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ACCOUNTING PRINCIPLES

TWELFTH EDITION

WILEY

ACCOUNT CLASSIFICATION AND PRESENTATION

Account Title	Classification	Financial Statement	Normal Balance
A			
Accounts Payable	Current Liability	Balance Sheet	Credit
Accounts Receivable	Current Asset	Balance Sheet	Debit
Accumulated Depreciation—Buildings	Plant Asset—Contra	Balance Sheet	Credit
Accumulated Depreciation—Equipment	Plant Asset—Contra	Balance Sheet	Credit
Advertising Expense	Operating Expense	Income Statement	Debit
Allowance for Doubtful Accounts	Current Asset—Contra	Balance Sheet	Credit
Amortization Expense	Operating Expense	Income Statement	Debit
B			
Bad Debt Expense	Operating Expense	Income Statement	Debit
Bonds Payable	Long-Term Liability	Balance Sheet	Credit
Buildings	Plant Asset	Balance Sheet	Debit
C			
Cash	Current Asset	Balance Sheet	Debit
Common Stock	Stockholders' Equity	Balance Sheet	Credit
Copyrights	Intangible Asset	Balance Sheet	Debit
Cost of Goods Sold	Cost of Goods Sold	Income Statement	Debit
D			
Debt Investments	Current Asset/Long-Term Investment	Balance Sheet	Debit
Depreciation Expense	Operating Expense	Income Statement	Debit
Discount on Bonds Payable	Long-Term Liability—Contra	Balance Sheet	Debit
Dividends	Temporary account closed to Retained Earnings	Retained Earnings Statement	Debit
Dividends Payable	Current Liability	Balance Sheet	Credit
E			
Equipment	Plant Asset	Balance Sheet	Debit
F			
Freight-Out	Operating Expense	Income Statement	Debit
G			
Gain on Disposal of Plant Assets	Other Income	Income Statement	Credit
Goodwill	Intangible Asset	Balance Sheet	Debit
I			
Income Summary	Temporary account closed to Retained Earnings	Not Applicable	(1)
Income Tax Expense	Income Tax Expense	Income Statement	Debit
Income Taxes Payable	Current Liability	Balance Sheet	Credit
Insurance Expense	Operating Expense	Income Statement	Debit
Interest Expense	Other Expense	Income Statement	Debit
Interest Payable	Current Liability	Balance Sheet	Credit
Interest Receivable	Current Asset	Balance Sheet	Debit
Interest Revenue	Other Income	Income Statement	Credit
Inventory	Current Asset	Balance Sheet (2)	Debit

Account Title	Classification	Financial Statement	Normal Balance
L			
Land	Plant Asset	Balance Sheet	Debit
Loss on Disposal of Plant Assets	Other Expense	Income Statement	Debit
M			
Maintenance and Repairs Expense	Operating Expense	Income Statement	Debit
Mortgage Payable	Long-Term Liability	Balance Sheet	Credit
N			
Notes Payable	Current Liability/ Long-Term Liability	Balance Sheet	Credit
O			
Owner's Capital	Owner's Equity	Owner's Equity and Balance Sheet	Credit
Owner's Drawings	Temporary account closed to Owner's Capital	Owner's Equity	Debit
P			
Patents	Intangible Asset	Balance Sheet	Debit
Paid-in Capital in Excess of Par— Common Stock	Stockholders' Equity	Balance Sheet	Credit
Paid-in Capital in Excess of Par— Preferred Stock	Stockholders' Equity	Balance Sheet	Credit
Preferred Stock	Stockholders' Equity	Balance Sheet	Credit
Premium on Bonds Payable	Long-Term Liability	Balance Sheet	Credit
Prepaid Insurance	Current Asset	Balance Sheet	Debit
Prepaid Rent	Current Asset	Balance Sheet	Debit
R			
Rent Expense	Operating Expense	Income Statement	Debit
Retained Earnings	Stockholders' Equity	Balance Sheet and Retained Earnings Statement	Credit
S			
Salaries and Wages Expense	Operating Expense	Income Statement	Debit
Salaries and Wages Payable	Current Liability	Balance Sheet	Credit
Sales Discounts	Revenue—Contra	Income Statement	Debit
Sales Returns and Allowances	Revenue—Contra	Income Statement	Debit
Sales Revenue	Revenue	Income Statement	Credit
Selling Expenses	Operating Expense	Income Statement	Debit
Service Revenue	Revenue	Income Statement	Credit
Stock Investments	Current Asset/Long-Term Investment	Balance Sheet	Debit
Supplies	Current Asset	Balance Sheet	Debit
Supplies Expense	Operating Expense	Income Statement	Debit
T			
Treasury Stock	Stockholders' Equity—Contra	Balance Sheet	Debit
U			
Unearned Service Revenue	Current Liability	Balance Sheet	Credit
Utilities Expense	Operating Expense	Income Statement	Debit

