## **Table of Contents**

### 1 Accounting in Action

### LO 1: Identify the activities and users associated with accounting. 2

Three Activities 2

Who Uses Accounting Data 3

### LO 2: Explain the building blocks of accounting: ethics, principles, and assumptions. 4

Ethics in Financial Reporting 4

Generally Accepted Accounting Principles 5

Measurement Principles 6

Assumptions 6

### LO 3: State the accounting equation, and define its components. 7

Assets 8

Liabilities 8

Owner's Equity 8

### LO 4: Analyze the effects of business transactions on the accounting equation. 9

Transaction Analysis 10

Summary of Transactions 14

### LO 5: Describe the four financial statements and how they are prepared. 15

Income Statement 17

Owner's Equity Statement 17

Balance Sheet 17

Statement of Cash Flows 18

### LO \*6: APPENDIX 1A: Explain the career opportunities in accounting. 18

Public Accounting 19

Private Accounting 19

Governmental Accounting 19

Forensic Accounting 19

"Show Me the Money" 20

A Look at IFRS 33

#### 2 The Recording Process

#### LO 1: Describe how accounts, debits, and credits are used to record business transactions. 37

The Account 37

Debits and Credits 37

Summary of Debit/Credit Rules 40

### LO 2: Indicate how a journal is used in the recording process. 41

Steps in the Recording Process 41

The Journal 41

### LO 3: Explain how a ledger and posting help in the recording process. 43

The Ledger 43

Posting 44

The Recording Process Illustrated 46

Summary Illustration of Journalizing and

Posting 52

#### LO 4: Prepare a trial balance. 53

Limitations of a Trial Balance 54

Locating Errors 54

Dollar Signs and Underlining 55

A Look at IFRS 69

### 3 Adjusting the Accounts

71

### LO 1: Explain the accrual basis of accounting and the reasons for adjusting entries. 72

Fiscal and Calendar Years 72

Accrual-versus Cash-Basis Accounting 72

Recognizing Revenues and Expenses 72

The Need for Adjusting Entries 73

Types of Adjusting Entries 74

#### LO 2: Prepare adjusting entries for deferrals. 75

Prepaid Expenses 75

Unearned Revenues 79

#### LO 3: Prepare adjusting entries for accruals. 80

Accrued Revenues 80

Accrued Expenses 82

Summary of Basic Relationships 85

### LO 4: Describe the nature and purpose of an adjusted trial balance. 88

Preparing the Adjusted Trial Balance 88 Preparing Financial Statements 88

## LO \*5: APPENDIX 3A: Prepare adjusting entries for the alternative treatment of deferrals. 90

Prepaid Expenses 90

Unearned Revenues 92

Summary of Additional Adjustment

Relationships 93

### LO \*6: APPENDIX 3B: Discuss financial reporting concepts. 93

Qualities of Useful Information 93

Assumptions in Financial Reporting 94

Principles in Financial Reporting 94

Cost Constraint 96

A Look at IFRS 113



#### LO 1: Prepare a worksheet. 116

Steps in Preparing a Worksheet 117 Preparing Financial Statements from a Worksheet 124 Preparing Adjusting Entries from a

Worksheet 125

#### LO 2: Prepare closing entries and a post-closing trial balance. 125

Preparing Closing Entries 126 Posting Closing Entries 128 Preparing a Post-Closing Trial Balance 129

LO 3: Explain the steps in the accounting cycle and how to prepare correcting entries. 132

Summary of the Accounting Cycle 132 Reversing Entries—An Optional Step 133 Correcting Entries—An Avoidable Step 133

#### LO 4: Identify the sections of a classified balance sheet. 135

Current Assets 136 Long-Term Investments 137 Property, Plant, and Equipment 137 Intangible Assets 137 Current Liabilities 138 Long-Term Liabilities 138 Owner's Equity 139

#### LO \*5: APPENDIX 4A: Prepare reversing entries. 139

Reversing Entries Example 140 A Look at IFRS 161

#### Accounting for Merchandising Operations

165

#### LO 1: Describe merchandising operations and inventory systems. 166

Operating Cycles 166 Flow of Costs 167

#### LO 2: Record purchases under a perpetual inventory system. 169

Freight Costs 170 Purchase Returns and Allowances 171 Purchase Discounts 171 Summary of Purchasing Transactions 172

