

weygandt
kimmel
kieso
team for success

FINANCIAL ACCOUNTING

TENTH EDITION



WILEY

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 50
- 3 Adjusting the Accounts 96
- 4 Completing the Accounting Cycle 154
- 5 Accounting for Merchandising Operations 212
- 6 Inventories 266
- 7 Fraud, Internal Control, and Cash 316
- 8 Accounting for Receivables 366
- 9 Plant Assets, Natural Resources, and Intangible Assets 408
- 10 Liabilities 456
- 11 Corporations: Organization, Stock Transactions, and Stockholders' Equity 510
- 12 Statement of Cash Flows 570
- 13 Financial Statement Analysis 630

APPENDICES

- A Specimen Financial Statements: [Apple Inc.](#)
- B Specimen Financial Statements: [PepsiCo, Inc.](#)
- C Specimen Financial Statements: [The Coca-Cola Company](#)
- D Specimen Financial Statements: [Amazon.com, Inc.](#)
- E Specimen Financial Statements: [Wal-Mart Stores, Inc.](#)
- F Specimen Financial Statements: [Louis Vuitton](#)
- G Time Value of Money
- H Reporting and Analyzing Investments
- I Payroll Accounting*
- J Subsidiary Ledgers and Special Journals*
- K Other Significant Liabilities*

*Available in WileyPLUS.

Table of Contents

1 Accounting in Action 2

Knowing the Numbers: Columbia Sportswear Company 2

LO 1: Identify the activities and users associated with accounting. 4

Three Activities 4

Who Uses Accounting Data 5

LO 2: Explain the building blocks of accounting: ethics, principles, and assumptions. 7

Ethics in Financial Reporting 7

Generally Accepted Accounting Principles 9

Measurement Principles 9

Assumptions 10

LO 3: State the accounting equation, and define its components. 12

Assets 13

Liabilities 13

Stockholders' Equity 13

LO 4: Analyze the effects of business transactions on the accounting equation. 15

Accounting Transactions 15

Transaction Analysis 16

Summary of Transactions 21

LO 5: Describe the four financial statements and how they are prepared. 22

Income Statement 23

Retained Earnings Statement 23

Balance Sheet 25

Statement of Cash Flows 25

LO *6: APPENDIX 1A: Explain the career opportunities in accounting. 27

Public Accounting 27

Private Accounting 27

Governmental Accounting 27

Forensic Accounting 28

"Show Me the Money" 28

A Look at IFRS 48

2 The Recording Process 50

Accidents Happen: MF Global Holdings 50

LO 1: Describe how accounts, debits, and credits are used to record business transactions. 52

Debits and Credits 52

Stockholders' Equity Relationships 56

Summary of Debit/Credit Rules 56

LO 2: Indicate how a journal is used in the recording process. 57

The Recording Process 57

The Journal 58

LO 3: Explain how a ledger and posting help in the recording process. 60

The Ledger 60

Posting 62

Chart of Accounts 63

The Recording Process Illustrated 63

Summary Illustration of Journalizing and Posting 69

LO 4: Prepare a trial balance. 71

Limitations of a Trial Balance 71

Locating Errors 72

Dollar Signs and Underlining 72

A Look at IFRS 94

3 Adjusting the Accounts 96

Keeping Track of Coupons: Groupon 96

LO 1: Explain the accrual basis of accounting and the reasons for adjusting entries. 98

Fiscal and Calendar Years 98

Accrual- versus Cash-Basis Accounting 98

Recognizing Revenues and Expenses 99

The Need for Adjusting Entries 100

Types of Adjusting Entries 100

LO 2: Prepare adjusting entries for deferrals. 102

Prepaid Expenses 102

Unearned Revenues 106

LO 3: Prepare adjusting entries for accruals. 108

Accrued Revenues 108

Accrued Expenses 110

Summary of Basic Relationships 113

LO 4: Describe the nature and purpose of an adjusted trial balance. 115

Preparing the Adjusted Trial Balance 115

Preparing Financial Statements 116

LO *5: APPENDIX 3A: Prepare adjusting entries for the alternative treatment of deferrals. 119

Prepaid Expenses 120

Unearned Revenues 121

Summary of Additional Adjustment

Relationships 122

LO *6: APPENDIX 3B: Discuss financial reporting concepts. 122

Qualities of Useful Information 122

Assumptions in Financial Reporting 123

Principles in Financial Reporting 124

Cost Constraint 124

A Look at IFRS 151

4 Completing the Accounting Cycle 154

Everyone Likes to Win: Rhino Foods 154

LO 1: Prepare a worksheet. 156

Steps in Preparing a Worksheet 157
Preparing Financial Statements from a Worksheet 159

