## FINANCIAL ACCOUNTING 3e IFRS Edition

Earl K. Stice • James D. Stice • W. Steve Albrecht Monte R. Swain • Rong-Ruey Duh • Audrey Wenhsin Hsu



## **Brief Contents**

#### PART ONE

#### Financial Reporting and the Accounting Cycle

- 1 Accounting Information: Users and Uses 2
- 2 Financial Statements: An Overview 25
- 3 The Accounting Cycle: The Mechanics of Accounting 70
- 4 Completing the Accounting Cycle 132
- 5 Internal Controls: Ensuring the Integrity of Financial Information 193

## PART TWO

#### Operating Activities 227

- 6 Cash 228
- 7 Receivables 254
- 8 Inventory and the Cost of Sales 298
- 9 Completing the Operating Cycle 359

#### PART THREE

#### Investing and Financing Activities 405

- 10 Investments: Property, Plant, and Equipment and Intangible Assets 406
- 11 Financing: Long-Term Liabilities 475
- 12 Financing: Equity 528
- 13 Investments: Debt and Equity Securities 576

## PART FOUR

#### Other Dimensions of Financial Reporting 645

- 14 Statement of Cash Flows 646
- 15 Analyzing Financial Statements 713

## **Contents**

**PART** 

ONE

Accounting Equation 29

The Statement of Cash Flows 40

The Statement of Comprehensive Income 33

How the Financial Statements Tie Together 42

Summary of Significant Accounting Policies 43

The Statement of Changes in Equity 38

Notes to the Financial Statements 43

Chapter 1 Accounting Information: Users and Uses 2
What's the Purpose of Accounting? 4 The Relationship of Accounting to Business 6 Who Uses Accounting Information? 8 Lenders 9 Investors 9 Management 10 Other Users of Financial Information 10 Within What Kind of Environment Does Accounting Operate? 12 The Significance and Development of Accounting Standards 12 The International Accounting Standards Board 13 The Financial Accounting Standards Board 13 Other Organizations 14 International Business 15 Ethics in Accounting 15 Technology 16 So, Why Should I Study Accounting? 17 End-of-Chapter Materials 18
Chapter 2 Financial Statements: An Overview 25
The Balance Sheet 27

Financial Reporting and the Accounting Cycle

Additional Information about Summary Totals
Disclosure of Information Not Recognized 44
Supplementary Information 44

The External Audit 44

Fundamental Concepts and Assumptions 47
The Separate Entity Concept 47
The Time-Period Assumption 47
The Assumption of Arm's-Length Transactions 47
The Cost Principle 48
The Fair Value Principle 48
The Monetary Measurement Concept 48
The Going Concern Assumption 48

End-of-Chapter Materials 49

#### Chapter 3

#### The Accounting Cycle: The Mechanics of Accounting

70

How Can We Collect All This Information? 71

How Do Transactions Affect the Accounting Equation? 73

The Accounting Equation 74

Using Accounts to Categorize Transactions 75

Expanding the Accounting Equation to Include Revenues, Expenses, and Dividends 78