#### LO 3: Record sales under a perpetual inventory system. 173

Sales Returns and Allowances 174 Sales Discounts 175

#### LO 4: Apply the steps in the accounting cycle to a merchandising company. 176

Adjusting Entries 176 Closing Entries 176 Summary of Merchandising Entries 177

#### LO 5: Compare a multiple-step with a single-step income statement. 178

Multiple-Step Income Statement 178 Single-Step Income Statement 180 Classified Balance Sheet 181

#### LO \*6: APPENDIX 5A: Prepare a worksheet for a merchandising company. 181

Using a Worksheet 181

#### LO \*7: APPENDIX 5B: Record purchases and sales under a periodic inventory system. 183

Determining Cost of Goods Sold Under a Periodic System 183

Recording Merchandise Transactions 184 Recording Purchases of Merchandise 184 Recording Sales of Merchandise 185 Journalizing and Posting Closing Entries 186 Using a Worksheet 188

A Look at IFRS 207

#### 6 Inventories

#### LO 1: Discuss how to classify and determine inventory. 211

Classifying Inventory 211 Determining Inventory Quantities 212

#### LO 2: Apply inventory cost flow methods and discuss their financial effects. 214

Specific Identification 214 Cost Flow Assumptions 215 Financial Statement and Tax Effects of Cost Flow Methods 220

Using Inventory Cost Flow Methods Consistently 221

#### LO 3: Indicate the effects of inventory errors on the financial statements. 222

Income Statement Effects 222 Balance Sheet Effects 223

#### LO 4: Explain the statement presentation and analysis of inventory. 224

Presentation 224 Lower-of-Cost-or-Market 224 Analysis 225

#### LO \*5: APPENDIX 6A: Apply the inventory cost flow methods to perpetual inventory records. 226

First-In, First-Out (FIFO) 226 Last-In, First-Out (LIFO) 227 Average-Cost 227

#### LO \*6: APPENDIX 6B: Describe the two methods of estimating inventories. 228

Gross Profit Method 228 Retail Inventory Method 229

A Look at IFRS 247

### LO 1: Explain the basic concepts of an accounting information system. 249

Computerized Accounting Systems 250 Manual Accounting Systems 251

### LO 2: Describe the nature and purpose of a subsidiary ledger. 252

Subsidiary Ledger Example 253
Advantages of Subsidiary Ledgers 254

#### LO 3: Record transactions in special journals. 254

Sales Journal 255

Cash Receipts Journal 257

Purchases Journal 261

Cash Payments Journal, 263

Effects of Special Journals on the General Journal 265

Cyber Security: A Final Comment 266

A Look at IFRS 285

## Fraud, Internal Control, and Cash

286

#### LO 1: Discuss fraud and the principles of internal control. 287

Fraud 287

The Sarbanes-Oxley Act 287

Internal Control 288

Principles of Internal Control Activities 288

Limitations of Internal Control 294

#### LO 2: Apply internal control principles to cash. 295

Cash Receipts Controls 295

Cash Disbursements Controls 298

Petty Cash Fund 299

#### LO 3: Identify the control features of a bank account. 301

Making Bank Deposits 301

Writing Checks 302

Bank Statements 303

Reconciling the Bank Account 304

Electronic Funds Transfer (EFT) System 308

#### LO 4: Explain the reporting of cash. 308

Cash Equivalents 308

Restricted Cash 309

A Look at IFRS 324

#### 9 Accounting for Receivables

326

### LO 1: Explain how companies recognize accounts receivable. 327

Types of Receivables 327 Recognizing Accounts Receivable 327

## LO 2: Describe how companies value accounts receivable and record their disposition. 329

Valuing Accounts Receivable 329
Disposing of Accounts Receivable 335

### LO 3: Explain how companies recognize notes receivable. 336

Determining the Maturity Date 337 Computing Interest 338 Recognizing Notes Receivable 339

## LO 4: Describe how companies value notes receivable, record their disposition, and present and analyze receivables. 339

Valuing Notes Receivable 339
Disposing of Notes Receivable 339
Statement Presentation and Analysis 341

