

Jerry J. Weygandt PhD, CPA

University of Wisconsin—Madison Madison, Wisconsin

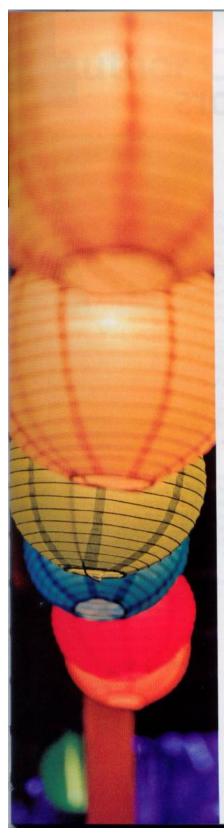
Paul D. Kimmel PhD, CPA

University of Wisconsin—Milwaukee Milwaukee, Wisconsin

Donald E. Kieso PhD, CPA

Northern Illinois University DeKalb, Illinois

WILEY



Brief Contents

- 1 Accounting in Action 2
- 2 The Recording Process 52
- 3 Adjusting the Accounts 100
- 4 Completing the Accounting Cycle 160
- 5 Accounting for Merchandising Operations 218
- 6 Inventories 276
- 7 Fraud, Internal Control, and Cash 328
- 8 Accounting for Receivables 382
- 9 Plant Assets, Natural Resources, and Intangible Assets 426
- 10 Liabilities 480
- 11 Corporations: Organization, Share Transactions, Dividends, and Retained Earnings 536
- 12 Investments 598
- 13 Statement of Cash Flows 644
- 14 Financial Statement Analysis 710

APPENDICES

- A Specimen Financial Statements: TSMC, Ltd. A-1
- B Specimen Financial Statements: Nestlé SA B-1
- C Specimen Financial Statements: Petra Foods Limited C-1
- D Specimen Financial Statements: Apple Inc. D-1
- E Time Value of Money E-1
- F Accounting for Partnerships F-1
- *G Subsidiary Ledgers and Special Journals G-1
- *H Other Significant Liabilities H-1
- * I Payroll Accounting I-1

^{*}Available at the book's companion website, www.wiley.com/college/weygandt.

