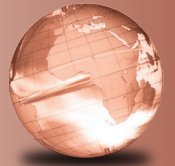


GLOBAL  
EDITION



# Financial Accounting

THIRD EDITION

Robert Kemp • Jeffrey Waybright



ALWAYS LEARNING

PEARSON

# Financial Accounting

# Financial Accounting, Global Edition

## Table of Contents

Cover

Title Page

Contents

### Chapter 1 Business, Accounting, and You

Business, Accounting, and You

What Is a Business, and Why Study Accounting?

The Definition of a Business

The General Concept of Value

Business Owners and Other Stakeholders

The Goal of a BusinessThe goal of a business

How Does a Business Operate?

Resources Needed to Start and Operate a Business

Operating the Business

The Cost of Money

How Are Businesses Organized?

The Types of Businesses

The Legal Forms of Businesses

What Is Accounting, and What Are the Key Accounting Principles and Concepts?

Generally Accepted Accounting Principles

International Financial Reporting Standards

The Business Entity Principle

The Reliability (Objectivity) Principle

The Cost Principle

Accounting Ethics: A Matter of Trust

What Is the Role of Accounting in a Business?

How Do You Recognize a Business Transaction?

Cash Accounting

Accrual Accounting

How Do You Measure a Business Transaction?

How Do You Record Business Transactions Using the Accounting Equation?

Transaction Analysis

# **Table of Contents**

Stockholders Equity

How Do You Report Business Transactions Using Financial Statements?

The Income Statement

The Statement of Retained Earnings

The Balance Sheet

The Statement of Cash Flows

Relationships Among the Financial Statements

Accounting, Business, and You Putting It All Together

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

## **Chapter 2 Analyzing and Recording Business Transactions**

Business, Accounting, and You

How Are Accounts Used to Keep Business Transactions Organized?

Organizing Accounts

Assets

Liabilities

Stockholders Equity

What Is Double-Entry Accounting?

Normal Balance

How Are the General Journal and General Ledger Used to Keep Track of Business Transactions?

Transaction Analysis

Applying Transaction Analysis

Balancing the T-Accounts

How Is a Trial Balance Prepared, and What Is It Used For?

Correcting Errors

Preparation of Financial Statements

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

## **Chapter 3 Adjusting and Closing Entries**

Business, Accounting, and You

# **Table of Contents**

## How Does a Company Accurately Report Its Income?

- Revenue Recognition and Matching Principles

## What Is the Role of Adjusting Entries, and When Are They Prepared?

- Accruing Revenues

- Accruing Expenses

- Adjusting Deferred Revenues

- Adjusting Deferred Expenses

## How Are Financial Statements Prepared from an Adjusted Trial Balance?

- The Adjusted Trial Balance

- Preparing the Financial Statements

## How Does a Company Prepare for a New Accounting Period?

- Completing the Accounting Cycle

- The Three Closing Entries: Revenues, Expenses, and Dividends

- Post-Closing Trial Balance

- Summary of the Adjusting and Closing Processes

## Summary

## Accounting Practice

## Apply Your Knowledge

## Know Your Business

## Comprehensive Problem

## Chapter 4 Accounting for a Merchandising Business

### Business, Accounting, and You

### What Are the Relationships Among Manufacturers, Wholesalers, Retailers, and Customers?

### How Do Periodic and Perpetual Inventory Systems Differ?

### How Do You Account for the Purchase of Inventory?

- Cash and Credit Purchases

- Purchase Returns and Allowances

- Purchase Discounts

### How Do You Account for the Sale of Inventory?

- Cash Sales

- Credit Sales

- Sales Returns and Allowances

- Sales Returns

- Sales Allowances

# **Table of Contents**

Sales Discounts

How Do You Account for Freight Charges and Other Selling Expenses?

Costs Related to the Receipt of Goods from Suppliers

Costs Related to Delivering Goods to Customers

Other Selling Costs

How Do You Prepare a Merchandisers Financial Statements?

The Income Statement

The Statement of Retained Earnings

The Balance Sheet

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

## **Chapter 5 Inventory**

Business, Accounting, and You

What Inventory Costing Methods Are Allowed?

Cost Flow Versus Physical Flow of Inventory

How Are the Four Inventory Costing Methods Applied?

Inventory Cost Flows

Specific-Identification Method

First-In, First-Out (FIFO) Method

Last-In, First-Out (LIFO) Method

Average Cost Method

Journalizing Inventory Transactions

What Effect Do the Different Costing Methods Have on Net Income?

