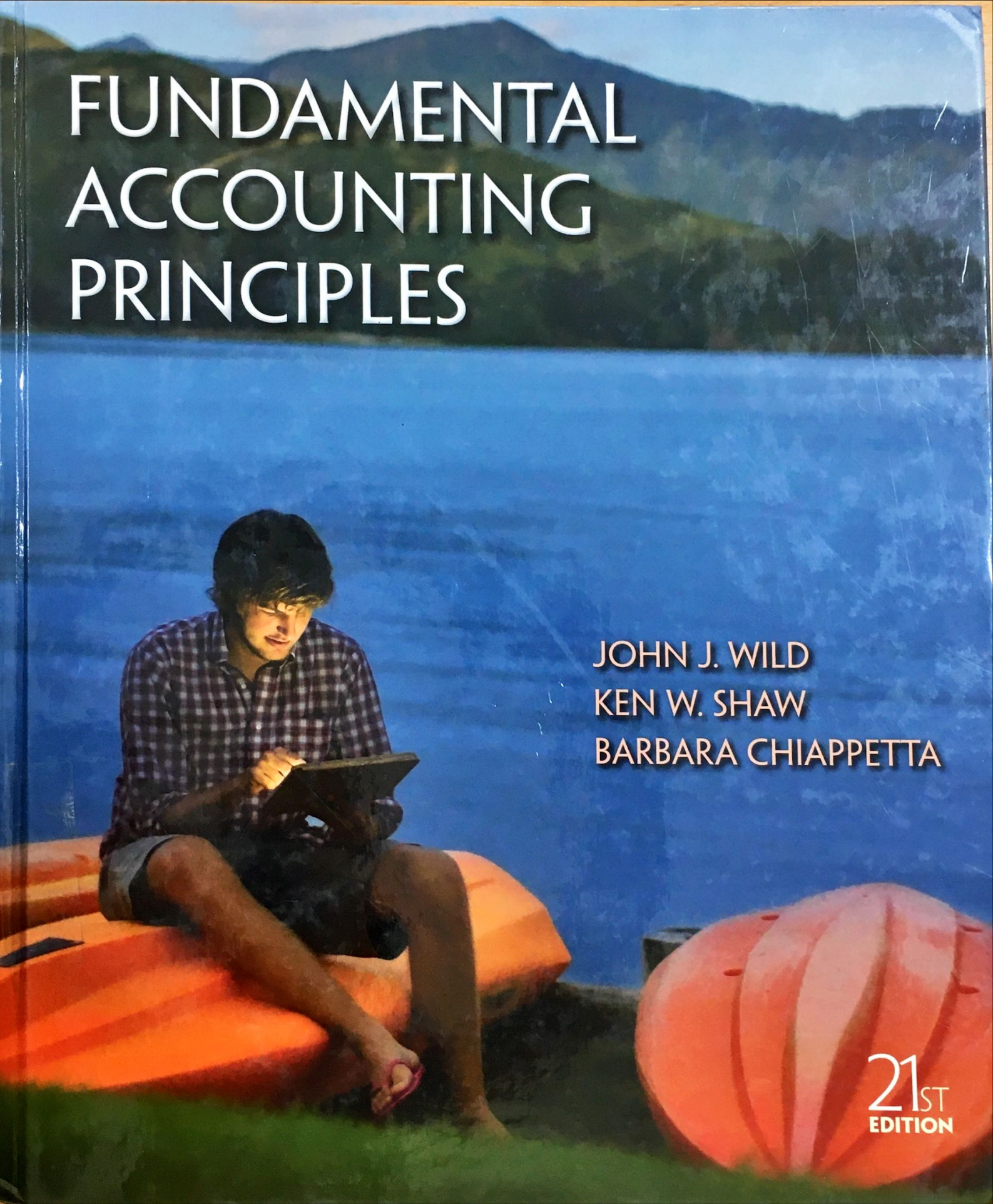


# FUNDAMENTAL ACCOUNTING PRINCIPLES



JOHN J. WILD  
KEN W. SHAW  
BARBARA CHIAPPETTA

21<sup>ST</sup>  
EDITION





# connect<sup>®</sup> plus+

## ACCOUNTING

The integrated solutions for Wild's Fundamental Accounting Principles 21e have been proven to help you achieve your course goals of improving student readiness, enhancing student engagement, and increasing their comprehension of content. Known for its engaging style, the Wild solution employs the use of current companies, LearnSmart, and instant feedback on practice problems to help students engage with course materials, comprehend the content, and achieve higher outcomes in the course.