Table of Contents



Chapter 1

Accounting in Action 2

Knowing the Numbers 2

What Is Accounting? 4

Three Activities 4

Who Uses Accounting Data? 5

The Building Blocks of Accounting 7

Ethics in Financial Reporting

Accounting Standards 8 Measurement Principles 8

Assumptions 9

The Basic Accounting Equation 12

Assets 12

Liabilities 12

Equity 13

Using the Accounting Equation 14

Transaction Analysis 15

Summary of Transactions 20

Financial Statements 22

Income Statement 22

Retained Earnings Statement 24

Statement of Financial Position 24

Statement of Cash Flows 25

Comprehensive Income Statement 25

APPENDIX 1A: Accounting Career Opportunities 27

Public Accounting 27

Private Accounting 28

Governmental Accounting 28

Forensic Accounting 28

A Look at U.S. GAAP 49

Chapter 2

The Recording Process 52

Accidents Happen 52

The Account 54

Debits and Credits 54

Equity Relationships 58

Summary of Debit/Credit Rules 58

Steps in the Recording Process 59

The Journal 60

The Ledger 62

Posting 63

The Recording Process Illustrated 65

Summary Illustration of Journalizing and

Posting 71

The Trial Balance 72

Limitations of a Trial Balance 73

Locating Errors 73

Currency Signs and Underlining 74

A Look at U.S. GAAP 97

Chapter 3

Adjusting the Accounts 100

What Was Your Profit? 100

Timing Issues 102

Fiscal and Calendar Years 102

Accrual- versus Cash-Basis Accounting 102

Recognizing Revenues and Expenses 103

The Basics of Adjusting Entries 104

Types of Adjusting Entries 105

Adjusting Entries for Deferrals 106

Adjusting Entries for Accruals 113

Summary of Basic Relationships 118

The Adjusted Trial Balance and

Financial Statements 121

Preparing the Adjusted Trial Balance 121

Preparing Financial Statements 122

APPENDIX 3A: Alternative Treatment of Prepaid

Expenses and Unearned Revenues 124

Prepaid Expenses 125

Unearned Revenues 126

Summary of Additional Adjustment

Relationships 127

APPENDIX 3B: Concepts in Action 128

Qualities of Useful Information 128

Assumptions in Financial Reporting 128

Principles in Financial Reporting 129 Cost Constraint 130

A Look at U.S. GAAP 157

Chapter 4 Completing the Accounting Cycle 160

Speaking the Same Language 160

Using a Worksheet 162

Steps in Preparing a Worksheet 163

Preparing Financial Statements from

a Worksheet 165

Preparing Adjusting Entries from a

Worksheet 167

Closing the Books 167

Preparing Closing Entries 168

Posting Closing Entries 170

Preparing a Post-Closing Trial Balance 171

Summary of the Accounting Cycle 174

Reversing Entries—An Optional Step 175

Correcting Entries—An Avoidable Step 175

The Classified Statement of Financial

Position 178

Intangible Assets 178

Property, Plant, and Equipment 180

Long-Term Investments 180

Current Assets 180
Equity 182
Non-Current Liabilities 182
Current Liabilities 182
APPENDIX 4A: Reversing Entries 184

Reversing Entries Example 184
A Look at U.S. GAAP 214

Chapter 5

Accounting for Merchandising Operations 218

Who Doesn't Shop? 218

Merchandising Operations 220

Operating Cycles 220 Flow of Costs 221

Recording Purchases of Merchandise 223

Freight Costs 225

Purchase Returns and Allowances 226

Purchase Discounts 226

Summary of Purchasing Transactions 227

Recording Sales of Merchandise 228

Sales Returns and Allowances 229

Sales Discounts 230

Completing the Accounting Cycle 231

Adjusting Entries 232 Closing Entries 232

Summary of Merchandising Entries 233

Forms of Financial Statements 234

Income Statement 234

Income Statement Presentation of Sales 234 Inventory Presentation in the Classified Statement

of Financial Position 238

APPENDIX 5A: Worksheet for a Merchandising

Company 240

Using a Worksheet 240

APPENDIX 5B: Periodic Inventory System 241

Determining Cost of Goods Sold Under a Periodic System 241

Recording Merchandise Transactions 242 Recording Purchases of Merchandise 243 Recording Sales of Merchandise 244

Journalizing and Posting Closing Entries 244 Using a Worksheet 246

A Look at U.S. GAAP 273

Chapter 6

Inventories 276

"Where Is That Spare Bulldozer Blade?" 276

Classifying Inventory 278

Determining Inventory Quantities 279

Taking a Physical Inventory 279 Determining Ownership of Goods 280

Inventory Costing 282

Specific Identification 283 Cost Flow Assumptions 283 Financial Statement and Tax Effects of

Cost Flow Methods 287

Using Inventory Cost Flow Methods

Consistently 288

Lower-of-Cost-or-Net Realizable Value 289

Inventory Errors 290

Income Statement Effects 290

Statement of Financial Position Effects 291

Statement Presentation and Analysis 292

Presentation 292

Analysis 293

APPENDIX 6A: Inventory Cost Flow Methods

in Perpetual Inventory Systems 294

First-In, First-Out (FIFO) 295

Average-Cost 295

APPENDIX 6B: Estimating Inventories 296

Gross Profit Method 296

Retail Inventory Method 297

APPENDIX 6C: LIFO Inventory Method 298

A Look at U.S. GAAP 325

Chapter 7

Fraud, Internal Control, and Cash 328

Minding the Money at Nick's 328

Fraud and Internal Control 330

Fraud 330

Internal Control 330

Principles of Internal Control Activities 331

Limitations of Internal Control 338

Cash Controls 339

Cash Receipts Controls 339

Cash Disbursements Controls 342

Petty Cash Fund Controls 343

Control Features: Use of a Bank 347

Making Bank Deposits 347

Writing Checks 347

Bank Statements 348

Reconciling the Bank Account 350

Electronic Funds Transfer (EFT) System 353

Reporting Cash 354

Cash Equivalents 355

Restricted Cash 355

A Look at U.S. GAAP 379

Chapter 8

Accounting for Receivables 382

Are You Going to Pay Me-or Not? 382

Types of Receivables 384

Accounts Receivable 384

Recognizing Accounts Receivable 384 Valuing Accounts Receivable 386

Disposing of Accounts Receivable 393

Notes Receivable 395

Determining the Maturity Date 396

Computing Interest 397

Recognizing Notes Receivable 397 Valuing Notes Receivable 397 Disposing of Notes Receivable 398