Preparing Adjusting Entries from a Worksheet 161

LO 2: Prepare closing entries and a post-closing trial balance. 161

Preparing Closing Entries 162
Posting Closing Entries 164
Preparing a Post-Closing Trial Balance 166

LO 3: Explain the steps in the accounting cycle and how to prepare correcting entries. 169

Summary of the Accounting Cycle 169
Reversing Entries—An Optional Step 171
Correcting Entries—An Avoidable Step 171

LO 4: Identify the sections of a classified balance sheet. 174

Current Assets 174
Long-Term Investments 176
Property, Plant, and Equipment 176
Intangible Assets 176
Current Liabilities 177
Long-Term Liabilities 178
Stockholders' (Owners') Equity 178

LO *5: APPENDIX 4A: Prepare reversing entries. 180

Reversing Entries Example 180

A Look at IFRS 209

5 Accounting for Merchandising Operations 212

Buy Now, Vote Later: REI 212

LO 1: Describe merchandising operations and inventory systems. 214

Operating Cycles 214
Flow of Costs 215

LO 2: Record purchases under a perpetual inventory system. 217

Freight Costs 218
Purchase Returns and Allowances 220
Purchase Discounts 220
Summary of Purchasing Transactions 221

LO 3: Record sales under a perpetual inventory system. 222

Sales Returns and Allowances 223
Sales Discounts 224

LO 4: Apply the steps in the accounting cycle to a merchandising company. 226

Adjusting Entries 226

Closing Entries 226

Summary of Merchandising Entries 227

LO 5: Prepare a multiple-step income statement and a comprehensive income statement. 228

Multiple-Step Income Statement 228
Single-Step Income Statement 231
Comprehensive Income Statement 232
Classified Balance Sheet 232

LO *6: APPENDIX 5A: Prepare a worksheet for a merchandising company. 233

Using a Worksheet 233

LO *7: APPENDIX 5B: Record purchases and sales under a periodic inventory system. 235

Determining Cost of Goods Sold Under a Periodic System 235
Recording Merchandise Transactions 236
Recording Purchases of Merchandise 236
Recording Sales of Merchandise 237
Journalizing and Posting Closing Entries 238
Using a Worksheet 239

A Look at IFRS 263

6 Inventories 266

"Where Is That Spare Bulldozer Blade?": Caterpillar 266

LO 1: Discuss how to classify and determine inventory. 268

Classifying Inventory 268
Determining Inventory Quantities 269

LO 2: Apply inventory cost flow methods and discuss their financial effects. 272

Specific Identification 272
Cost Flow Assumptions 273
Financial Statement and Tax Effects of Cost Flow Methods 277

Using Inventory Cost Flow Methods Consistently 279

LO 3: Indicate the effects of inventory errors on the financial statements. 280

Income Statement Effects 280
Balance Sheet Effects 281

LO 4: Explain the statement presentation and analysis of inventory. 282

Presentation 282
Lower-of-Cost-or-Net Realizable Value 282
Analysis 283

LO *5: APPENDIX 6A: Apply the inventory cost flow methods to perpetual inventory records. 285

First-In, First-Out (FIFO) 286
Last-In, First-Out (LIFO) 286
Average-Cost 287

LO *6: APPENDIX 6B: Describe the two methods of estimating inventories. 288

Gross Profit Method 288
Retail Inventory Method 289

A Look at IFRS 313

7 Fraud, Internal Control, and Cash 316

Minding the Money in Madison: Barriques 316

LO 1: Define fraud and the principles of internal control. 318

- Fraud 318
- The Sarbanes-Oxley Act 318
- Internal Control 319
- Principles of Internal Control Activities 319
- Limitations of Internal Control 326

LO 2: Apply internal control principles to cash. 327

- Cash Receipts Controls 328
- Cash Disbursements Controls 330
- Petty Cash Fund 332

LO 3: Identify the control features of a bank account. 335

- Making Bank Deposits 335
- Writing Checks 336
- Electronic Funds Transfer (EFT) System 337
- Bank Statements 337
- Reconciling the Bank Account 337