A Look at IFRS 354

# Plant Assets, Natural Resources, and Intangible Assets

356

#### LO 1: Explain the accounting for plant asset expenditures. 356

Determining the Cost of Plant Assets 357

Expenditures During Useful Life 359

#### LO 2: Apply depreciation methods to plant assets. 360

Factors in Computing Depreciation 361 Depreciation Methods 362 Depreciation and Income Taxes 366 Revising Periodic Depreciation 366

### LO 3: Explain how to account for the disposal of plant assets. 367

Retirement of Plant Assets 367 Sale of Plant Assets 368

### LO 4: Describe how to account for natural resources and intangible assets. 369

Natural Resources 369

Depletion 369

Intangible Assets 370

Accounting for Intangible Assets 370

Research and Development Costs 372

## LO 5: Discuss how plant assets, natural resources, and intangible assets are reported and analyzed. 373

Presentation 373 Analysis 374

### LO \*6: APPENDIX 10A: Explain how to account for the exchange of plant assets. 374

Loss Treatment 375

Gain Treatment 375

A Look at IFRS 390

393

### LO 1: Explain how to account for current liabilities. 393

What Is a Current Liability? 393
Notes Payable 394
Sales Taxes Payable 395
Unearned Revenues 395
Current Maturities of Long-Term
Debt 396

### LO 2: Discuss how current liabilities are reported and analyzed. 397

Reporting Uncertainty 397
Reporting of Current Liabilities 398
Analysis of Current Liabilities 399

#### LO 3: Explain how to account for payroll. 399

Determining the Payroll 400
Recording the Payroll 403
Employer Payroll Taxes 406
Filing and Remitting Payroll Taxes 408
Internal Control for Payroll 408

## LO \*4: APPENDIX 11A: Discuss additional fringe benefits associated with employee compensation. 410

Paid Absences 410
Postretirement Benefits 410
A Look at IFRS 425

## Accounting for Partnerships

428

### LO 1: Discuss and account for the formation of a partnership. 429

Characteristics of Partnerships 429
Organizations with Partnership
Characteristics 430
Advantages and Disadvantages of
Partnerships 431
The Partnership Agreement 432
Accounting for a Partnership Formation 432

### LO 2: Explain how to account for net income or net loss of a partnership. 433

Dividing Net Income or Net Loss 433 Partnership Financial Statements 436

### LO 3: Explain how to account for the liquidation of a partnership. 437

No Capital Deficiency 437 Capital Deficiency 439

## LO \*4: APPENDIX 12A: Prepare journal entries when a partner is either admitted or withdraws. 441

Admission of a Partner 442 Withdrawal of a Partner 445

## Corporations: Organization and Capital Stock Transactions

### LO 1: Discuss the major characteristics of a corporation. 459

Characteristics of a Corporation 459 Forming a Corporation 461 Stockholder Rights 462 Stock Issue Considerations 462 Corporate Capital 465

### LO 2: Explain how to account for the issuance of common and preferred stock. 466

Issuing Par Value Common Stock for Cash 466
Issuing No-Par Common Stock for Cash 467
Issuing Common Stock for Services or Noncash
Assets 467

Accounting for Preferred Stock 468

### LO 3: Explain how to account for treasury stock. 469

Purchase of Treasury Stock 469 Disposal of Treasury Stock 470

LO 4: Prepare a stockholders' equity section. 471

A Look at IFRS 484

# Corporations: Dividends, 14 Retained Earnings, and Income Reporting

487

### LO 1: Explain how to account for cash dividends. 488

Cash Dividends 488 Dividend Preferences 490

### ,LO 2: Explain how to account for stock dividends and splits. 492

Stock Dividends 492 Stock Splits 493

### LO 3: Prepare and analyze a comprehensive stockholders' equity section. 495

Retained Earnings 495 Statement Presentation and Analysis 498

### LO 4: Describe the form and content of corporation income statements. 499

Income Statement Presentation 499
Income Statement Analysis 500

A Look at IFRS 512

### 15 Long-Term Liabilities

514

#### LO 1: Describe the major characteristics of bonds. 514

Types of Bonds 515
Issuing Procedures 515
Determining the Market Price of a Bond 515