(1) The normal balance for Income Summary will be credit when there is a net income, debit when there is a net loss. The Income Summary account does not appear on any financial statement.

(2) If a periodic system is used, Inventory also appears on the income statement in the calculation of cost of goods sold.

The following is a sample chart of accounts. It does not represent a comprehensive chart of all the accounts used in this textbook but rather those accounts that are commonly used. This sample chart of accounts is for a company that generates both service revenue as well as sales revenue. It uses the perpetual approach to inventory. If a periodic system was used, the following temporary accounts would be needed to record inventory purchases: Purchases, Freight-In, Purchase Returns and Allowances, and Purchase Discounts.

CHART OF ACCOUNTS				
Assets	Liabilities	Owner's and Stockholders' Equity	Revenues	Expenses
Cash	Notes Payable	Owner's Capital	Service Revenue	Advertising Expense
Accounts Receivable	Accounts Payable	Owner's Drawings	Sales Revenue	Amortization Expense
Allowance for Doubtful Accounts	Unearned Service Revenue	Common Stock	Sales Discounts	Bad Debt Expense
Interest Receivable	Salaries and Wages Payable	Paid-in Capital in Excess of Par—Common Stock	Sales Returns and Allowances	Cost of Goods Sold
Inventory	Unearned Rent Revenue	Preferred Stock	Interest Revenue	Depreciation Expense
Supplies	Interest Payable	Paid-in Capital in Excess of Par—Preferred Stock	Gain on Disposal of Plant Assets	Freight-Out
Prepaid Insurance	Dividends Payable	Treasury Stock		Income Tax Expense
Prepaid Rent	Income Taxes Payable	Retained Earnings		Insurance Expense
Land	Bonds Payable	Dividends		Interest Expense
Equipment	Discount on Bonds Payable	Income Summary		Loss on Disposal of Plant Assets
Accumulated Depreciation—Equipment	Premium on Bonds Payable			Maintenance and Repairs Expense
Buildings	Mortgage Payable			Rent Expense
Accumulated Depreciation—Buildings				Salaries and Wages Expense
Copyrights				Supplies Expense
Goodwill				Utilities Expense
Patents				

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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

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H	Standards of Ethical Conduct for Managerial Accountants

Cases for Managerial Decision-Making*

*Available at the book's companion website, www.wiley.com/college/weygandt.



From the Authors

Dear Student,

Why This Course? Remember your biology course in high school? Did you have one of those “invisible man” models (or maybe something more high-tech than that) that gave you the opportunity to look “inside” the human body? This accounting course offers something similar. To understand a business, you have to understand the financial insides of a business organization. An accounting course will help you understand the essential financial components of businesses. Whether you are looking at a large multinational company like *Apple* or *Starbucks* or a single-owner software consulting business or coffee shop, knowing the fundamentals of accounting will help you understand what is happening. As an employee, a manager, an investor, a business owner, or a director of your own personal finances—any of which roles you will have at some point in your life—you will make better decisions for having taken this course.

