



Horngren's Accounting

The Financial Chapters

ELEVENTH EDITION

Tracie Miller-Nobles • Brenda Mattison • Ella Mae Matsumura

ALWAYS LEARNING

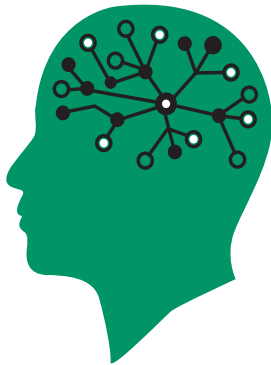
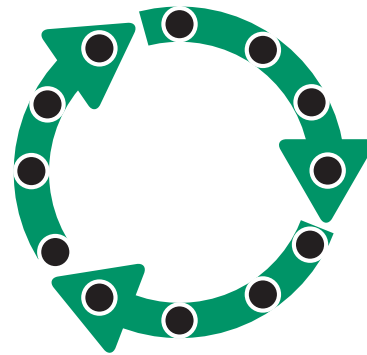
PEARSON

Prepare, Apply, and Confirm with MyAccountingLab®



- **eText Features**—Keep students engaged in learning on their own time, while helping them achieve greater conceptual understanding of course material through author-created solutions videos, opportunities to Try It!, and live exhibits.

- **Accounting Cycle Tutorial**—Accessed by computer, smartphone, or tablet, provides students with brief explanations of each concept of the accounting cycle through engaging videos and/or animations.



- **Dynamic Study Modules**—Work by continuously assessing student performance and activity, then using data and analytics to provide personalized content in real time to reinforce concepts that target each student's particular strengths and weaknesses.

- **Animated Lectures**—Pre-class introduction to or post-class refresher of key concepts throughout the chapter. These audio and animated lectures explain critical information and provide worked problems that students can view on their own time at their own pace.



Horngren's Accounting, The Financial Chapters, Global Edition

Table of Contents

Cover

Title Page

Copyright Page

About the Authors

Acknowledgments

CONTENTS

CHAPTER 1 Accounting and the Business Environment

Why Is Accounting Important?

Decision Makers: The Users of Accounting Information

The Accounting Profession

What Are the Organizations and Rules That Govern Accounting?

Governing Organizations

Generally Accepted Accounting Principles

The Economic Entity Assumption

The Cost Principle

The Going Concern Assumption

The Monetary Unit Assumption

International Financial Reporting Standards

Ethics in Accounting and Business

What Is the Accounting Equation?

Assets

Liabilities

Equity

How Do You Analyze a Transaction?

Transaction Analysis for Smart Touch Learning

How Do You Prepare Financial Statements?

Income Statement

Statement of Owners Equity

Balance Sheet

Statement of Cash Flows

Table of Contents

How Do You Use Financial Statements to Evaluate Business Performance?

Green Mountain Coffee Roasters, Inc.

Return on Assets (ROA)

Review

Assess Your Progress

Critical Thinking

CHAPTER 2 Recording Business Transactions

What Is an Account?

Assets

Liabilities

Equity

Chart of Accounts

Ledger

What Is Double-Entry Accounting?

The T-Account

Increases and Decreases in the Accounts

Expanding the Rules of Debit and Credit

The Normal Balance of an Account

Determining the Balance of a T-Account

How Do You Record Transactions?

Source DocumentsThe Origin of the Transactions

Journalizing and Posting Transactions

The Ledger Accounts After Posting

The Four-Column Account: An Alternative to the T-Account

What Is the Trial Balance?

Preparing Financial Statements from the Trial Balance

Correcting Trial Balance Errors

How Do You Use the Debt Ratio to Evaluate Business Performance?

Review

Assess Your Progress

Critical Thinking

CHAPTER 3 The Adjusting Process

What Is the Difference Between Cash Basis Accounting and Accrual Basis Accounting?

What Concepts and Principles Apply to Accrual Basis Accounting?

The Time Period Concept

Table of Contents

The Revenue Recognition Principle

The Matching Principle

What Are Adjusting Entries, and How Do We Record Them?

