.
 - b. Sign a code of ethics.
 - c. Pass a criminal background check.
 - d. Submit evidence that you satisfy the experience requirements for the designation.
10. All of the following are users of accounting information except:
- a. owners and managers.
 - b. banks and suppliers.
 - c. search engines on a website.
 - d. tax authorities and regulatory agencies.
11. All of the following are goals of internal control except:
- a. policies and procedures to safeguard assets.
 - b. ensuring reliability of accounting data.
 - c. fraud prevention.
 - d. encouraging noncompliance with management policies and applicable laws.
12. Fraud is intentional or reckless acts that result in the confiscation of a firm's assets or the misrepresentation of the firm's accounting data.
- a. True
 - b. False

Section 2

SECTION OBJECTIVES	TERMS TO LEARN
<p>>> 1-4 Compare and contrast the three types of business entities.</p> <p>WHY IT'S IMPORTANT Each type of business entity requires unique legal and accounting considerations.</p> <p>>> 1-5 Describe the process used to develop generally accepted accounting principles.</p> <p>WHY IT'S IMPORTANT Accounting professionals are required to use common standards and principles in order to produce reliable financial information.</p>	<p>Accounting Standards Codification</p> <p>Accounting Standards Update</p> <p>auditor's report</p> <p>corporation</p> <p>creditor</p> <p>discussion memorandum</p> <p>economic entity</p> <p>entity</p> <p>exposure draft</p> <p>generally accepted accounting principles (GAAP)</p> <p>international accounting</p> <p>partnership</p> <p>separate entity assumption</p> <p>social entity</p> <p>sole proprietorship</p> <p>Statements of Financial Accounting Standards</p> <p>stock</p> <p>stockholders</p>

Business and Accounting

The accounting process involves recording, classifying, summarizing, interpreting, and communicating financial information about an economic or social entity. An **entity** is recognized as having its own separate identity. An entity may be an individual, a town, a university, or a business. The term **economic entity** usually refers to a business or organization whose major purpose is to produce a profit for its owners. **Social entities** are nonprofit organizations, such as cities, public schools, and public hospitals. This book focuses on the accounting process for businesses, but keep in mind that nonprofit organizations also need financial information.

>> 1-4 OBJECTIVE

Compare and contrast the three types of business entities.

Types of Business Entities

The three major legal forms of business entity are the sole proprietorship, the partnership, and the corporation. In general, the accounting process is the same for all three forms of business. Later in the book you will study the different ways certain transactions are handled depending on the type of business entity. For now, however, you will learn about the different types of business entities.

Sole Proprietorships

A **sole proprietorship** is a business entity owned by one person. The life of the business ends when the owner is no longer willing or able to keep the business going. Many small businesses are operated as sole proprietorships.

The owner of a sole proprietorship is legally responsible for the debts and taxes of the business. If the business is unable to pay its debts, the **creditors** (those people, companies, or