Statement Presentation and Analysis 401

Presentation 401 Analysis 401

A Look at U.S. GAAP 423

Chapter 9

Plant Assets, Natural Resources, and Intangible Assets 426

How Much for a Ride to the Beach? 426

Plant Assets 428

Determining the Cost of Plant Assets 428 Depreciation 431 Revaluation of Plant Assets 439 Expenditures During Useful Life 441 Plant Asset Disposals 441

Extractable Natural Resources 444 Intangible Assets 446

Accounting for Intangible Assets 446 Research and Development Costs 449

Statement Presentation and Analysis 450

Presentation 450 Analysis 450

APPENDIX 9A: Exchange of Plant Assets 451

Loss Treatment 451 Gain Treatment 452

A Look at U.S. GAAP 476

Chapter 10 Liabilities 480

Financing His Dreams 480

Current Liabilities 482

What Is a Current Liability? 482
Notes Payable 482
Sales Taxes Payable 483
Unearned Revenues 484
Current Maturities of Long-Term Debt 484
Statement Presentation and Analysis 485

Non-Current Liabilities 486

Bond Basics 487
Determining the Market Price of a Bond 490
Accounting for Bond Issues 491
Accounting for Bond Redemptions 496
Accounting for Long-Term Notes
Payable 497

Statement Presentation and Analysis 499 APPENDIX 10A: Effective-Interest Method

of Bond Amortization 502 Amortizing Bond Discount 502

Amortizing Bond Premium 504

APPENDIX 10B: Straight-Line Amortization 505

Amortizing Bond Discount 505 Amortizing Bond Premium 507 APPENDIX 10C: Employee-Related Liabilities 508

Payroll Deductions 508 Profit-Sharing and Bonus Plans 509

A Look at U.S. GAAP 532

Chapter 11

Corporations: Organization, Share Transactions, Dividends, and Retained Earnings 536

To the Victor Go the Spoils 536

The Corporate Form of Organization 538

Characteristics of a Corporation 538 Forming a Corporation 541 Ownership Rights of Shareholders 541 Share Issue Considerations 541 Corporate Capital 545

Accounting for Share Transactions 547

Accounting for Ordinary Share Issues 547 Accounting for Treasury Shares 550 Accounting for Preference Shares 553

Dividends 555

Cash Dividends 555 Share Dividends 558 Share Splits 560

Retained Earnings 562

Retained Earnings Restrictions 563 Prior Period Adjustments 564 Retained Earnings Statement 564

Statement Presentation and Analysis 566

Presentation 566 Analysis 567

APPENDIX 11A: Statement of Changes

in Equity 568

APPENDIX 11B: Book Value—Another per Share

Amount 569

Book Value per Share 569 Book Value versus Market Price 570 A Look at U.S. GAAP 594

Chapter 12 Investments 598

Playing for Fun and Profit 598

Why Corporations Invest 600

Accounting for Debt Investments 601

Recording Acquisition of Bonds 601 Recording Bond Interest 601 Recording Sale of Bonds 602

Accounting for Share Investments 603

Holdings of Less than 20% 604 Holdings Between 20% and 50% 605 Holdings of More than 50% 606

Valuing and Reporting Investments 608

Categories of Securities 608 Statement of Financial Position Presentation 614 Presentation of Realized and Unrealized Gain or Loss 615

Classified Statement of Financial Position 616 APPENDIX 12A: **Preparing Consolidated Financial Statements 618**

Consolidated Statement of Financial Position 618
Consolidated Income Statement 621

A Look at U.S. GAAP 641

Chapter 13

Statement of Cash Flows 644

What Should We Do with This Cash? 644

Statement of Cash Flows: Usefulness and Format 646

Usefulness of the Statement of Cash Flows 646 Classification of Cash Flows 646 Significant Non-Cash Activities 648 Format of the Statement of Cash Flows 648 Preparing the Statement of Cash Flows 650 Indirect and Direct Methods 651

Preparing the Statement of Cash Flows— Indirect Method 651

Step 1: Operating Activities 652
Summary of Conversion to Net Cash Provided
by Operating Activities—Indirect Method 656
Step 2: Investing and Financing Activities 658
Step 3: Net Change in Cash 659