Deferred Expenses

Deferred Revenues

Accrued Expenses

Accrued Revenues

What Is the Purpose of the Adjusted Trial Balance, and How Do We Prepare It?

What Is the Impact of Adjusting Entries on the Financial Statements?

How Could a Worksheet Help in Preparing Adjusting Entries and the Adjusted Trial Balance?

APPENDIX 3A: Alternative Treatment of Recording Deferred Expenses and Deferred Revenues

What Is an Alternative Treatment of Recording Deferred Expenses and Deferred Revenues?

Deferred Expenses

Deferred Revenues

Review

Assess Your Progress

Critical Thinking

CHAPTER 4 Completing the Accounting Cycle

How Do We Prepare Financial Statements?

Relationships Among the Financial Statements

How Could a Worksheet Help in Preparing Financial Statements?

Section 5Income Statement

Section 6Balance Sheet

Section 7Determine Net Income or Net Loss

What Is the Closing Process, and How Do We Close the Accounts?

Closing Temporary AccountsNet Income for the Period

Closing Temporary AccountsNet Loss for the Period

How Do We Prepare a Post-Closing Trial Balance?

What Is the Accounting Cycle?

How Do We Use the Current Ratio to Evaluate Business Performance?

APPENDIX 4A: Reversing Entries: An Optional Step

What Are Reversing Entries?

Table of Contents

Accounting for Accrued Expenses

Accounting Without a Reversing Entry

Accounting With a Reversing Entry

Review

Assess Your Progress

Comprehensive Problem 1 for Chapters 14

Comprehensive Problem 2 for Chapters 14

Critical Thinking

CHAPTER 5 Merchandising Operations

What Are Merchandising Operations?

The Operating Cycle of a Merchandising Business

Merchandise Inventory Systems: Perpetual and Periodic Inventory Systems

How Are Purchases of Merchandise Inventory Recorded in a Perpetual Inventory System?

Purchase of Merchandise Inventory

Purchase Discounts

Purchase Returns and Allowances

Transportation Costs

Cost of Inventory Purchased

How Are Sales of Merchandise Inventory Recorded in a Perpetual Inventory System?

Sale of Merchandise Inventory

Sales Discounts

Sales Returns and Allowances

Transportation CostsFreight Out

Net Sales Revenue and Gross Profit

What Are the Adjusting and Closing Entries for a Merchandiser?

Adjusting Merchandise Inventory Based on a Physical Count

Closing the Accounts of a Merchandiser

Worksheet for a Merchandising BusinessPerpetual Inventory System

How Are a Merchandisers Financial Statements Prepared?

Income Statement

Statement of Owners Equity and the Balance Sheet

How Do We Use the Gross Profit Percentage to Evaluate Business Performance?

APPENDIX 5A: Accounting for Merchandise Inventory in a Periodic Inventory System

How Are Merchandise Inventory Transactions Recorded in a Periodic Inventory System?

Table of Contents

- Purchases of Merchandise Inventory
- Sale of Merchandise Inventory
- Adjusting and Closing Entries
- Preparing Financial Statements

Review

Assess Your Progress

Comprehensive Problem for Chapters 15

Critical Thinking

CHAPTER 6 Merchandise Inventory

What Are the Accounting Principles and Controls That Relate to Merchandise Inventory?

- Accounting Principles
- Control Over Merchandise Inventory

How Are Merchandise Inventory Costs Determined Under a Perpetual Inventory System?

- Specific Identification Method
- First-In, First-Out (FIFO) Method
- Last-In, First-Out (LIFO) Method
- Weighted-Average Method

How Are Financial Statements Affected by Using Different Inventory Costing Methods?

- Income Statement
- Balance Sheet

How Is Merchandise Inventory Valued When Using the Lower-of-Cost-or-Market Rule?

- Computing the Lower-of-Cost-or-Market
- Recording the Adjusting Journal Entry to Adjust Merchandise Inventory

What Are the Effects of Merchandise Inventory Errors on the Financial Statements?