LO 4: Explain the reporting of cash. 343

- Cash Equivalents 343
- Restricted Cash 344

A Look at IFRS 364

8 Accounting for Receivables 366

A Dose of Careful Management Keeps Receivables Healthy: Whitehall-Robins 366

LO 1: Explain how companies recognize accounts receivable. 368

- Types of Receivables 368
- Recognizing Accounts Receivable 368

LO 2: Describe how companies value accounts receivable and record their disposition. 370

- Valuing Accounts Receivable 370
- Disposing of Accounts Receivable 377

LO 3: Explain how companies recognize, value, and dispose of notes receivable. 379

- Determining the Maturity Date 380
- Computing Interest 380
- Recognizing Notes Receivable 381
- Valuing Notes Receivable 381
- Disposing of Notes Receivable 381

LO 4: Describe the statement presentation and analysis of receivables. 384

- Presentation 384
- Analysis 385

A Look at IFRS 405

9 Plant Assets, Natural Resources, and Intangible Assets 408

How Much for a Ride to the Beach?:

Rent-A-Wreck 408

LO 1: Explain the accounting for plant asset expenditures. 410

- Determining the Cost of Plant Assets 410
- Expenditures During Useful Life 412

LO 2: Apply depreciation methods to plant assets. 414

- Factors in Computing Depreciation 415
- Depreciation Methods 415
- Depreciation and Income Taxes 420
- Revising Periodic Depreciation 420
- Impairments 421

LO 3: Explain how to account for the disposal of plant assets. 421

- Retirement of Plant Assets 422
- Sale of Plant Assets 422

LO 4: Describe how to account for natural resources and intangible assets. 424

- Natural Resources 424
- Depletion 424
- Intangible Assets 425
- Accounting for Intangible Assets 425
- Research and Development Costs 428

LO 5: Discuss how plant assets, natural resources, and intangible assets are reported and analyzed. 429

- Presentation 429
- Analysis 429

LO *6: APPENDIX 9A: Explain how to account for the exchange of plant assets. 431

- Loss Treatment 431
- Gain Treatment 432

A Look at IFRS 453

10 Liabilities 456

Financing His Dreams: Wilbert Murdock 456

LO 1: Explain how to account for current liabilities. 458

- What Is a Current Liability? 458
- Notes Payable 458
- Sales Taxes Payable 459
- Unearned Revenues 460
- Current Maturities of Long-Term Debt 460
- Payroll and Payroll Taxes Payable 461

LO 2: Describe the major characteristics of bonds. 464

- Types of Bonds 464
- Issuing Procedures 464

Bond Trading 465
Determining the Market Price of a Bond 466

LO 3: Explain how to account for bond transactions. 468

Issuing Bonds at Face Value 468
Discount or Premium on Bonds 468
Issuing Bonds at a Discount 469
Issuing Bonds at a Premium 471
Redeeming Bonds at Maturity 472
Redeeming Bonds Before Maturity 472

LO 4: Explain how to account for long-term notes payable. 474

LO 5: Discuss how liabilities are reported and analyzed. 475

Presentation 475
Analysis 476
Debt and Equity Financing 478

LO *6: APPENDIX 10A: Apply the straight-line method of amortizing bond discount and bond premium. 479

Amortizing Bond Discount 479
Amortizing Bond Premium 480

LO *7: APPENDIX 10B: Apply the effective-interest method of amortizing bond discount and bond premium. 481

Amortizing Bond Discount 482
Amortizing Bond Premium 484

A Look at IFRS 508

11 Corporations: Organization, Stock Transactions, and Stockholders' Equity 510

Oh Well, I Guess I'll Get Rich: Facebook 510

LO 1: Discuss the major characteristics of a corporation. 512

Characteristics of a Corporation 512
Forming a Corporation 515
Stockholder Rights 515
Stock Issue Considerations 517
Corporate Capital 519

LO 2: Explain how to account for the issuance of common, preferred, and treasury stock. 520

Accounting for Common Stock 520
Accounting for Preferred Stock 522
Accounting for Treasury Stock 524

LO 3: Explain how to account for cash dividends, stock dividends, and stock splits. 527

Cash Dividends 527
Dividend Preferences 529
Stock Dividends 532
Stock Splits 534

LO 4: Discuss how stockholders' equity is reported and analyzed. 536

Reporting Stockholders' Equity 536

Retained Earnings Restrictions 537
Balance Sheet Presentation of Stockholders' Equity 537

Analysis of Stockholders' Equity 539

LO *5: APPENDIX 11A: Describe the use and content of the stockholders' equity statement. 541