How Do We Record the Effects of Transactions? 79

A Note on Journal Entries 91

Posting Journal Entries and Preparing a Trial Balance 93

Determining Account Balances 95

Illustration of the First Three Steps in the Accounting Cycle 98

Where Do Computers Fit in All This? 103

End-of-Chapter Materials 104

#### Chapter 4

#### Completing the Accounting Cycle 132

Accrual Accounting 133

Periodic Reporting 134

Accrual- versus Cash-Basis Accounting 135

Adjusting Entries 138

Unrecorded Receivables 139

Unrecorded Liabilities 140

Prepaid Expenses 141

Unearned Revenues 143

Preparing Financial Statements 146

Financial Statement Preparation 147

The Notes 149

Closing the Books 150

Real and Nominal Accounts 150

Closing Entries 151

Preparing a Post-Closing Trial Balance 152

A Summary of the Accounting Cycle 154

Illustration of the Last Step in the Accounting Cycle 154

End-of-Chapter Materials 161

#### Chapter 5

## Internal Controls: Ensuring the Integrity of Financial Information 193

The Types of Problems That Can Occur 194

Types of Errors in the Reporting Process 196

Disagreements in Judgment 196

Fraudulent Financial Reporting 197

Safeguards Designed to Minimize Problems 198

The Control Environment 201

Control Activities (Procedures) 201

Reasons for Earnings Management 203

Meet Internal Targets 204

Meet External Expectations 204

Income Smoothing 204

Window Dressing for an IPO or a Loan 205

Is Earnings Management Ethical? 205

Personal Ethics 206

The Sarbanes-Oxley Act 207

Public Company Accounting Oversight Board 207

Constraints on Auditors 208

Constraints on Management 208

Regulatory Reactions of Other Countries 208

The Role of Auditors in the Accounting Process 209

Internal Auditors 210

External Auditors 210

Are External (Independent) Auditors Independent? 212

The Securities and Exchange Commission 213

End-of-Chapter Materials 214

#### PART TWO

#### Operating Activities 227

#### Chapter 6

Cash 228

Major Activities of a Business 230

Cash and Internal Control 231
Cash and Business Activities 231
Internal Control of Cash 232
Cash Disbursements for Operating Activities 233

Payment by Checks 233

Petty Cash Funds 236

Reconciling the Bank Account 239

End-of-Chapter Materials 243

#### Chapter **7** Receivables 254

Types of Receivables 256

Accounts Receivable 257

Revenue Recognition 257

Accounting for Accounts Receivable 259

Valuing and Reporting Receivables 260

The Allowance Method 261

Presentation on Financial Statements 263

Real-World Illustration of Accounting for Loss Allowance 265

Assessing How Well Companies Manage Their Receivables 266

Notes Receivable 268

Characteristics of Notes Receivable 268
Accounting for Notes Receivable 269

Foreign Currency Transactions 271

Foreign Currency Transaction Example 271

#### EXPANDED MATERIAL

Variable Consideration 273

End-of-Chapter Materials 278

#### Chapter 8 Inventory and the Cost of Sales 298

Inventory and Cost of Goods Sold 300

What Is Inventory? 301

What Costs Are Included in Inventory Cost? 301

Who Owns the Inventory? 301

Ending Inventory and Cost of Goods Sold 302

Accounting for Inventory Purchases and Sales 303

Overview of Perpetual and Periodic Systems 303

Perpetual and Periodic Journal Entries 304

Counting Inventory and Calculating Cost of Goods Sold 309

Taking a Physical Count of Inventory 309

Cost Formulas for Inventory 313

Specific Identification Cost Formula 314

FIFO Cost Formula 315

Weighted Average Cost Formula 316

A Comparison of FIFO and Weighted Average Cost Formulas 316

Valuing and Reporting Inventory at the Lower of Cost or Net Realizable Value 318

Inventory Valued at Net Realizable Value 318

Assessing How Well Companies Manage Their Inventories 320

Evaluating the Level of Inventory 320

Number of Days' Purchases in Accounts Payable 321

#### EXPANDED MATERIAL

LIFO Cost Formula 323

A Comparison of All Cost Formulas for Inventory 324

Complications of the Perpetual System with LIFO and Weighted Average Cost 326

Methods of Estimating Inventories 328

The Gross Margin Method 328

The Retail Inventory Method 329

End-of-Chapter Materials 331

#### Chapter 9

#### Completing the Operating Cycle 359

#### Employee Compensation 361

Payroll 361

Compensated Absences (Sick Leave) 365

Compensated Absences (Vacation Pay) 366

Bonuses 367

Post-employment Benefits 367

Post-retirement Benefits Other Than Pensions 367

#### Taxes 368

Sales Taxes (Business Taxes) 368

Value-Added and Non-Value-Added Business Tax 369

Property Taxes 370

Income Taxes 370

Deferred Tax Example 371

Provisions and Contingent Liabilities 374

Provisions 375

Contingent Liabilities 375

Capitalize versus Expense 377

Research and Development 378

Advertising 379

Summarizing Operations on a Statement of Comprehensive Income 380

Other Revenues and Expenses 380

Earnings per Share 380

#### EXPANDED MATERIAL

Computational Details of Labor Insurance and Health Insurance Premiums 382 End-of-Chapter Materials 384