#### LO 2: Explain how to account for bond transactions. 517

Issuing Bonds at Face Value 517 Discount or Premium on Bonds 518 Issuing Bonds at a Discount 519 Issuing Bonds at a Premium 520 Redeeming and Converting Bonds 522

#### LO 3: Explain how to account for long-term notes payable. 523

Long-Term Notes Payable 523

#### LO 4: Discuss how long-term liabilities are reported and analyzed. 524

Presentation 524 Use of Ratios 524 Debt and Equity Financing 525 Lease Liabilities and Off-Balance-Sheet Financing 526

#### LO \*5: APPENDIX 15A: Apply the straight-line method of amortizing bond discount and bond premium. 528

Amortizing Bond Discount 528 Amortizing Bond Premium 529

#### LO \*6: APPENDIX 15B: Apply the effective-interest method of amortizing bond discount and bond premium. 530

Amortizing Bond Discount 531 Amortizing Bond Premium 532 A Look at IFRS 547



550

#### LO 1: Explain how to account for debt investments. 551

Why Corporations Invest 551 Accounting for Debt Investments 552

#### LO 2: Explain how to account for stock investments. 553

Holdings of Less than 20% 554 Holdings Between 20% and 50% 554 Holdings of More than 50% 556

#### LO 3: Discuss how debt and stock investments are reported in financial statements. 556

Categories of Securities 557 Balance Sheet Presentation 559 Presentation of Realized and Unrealized Gain or Loss 560 Classified Balance Sheet 562

A Look at IFRS 574

#### Statement of Cash Flows

#### LO 1: Discuss the usefulness and format of the statement of cash flows. 578

Usefulness of the Statement of Cash Flows 578 Classification of Cash Flows 578

Significant Noncash Activities 579 Format of the Statement of Cash Flows 580

#### LO 2: Prepare a statement of cash flows using the indirect method. 580

Indirect and Direct Methods 581 Indirect Method—Computer Services Company 581

Step 1: Operating Activities 583

Summary of Conversion to Net Cash Provided by Operating Activities—Indirect Method 586 Step 2: Investing and Financing Activities 586

Step 3: Net Change in Cash 587

LO 3: Analyze the statement of cash flows. 588 Free Cash Flow 588

#### LO \*4: APPENDIX 17A: Prepare a statement of cash flows using the direct method. 589

Step 1: Operating Activities 589

Step 2: Investing and Financing Activities 595

Step 3: Net Change in Cash 596

#### LO \*5: APPENDIX 17B: Use a worksheet to prepare the statement of cash flows using the indirect method. 596

Preparing the Worksheet 597

LO \*6: APPENDIX 17C: Use the T-account approach to prepare a statement of cash flows. 602

A Look at IFRS 622

#### Financial Statement Analysis

624

664

#### LO 1: Apply horizontal and vertical analysis to financial statements. 625

Need for Comparative Analysis 625 Tools of Analysis 625 Horizontal Analysis 626 Vertical Analysis 629

#### LO 2: Analyze a company's performance using ratio analysis. 631

Liquidity Ratios 632 Profitability Ratios 635 Solvency Ratios 639 Summary of Ratios 640

#### LO 3: Apply the concept of sustainable income. 641

Discontinued Operations 642 Other Comprehensive Income 642

A Look at IFRS 662

#### 19 Managerial Accounting

### LO 1: Identify the features of managerial accounting

### and the functions of management. 665

Comparing Managerial and Financial Accounting 665 Management Functions 665 Organizational Structure 667

## LO 2: Describe the classes of manufacturing costs and the differences between product and period costs. 668

Manufacturing Costs 668 Product versus Period Costs 669 Illustration of Cost Concepts 670

## LO 3: Demonstrate how to compute cost of goods manufactured and prepare financial statements for a manufacturer. 671

Income Statement 672 Cost of Goods Manufactured 672 Cost of Goods Manufactured Schedule 673 Balance Sheet 674

#### LO 4: Discuss trends in managerial accounting. 675

Service Industries 675
Focus on the Value Chain 675
Balanced Scorecard 677
Business Ethics 677
Corporate Social Responsibility 678

