

STUDENT OWNER'S MANUAL

HOW TO USE THE STUDY AIDS IN THIS BOOK

THE RECORDING PROCESS

THE NAVIGATOR ✓

- Understand *Concepts for Review*
- Read *Feature Story*
- Scan *Study Objectives*
- Read *Preview*
- Read text and answer *Before You Go On*
p. 74 p. 77 p. 87 p. 90
p. 91
- Work *Demonstration Problem*
- Review *Summary of Study Objectives*
- Complete *Assignments*

The Navigator is a learning system designed to guide you through each chapter and help you succeed in learning the material. It consists of (1) a checklist at the beginning of the chapter, which outlines text features and study skills you will need, and (2) a series of check boxes that prompt you to use the learning aids in the chapter and set priorities as you study.

The **Feature Story** helps you picture how the chapter topic relates to the real world of accounting and business. Throughout the chapter, references to the Feature Story will help you put new ideas in context, organize them, and remember them. The problem called **A Look Back at Our Feature Story** toward the end of the chapter helps you pull together the ideas learned in the chapter. Many Feature Stories end with the **URL** of the company cited in the story.

CONCEPTS FOR REVIEW

Before studying this chapter, you should know or, if necessary, review:

- What assets, liabilities, stockholders' equity, retained earnings, dividends, revenues, and expenses are. (Ch. 1, pp. 11–12)
- Why assets equal liabilities plus stockholders' equity. (Ch. 1, p. 11)
- What transactions are and how they affect the basic accounting equation. (Ch. 2, pp. 44–51)



Concepts for Review, listed at the beginning of each chapter, are the accounting concepts you learned in previous chapters that you will need to know in order to understand the topics you are about to learn. Page references are provided if you need to review before reading the chapter.

FEATURE STORY

No Such Thing as a Perfect World

When she got a job doing the accounting for **Forster's Restaurants**, Tanis Anderson had almost finished her business administration degree at Simon Fraser University. But even after Tanis completed her degree requirements, her education still continued—this time, in the real world.

Tanis's responsibilities include paying the bills, tracking food and labor costs, and managing the payroll for **The Mug and Musket**, a popular destination restaurant in Surrey, British Columbia. "My title is Director of Finance," she laughs, "but really that means I take care of whatever needs doing!"

The use of judgment is a big part of the job. As Tanis says, "I learned all the fundamentals in my business classes, but school prepares you for a perfect world, and there is no such thing."

She feels fortunate that her boss understands that her job is a learning experience as well as a responsibility. "Sometimes he's let me do something he knew perfectly well was a mistake so I can learn something through experience," she admits.

To help others gain the benefits of her real-world learning, Tanis is



always happy to help students in the area who want to use Forster's as the subject of a project or a report. "It's the least I can do," she says.



Study Objectives at the beginning of each chapter give you a framework for learning the specific concepts and procedures covered in the chapter. Each study objective reappears in the margin at the point where the concept is discussed. Finally, you can review all the study objectives in the **Summary** at the end of the chapter.

STUDY OBJECTIVES

After studying this chapter, you should be able to

1. Explain what an account is and how it helps in the recording process.
2. Define debits and credits and explain how they are used to record business transactions.
3. Identify the basic steps in the recording process.
4. Explain what a journal is and how it helps in the recording process.
5. Explain what a ledger is and how it helps in the recording process.
6. Explain what posting is and how it helps in the recording process.
7. Prepare a trial balance and explain its purposes.
8. Identify the advantages of manual and computerized accounting systems.

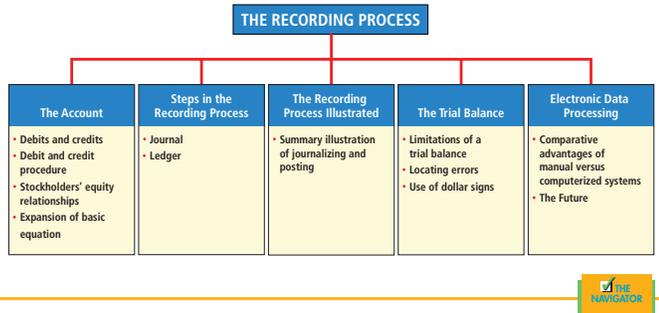


The Preview begins by linking the Feature Story with the major topics of the chapter. It is followed by a graphic outline of major topics and subtopics that will be discussed. This narrative and visual preview gives you a mental framework upon which to arrange the new information you are learning.