How Do We Use Inventory Turnover and Days Sales in Inventory to Evaluate Business Performance?

- Inventory Turnover
- Days Sales in Inventory

APPENDIX 6A: Merchandise Inventory Costs Under a Periodic Inventory System

How Are Merchandise Inventory Costs Determined Under a Periodic Inventory System?

- First-In, First-Out (FIFO) Method
- Last-In, First-Out (LIFO) Method
- Weighted-Average Method

Review

Table of Contents

Assess Your Progress

Critical Thinking

CHAPTER 7 Accounting Information Systems

What Is an Accounting Information System?

Effective Accounting Information Systems

Components of an Accounting Information System

How Are Sales and Cash Receipts Recorded In a Manual Accounting Information System?

Special Journals

Subsidiary Ledgers

The Sales Journal

The Cash Receipts Journal

How Are Purchases, Cash Payments, And Other Transactions Recorded In a Manual Accounting Information System?

The Purchases Journal

The Cash Payments Journal

The General Journal

How Are Transactions Recorded In a Computerized Accounting Information System?

Entry-Level Software

Enterprise Resource Planning (ERP) Systems

QuickBooks

Review

Assess Your Progress

Comprehensive Problem for Chapter 7

Critical Thinking

CHAPTER 8 Internal Control and Cash

What Is Internal Control, and How Can It Be Used to Protect a Company's Assets?

Internal Control and the Sarbanes-Oxley Act

The Components of Internal Control

Internal Control Procedures

The Limitations of Internal Control Costs and Benefits

What Are the Internal Control Procedures With Respect to Cash Receipts?

Cash Receipts Over the Counter

Cash Receipts by Mail

What Are the Internal Control Procedures With Respect to Cash Payments?

Table of Contents

Controls Over Payment by Check

How Can a Petty Cash Fund Be Used for Internal Control Purposes?

Setting Up the Petty Cash Fund

Replenishing the Petty Cash Fund

Changing the Amount of the Petty Cash Fund

How Can the Bank Account Be Used as a Control Device?

Signature Card

Deposit Ticket

Check

Bank Statement

Electronic Funds Transfers

Bank Reconciliation

Examining a Bank Reconciliation

Journalizing Transactions from the Bank Reconciliation

How Can the Cash Ratio Be Used to Evaluate Business Performance?

Review

Assess Your Progress

Critical Thinking

CHAPTER 9 Receivables

What Are Common Types of Receivables, and How Are Credit Sales Recorded?

Types of Receivables

Exercising Internal Control Over Receivables

Recording Sales on Credit

Recording Credit Card and Debit Card Sales

Factoring and Pledging Receivables

How Are Uncollectibles Accounted for When Using the Direct Write-Off Method?

Recording and Writing Off Uncollectible AccountsDirect Write-Off Method

Recovery of Accounts Previously Written OffDirect Write-Off Method

Limitations of the Direct Write-Off Method

How Are Uncollectibles Accounted for When Using the Allowance Method?

Recording Bad Debts ExpenseAllowance Method

Writing Off Uncollectible AccountsAllowance Method

Recovery of Accounts Previously Written OffAllowance Method

Estimating and Recording Bad Debts ExpenseAllowance Method

Comparison of Accounting for Uncollectibles

How Are Notes Receivable Accounted For?

Table of Contents

Identifying Maturity Date

Computing Interest on a Note

Accruing Interest Revenue and Recording Honored Notes Receivable

Recording Dishonored Notes Receivable

How Do We Use the Acid-Test Ratio, Accounts Receivable Turnover Ratio, and Days Sales in Receivables to Evaluate Business Performance?

Acid-Test (or Quick) Ratio

Accounts Receivable Turnover Ratio

Days Sales in Receivables

Review

Assess Your Progress

Critical Thinking

CHAPTER 10 Plant Assets, Natural Resources, and Intangibles

How Does a Business Measure the Cost of a Plant Asset?

Land and Land Improvements

Buildings

Machinery and Equipment

Furniture and Fixtures

Lump-Sum Purchases

Capital and Revenue Expenditures

What Is Depreciation, and How Is It Computed?