Why This Book? Hundreds of thousands of students have used this textbook. Your instructor has chosen it for you because of its trusted reputation. The authors have worked hard to keep the book fresh, timely, and accurate.

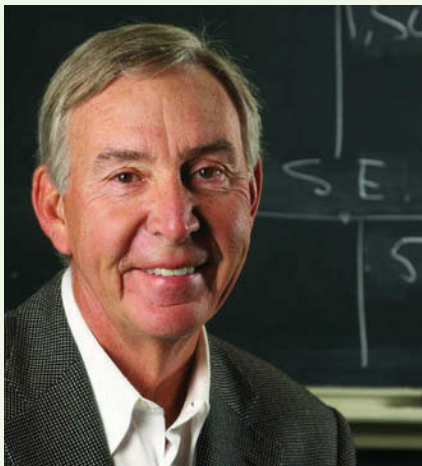
“Whether you are looking at a large multinational company like Apple or Starbucks or a single-owner software consulting business or coffee shop, knowing the fundamentals of accounting will help you understand what is happening.”

How to Succeed? We’ve asked many students and many instructors whether there is a secret for success in this course. The nearly unanimous answer turns out to be not much of a secret: “Do the homework.” This is one course where doing is learning. The more time you spend on the homework assignments—using the various tools that this textbook provides—the more likely you are to learn the essential concepts, techniques, and methods of accounting. Besides the textbook itself, WileyPLUS and the book’s companion website also offers various support resources.

Good luck in this course. We hope you enjoy the experience and that you put to good use throughout a lifetime of success the knowledge you obtain in this course. We are sure you will not be disappointed.

Jerry J. Weygandt
Paul D. Kimmel
Donald E. Kieso

Author Commitment



Jerry Weygandt

Jerry J. Weygandt, PhD, CPA, is Arthur Andersen Alumni Emeritus Professor of Accounting at the University of Wisconsin—Madison. He holds a Ph.D. in accounting from the University of Illinois. Articles by Professor Weygandt have appeared in the *Accounting Review*, *Journal of Accounting Research*, *Accounting Horizons*, *Journal of Accountancy*, and other academic and professional journals. These articles have examined such financial reporting issues as accounting for price-level adjustments, pensions, convertible securities, stock option contracts, and interim reports. Professor Weygandt is author of other accounting and financial reporting books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Wisconsin Society of Certified Public Accountants. He has served on numerous committees of the American Accounting Association and as a member of the editorial board of the *Accounting Review*; he also has served as President and Secretary-Treasurer of the American Accounting Association. In addition, he has been actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee (AcSEC) of that organization. He has served on the FASB task force that examined the reporting issues related to accounting for income taxes and served as a trustee of the Financial Accounting Foundation. Professor Weygandt has received the Chancellor's Award for Excellence in Teaching and the Beta Gamma Sigma Dean's Teaching Award. He is on the board of directors of M & I Bank of Southern Wisconsin. He is the recipient of the Wisconsin Institute of CPA's Outstanding Educator's Award and the Lifetime Achievement Award. In 2001 he received the American Accounting Association's Outstanding Educator Award.



Paul Kimmel

Paul D. Kimmel, PhD, CPA, received his bachelor's degree from the University of Minnesota and his doctorate in accounting from the University of Wisconsin. He is an Associate Professor at the University of Wisconsin—Milwaukee, and has public accounting experience with Deloitte & Touche (Minneapolis). He was the recipient of the UWM School of Business Advisory Council Teaching Award, the Reggie Taite Excellence in Teaching Award and a three-time winner of the Outstanding Teaching Assistant Award at the University of Wisconsin. He is also a recipient of the Elijah Watts Sells Award for Honorary Distinction for his results on the CPA exam. He is a member of the American Accounting Association and the Institute of Management Accountants and has published articles in *Accounting Review*, *Accounting Horizons*, *Advances in Management Accounting*, *Managerial Finance*, *Issues in Accounting Education*, *Journal of Accounting Education*, as well as other journals. His research interests include accounting for financial instruments and innovation in accounting education. He has published papers and given numerous talks on incorporating critical thinking into accounting education, and helped prepare a catalog of critical thinking resources for the Federated Schools of Accountancy.