PREVIEW OF CHAPTER 3

In Chapter 2 we analyzed business transactions in terms of the accounting equation. The cumulative effects of these transactions were presented in tabular form. Imagine a restaurant and gift shop such as **The Mug and Musket** using the same tabular format as Best Caterers, Inc., to keep track of every one of its transactions. In a single day, this restaurant and gift shop engages in hundreds of business transactions. To record each transaction this way would be impractical, expensive, and unnecessary. Instead, procedures and records are used to keep track of transaction data more easily.

This chapter introduces and illustrates these basic procedures and records. The content and organization of Chapter 3 are as follows:



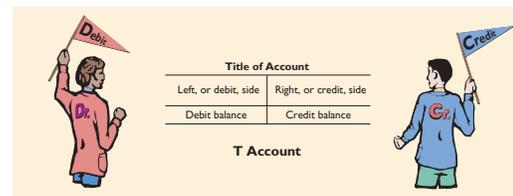
The Account

STUDY OBJECTIVE 1

Explain what an account is and how it helps in the recording process.

An **account** is an individual accounting record of increases and decreases in a specific asset, liability, or stockholders' equity item. For example, Best Caterers, Inc. (the company discussed in Chapter 2), would have separate accounts for Cash, Accounts Receivable, Accounts Payable, Service Revenue, Salaries Expense, and so on. In its simplest form, an account consists of three parts: (1) the title of the account, (2) a left, or debit, side, and (3) a right, or credit, side. Because the alignment of these parts of an account resembles the letter T, it is referred to as a **T account**. The basic form of an account is shown in Illustration 3-1.

Illustration 3-1
Basic form of account



Steps in the Recording Process 75

The basic steps in the recording process occur repeatedly. The analysis of transactions was illustrated in Chapter 1. Further examples will be given in this and later chapters. The other steps in the recording process are explained in the next sections.

Technology in Action



Computerized and manual accounting systems basically parallel one another. Most of the procedures are handled by electronic circuitry in computerized systems. They seem to occur invisibly. But, to fully comprehend how computerized systems operate, you need to understand manual approaches for processing accounting data.



STUDY OBJECTIVE 4

Explain what a journal is and how it helps in the recording process.

THE JOURNAL

Transactions are recorded initially in chronological order in a **journal** before being transferred to the accounts. Thus the journal is referred to as the book of original entry. For each transaction, the journal shows the debit and credit effects on specific accounts. Companies may use various kinds of journals, but every company has the most basic form of journal, a **general journal**. Typically, a general journal has spaces for dates, account titles and explanations, references, and two amount columns. Whenever we use the term *journal* in this textbook without a modifying adjective, we mean the general journal.

The journal makes several significant contributions to the recording process:

1. It discloses in one place the complete effects of a transaction.
2. It provides a chronological record of transactions.
3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be readily compared.

Entering transaction data in the journal is known as **journalizing**. Separate journal entries are made for each transaction. A complete entry consists of (1) the date of the transaction, (2) the accounts and amounts to be debited and credited, and (3) a brief explanation of the transaction.

Technology in Action boxes show how computers are used by accountants and by users of accounting information.

Study Objectives reappear in the margins at the point where the topic is discussed. End-of-chapter assignments are keyed to study objectives.

Key terms and concepts are printed in blue where they are first explained in the text, and they are defined again in the end-of-chapter glossary.

The ledger provides management with the balances in various accounts. For example, the Cash account shows the amount of cash that is available to meet current obligations. Amounts due from customers can be found by examining Accounts Receivable, and amounts owed to creditors can be found by examining Accounts Payable.