Factors in Computing Depreciation

Depreciation Methods

Partial-Year Depreciation

Changing Estimates of Depreciable Asset

Reporting Plant Assets

How Are Disposals of Plant Assets Recorded?

Discarding Plant Assets

Selling Plant Assets

How Are Natural Resources Accounted For?

How Are Intangible Assets Accounted For?

Accounting for Intangibles

Specific Intangibles

Reporting of Intangible Assets

How Do We Use the Asset Turnover Ratio to Evaluate Business Performance?

APPENDIX 10A: Exchanging Plant Assets

Table of Contents

How Are Exchanges of Plant Assets Accounted For?

Exchange of Plant Assets Gain Situation

Exchange of Plant Assets Loss Situation

Review

Assess Your Progress

Critical Thinking

CHAPTER 11 Current Liabilities and Payroll

How Are Current Liabilities of Known Amounts Accounted For?

Accounts Payable

Sales Tax Payable

Unearned Revenues

Short-Term Notes Payable

Current Portion of Long-Term Notes Payable

How Do Companies Account for and Record Payroll?

Gross Pay and Net (Take-Home) Pay

Employee Payroll Withholding Deductions

Payroll Register

Journalizing Employee Payroll

Employer Payroll Taxes

Internal Control Over Payroll

How Are Current Liabilities That Must Be Estimated Accounted For?

Bonus Plans

Vacation, Health, and Pension Benefits

Warranties

How Are Contingent Liabilities Accounted For?

Remote Contingent Liability

Reasonably Possible Contingent Liability

Probable Contingent Liability

How Do We Use the Times-Interest-Earned Ratio to Evaluate Business Performance?

Review

Assess Your Progress

Critical Thinking

CHAPTER 12 Partnerships

What are the Characteristics and Types of Partnerships?

Partnership Characteristics

Types of Partnerships

Table of Contents

Other Forms of Business

How are Partnerships Organized?

The Start-up of a Partnership

Partnership Financial Statements

How are Partnerships Profits and Losses Allocated?

Allocation Based on a Stated Ratio

Allocation Based on Capital Balances

Allocation Based on Services, Capital Balances, and Stated Ratios

Partner Withdrawal of Cash and Other Assets

Statement of Partners Equity

How Is the Admission of a Partner Accounted For?

Admission by Purchasing an Existing Partners Interest

Admission by Contributing to the Partnership

How Is the Withdrawal of a Partner Accounted For?

How Is the Liquidation of a Partnership Accounted For?

Sale of Assets at a Gain

Sale of Assets at a Loss with Capital Deficiency

Review

Assess Your Progress

Critical Thinking

CHAPTER 13 Corporations

What Is a Corporation?

Characteristics of Corporations

Stockholders Equity Basics

How Is the Issuance of Stock Accounted For?

Issuing Common Stock at Par Value

Issuing Common Stock at a Premium

Issuing No-Par Common Stock

Issuing Stated Value Common Stock

Issuing Common Stock for Assets Other Than Cash

Issuing Preferred Stock

How Is Treasury Stock Accounted For?

Treasury Stock Basics

Purchase of Treasury Stock

Sale of Treasury Stock

Retirement of Stock

Table of Contents

How Are Dividends and Stock Splits Accounted For?

- Cash Dividends

- Stock Dividends

- Stock Splits

- Cash Dividends, Stock Dividends, and Stock Splits Compared

How Are Net Income and Equity Reported For a Corporation?

- Income Statement

- Statement of Retained Earnings

- Statement of Stockholders Equity

How Do We Use Stockholders Equity Ratios to Evaluate Business Performance?

- Earnings per Share

- Price/Earnings Ratio

- Rate of Return on Common Stock

Review

Assess Your Progress

Critical Thinking

CHAPTER 14 Long-Term Liabilities

How Are Long-Term Notes Payable and Mortgages Payable Accounted For?

- Long-Term Notes Payable

- Mortgages Payable

What Are Bonds?