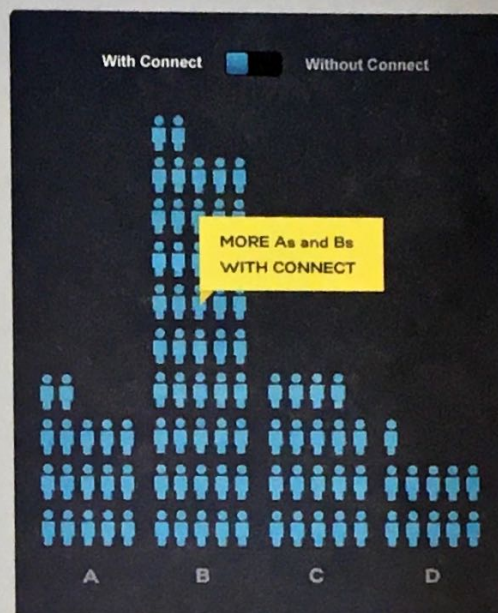
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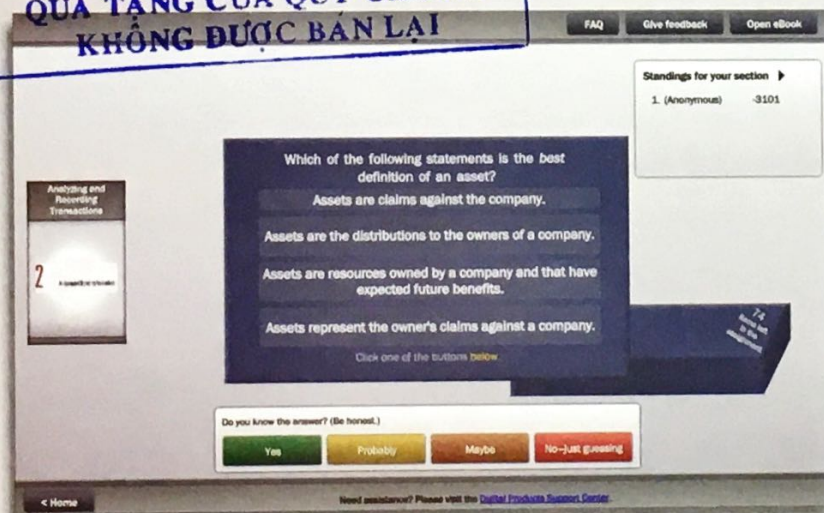
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### McGraw-Hill LearnSmart™

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

## LearnSmart™



# Get Connected.

## Interactive Presentations

chapter 02: Analyzing and Recording Transactions

Learning Objective P1: Record transactions in a journal and post entries to a ledger.

### Prepare Journal Entries

**General Journal**

Date	Account Titles and Explanation	Debit	Credit
Dec. 1	Cash	30,000	
	Owner, Capital		30,000
	<i>Receive investment by owner</i>		
Dec. 2	Supplies	2,500	
	Cash		2,500
	<i>Purchase supplies for cash.</i>		

A journal gives a complete, chronological record of each business transaction in one place. It shows debits and credits for each transaction, as well as an explanation and posting reference column. Step 3 of the accounting process, which is the process of recording transactions in a journal, is called journalizing. Individual entries in the journal are called journal entries. A compound entry is one where there is more than one debit or credit. While companies can use various journals, every company uses a **general journal**. It can be used to record any transaction that is not accounted for in another journal (which will be discussed in subsequent chapters). In order to enter a journal entry in the general journal, apply these steps.