ACCOUNTING IN ACTION *Business Insight*



In his autobiography, Sam Walton described the double-entry accounting system with which he began the **Wal-Mart** empire: "We kept a little pigeonhole on the wall for the cash receipts and paperwork of each [Wal-Mart] store. I had a blue binder ledger book for each store. When we added a store, we added a pigeonhole. We did this at least up to twenty stores. Then once a month, the bookkeeper and I would enter the merchandise, enter the sales, enter the cash, and balance it."

Why did Sam Walton keep separate pigeonholes and blue binders for each store? Why bother to keep separate records for each store?

SOURCE: Sam Walton, *Made in America* (New York: Doubleday, 1992), p. 53.

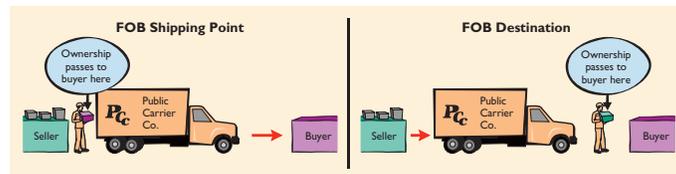
Accounting in Action boxes give you more glimpses into the real world of business. These high-interest boxes are classified by three types of issues—business, ethics, and international—each identified by its own icon. New in this edition, **e-Business Insights** describe how e-business technology is expanding the services provided by accountants.

Infographics, a special type of illustration, pictorially link concepts to the real world and provide visual reminders of key concepts.

Color illustrations visually reinforce important concepts and therefore often contain material that may appear on exams.

Before You Go On sections follow each key topic. **Review It** questions prompt you to stop and review the key points you have just studied. If you cannot answer these questions, you should go back and read the section again. **Review It** questions marked with the PepsiCo icon ask you to find information in the PepsiCo 2006 Annual Report, which is excerpted in the Appendix at the end of the text. Brief **Do It** exercises ask you to put your newly acquired knowledge to work. They outline an **Action Plan** necessary to complete the exercise, and the accompanying **Solution** helps you see how the problem should be solved. (The **Do It** exercises are keyed to similar homework exercises.)

Illustration 9-1
Terms of sale.



December 31, Hargrove has legal title to both the units sold and the units purchased. If units in transit are ignored, inventory quantities would be understated by 4,000 units (1,500 + 2,500).

Dividends. When a company is successful, it generates net income. **Net income** represents an increase in net assets, which are then available to distribute to stockholders. The distribution of cash or other assets to stockholders is called a **dividend**. Dividends reduce retained earnings. However, dividends are not an expense of a corporation. A corporation first determines its revenues and expenses and then computes net income or **net loss**. At this point, a corporation may decide to distribute a dividend.

In summary, the principal sources (increases) of stockholders' equity are (1) investments by stockholders and (2) revenues from business operations. In contrast, reductions (decreases) in stockholders' equity are a result of (1) expenses and (2) dividends. These relationships are shown in Illustration 1-6.

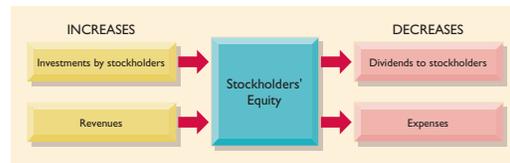


Illustration 1-6
Increases and decreases in stockholders' equity

BEFORE YOU GO ON...

REVIEW IT

1. Why is ethics a fundamental business concept?
2. What are generally accepted accounting principles? Give an example.
3. Explain the monetary unit and the economic entity assumptions.
4. The accounting equation is: Assets = Liabilities + Stockholders' equity. Replacing the words in that equation with dollar amounts, what is PepsiCo's accounting equation on December 31, 2006?
5. What are assets, liabilities, and stockholders' equity?

DO IT

Classify the following items as issuance of stock (I), dividends (D), revenues (R), or expenses (E). Then indicate whether the following items increase or decrease stockholders' equity: (1) rent expense, (2) service revenue, (3) dividends, and (4) salaries expense.