- Types of Bonds

- Bond Prices

- Present Value

- Bond Interest Rates

- Issuing Bonds Versus Issuing Stock

How Are Bonds Payable Accounted for Using the Straight-Line Amortization Method?

- Issuing Bonds Payable at Face Value

- Issuing Bonds Payable at a Discount

- Issuing Bonds Payable at a Premium

How Is the Retirement of Bonds Payable Accounted For?

- Retirement of Bonds at Maturity

- Retirement of Bonds Before Maturity

How Are Liabilities Reported on the Balance Sheet?

How Do We Use the Debt to Equity Ratio to Evaluate Business Performance?

APPENDIX 14A: The Time Value of Money

Table of Contents

What Is the Time Value of Money, and How Is the Present Value of a Future Amount Calculated?

Time Value of Money Concepts

Present Value of a Lump Sum

Present Value of an Annuity

Present Value of Bonds Payable

APPENDIX 14B: Effective-Interest Method of Amortization

How Are Bonds Payable Accounted for Using the Effective-Interest Amortization Method?

Effective-Interest Amortization for a Bond Discount

Effective-Interest Amortization of a Bond Premium

Review

Assess Your Progress

Critical Thinking

CHAPTER 15 Investments

Why Do Companies Invest?

Debt Securities Versus Equity Securities

Reasons to Invest

Classification and Reporting of Investments

How Are Investments in Debt Securities Accounted For?

Purchase of Debt Securities

Interest Revenue

Disposition at Maturity

How Are Investments in Equity Securities Accounted For?

Equity Securities with Less Than 20% Ownership (Cost Method)

Equity Securities with 20% to 50% Ownership (Equity Method)

Equity Securities with More Than 50% Ownership (Consolidations)

How Are Debt and Equity Securities Reported?

Trading Investments

Available-for-Sale Investments

Held-to-Maturity Investments

How Do We Use the Rate of Return on Total Assets to Evaluate Business Performance?

Review

Assess Your Progress

Critical Thinking

Table of Contents

CHAPTER 16 The Statement of Cash Flows

What Is the Statement of Cash Flows?

Purpose of the Statement of Cash Flows

Classification of Cash Flows

Two Formats for Operating Activities

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

Non-cash Investing and Financing Activities

How Do We Use Free Cash Flow to Evaluate Business Performance?

APPENDIX 16A: Preparing the Statement of Cash Flows by the Direct Method

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

Cash Flows from Operating Activities

APPENDIX 16B: Preparing the Indirect Statement of Cash Flows Using a Spreadsheet

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

Review

Assess Your Progress

Critical Thinking

CHAPTER 17 Financial Statement Analysis

How Are Financial Statements Used to Analyze a Business?

Purpose of Analysis

Tools of Analysis

Corporate Financial Reports

How Do We Use Horizontal Analysis to Analyze a Business?

Horizontal Analysis of the Income Statement

Horizontal Analysis of the Balance Sheet

Trend Analysis

How Do We Use Vertical Analysis to Analyze a Business?

Vertical Analysis of the Income Statement

Vertical Analysis of the Balance Sheet

Common-Size Statements

Benchmarking

How Do We Use Ratios to Analyze a Business?

Table of Contents

Evaluating the Ability to Pay Current Liabilities

Evaluating the Ability to Sell Merchandise Inventory and Collect Receivables

Evaluating the Ability to Pay Long-Term Debt

Evaluating Profitability

Evaluating Stock as an Investment

Red Flags in Financial Statement Analyses

APPENDIX 17A: The Corporate Income Statement

How Is the Complete Corporate Income Statement Prepared?

Continuing Operations

Discontinued Operations

Extraordinary Items

Earnings per Share

Review

Assess Your Progress

Comprehensive Problem for Chapter 17

Critical Thinking

APPENDIX A2013 Green Mountain Coffee Roasters, Inc. Annual Report

APPENDIX BPresent Value Tables

GLOSSARY

A

B

C

D

E

F

G

H

I

J

K

L

M

N

O

Table of Contents

P

R

S

T

U

V

W

INDEX

PHOTO CREDITS