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## Intelligent Response Technology

### Intelligent Response Technology (IRT)

is Connect Accounting's new student interface for end-of-chapter assessment content. Intelligent Response Technology provides a general journal application that looks and feels more like what you would find in a general ledger software package, improves answer acceptance to reduce student frustration with formatting issues (such as rounding), and, for select questions, provides an expanded table that guides students through the process of solving the problem.

[view transaction list](#)

[view general journal](#)

### Journal Entry Worksheet

1 2 3 4 5 6 7

Two-thirds of the work related to \$12,000 cash received in advance is performed this period.

Transaction	General Journal	Debit	Credit
a.	Unearned fee revenue	12,000	
	Fee revenue		12,000
	Unearned fee revenue		

\*Enter debits before credits

[done](#)

[clear transaction](#)

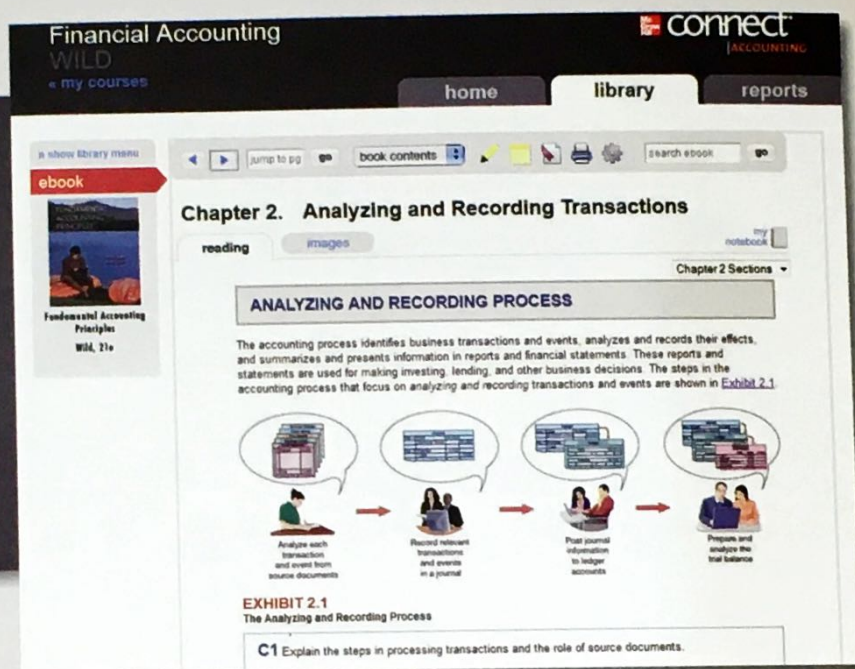
[record transaction](#)



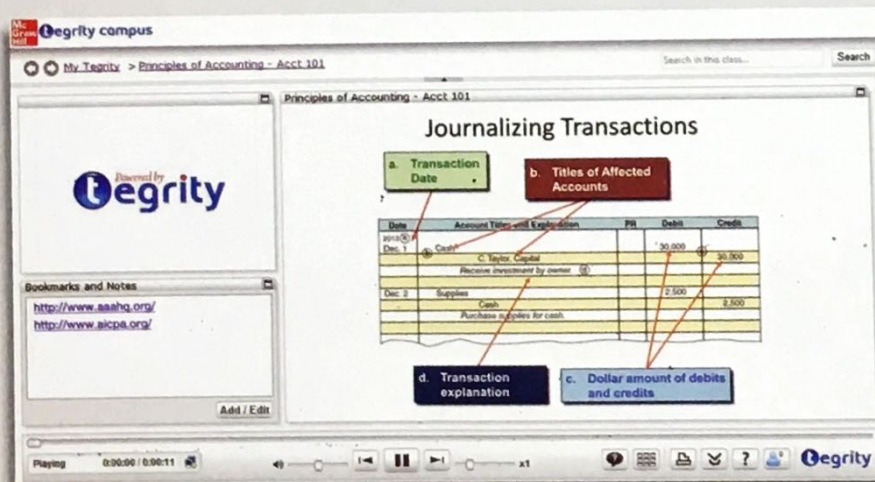
# Get Engaged.