ACTION PLAN

- Review the rules for changes in stockholders' equity: Investments and revenues increase stockholders' equity. Expenses and dividends decrease stockholders' equity.
- Understand the sources of revenue: the sale of merchandise, performance of services, rental of property, and lending of money.
- Understand what causes expenses: the consumption of assets or services.
- Recognize that dividends are distributions of cash or other assets to stockholders.

SOLUTION

1. Rent expense is classified as an expense (E); it decreases stockholders' equity.
2. Service revenue is classified as revenue (R); it increases stockholders' equity.
3. Dividends is classified as dividends (D); it decreases stockholders' equity.
4. Salaries expense is classified as an expense (E); it decreases stockholders' equity.

Review It questions marked with this icon require that you use the PepsiCo 2006 Annual Report.



Do It exercises give you immediate practice of the material just covered.



The Basics of Adjusting Entries 117

Adjustments for accrued expenses are needed for two purposes: (1) to record the obligations that exist at the balance sheet date and (2) to recognize the expenses that apply to the current accounting period. Prior to adjustment, both liabilities and expenses are understated. Therefore, as shown in Illustration 4-13, the adjusting entry for accrued expenses results in a debit (increase) to an expense account and a credit (increase) to a liability account.

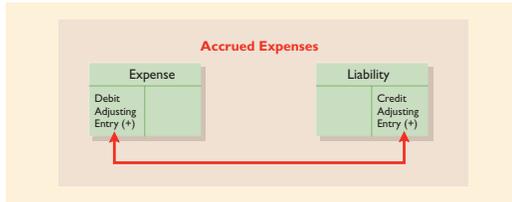


Illustration 4-13
Adjusting entries for accrued expenses.

ACCRUED INTEREST. Premier Staffing Agency, Inc., signed a \$5,000, three-month note payable on October 1. The note requires interest at an annual rate of 12 percent. The amount of the interest accumulation is determined by three factors: (1) the face value of the note; (2) the interest rate, which is always expressed as an annual rate; and (3) the length of time the note is outstanding. In this instance, the total interest due on the \$5,000 note at its due date three months hence is \$150 ($\$5,000 \times 12\% \times 3/12$); the interest for one month is \$50. The formula for computing interest² and its application to Premier Staffing Agency, Inc., for the month of October is shown in Illustration 4-14. Note that the time period is expressed as a fraction of a year.

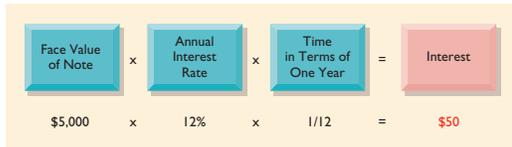


Illustration 4-14
Formula for computing interest

The accrued expense adjusting entry at October 31 is

Oct. 31	Interest Expense	50	
	Interest Payable		50
	(To record interest on notes payable)		

$$A = L + SE$$

$$+50 = +50 -50$$

After this adjusting entry is posted, the accounts look like Illustration 4-15.

Interest Expense		Interest Payable	
10/31 Adj.	50	10/31 Adj.	50

Illustration 4-15
Interest accounts after adjustment

²The computation of interest will be considered in more depth in later chapters.

Helpful Hints in the margins are like having an instructor with you as you read. They further clarify concepts being discussed.

HELPFUL HINT
Interest is a cost of borrowing money that accumulates with the passage of time.

Accounting equation analyses have been inserted in the margin next to key journal entries. They help you understand the impact of an accounting transaction on the financial statements.

Financial statements appear throughout the book. Often, numbers or categories are highlighted in colored type to draw your attention to key information.

sets: (1) cash, (2) short-term investments, such as U.S. government bonds, (3) receivables (notes receivable, accounts receivable, and interest receivable), and (4) prepaid expenses (insurance and supplies). **These items are listed in the order of liquidity**; that is, they are listed in the order in which they are expected to be converted into cash. This arrangement is illustrated in Illustration 5-17 in the presentation of **UAL, Inc. (United Airlines)**.