#### PART **Three**

#### **Investing and Financing Activities** 405

#### Chapter 10

## Investments: Property, Plant, and Equipment and Intangible Assets 406

Nature of Long-Term Operating Assets 408

Accounting for Acquisition of Property, Plant, and Equipment 409

Assets Acquired by Purchase 410

Acquisition of Several Assets at Once 410

Calculating and Recording Depreciation Expense 412

Straight-Line Method of Depreciation 412

Units-of-Production Method of Depreciation 415

A Comparison of Straight-Line and Units-of-Production Methods 416

Units-of-Production Method with Natural Resources 416

Accelerated Depreciation: Declining-Balance Method 417

A Comparison of Depreciation Methods 419

Partial-Year Depreciation Calculations 420

Changes in Depreciation Estimates and Methods 422

Repairing and Improving Property, Plant, and Equipment 424

Recording Impairments of Asset Value 426

Recording an Impairment Loss of Property, Plant, and Equipment 427

Reporting Property, Plant, and Equipment 430

Disposal of Property, Plant, and Equipment 430

Discarding Property, Plant, and Equipment 431

Selling Property, Plant, and Equipment 432

Accounting for Intangible Assets 433

Amortization of Intangible Assets 436

Impairment of Intangible Assets 436

Measuring Property, Plant, and Equipment Efficiency 438

Evaluating the Level of Property, Plant, and Equipment 438

Industry Differences in Fixed Asset Turnover 438

#### EXPANDED MATERIAL

Exchanging Property, Plant, and Equipment 440

The Revaluation Model 442

Assets Acquired by Leasing and/or Self-Construction 443 Assets Acquired by Leasing 444 Assets Acquired by Self-Construction 446 End-of-Chapter Materials 448

#### Chapter 11

#### Financing: Long-Term Liabilities

Measuring Long-Term Liabilities 477

Present Value and Future Value Concepts 477 Computing the Present Value of an Annuity 479

Accounting for Long-Term Liabilities 482

Interest-Bearing Notes 482 Mortgages Payable 483

The Nature of Bonds 485

Types of Bonds 486

Characteristics of Bonds 486

Determining a Bond's Issuance Price 487

Accounting for Bonds Payable Issued at Face Value 490

Bond Retirements before Maturity 491

Using Debt-Related Financial Ratios 493

Debt Ratio and Debt-to-Equity Ratio 493

Times Interest Earned Ratio 494

#### EXPANDED MATERIAL

Bonds Issued at a Discount or at a Premium 495

Accounting for Bonds Issued at a Discount 496

Accounting for Bonds Issued at a Premium 499

Accounting for Lease Obligations 502

Short-term Leases and Leases of Low-valued Assets 504

End-of-Chapter Materials 505

#### Chapter 12

#### **Financing: Equity** 528

#### Raising Equity Financing 531

Difference between a Loan and an Investment 531 Proprietorships and Partnerships 532

Corporations and Corporate Stock 533

Starting a Corporation 534

Common Stock 535

Preferred Stock 535

Accounting for Stock 536

Issuance of Stock 536

Issuing Par-Value Common Stock at a Premium 537

576

Issuing No Par-Value Shares 537 Issuing Par-Value Preferred Stock at a Premium 537 Issuing Shares for Noncash Assets 538 Accounting for Stock Repurchases 538 Purchasing Treasury Stock Reissuing Treasury Stock above Cost Reissuing Treasury Stock below Cost Balance Sheet Presentation 540 Retained Earnings 542 Cash Dividends 542 Dividend Payout Ratio 545 Stock Dividends 546 Stock Split 547 Other Equity Items 549 Equity Items That Constitute Other Comprehensive Income 549 Statement of Changes in Equity 551 End-of-Chapter Materials 552 Chapter 13 **Investments: Debt and Equity Securities** Why Companies Invest in Other Companies Earning a Return on Excess Cash 578 Strategic Purpose 579 Classification of Debt Securities 581 Classification of Equity Securities 582 Accounting for the Purchase of Securities 585