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



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Make your classes available anytime, anywhere. With simple, one-click recording, students can search for a word or phrase and be taken to the exact place in your lecture that they need to review.



# Fundamental Accounting Principles

21<sup>st</sup>  
edition

**John J. Wild**

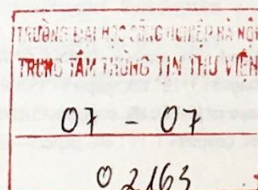
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**Ken W. Shaw**

*University of Missouri at Columbia*

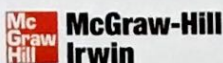
**Barbara Chiappetta**

*Nassau Community College*



**McGraw-Hill  
Irwin**





To my students and family, especially **Kimberly, Jonathan, Stephanie, and Trevor.**  
 To my wife **Linda** and children, **Erin, Emily, and Jacob.**  
 To my mother, husband **Bob**, and sons **Michael and David.**

# FUNDAMENTAL ACCOUNTING PRINCIPLES, TWENTY-FIRST EDITION

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# Adapting to the Needs of Today's Students

## **Fundamental Accounting Principles 21e**

Enhancements in technology have changed the spectrum of how we live and learn in the world today. Being able to download and work with learning tools on smart phones, tablets, or laptop computers empowers students to drive their own learning by putting increasingly intelligent technology into their hands.

No two students are alike, and whether the goal is to become an accountant or a businessperson or simply to be an informed consumer of accounting information, *Fundamental Accounting Principles* (FAP) has helped generations of students succeed by giving them support in the form of leading-edge accounting content that engages students, paired with state-of-the-art technology that elevates their understanding of key accounting principles.

With FAP on your side, you'll be provided with **engaging content** in a **motivating style** to help students see the relevance of accounting. Students are motivated when reading materials that are clear and pertinent. FAP excels at engaging students. Its chapter-opening vignettes showcase dynamic, successful entrepreneurial individuals and companies guaranteed to **interest and excite students, and highlights the usefulness of accounting to those business owners**. This edition's featured companies—Polaris, Arctic Cat, KTM, and Piaggio—captivate students with their products and annual reports, which are a pathway for learning financial statements. Further, this book's coverage of the accounting cycle fundamentals is widely praised for its clarity and effectiveness.

FAP also delivers innovative technology to help student performance. **Connect Accounting** provides students with instant grading and feedback for assignments that are completed online. With our new **Intelligent Response Technology**, we are taking our accounting content to the next level, delivering assessment material in a **more intuitive, less restrictive** format that adapts to the needs of today's students.

Our new content features:

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

The end result is content that better prepares students for the real world. *Connect Accounting* also includes digitally based, interactive adaptive learning tools that provide an opportunity to engage students more effectively by offering varied instructional methods and more personalized learning paths that build on different learning styles, interests, and abilities, allowing students to work at their own pace.

**McGraw-Hill LearnSmart™** is an intelligent learning system that uses a series of adaptive questions to pinpoint each student's knowledge gaps. LearnSmart then provides an optimal learning path for each student, so that they spend less time in areas they already know and more time in areas they don't. The result is LearnSmart's adaptive learning path that helps students retain more knowledge, learn faster, and study more efficiently.

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**Guided Examples** provide students with narrated, animated, step-by-step walkthroughs of algorithmic versions of assigned exercises. Students appreciate the Guided Examples because they can help students learn accounting and complete assignments when outside of class.

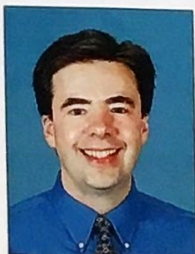
**Connect Plus Accounting** integrates a media-rich online version of the textbook with *Connect Accounting*.

"I believe that FAP is the best intro accounting text on the market—clear, concise, complete... Additionally, it is clear that the authors stay in touch with the 'times'."