UAL, INC. (UNITED AIRLINES) Balance Sheet (partial) (in millions)	
Current assets	
Cash	\$1,348
Short-term investments	388
Receivables	788
Aircraft fuel, spare parts, and supplies	310
Prepaid expenses	219
Other current assets	254
Total current assets	\$3,307

Illustration 5-17
Current assets section

Many of the last **Before You Go On** exercises take you back for a critical look at the chapter-opening Feature Story.

BEFORE YOU GO ON . . .

- REVIEW IT**
1. What are the income statement, retained earnings statement, balance sheet, and statement of cash flows?
 2. How are the financial statements interrelated?

A LOOK BACK AT OUR FEATURE STORY

Refer back to the Feature Story about **PepsiCo** at the beginning of Chapter 1, and answer the following questions.

1. If you were interested in investing in **PepsiCo**, what would the balance sheet and income statement tell you?
2. Would you request audited financial statements? Explain.
3. Will the financial statements show the market value of the company? Explain.

- SOLUTION**
1. The balance sheet reports the assets, liabilities, and stockholders' equity of the company. The income statement presents the revenues and expenses and resulting net income (or net loss) for a specific period of time. The balance sheet is like a snapshot of the company's financial condition at a point in time. The income statement indicates the profitability of the company. Also, the sources of the company's revenues and its expenses are provided in the income statement.
 2. You should request **audited** financial statements—statements that a CPA has examined and expressed an opinion as to the fairness of presentation. You should not make decisions without having audited financial statements.
 3. The financial statements will not show the market value of the company. One important principle of accounting is the cost principle, which states that assets should be recorded at cost. Cost has an important advantage over other valuations: It is reliable.



A Look Back exercises refer to the chapter-opening Feature Story. These exercises help you to analyze that real-world situation in terms of the accounting topic of the chapter.



Demonstration Problems are a final review of the chapter. The **Action Plan** gives tips about how to approach the problem, and the **Solution** demonstrates both the form and the content of complete answers.

ACTION PLAN

- Remember that assets must equal liabilities plus stockholders' equity after each transaction.
- Investments and revenues increase stockholders' equity.
- Dividends and expenses decrease stockholders' equity.
- The income statement shows revenues and expenses for a period of time.
- The retained earnings statement shows the changes in retained earnings for a period of time.
- The balance sheet reports assets, liabilities, and stockholders' equity at a specific date.

DEMONSTRATION PROBLEM

Hospitality Legal Services, Inc., which provides contract services for caterers and their clients, was incorporated on July 1, 2008. During the first month of operations, the following transactions occurred:

1. Stockholders invested \$10,000 in cash in exchange for shares of stock.
2. Paid \$800 for July rent on office space.
3. Purchased office equipment on account, \$3,000.
4. Provided legal services to clients for cash, \$1,500 (use Service Revenue).
5. Borrowed \$700 cash from a bank on a note payable.
6. Performed legal services for client on account, \$2,000.
7. Paid monthly expenses: salaries \$500; utilities \$300; and telephone \$100.

Instructions

- (a) Prepare a tabular summary of the transactions.
- (b) Prepare the income statement, retained earnings statement, and balance sheet at July 31 for Hospitality Legal Services, Inc.

SOLUTION TO DEMONSTRATION PROBLEM

Trans- action	Assets			Liabilities		Stockholders' Equity	
	Cash	Receivable	Equipment	Payable	Payable	Common Stock	Retained Earnings
(1)	+ \$10,000					+ \$10,000	
(2)	- 800						- 800 Rent Expense
	9,200					10,000 +	- 800
(3)			+ \$3,000		+ \$3,000		
	9,200	+ 3,000			3,000 +	10,000 +	- 800
(4)	+ 1,500						+ 1,500 Service Revenue
	10,700	+ 3,000			3,000 +	10,000 +	700
(5)	+ 700				+ \$700		
	11,400	+ 3,000			700 +	3,000 +	10,000 +
(6)		+ \$2,000					+ 2,000 Service Revenue
	+ 11,400 +	2,000 +	3,000 =	700 +	3,000 +	10,000 +	2,700
(7)	- 900						- 500 Salaries Expense
							- 300 Utilities Expense
							- 100 Telephone Expense
	<u>\$10,500</u> +	<u>\$2,000</u> +	<u>\$3,000</u> =	<u>\$700</u> +	<u>\$3,000</u> +	<u>\$10,000</u> +	<u>\$1,800</u>
		\$15,500			\$15,500		

