

Accounting Principles

Eighth Canadian Edition

JERRY J. WEYGANDT
Ph.D., CPA

University of Wisconsin—Madison

BARBARA TRENHOLM
F CPA, FCA, ICD.D

University of New Brunswick—Fredericton

DONALD E. KIESO
Ph.D., CPA

Northern Illinois University

VALERIE R. WARREN
M.B.A., CPA, CA

Kwantlen Polytechnic University

PAUL D. KIMMEL
Ph.D., CPA

University of Wisconsin—Milwaukee

LORI E. NOVAK
H.B.Comm., CPA, CGA

Red River College

WILEY

Brief Contents

VOLUME ONE

- 1** Accounting in Action **1-1**
- 2** The Recording Process **2-1**
- 3** Adjusting the Accounts **3-1**
- 4** Completion of the Accounting Cycle **4-1**
- 5** Accounting for Merchandising Operations **5-1**
- 6** Inventory Costing **6-1**
- 7** Internal Control and Cash **7-1**
- 8** Accounting for Receivables **8-1**
- 9** Long-Lived Assets **9-1**
- 10** Current Liabilities and Payroll **10-1**

APPENDIX A Specimen Financial Statements:
Aritzia Inc. **A-1**

APPENDIX B Sales Taxes **B-1**

APPENDIX C Subsidiary Ledgers and Special
Journals **C-1**

VOLUME TWO

- 9** Long-Lived Assets **9-1**
- 10** Current Liabilities and Payroll **10-1**
- 11** Financial Reporting Concepts **11-1**

- 12** Accounting for Partnerships **12-1**
- 13** Introduction to Corporations **13-1**
- 14** Corporations: Additional Topics and IFRS **14-1**
- 15** Non-current Liabilities **15-1**
- 16** Investments **16-1**
- 17** The Cash Flow Statement **17-1**
- 18** Financial Statement Analysis **18-1**

APPENDIX A Specimen Financial Statements:
Aritzia Inc. **A-1**

APPENDIX B Sales Taxes **B-1**

APPENDIX PV Present Value Concepts **PV-1**

VOLUME THREE

- 19** Managerial Accounting **19-1**
- 20** Cost-Volume-Profit Relationships **20-1**
- 21** Budgetary Planning **21-1**
- 22** Budgetary Control and Responsibility Accounting **22-1**
- 23** Incremental Analysis and Capital Budgeting **23-1**