Don Kieso

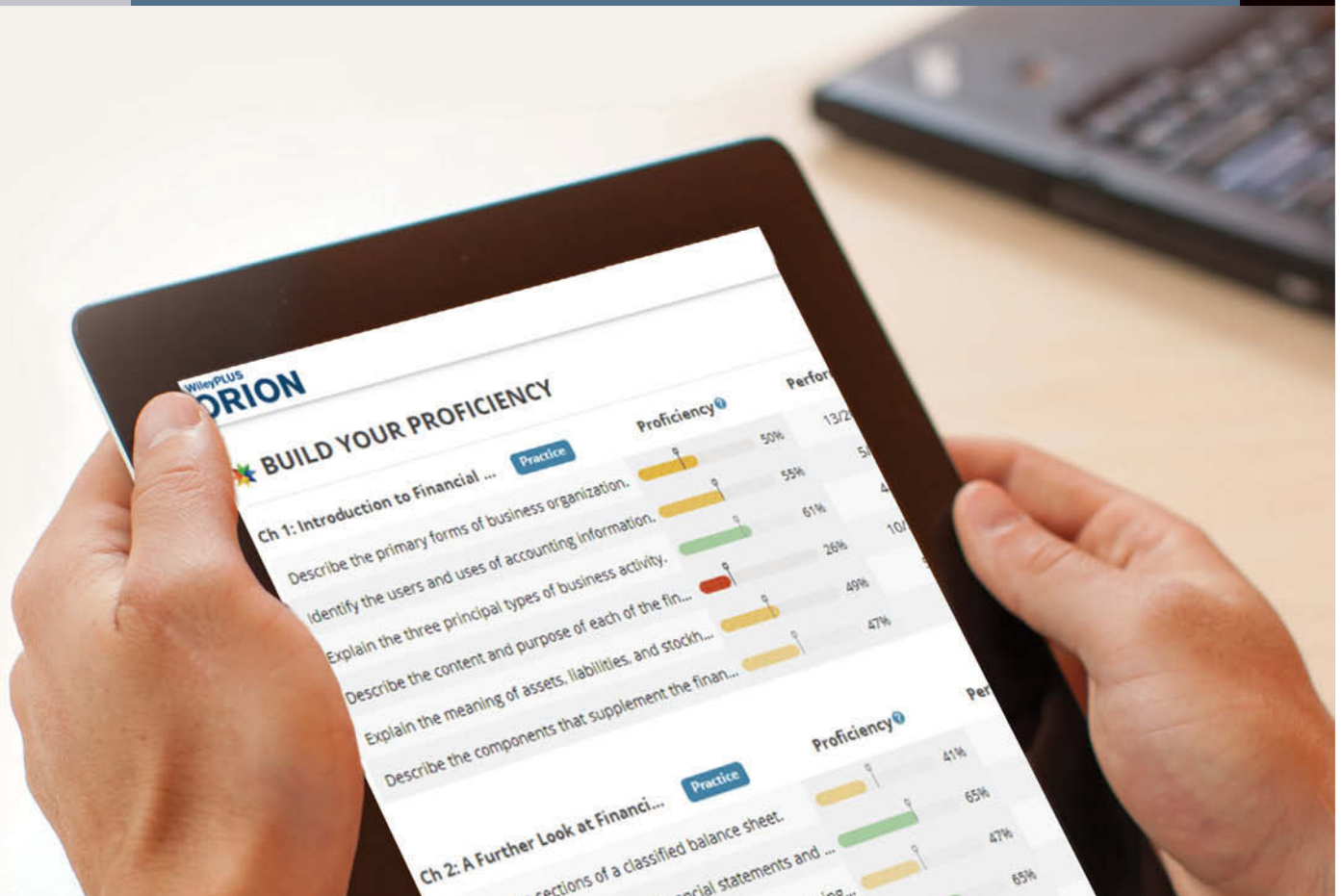
Donald E. Kieso, PhD, CPA, received his bachelor's degree from Aurora University and his doctorate in accounting from the University of Illinois. He has served as chairman of the Department of Accountancy and is currently the KPMG Emeritus Professor of Accountancy at Northern Illinois University. He has public accounting experience with Price Waterhouse & Co. (San Francisco and Chicago) and Arthur Andersen & Co. (Chicago) and research experience with the Research Division of the American Institute of Certified Public Accountants (New York). He has done post doctorate work as a Visiting Scholar at the University of California at Berkeley and is a recipient of NIU's Teaching Excellence Award and four Golden Apple Teaching Awards. Professor Kieso is the author of other accounting and business books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Illinois CPA Society. He has served as a member of the Board of Directors of the Illinois CPA Society, then AACSB's Accounting Accreditation Committees, the State of Illinois Comptroller's Commission, as Secretary-Treasurer of the Federation of Schools of Accountancy, and as Secretary-Treasurer of the American Accounting Association. Professor Kieso is currently serving on the Board of Trustees and Executive Committee of Aurora University, as a member of the Board of Directors of Kishwaukee Community Hospital, and as Treasurer and Director of Valley West Community Hospital. From 1989 to 1993 he served as a charter member of the national Accounting Education Change Commission. He is the recipient of the Outstanding Accounting Educator Award from the Illinois CPA Society, the FSA's Joseph A. Silvos Award of Merit, the NIU Foundation's Humanitarian Award for Service to Higher Education, a Distinguished Service Award from the Illinois CPA Society, and in 2003 an honorary doctorate from Aurora University.