(b)

HOSPITALITY LEGAL SERVICES, INC.	
Income Statement	
For the Month Ended July 31, 2008	
Revenues	
Service revenue	\$3,500
Expenses	
Rent expense	\$800
Salaries expense	500
Utilities expense	300
Telephone expense	100
Total expenses	<u>1,700</u>
Net income	<u>\$1,800</u>

Demonstration Problems review the chapter material. These sample problems provide you with **Action Plans**, which list the strategies needed to solve the problem, and with **Solutions**.

The Summary of Study Objectives relates the study objectives to the key points in the chapter. It gives you another opportunity to review as well as to see how all the key topics within the chapter are related.

SUMMARY OF STUDY OBJECTIVES

- 1. Explain what accounting is.** Accounting is an information system that identifies, records, and communicates the economic events of an organization to interested users.
- 2. Identify the users and uses of accounting.** (a) Management uses accounting information in planning, controlling, and evaluating business operations. (b) Investors (owners) decide whether to buy, hold, or sell their financial interests on the basis of accounting data. (c) Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money on the basis of accounting information. Other groups that use accounting information are taxing authorities, regulatory agencies, customers, labor unions, and economic planners.
- 3. Understand why ethics is a fundamental business concept.** Ethics is the standards of conduct by which actions are judged as right or wrong. If you cannot depend on the honesty of the individuals you deal with, effective communication and economic activity would be impossible, and information would have no credibility.
- 4. Explain the meaning of generally accepted accounting principles and the cost principle.** Generally accepted accounting principles are a common set of standards used by accountants. The cost principle states that assets should be recorded at their cost.
- 5. Explain the meaning of the monetary unit assumption and the economic entity assumption.** The monetary unit assumption requires that only transaction data capable of being expressed in terms of money be included in the accounting records. The economic entity assumption requires that the activities of each economic entity be kept separate from the activities of its owners and other economic entities.
- 6. State the basic accounting equation; and explain the meaning of assets, liabilities, and stockholders' equity.** The basic accounting equation is:

$$\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$$

Assets are resources owned by a business. Liabilities are creditorship claims on total assets. Stockholders' equity is the ownership claim on total assets.

- 7. Explain the accounting cycle and flow of information.** The nine steps of the accounting cycle are transaction analysis, journalizing, posting, trial balance, adjustments, adjusted trial balance, closing, postclosing trial balance, and financial statements. Information flows from both the front and the back of the house, through point-of-sales systems, property management systems, and other means, to the accounting office.
- 8. Identify the various systems of accounting procedures used in the hospitality industry.** There are currently three systems: The Uniform System of Accounts for the Lodging Industry, The Uniform System of Accounts for Restaurants, and The Uniform System of Financial Reporting for Clubs. Each has a long history, and their purpose is to provide users of financial information with comparable data and meaningful analyses.
- 9. Understand accounting and financial management in a hotel.** Proper accounting and financial management of a hotel is crucial to its success. The chief accounting officer is known as the controller. The controller is part of the hotel's executive committee, which includes the general manager and all department heads. The controller interacts with all the department heads, assisting and consulting with them on all financial matters so each department head makes sound decisions.
- 10. Understand accounting and financial management in a foodservice operation and a club.** The controller of a foodservice operation focuses on food, beverage, and labor costs. Food and beverage cost analyses are of particular importance due to the amount of money spent and the perishable nature of the products. The club industry is unique in that its customers are all members of the club. Members pay dues to the club and in return have a decision-making role in club operations. Members also spend money on food and beverage, merchandising, and other amenities. Therefore, a club controller must account for revenues by looking at different cost centers such as golf, tennis, spa, and food and beverages to provide solid information for management.