Contents

1 Accounting in Action 1-1

Accounting Keeps Aritzia Fashionably in the Black 1-1

Why Is Accounting Important? 1-3

Using Accounting Information 1-5

Objective of Financial Reporting 1-6

Forms of Business Organization 1-7

Proprietorship 1-8

Partnership 1-8

Corporation 1-8

Generally Accepted Accounting Principles 1-9

Ethics in Financial Reporting 1-9

Conceptual Framework 1-11

Accounting Standards 1-14

The Accounting Model 1-16

Financial Statements 1-16

The Expanded Accounting Equation 1-20

Transaction Analysis 1-21

Preparing Financial Statements 1-28

Income Statement 1-28

Statement of Owner's Equity 1-30

Balance Sheet 1-30

Cash Flow Statement 1-30

Understanding the Information in the Financial Statements 1-30

2 The Recording Process 2-1

Slaying the Dragons to Brew Up Sales 2-2

The Account 2-3

Debits and Credits 2-4

Double-Entry Accounting 2-7

Analyzing and Recording Transactions 2-8

The Accounting Cycle and Steps in the Recording Process 2-8

The Journal 2-10

The Ledger 2-12

Posting 2-13

The Recording Process Illustrated 2-15

Summary Illustration of Journalizing and Posting 2-19

The Trial Balance 2-21

Limitations of a Trial Balance 2-23

Locating Errors 2-23

Some Process Explanations 2-24

3 Adjusting the Accounts 3-1

Advance Sports Revenue Is Just the Ticket 3-2

Timing Issues 3-3

Accrual Versus Cash Basis Accounting 3-4

Revenue and Expense Recognition 3-5

Adjusting Entries and Prepayments 3-7

The Basics of Adjusting Entries 3-7

Adjusting Entries for Prepayments 3-8

Adjusting Entries for Accruals 3-15

The Adjusted Trial Balance and Financial Statements 3-22

Preparing the Adjusted Trial Balance 3-23

Preparing Financial Statements 3-23

4 Completion of the Accounting Cycle 4-1

Getting a Good "Handle" on Accounting Information 4-2

Closing the Books 4-3

Preparing Closing Entries 4-4

Posting Closing Entries 4-8

Preparing a Post-Closing Trial Balance 4-9

Summary of the Accounting Cycle 4-11

Steps in the Accounting Cycle 4-11

Correcting Entries—An Avoidable Step 4-13

Classified Balance Sheet 4-15

Standard Balance Sheet Classifications 4-15

Alternative Balance Sheet Presentation 4-20

Using the Information in the Financial Statements 4-22

Working Capital 4-22

Current Ratio 4-22

Acid-Test Ratio 4-23

Appendix 4A: Work Sheets 4-24

Steps in Preparing a Work Sheet 4-24

Preparing Financial Statements from a Work Sheet 4-27

Appendix 4B: Reversing Entries 4-28

Accounting with and Without Reversing Entries 4-28

5 Accounting for Merchandising Operations 5-1

A "Frank" Look at Tracking Inventory 5-1

Merchandising Operations 5-3

Inventory Systems 5-5

Recording Purchases of Merchandise 5-7

Subsidiary Inventory Records 5-8

Freight Costs 5-8

Purchase Returns and Allowances 5-9

Discounts 5-10

Summary of Purchase Transactions 5-11

Recording Sales of Merchandise—Earnings Approach 5-12

Revenue Recognition 5-12

Freight Costs	5-15
Sales Returns and Allowances	5-15
Discounts	5-16
Summary of Sales Transactions	5-17
Sales Taxes	5-17
Completing the Accounting Cycle	5-18
Adjusting Entries	5-18
Closing Entries	5-19
Post-Closing Trial Balance	5-20
Summary of Merchandising Entries in a Perpetual Inventory System	5-20
Merchandising Financial Statements	5-22
Single-Step Income Statement	5-22
Multiple-Step Income Statement	5-23
Classified Balance Sheet	5-26
Using the Information in the Financial Statements	5-27
Gross Profit Margin	5-27
Profit Margin	5-27
Appendix 5A: Periodic Inventory System	5-28
Recording Purchases of Merchandise	5-29
Recording Sales of Merchandise	5-30
Comparison of Entries—Perpetual versus Periodic	5-31
Calculating Cost of Goods Sold	5-31
Multiple-Step Income Statement	5-33
Completing the Accounting Cycle	5-34
Appendix 5B: Recording Sales of Merchandise— Contract-Based Approach	5-36
Recording Sales with Sales Returns	5-36
Recording Sales with Sales Discounts	5-39
Freight Costs	5-40
Summary of Sales Transactions	5-40
Sales Taxes	5-41
Adjusting Entries	5-41
Financial Statements	5-41
Completing the Accounting Cycle	5-41

6 Inventory Costing 6-1

<i>A Fresh Approach to Costing Inventory</i>	6-2
Determining Inventory Quantities	6-3
Taking a Physical Inventory	6-4
Determining Ownership of Goods	6-4
Inventory Cost Determination Methods	6-7
Specific Identification	6-7
Cost Formulas: FIFO and Weighted Average	6-8
Financial Statement Effects	6-15
Choice of Cost Determination Method	6-16
Inventory Errors	6-18
Presentation and Analysis of Inventory	6-22
Valuing Inventory at the Lower of Cost and Net Realizable Value	6-22
Reporting and Analyzing Inventory	6-25
Presenting Inventory in the Financial Statements	6-25