What Else Determines How Inventory Is Valued?

How Is Inventory Reported on the Balance Sheet?

Inventory Shrinkage

How Do Inventory Errors Affect the Financial Statements?

Is It Possible to Estimate the Value of Inventory If the Inventory Is Accidentally Destroyed?

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

# **Table of Contents**

Comprehensive Problem

## **Chapter 6 The Challenges of Accounting: Standards, Internal Control, Audits, Fraud, and Ethics**

Business, Accounting, and You

What Are the Rules that Govern Accounting?

- Understandable

- Relevant

- Reliable

- Generally Accepted Accounting Principles (GAAP) in the United States

- Generally Accepted Accounting Principles Around the World: IFRS

- Differences Between FASB and IFRS

What Is Internal Control?

- Elements of an Internal Control System

What Is Fraud, and Who Commits It?

- Management Fraud

- Employee Embezzlement

- The Factors Usually Present When Fraud Is Committed

What Is a Certified Public Accountant (CPA)?

- Audits

- Audit Opinions

What Are the Legal and Ethical Responsibilities of Accountants?

- The Legal Responsibilities of Accountants

- Ethical Responsibilities of Accountants

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

## **Chapter 7 Cash and Receivables**

Business, Accounting, and You

What Are the Different Types of Sales?

- Cash Sales

- Credit Card Sales

- Debit Card Sales

- Credit/Debit Card Processing

- Sales on Account



# **Table of Contents**

## **What Internal Control Procedures Should Be Used for Cash?**

- Internal Controls over Cash Receipts
- Internal Control over Cash Payments
- Purchase and Payment Process
- The Bank Reconciliation
- Preparing the Bank Reconciliation
- Book Side of the Reconciliation
- Online Banking

## **How Is Cash Reported on the Balance Sheet?**

## **How Do You Account for Receivables?**

- Types of Receivables
- Internal Control over Accounts Receivable
- Accounting for Uncollectible Accounts Receivable

## **How Do You Account for Uncollectible Accounts?**

- The Direct Write-Off Method
- Direct Write-Off Method: Recovery of Accounts Previously Written Off
- The Allowance Method
- Estimating the Amount of Uncollectible Accounts
- Writing Off Uncollectible Accounts Under the Allowance Method
- Allowance Method: Recovery of Accounts Previously Written Off

## **How Are Accounts Receivable Reported on the Balance Sheet?**

## **How Do You Account for Notes Receivable?**

- Identifying the Maturity Date
- Origination of Notes Receivable
- Computing Interest on a Note
- Accruing Interest Revenue

## **Summary**

## **Accounting Practice**

## **Apply Your Knowledge**

## **Know Your Business**

## **Appendix 7A**

## **What Is a Petty Cash Fund?**

- Setting Up the Petty Cash Fund
- Replenishing the Petty Cash Fund
- Changing the Petty Cash Fund

## **Accounting Practice**



# **Table of Contents**

## **Chapter 8 Long-Term and Other Assets**

Business, Accounting, and You

What Are the Different Types of Long-Term Assets?

How Is the Cost of a Fixed Asset Calculated?

- land and land improvements

- Buildings

- Machinery and Equipment

- Furniture and Fixtures

- Lump-Sum (Basket) Purchase of Assets

How Are Fixed Assets Depreciated?

- Measuring Depreciation

- Depreciation Methods

- Comparing Depreciation Methods

- Partial Year Depreciation

- Changing the Useful Life of a Depreciable Asset

- Using Fully Depreciated Assets

How Are Costs of Repairing Fixed Assets Recorded?

- Ordinary Repairs

- Extraordinary Repairs

- Betterments

What Happens When a Fixed Asset Is Disposed?

How Do You Account for Intangible Assets?

- Specific Intangibles

- Accounting for Research and Development Costs

How Are Natural Resources Accounted For?

What Are Other Assets?

How Are Long-Term Assets Reported on the Balance Sheet?

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

## **Chapter 9 Current Liabilities and Long-Term Debt**

Business, Accounting, and You

What Are the Differences Among Known, Estimated, and Contingent Liabilities?

How Do You Account for Current Liabilities of a Known Amount?

# **Table of Contents**

Accounts Payable

Notes Payable

Sales Tax Payable

Accrued Expenses (Accrued Liabilities)

Unearned Revenues

Current Portion of Long-Term Debt

How Do You Account for Current Liabilities of an Uncertain Amount?