Exercises 163

GLOSSARY

Classified balance sheet A balance sheet that contains a number of standard classifications or sections (p. 154).
Closing entries Entries made at the end of an accounting period to transfer the balances of temporary accounts to a permanent stockholders' equity account, Retained Earnings (p. 145).
Correcting entries Entries to correct errors made in recording transactions (p. 151).
Current assets Cash and other resources that are reasonably expected to be realized in cash or to be sold or consumed in the business within one year or the operating cycle, whichever is longer (p. 154).
Current liabilities Obligations reasonably expected to be paid from existing current assets or through the creation of other current liabilities within the next year or operating cycle, whichever is longer (p. 156).
Income summary A temporary account used in closing revenue and expense accounts (p. 145).
Intangible assets Noncurrent resources that do not have physical substance (p. 156).
Liquidity The ability of a company to pay obligations that are expected to become due within the next year or operating cycle (p. 157).

Long-term investments Resources not expected to be realized in cash within the next year or operating cycle (p. 155).
Long-term liabilities (long-term debt) Obligations expected to be paid after more than one year (p. 157).
Operating cycle The average time required to go from cash to cash in producing revenues (p. 155).
Permanent (real) accounts Balance sheet accounts whose balances are carried forward to the next accounting period (p. 144).
Postclosing trial balance A list of permanent accounts and their balances after closing entries have been journalized and posted (p. 149).
Property, plant, and equipment Assets of a relatively permanent nature that are being used in the business and not intended for resale (p. 156).
Stockholders' equity The ownership claim of shareholders on total assets (p. 158).
Temporary (nominal) accounts Revenue, expense, and dividends accounts whose balances are transferred to Retained Earnings at the end of an accounting period (p. 144).
Work sheet A multiple-column form that may be used in the adjustment process and in preparing financial statements (p. 138).

EXERCISES

- 5-1** Indicate which of the following statements are true or false regarding the work sheet. *Use of a work sheet. (SO 1)*
- ___ The work sheet is essentially a working tool of the accounting.
 - ___ The work sheet cannot be used as a basis for posting to ledgers.
 - ___ The work sheet is distributed to management and other interested parties.
 - ___ Financial statements can be prepared directly from the work sheet before journalizing and posting the adjusting entries.
- 5-2** The ledger of W. S. Juice Bar includes the following unadjusted balances: Service Revenue \$60,000; Salaries Expense \$28,950; and Prepaid Rent \$6,000. Adjusting entries are required for (a) services provided for \$1,000 but not yet billed and collected; (b) accrued salaries payable of \$1,350; and (c) expired rent of \$2,000. Enter the unadjusted balances and adjustments into a work sheet, and complete the work sheet for all accounts. (*Hint:* You will need to add the following accounts: Accounts Receivable, Salaries Payable, and Rent Expense.) *Prepare partial work sheet. (SO 1)*
- 5-3** The income statement of Health 24 City Club for the month ending August 31 shows Membership Dues Revenues of \$25,000; Salaries Expense of \$9,300; Repairs and Maintenance Expense of \$2,400; and Net Income of \$6,950. Prepare the entries to close the revenue and expense accounts, and complete the closing process for these accounts using the three-column form of account. *Journalize and post closing entries using the three-column form of account. (SO 2)*
- 5-4** Using the data in Exercise 5-3, identify the accounts that would be included in a post-closing trial balance. *Identify postclosing trial balance accounts. (SO 3)*
- 5-5** Sam Perroni, owner of Perroni's Harbor Cruise, found the following errors that his bookkeeper made after the transactions had been journalized and posted. Prepare the correcting entries. *Prepare correcting entries. (SO 5)*
- A collection on account from a customer for \$1,280 was recorded as a debit to Accounts Receivable of \$1,280 and a credit to Service Revenue of \$1,280.
 - The purchase of supplies for the boats on account for \$3,570 was recorded as a debit to Supplies of \$3,750 and credit to Accounts Payable of \$3,750.
- 5-6** At Fred's Fish Chips, the following errors were discovered after the transactions had been journalized and posted. Prepare the correcting entries. *Prepare correcting entries. (SO 5)*
- A collection on account from a customer for \$850 was recorded as a debit to Cash of \$850 and a credit to Service Revenue of \$850.