— JAMES L. LOCK, Northern Virginia Community College

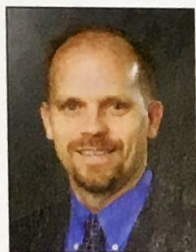


# About the Authors



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

Professor Wild teaches accounting courses at both the undergraduate and graduate levels. He has received numerous teaching honors, including the Mabel W. Chipman Excellence-in-Teaching Award, the departmental Excellence-in-Teaching Award, and the Teaching Excellence Award from the 2003 and 2005 business graduates at the University of Wisconsin. He also received the Beta Alpha Psi and Roland F. Salmonson Excellence-in-Teaching Award from Michigan State University. Professor Wild has received several research honors and is a past KPMG Peat Marwick National Fellow and is a recipient of fellowships from the American Accounting Association and the Ernst and Young Foundation.



**KEN W. SHAW** is an associate professor of accounting and the Deloitte Professor of Accounting at the University of Missouri. He previously was on the faculty at the University of Maryland at College Park. He received an accounting degree from Bradley University and an MBA and PhD from the University of Wisconsin. He is a Certified Public Accountant with work experience in public accounting.

Professor Shaw teaches financial accounting at the undergraduate and graduate levels. He received the Williams-Keepers LLC Teaching Excellence award in 2007, was voted the "Most Influential Professor" by three School of Accountancy graduating classes, and is a two-time recipient of the O'Brien Excellence in Teaching Award. He is the advisor to his School's chapter of the Association of Certified Fraud Examiners.



**BARBARA CHIAPPETTA** received her BBA in Accountancy and MS in Education from Hofstra University and is a tenured full professor at Nassau Community College. For the past two decades, she has been an active executive board member of the Teachers of Accounting at Two-Year Colleges (TACTYC), serving 10 years as vice president and as president from 1993 through 1999. As an active member of the American Accounting

Association, she has served on the Northeast Regional Steering Committee, chaired the Curriculum Revision Committee of the Two-Year Section, and participated in numerous national committees. Professor Chiappetta has been inducted into the American Accounting Association Hall of Fame for the Northeast Region. She had also

Professor Wild is an active member of the American Accounting Association and its sections. He has served on several committees of these organizations, including the Outstanding Accounting Educator Award, Wildman Award, National Program Advisory, Publications, and Research Committees. Professor Wild is author of *Financial Accounting*, *Managerial Accounting*, and *College Accounting*, each published by McGraw-Hill/Irwin. His research articles on accounting and analysis appear in *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting and Economics*, *Contemporary Accounting Research*, *Journal of Accounting, Auditing and Finance*, *Journal of Accounting and Public Policy*, and other journals. He is past associate editor of *Contemporary Accounting Research* and has served on several editorial boards including *The Accounting Review*.

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

Professor Shaw is an active member of the American Accounting Association and its sections. He has served on many committees of these organizations and presented his research papers at national and regional meetings. Professor Shaw's research appears in the *Journal of Accounting Research*; *Contemporary Accounting Research*; *Journal of Financial and Quantitative Analysis*; *Journal of the American Taxation Association*; *Strategic Management Journal*; *Journal of Accounting, Auditing, and Finance*; *Journal of Financial Research*; and other journals. He has served on the editorial boards of *Issues in Accounting Education* and the *Journal of Business Research*. Professor Shaw is co-author of *Financial and Managerial Accounting* and *College Accounting*, both published by McGraw-Hill.

In his leisure time, Professor Shaw enjoys tennis, cycling, music, and coaching his children's sports teams.

received the Nassau Community College dean of instruction's Faculty Distinguished Achievement Award. Professor Chiappetta was honored with the State University of New York Chancellor's Award for Teaching Excellence in 1997. As a confirmed believer in the benefits of the active learning pedagogy, Professor Chiappetta has authored *Student Learning Tools*, an active learning workbook for a first-year accounting course, published by McGraw-Hill/Irwin.