#### 20 Job Order Costing

694

### LO 1: Describe cost systems and the flow of costs in a job order system. 695

Process Cost System 695
Job Order Cost System 695
Job Order Cost Flow 696
Accumulating Manufacturing Costs 697

#### LO 2: Use a job cost sheet to assign costs to work in process. 698

Raw Materials Costs 699 Factory Labor Costs 701

## LO 3: Demonstrate how to determine and use the predetermined overhead rate. 702

### LO 4: Prepare entries for manufacturing and service jobs completed and sold. 705

Assigning Costs to Finished Goods 705
Assigning Costs to Cost of Goods Sold 705
Summary of Job Order Cost Flows 706
Job Order Costing for Service Companies 707
Advantages and Disadvantages of Job Order
Costing 708

### LO 5: Distinguish between under- and overapplied manufacturing overhead. 709

Under- or Overapplied Manufacturing Overhead 710

### 21 Process Costing

725

## LO 1: Discuss the uses of a process cost system and how it compares to a job order system. 726

Uses of Process Cost Systems 726

Process Costing for Service Companies 727 Similarities and Differences Between Job Order Cost and Process Cost Systems 727

## LO 2: Explain the flow of costs in a process cost system and the journal entries to assign manufacturing costs. 728

Process Cost Flow 728
Assigning Manufacturing Costs—
Journal Entries 729

#### LO 3: Compute equivalent units. 730

Weighted-Average Method 731 Refinements on the Weighted-Average Method 731

### LO 4: Complete the four steps to prepare a production cost report. 733

Compute the Physical Unit Flow (Step 1) 734 Compute the Equivalent Units of Production (Step 2) 734

Compute Unit Production Costs (Step 3) 735

Prepare a Cost Reconciliation Schedule (Step 4) 736

Preparing the Production Cost Report 736 Costing Systems—Final Comments 737

### LO 5: Explain just-in-time (JIT) processing and activity-based costing (ABC). 738

Just-in-Time Processing 738 Activity-Based Costing 739

### LO \*6: APPENDIX 21A: Apply activity-based costing to a manufacturer. 740

Identify and Classify Activities and Assign Overhead to Cost Pools (Step 1) 741 Identify Cost Drivers (Step 2) 742 Compute Activity-Based Overhead Rates (Step 3) 742 Allocate Overhead Costs to Products (Step 4) 743

Comparing Unit Costs 744 Benefits of ABC 744 Limitations of ABC 744

#### 22 Cost-Volume-Profit

759

### LO 1: Explain variable, fixed, and mixed costs and the relevant range. 760

Variable Costs 760 Fixed Costs 761 Relevant Range 762 Mixed Costs 763

## LO 2: Apply the high-low method to determine the components of mixed costs. 764

High-Low Method 764 Importance of Identifying Variable and Fixed Costs 766 LO 3: Prepare a CVP income statement to determine contribution margin. 766

Basic Components 766 CVP Income Statement 767

LO 4: Compute the break-even point using three approaches. 770

Mathematical Equation 770 Contribution Margin Technique 771 Graphic Presentation 771

LO 5: Determine the sales required to earn target net income and determine margin of safety. 773

Target Net Income 773 Margin of Safety 774

LO 6: Use CVP analysis to respond to changes in the business environment. 775

Case I: Offering a Discount 775
Case II: Investing in New Equipment 775
Case III: Determining Required Sales 776
CVP Income Statement Revisited 776

LO \*7: APPENDIX 22A: Explain the differences between absorption costing and variable costing. 777

Example Comparing Absorption Costing with Variable Costing 777 Rationale for Variable Costing 780

#### 23 Budgetary Planning

793

LO 1: State the essentials of effective budgeting and the components of the master budget. 794

Budgeting and Accounting 794
The Benefits of Budgeting 794
Essentials of Effective Budgeting 794
The Master Budget 797

LO 2: Prepare budgets for sales, production, and direct materials. 798

Sales Budget 798 Production Budget 799 Direct Materials Budget 799

LO 3: Prepare budgets for direct labor, manufacturing overhead, and selling and administrative expenses, and a budgeted income statement. 800

Direct Labor Budget 800 Manufacturing Overhead Budget 801 Selling and Administrative Expense Budget 802 Budgeted Income Statement 802