Using Cash Flows to Evaluate a Company 662 Free Cash Flow 662

APPENDIX 13A: Statement of Cash Flows—

Direct Method 664

Step 1: Operating Activities 665 Step 2: Investing and Financing Activities 669 Step 3: Net Change in Cash 671

APPENDIX 13B: Using a Worksheet to Prepare the Statement of Cash Flows—Indirect Method 671 Preparing the Worksheet 672

APPENDIX 13C: Statement of Cash Flows— T-Account Approach 677

Chapter 14

Financial Statement Analysis 710

Making Money the Old-Fashioned Way 710

Basics of Financial Statement Analysis 712 Need for Comparative Analysis 712 Tools of Analysis 712

Horizontal Analysis 713

A Look at U.S. GAAP 707

Statement of Financial Position 714 Income Statement 714 Retained Earnings Statement 715

Vertical Analysis 716

Statement of Financial Position 716 Income Statement 716 Ratio Analysis 718

Liquidity Ratios 719 Profitability Ratios 723 Solvency Ratios 727 Summary of Ratios 728

Earning Power and Unusual Items 730
Discontinued Operations 731

Changes in Accounting Principle 732 Comprehensive Income 732

Quality of Earnings 734

Alternative Accounting Methods 734 Pro Forma Income 735 Improper Recognition 735

A Look at U.S. GAAP 759

Appendix A: Specimen Financial Statements: TSMC, Ltd. A-1

Appendix B: Specimen Financial Statements: Nestlé SA B-1

Appendix C: Specimen Financial Statements: Petra Foods Limited C-1

Appendix D: Specimen Financial Statements: Apple Inc. D-1

Appendix E: Time Value of Money E-1
Nature of Interest E-1

Simple Interest E-1 Compound Interest E-2

Future Value Concepts E-3

Future Value of a Single Amount E-3 Future Value of an Annuity E-4

Present Value Concepts E-7

Present Value Variables E-7
Present Value of a Single Amount E-7
Present Value of an Annuity E-9
Time Periods and Discounting E-11
Computing the Present Value of a
Long-Term Note or Bond E-11
Computing the Present Values in a Capital
Budgeting Decision E-14

Using Financial Calculators E-16

Present Value of a Single Sum E-16 Present Value of an Annuity E-17 Useful Applications of the Financial Calculator E-18

Appendix F: Accounting for Partnerships F-1

Partnership Form of Organization F-1 Characteristics of Partnerships F-1 Organizations with Partnership Characteristics F-3
Advantages and Disadvantages of
Partnerships F-3
The Partnership Agreement F-4

Basic Partnership Accounting F-4

Forming a Partnership F-4
Dividing Net Income or Net Loss F-6
Partnership Financial Statements F-9
Admission and Withdrawal of Partners F-9

Liquidation of a Partnership F-10

No Capital Deficiency F-10 Capital Deficiency F-12

Appendix G: Subsidiary Ledgers and Special Journals G-1 (available at www.wiley.com/college/weygandt)

Expanding the Ledger—Subsidiary Ledgers G-1

Subsidiary Ledger Example G-2 Advantages of Subsidiary Ledgers G-3

Expanding the Journal—Special Journals G-3

Sales Journal G-4
Cash Receipts Journal G-7
Purchases Journal G-11
Cash Payments Journal G-13
Effects of Special Journals on the General
Journal G-15
Cyber Security: A Final Comment G-17

Appendix H: Other Significant
Liabilities H-1 (available at www.wiley.com/
college/weygandt)

Provisions and Contingent Liabilities H-1

Recording a Provision H-1
Disclosure of Contingent Liabilities H-2

Lease Liabilities H-3

Operating Leases H-3 Finance Leases H-4

Additional Liabilities for Employee Fringe Benefits H-5

Paid Absences H-5 Postretirement Benefits H-6

Appendix I: Payroll Accounting I-1 (available at www.wiley.com/college/weygandt)

Accounting for Payroll I-1
Determining the Payroll I-1
Recording the Payroll I-5

Employer Payroll Taxes 1-8

FICA Taxes I-8
Federal Unemployment Taxes I-8
State Unemployment Taxes I-8
Recording Employer Payroll Taxes I-9
Filing and Remitting Payroll Taxes I-9

Internal Control for Payroll I-10