In her leisure time, Professor Chiappetta enjoys tennis and participates on a U.S.T.A. team. She also enjoys the challenge of bridge. Her husband, Robert, is an entrepreneur in the leisure sport industry. She has two sons—Michael, a lawyer, specializing in intellectual property law in New York, and David, a composer, pursuing a career in music for film in Los Angeles.



Dear Colleagues/Friends,

As we roll out the new edition of *Fundamental Accounting Principles*, we thank each of you who provided suggestions to improve our textbook. As teachers, we know how important it is to select the right book for our course. This new edition reflects the advice and wisdom of many dedicated reviewers, symposium and workshop participants, students, and instructors. Our book consistently rates number one in customer loyalty because of you. Together, we have created the most readable, concise, current, accurate, and innovative accounting book available today.

Throughout the writing process, we steered this book in the manner you directed. Reviewers, instructors, and students say this book's enhanced presentation, graphics, and technology cater to different learning styles and helps students better understand accounting. *Connect Plus Accounting* offers new features to improve student learning and to assist instructor teaching and grading. You and your students will find all these tools easy to apply.

We owe the success of this book to you and other instructors who graciously took time to help us focus on the changing needs of today's students and their learning needs. We feel fortunate to have witnessed our profession's extraordinary devotion to teaching. Your feedback and suggestions are reflected in everything we write. Please accept our heartfelt thanks for your dedication in helping today's students learn, understand, and appreciate accounting.

With kindest regards,

*John J. Wild      Ken W. Shaw      Barbara Chiappetta*



# Adapting to the Needs of

McGraw-Hill *Connect Plus Accounting* is a complete online assignment, learning, and textbook assessment solution that connects your students with the tools and resources needed to achieve success through faster learning, more efficient studying, and higher retention of knowledge. Key features found in *Connect Plus Accounting* include:

**Intelligent Response Technology** Intelligent Response Technology is *Connect Accounting's* new student interface for end-of-chapter assessment content. Intelligent Response Technology provides a general journal application that looks and feels more like what you would find in a general ledger software package, improves answer acceptance to reduce student frustration with formatting issues (such as rounding), and, for select questions, provides an expanded table that guides students through the process of solving the problem.

"I like that this system was formatted like real-world accounting is."

—Student, Rose State College

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

### Journal Entry Worksheet

1 2 3 4 5 6 7

Two-thirds of the work related to \$12,000 cash received in advance is performed this period.

Transaction	General Journal	Debit	Credit
a.	Unearned fee revenue	12,000	
	Fee revenue		12,000
	Unearned fee revenue		

\*\*Enter debits before credits

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

"I love how the general journal was set up. It felt like what I would be filling out if I had an accounting job."

—Student, Chabot Community College

[view transaction list](#)
[journal entry worksheet](#)

Transaction	General Journal	Debit	Credit
a.	Unearned fee revenue	12,000	
	Fee revenue		12,000
b.	Wages expense	10,000	
	Wages payable		10,000
c.	Depreciation expense—Equipment	10,840	
	Accumulated depreciation—Equipment		10,840



# Today's Students!

1. Complete the table to determine the cost assigned to ending inventory and cost of goods sold using specific identification.

## Specific Identification

Date	Activity	Available for Sale		Cost of Goods Sold			Ending Inventory		
		Units	Unit Cost	Units Sold	Unit Cost	COGS	Ending Inventory-Units	Cost Per Unit	Ending Inventory-Cost
Mar. 1	Beginning Inventory	150							
Mar. 20	Purchase	220							
Mar. 30	Purchase	90							
		460				\$ 0			\$ 0

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BIZKID COMPANY			
Income Statement			
For Year Ended August 31, 2011			
Sales	✓	\$ 218,880	✓
Less: Sales discounts	✓	\$ 3,349	✓
Less: Sales returns and allowances	✓	14,446	✓
Net sales	✓	201,085	
Cost of goods sold	✓	85,312	✓
Gross profit	✓	115,773	
Expenses			
Selling expenses			
Sales salaries expense	✓	29,987	✓
Rent expense-selling space	✓	10,287	✓
Store supplies expense	✓	2,627	✓
Advertising expense	✓	18,605	✓
Total selling expenses		61,506	
General and administrative expenses			
Accounts payable	✗	876	✓
Accum-depreciation - store equipment	✗	9,785	✗
Total general and administrative expenses		10,661	
Total expenses		72,167	