Appendix 6A: Inventory Cost Formulas in Periodic Systems 6-27

Periodic System—First-In, First-Out (FIFO)	6-28
Periodic System—Weighted Average	6-29
Appendix 6B: Estimating Inventories	6-31
Gross Profit Method	6-31
Retail Inventory Method	6-32

7 Internal Control and Cash 7-1

<i>Keeping a Tight Lid on Cash</i>	7-1
Cash and Internal Control	7-3
What Is Cash?	7-3
Internal Control	7-4
Control Activities	7-4
Limitations of Internal Control	7-8
Cash Controls	7-9
Internal Control over Cash Receipts	7-10
Internal Control over Cash Payments	7-13
Petty Cash Fund	7-14
Establishing the Fund	7-14
Making Payments from the Fund	7-15
Replenishing the Fund	7-15
Bank Accounts	7-17
Use of a Bank Account	7-17
Reconciling the Bank Account	7-20
Reporting Cash	7-26

8 Accounting for Receivables 8-1

<i>Last Call for Customer Payments</i>	8-1
Accounts Receivable	8-2
Types of Receivables	8-3
Recognizing Accounts Receivable	8-3
Valuing Accounts Receivable	8-6
Notes Receivable	8-15
Recognizing Notes Receivable	8-16
Disposing of Notes Receivable	8-17
Statement Presentation and Management of Receivables	8-19
Presentation	8-19
Analysis	8-21
Accelerating Cash Receipts from Receivables	8-23

9 Long-Lived Assets 9-1

<i>Capitalizing on Education</i>	9-2
Property, Plant, and Equipment	9-3
Determining the Cost of Property, Plant, and Equipment	9-3
Depreciation	9-7
Factors in Calculating Depreciation	9-8
Depreciation Methods	9-9
Comparison of Depreciation Methods	9-13

Partial Period Depreciation	9-13
Depreciation and Income Tax	9-15
Revising Periodic Depreciation	9-16
Capital Expenditures During Useful Life	9-17
Impairments	9-17
Cost Model Versus Revaluation Model	9-18
Changes in Depreciation Method, Estimated Useful Life, or Residual Value	9-19
Revised Depreciation Calculations	9-19
Disposal of Property, Plant, and Equipment	9-21
Steps in Recording Disposals of Property, Plant, and Equipment	9-21
Retirement of Property, Plant, and Equipment	9-22
Sale of Property, Plant, and Equipment	9-24
Exchanges of Property, Plant, and Equipment	9-25
Natural Resources	9-28
Cost	9-29
Depletion	9-29
Disposal	9-30
Intangible Assets and Goodwill	9-31
Accounting for Intangible Assets	9-31
Intangible Assets with Finite Lives	9-32
Intangible Assets with Indefinite Lives	9-33
Goodwill	9-34
Statement Presentation and Analysis	9-35
Presentation	9-35
Analysis	9-36

10 Current Liabilities and Payroll 10-1

<i>Butterflies Bring About Better Banknotes</i>	10-2
Determinable (Certain) Current Liabilities	10-3
Accounts Payable	10-3
Unearned Revenues	10-4
Operating Line of Credit and Bank Overdraft	10-5
Short-Term Notes Payable	10-5
Sales Taxes	10-6
Property Taxes	10-7
Current Maturities of Long-Term Debt	10-8
Uncertain Liabilities	10-9
Provisions	10-9
Contingencies	10-13
Payroll	10-15
Employee Payroll Costs	10-16
Employer Payroll Costs	10-18
Recording the Payroll	10-19
Financial Statement Presentation	10-23
Appendix 10A: Payroll Deductions	10-24
Mandatory Payroll Deductions	10-24
Using Payroll Deduction Tables	10-26
APPENDIX A Specimen Financial Statements: Aritzia Inc.	A-1
APPENDIX B Sales Taxes	B-1
APPENDIX C Subsidiary Ledgers and Special Journals	C-1

COMPANY INDEX / SUBJECT INDEX	I-1
-------------------------------	-----