LO 4: Prepare a cash budget and a budgeted balance sheet. 803

Cash Budget 803

Budgeted Balance Sheet 806

LO 5: Apply budgeting principles to nonmanufacturing companies. 808

Merchandisers 808

Service Companies 809 Not-for-Profit Organizations 809

## Budgetary Control and Responsibility Accounting

829

LO 1: Describe budgetary control and static budget reports. 830

Budgetary Control 830 Static Budget Reports 831

LO 2: Prepare flexible budget reports. 832

Why Flexible Budgets? 833
Developing the Flexible Budget 834
Flexible Budget—A Case Study 835
Flexible Budget Reports 837

LO 3: Apply responsibility accounting to cost and profit centers. 838

Controllable versus Noncontrollable Revenues and Costs 839 Principles of Performance Evaluation 840 Responsibility Reporting System 841 Types of Responsibility Centers 842

LO 4: Evaluate performance in investment centers. 846

Return on Investment (ROI) 846 Responsibility Report 847 Judgmental Factors in ROI 848 Improving ROI 848

#### Standard Costs and Balanced Scorecard

867

LO 1: Describe standard costs. 867

Distinguishing Between Standards and Budgets 868

Setting Standard Costs 869

LO 2: Determine direct materials variances. 872

Analyzing and Reporting Variances 872 Direct Materials Variances 873

LO 3: Determine direct labor and total manufacturing overhead variances. 876

Direct Labor Variances 876
Manufacturing Overhead Variances 878

LO 4: Prepare variance reports and balanced scorecards. 879

Reporting Variances 879
Income Statement Presentation of Variances 880
Balanced Scorecard 880

LO \*5: APPENDIX 25A: Identify the features of a standard cost accounting system. 883

Journal Entries 883 Ledger Accounts 885

LO *6: APPENDIX 25B: Compute overhead
controllable and volume variances. 885
Overhead Controllable Variance 885
Overhead Volume Variance 886

## Incremental Analysis and Capital Budgeting

904

### LO 1: Describe management's decision-making process and incremental analysis. 905

Incremental Analysis Approach 905 How Incremental Analysis Works 906 Types of Incremental Analysis 907

### LO 2: Analyze the relevant costs in various decisions involving incremental analysis. 907

Special Price Order 907
Make or Buy 908
Sell or Process Further 909
Repair, Retain, or Replace Equipment 910
Eliminate an Unprofitable Segment or
Product 911

### LO 3: Contrast annual rate of return and cash payback in capital budgeting. 912

Capital Budgeting 912
Evaluation Process of Capital Budgeting 912
Annual Rate of Return 913
Cash Payback 914

### LO 4: Distinguish between the net present value and internal rate of return methods. 915

Net Present Value Method 916 Internal Rate of Return Method 918 Comparing Discounted Cash Flow Methods 919

A Specimen Financial Statements: Apple Inc.

A-1

Specimen Financial
Statements: PepsiCo, Inc.

B-1

Specimen Financial

Statements: The Coca-Cola

Company

C-1

Specimen Financial

Statements:
Amazon.com, Inc.

D-1

Specimen Financial

E Statements:

Wal-Mart Stores, Inc.

E-1

F Specimen Financial Statements: Louis Vuitton

F-1

#### G Time Value of Money

G-1

#### LO 1: Compute interest and future values. G-1

Nature of Interest G-1
Future Value of a Single Amount G-3
Future Value of an Annuity G-4

#### LO 2: Compute present values. G-7

Present Value Variables G-7
Present Value of a Single Amount G-7
Present Value of an Annuity G-9
Time Periods and Discounting G-11
Present Value of a Long-Term Note or
Bond G-11

### LO 3: Compute the present value in capital budgeting situations. G-14

### LO 4: Use a financial calculator to solve time value of money problems. G-15

Present Value of a Single Sum G-16 Present Value of an Annuity G-17 Useful Applications of the Financial Calculator G-17

# Standards of Ethical H Conduct for Management Accountants

H-1

#### IMA Statement of Ethical Professional Practice H-1

Principles H-1 Standards H-1 Resolution of Ethical Conflict H-2

## Cases for Managerial Decision-Making\*

Company Index I-1 Subject Index I-3

\*Available online at www.wiley.com/college/weygandt.