The Glossary defines all the key terms and concepts introduced in the chapter. Page references help you find any terms you need to study further.

Exercises range in difficulty, helping you focus on one study objective at a time. This will help you build confidence in your basic skills and knowledge to use the material learned in the chapter. More difficult exercises help you pull together several concepts from the chapter.

Group Decision Cases require teams of students to evaluate a manager's decision or choose from among alternative courses of action. They help prepare you for the business world by giving you practice in solving problems with colleagues.

Months	Number	Working Days per Month
January–March	2	20
April–May	3	25
June–October	2	18
November–December	3	23

Instructions
With the class divided into groups, answer the following:
(a) Prepare a report showing the comparative payroll expense of continuing to employ permanent workers compared to adopting the Harrington Services, Inc., plan.
(b) What other factors should Martha consider before finalizing her decision?

ETHICS CASE
11-13 Harry Smith owns and manages Harry's Restaurant, a twenty-four-hour restaurant near the city's medical complex. Harry employs nine full-time employees and sixteen part-time

FINANCIAL REPORTING PROBLEM: PepsiCo

6-14 Refer to the financial statements of PepsiCo, presented in Appendix A, and answer the following questions:
(a) What was the amount of net cash provided by operating activities for the year ended December 30, 2006? For the year ended December 31, 2005?
(b) What was the amount of increase or decrease in cash and cash equivalents for the year ended December 30 2006? For the year ended December 31, 2005?
(c) Which method of computing net cash provided by operating activities does PepsiCo use?



Financial Reporting Exercises direct you to study various aspects of the financial statements in the PepsiCo 2006 Annual Report, which is excerpted in the Appendix at the end of the text.

EXPLORING THE WEB

9-11 A company's annual report usually will identify the inventory method used. Knowing that, you can analyze the effects of the inventory method on the income statement and the balance sheet.

Address: www.darden.com

Steps

1. From Darden Restaurants' home page, choose **Investor Relations**.
2. Choose **Annual Report & Financials**.
3. Choose **Annual Report 2006—HTML version**.
4. Click on **Financial Renew** under the Table of Contents.
5. Click on **Consolidated Balance Sheets**.

Instructions

Answer the following questions based on the 2006 Annual Report.
(a) At Darden's fiscal year-end, what was the net inventory on the balance sheet?
(b) How has this changed from the previous fiscal year-end?
(c) What inventory method does Darden use (See notes to Consolidated Financial Statements)?

ETHICS CASE

9-12 J. K. Leask Wholesale Corp. uses the LIFO method of inventory costing. In the current year, profit at J. K. Leask is running unusually high. The corporate tax rate is also high this year, but it is scheduled to decline significantly next year. In an effort to lower the current year's net income and to take advantage of the changing income tax rate, the president of J. K. Leask Wholesale instructs the accountant to recommend to the purchasing department a large purchase of inventory for delivery three days before the end of the year. The price of the inventory to be purchased has doubled during the year, and the purchase will represent a major portion of the ending inventory value.

Instructions

- (a) What is the effect of this transaction on this year's and next year's income statement and income tax expense? Why?
- (b) If J. K. Leask Wholesale had been using the FIFO method of inventory costing, would the president give the same directive?
- (c) Should the plant accountant order the inventory purchase to lower income? What are the ethical implications of this order?

Exploring the Web exercises guide you to Internet sites where you can find and analyze information related to the chapter topic.

Through the **Ethics Cases**, you will reflect on typical ethical dilemmas, learn how to analyze such situations, and decide on an appropriate course of action.

After you complete your homework assignments, it's a good idea to go back to **The Navigator** checklist at the start of the chapter to see if you have used all the study aids of the chapter.