BIZKID COMPANY			
Income Statement			
For Year Ended August 31, 2011			
Sales		\$ 218,880	
Less: Sales discounts	\$ 3,349		
Less: Sales returns and allowances	14,446		
Net sales		201,085	
Cost of goods sold		85,312	
Gross profit		115,773	
Expenses			
Selling expenses			
Sales salaries expense	29,987		
Rent expense-selling space	10,287		
Store supplies expense	2,627		
Advertising expense	18,605		
Total selling expenses		61,506	
General and administrative expenses			
Office salaries expense	876		
Rent expense-office space	2,627		
Cost of goods sold		3,503	
Office salaries expense		65,009	
Office supplies expense			
Rent expense-office space			

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

"This system has improved the journal entry and T-account set-up processes to more accurately resemble the way it is done in class."

—Student, Tallahassee Community College



**Interactive Presentations** *Connect Accounting's* Interactive Presentations teach each chapter's core learning objectives and concepts through an engaging, hands-on presentation, bringing the text content to life. Interactive Presentations harness the full power of technology to truly engage and appeal to all learning styles. Interactive Presentations are ideal in all class formats—online, face-to-face, or hybrid.

chapter 02: Analyzing and Recording Transactions  
Learning Objective P1: Record transactions in a journal and post entries to a ledger.

**Prepare Journal Entries**

General Journal

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Chapter 2. Analyzing and Recording Transactions

reading images my notebook

Chapter 2 Sections

**ANALYZING AND RECORDING PROCESS**

The accounting process identifies business transactions and events, analyzes and records their effects, and summarizes and presents information in reports and financial statements. These reports and statements are used for making investing, lending, and other business decisions. The steps in the accounting process that focus on *analyzing and recording* transactions and events are shown in **Exhibit 2.1**

**EXHIBIT 2.1**  
The Analyzing and Recording Process

**Integrated eBooks** *Connect Plus* includes a media-rich eBook. With it, you can share your notes with your students, and they can insert their own notes, highlight the text, search for specific information, and review their materials. Using an eBook with *Connect* gives your students a complete digital solution that allows them to access their materials from any computer. And over time, as more and more students use mobile devices, our eBooks will even enable them to learn on the go.



# Today's Students!

A sole proprietorship had the following assets and liabilities at the beginning and end of this year.

	Assets	Liabilities
Beginning of the year	\$ 85,000	\$ 35,000
End of the year	130,000	50,000

Determine the net income earned or net loss incurred by the business during the year for each of the following separate cases:

- Owner made no investments in the business and no withdrawals were made during the year.
- Owner made no investments in the business but withdrew \$2,000 cash per month for personal use.**
- Owner made no withdrawals during the year but did invest an additional \$45,000 cash.
- Owner withdrew \$2,000 cash per month for personal use and invested an additional \$35,000 cash.

	a.	b.	c.	d.
Beginning of the year equity	\$50,000	\$50,000	\$50,000	\$50,000
Investments by owner	0	0		
Withdrawals by owner	0	(24,000)		
Net income (loss)	30,000			
End of the year equity	\$80,000	\$80,000	\$80,000	\$80,000

The difference between \$26,000 and \$80,000 is net income of \$54,000.

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

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Standings for your section ▶

1. (Anonymous) -3101

Which of the following statements is the best definition of an asset?

Assets are claims against the company.

Assets are the distributions to the owners of a company.

Assets are resources owned by a company and that have expected future benefits.

Assets represent the owner's claims against a company.

Click one of the buttons below.

Do you know the answer? (Be honest.)

Yes Probably Maybe No-I'm guessing

< Home

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