LO *6: APPENDIX 11B: Compute book value per share. 542

Book Value per Share 542
Book Value versus Market Price 543

A Look at IFRS 567

12 Statement of Cash Flows 570

Got Cash?: Microsoft 570

LO 1: Discuss the usefulness and format of the statement of cash flows. 572

Usefulness of the Statement of Cash Flows 572
Classification of Cash Flows 572
Significant Noncash Activities 573
Format of the Statement of Cash Flows 574

LO 2: Prepare a statement of cash flows using the indirect method. 575

Indirect and Direct Methods 576
Indirect Method—Computer Services Company 576
Step 1: Operating Activities 578
Summary of Conversion to Net Cash Provided by Operating Activities—Indirect Method 581
Step 2: Investing and Financing Activities 582
Step 3: Net Change in Cash 584

LO 3: Analyze the statement of cash flows. 586

Free Cash Flow 586

LO *4: APPENDIX 12A: Prepare a statement of cash flows using the direct method. 588

Step 1: Operating Activities 588
Step 2: Investing and Financing Activities 594
Step 3: Net Change in Cash 595

LO *5: APPENDIX 12B: Use a worksheet to prepare the statement of cash flows using the indirect method. 595

Preparing the Worksheet 596

LO *6: APPENDIX 12C: Use the T-account approach to prepare a statement of cash flows. 601

A Look at IFRS 628

13 Financial Statement Analysis: The Big Picture 630

It Pays to Be Patient: Warren Buffett 630

LO 1: Apply the concepts of sustainable income and quality of earnings. 632

Sustainable Income 632
Quality of Earnings 636

LO 2: Apply horizontal and vertical analysis. 638

Horizontal Analysis 639
Vertical Analysis 641

LO 3: Analyze a company's performance using ratio analysis. 644

Earnings per Share 644
Price-Earnings Ratio 644
Liquidity Ratios 645
Solvency Ratios 645
Profitability Ratios 646

LO *4: APPENDIX 13A: Evaluate a company comprehensively using ratio analysis. 648

Liquidity Ratios 649
Solvency Ratios 652
Profitability Ratios 654

A Look at IFRS 681

A Specimen Financial Statements: Apple Inc. A-1

B Specimen Financial Statements: PepsiCo, Inc. B-1

C Specimen Financial Statements: The Coca-Cola Company C-1

D Specimen Financial Statements: Amazon.com, Inc. D-1

E Specimen Financial 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: Use a financial calculator to solve time value of money problems. G-14

Present Value of a Single Sum G-14
Present Value of an Annuity G-15
Useful Applications of the Financial Calculator G-15

H Reporting and Analyzing Investments H-1

LO 1: Explain how to account for debt investments. H-1

Why Corporations Invest H-1
Accounting for Debt Investments H-3

LO 2: Explain how to account for stock investments. H-4

Holdings of Less than 20% H-4
Holdings Between 20% and 50% H-5
Holdings of More than 50% H-6

LO 3: Discuss how debt and stock investments are reported in financial statements. H-7

Debt Securities H-7
Equity Securities H-10
Balance Sheet Presentation H-11
Presentation of Realized and Unrealized Gain or Loss H-12

I Payroll Accounting* I-1

LO 1: Record the payroll for a pay period. I-1

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

LO 2: Record employer payroll taxes. I-7

FICA Taxes I-7
Federal Unemployment Taxes I-8
State Unemployment Taxes I-8
Recording Employer Payroll Taxes I-9
Filing and Remitting Payroll Taxes I-9

LO 3: Discuss the objectives of internal control for payroll. I-10

J Subsidiary Ledgers and Special Journals* J-1

LO 1: Describe the nature and purpose of a subsidiary ledger. J-1

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

*Available in WileyPLUS.

LO 2: Record transactions in special journals. J-4

Sales Journal J-4
Cash Receipts Journal J-7
Purchases Journal J-10
Cash Payments Journal J-13
Effects of Special Journals on the General
Journal J-15
Cyber Security: A Final Comment J-16

K Other Significant Liabilities* K-1

LO 1: Describe the accounting and disclosure requirements for contingent liabilities. K-1

Recording a Contingent Liability K-2
Disclosure of Contingent Liabilities K-3

LO 2: Discuss the accounting for lease liabilities and off-balance-sheet financing. K-3

Accounting for Lease Arrangements K-3
Finance Leases K-4
Operating Leases K-5

LO 3: Discuss additional fringe benefits associated with employee compensation. K-5

Paid Absences K-5
Postretirement Benefits K-6

Company Index I-1

Subject Index I-5

*Available in WileyPLUS.