# Classifying a Security 580 Classification of Debt Securities 581 Classification of Equity Securities 582 The Amortized Cost Financial Assets at Par 584 Accounting for the Purchase of Securities 585 Accounting for the Investment Revenue 585 No Adjustments of AC Financial Assets to Fair Values 586 Accounting for the Maturity of Bond Investment 586 Accounting for Bonds Purchased between Interest Dates 586 Financial Statement Presentation 587 Debt Investments: Fair Value through Other Comprehensive Income (FVTOCI) Financial Assets—Debt 589 Accounting for the Purchase of Securities 589 Accounting for the Investment Revenue 589 Adjusting FVTOCI Financial Assets—Debt to Fair Values 590

Accounting for the Sale of FVTOCI Financial Assets—Debt 592
Fair Value through Profit or Loss (FVTPL) Financial Assets 594

Financial Statement Presentation 590

Accounting for the Purchase of Securities 594
Accounting for the Investment Revenue 594
Adjusting FVTPL Financial Assets to Fair Values 595
Financial Statement Presentation 596
Accounting for the Sale of FVTPL Financial Assets 597

Assets—Equity 598
Accounting for the Purchase of Securities 599
Accounting for the Investment Revenue 599
Adjusting FVTOCI Financial Assets—Equity to Fair Values 599
Financial Statement Presentation 600
Accounting for the Sale of FVTOCI Financial Assets—Equity 600
Accounting for Investment in Associates Using the Equity Method 603
Illustrating the Equity Method 604
Accounting for the Purchase of Securities 604
Accounting for the Investment Revenue 604
Accounting for Dividends Received 605
Financial Statement Presentation 605
Accounting for the Sale of Investment 606
Comparing Equity Method with Fair Value Approach 606
EXPANDED MATERIAL
Consolidated Financial Statements 608
Accounting for Amortized Cost Financial Assets at a Discount 610 Accounting for the Purchase of Securities 611
Accounting for the Investment Revenue and the Amortization of Bond Discounts 611

Equity Investments: Fair Value through Other Comprehensive Income (FVTOCI) Financial

## PART FOUR

#### Other Dimensions of Financial Reporting 645

Accounting for the Investment Revenue and the Amortization of Bond Premiums 615

#### Chapter 14 Statement of Cash Flows 646

Accounting for Amortized Cost Financial Assets at a Premium 614

Accounting for the Purchase of Securities 615

End-of-Chapter Materials 617

What's the Purpose of a Statement of Cash Flows? 648
What Information Is Reported in the Statement of Cash Flows? 648
Major Classifications of Cash Flows 649
Non-cash Investing and Financing Activities 651
Cash Flow Patterns 651
Preparing a Statement of Cash Flows—A Simple Example 652
Acquire Cash Flow Information through the Cash Account 653

Cash Flows from Operating Activities: Indirect Method 658

The Indirect Method of Cash Flows From Operating Activities 658

Converting from an Accrual Basis to a Cash Basis 660

Some Rules of Thumb 666

Acquire Cash Flow Information through Non-cash Accounts 656

Summary of Three Accrual Adjustments 666

Cash Flows from Investing Activities and Financing Activities 668

Investing Activities 668

Financing Activities 670

Summarize the Cash Flows and Check the Balance 671

Any Significant Investing or Financing Transactions That Does Not Involve Cash 672

Using Information from the Statement of Cash Flows to Make Decisions 672

Cash Flows from Operating Activities: Direct Method 674

End-of-Chapter Materials 680

#### Chapter 15 Analyzing Financial Statements 713

The Need for Financial Statement Analysis 714

Vertical and Horizontal Analyses 716

Vertical Analysis 716

Horizontal Analysis 719

Financial Ratios 723

Liquidity and Efficiency 723

Solvency 728

Profitability 730

Cash Flow 736

Summary of Ratios 739

DuPont Framework 741

Potential Pitfalls 744

Financial Statements Don't Contain All Information 745

Lack of Comparability 745

Search for the Smoking Gun 745

Anchoring, Adjustment, and Timeliness 746

End-of-Chapter Materials 746

#### **APPENDICES**

Appendix A: Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries Consolidated Financial Statements for the Years Ended December 31, 2019 and 2018 and Independent Auditors' Report A-I

Appendix B: Philips 2019 Financial Statements A-10

Appendix C: Carrefour 2019 Financial Statements A-19

Appendix D: Present Value Tables A-30

Glossary G-1

Index I-1