Estimated Warranty Liability

How Do You Account for a Contingent Liability?

How Do You Account for Long-Term Debt?

Notes Payable

Bonds Payable

Lease Liabilities

How Are Liabilities Reported on the Balance Sheet?

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

## **Chapter 10 Corporations: Paid-In Capital and Retained Earnings**

Business, Accounting, and You

How Are Corporations Organized?

What Makes Up the Stockholders Equity of a Corporation?

Stockholders Rights

Classes of Stock

Par Value, Stated Value, and No-Par Stock

How Is the Issuance of Stock Recorded?

Issuing Common Stock

Issuing Preferred Stock

How Are Cash Dividends Accounted For?

Dividend Dates

Declaring and Paying Dividends

Dividing Dividends Between Preferred and Common Shareholders

Dividends on Cumulative and Noncumulative Preferred Stock

How Are Stock Dividends and Stock Splits Accounted For?

Stock Dividends

# **Table of Contents**

Recording Stock Dividends

Stock Splits

Stock Dividends and Stock Splits Compared

## **How Is Treasury Stock Accounted For?**

Treasury Stock Basics

Purchase of Treasury Stock

Sale of Treasury Stock

## **How Is Stockholders Equity Reported on the Balance Sheet?**

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

## **Chapter 11 The Statement of Cash Flows**

Business, Accounting, and You

What Is the Statement of Cash Flows?

How Does a Business Create a Statement of Cash Flows?

The Logic of How the Statement of Cash Flows Is Prepared

Sources and Uses of Cash: Categorizing Changes as Operating, Investing, or Financing

Statement of Cash Flows: Two Formats

How Is the Statement of Cash Flows Prepared Using the Indirect Method?

Cash Flows from Operating Activities

Cash Flows from Investing Activities

Cash Flows from Financing Activities

Net Change in Cash and Cash Balances

Noncash Investing and Financing Activities

How Is the Statement of Cash Flows Prepared Using the Direct Method?

Cash Flows from Operating Activities

Summary

Accounting Practice

Apply Your Knowledge

Know Your Business

Comprehensive Problem

## **Chapter 12 Financial Statement Analysis**

Business, Accounting, and You

# **Table of Contents**

## **What Is Financial Analysis?**

Step One: Understand a Business Model and Strategy

Step Two: Understand the Environment in Which a Business Operates

Step Three: Analyze the Content of the Financial Statements and Other Information,  
Making Adjustments If Desired

Step Four: Analyze the Business Operations

Step Five: Use the Financial Analysis to Make Decisions

## **What Measures Does Someone Use to Analyze the Performance of a Business?**

The Techniques of Financial Analysis

Vertical Analysis

Horizontal Analysis

Trend Percentages

Question 1: Is the Business a Going Concern?

An Example: Tucker Enterprises, Inc.

Question 2: How Is the Business Earning a Net Income or Loss?

An Example: Tucker Enterprises, Inc.

Question 3: Where Is the Business Getting Its Money, and Can It Pay Its Debt  
Obligations?

An Example: Tucker Enterprises, Inc.

Question 4: How Is the Business Investing Its Money, and Is It Using Its Assets Efficiently?

An Example: Tucker Enterprises, Inc.

Question 5: Is the Business Generating Enough Net Income to Reward the Stockholders for  
the Use of Their Money?

An Example: Tucker Enterprises, Inc.

## **How Do You Put Everything Together to Make Decisions?**

Seeing the Impact of Decisions

What Are Red Flags in Financial Statement Analysis?

## **Summary**

Accounting Practice

Apply Your Knowledge

Know Your Business

## **Appendix A Columbia Sportswear Company 2012 Annual Report to Shareholders**

## **Appendix B Time Value of Money Future and Present Value Concepts**

### **Future Value**

Future-Value Tables

# **Table of Contents**

Future Value of an Annuity

Present Value

Present-Value Tables

Present Value of an Annuity

Accounting Practice

Company Index

A

B

C

D

E

F

G

H

I

J

K

L

M

N

O

P

Q

R

S

T

U

V

W

X

Z

Glindex

A

# Table of Contents

B  
C  
D  
E  
F  
G  
H  
I  
J  
K  
L  
M  
N  
O  
P  
Q  
R  
S  
T  
U  
V  
W

Credits