Practice Made Simple

The Team for Success is focused on helping students get the most out of their accounting course by **making practice simple**. Both in the printed text and the online environment of *WileyPLUS*, new opportunities for self-guided practice allow students to check their knowledge of accounting concepts, skills, and problem-solving techniques as they receive individual feedback at the question, learning objective, and course level.

Personalized Practice

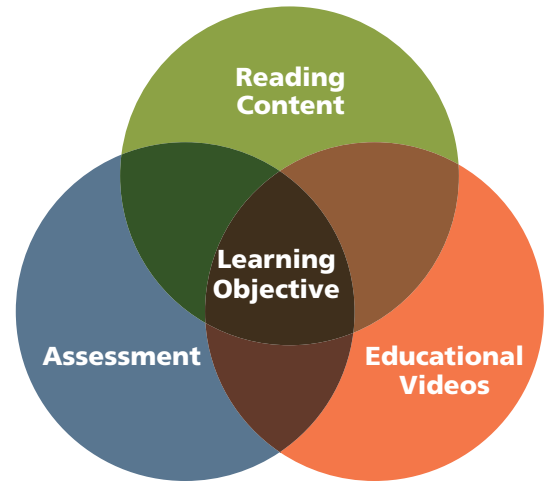
Based on cognitive science, **WileyPLUS with ORION** is a personalized, adaptive learning experience that gives students the practice they need to build proficiency on topics while using their study time most effectively. The adaptive engine is powered by hundreds of unique questions per chapter, giving students endless opportunities for practice throughout the course.



Streamlined Learning Objectives

Newly streamlined learning objectives help students make the best use of their time outside of class. Each learning objective is addressed by reading content, answering a variety of practice and assessment questions, and watching educational videos, so that no matter where students begin their work, the relevant resources and practice are readily accessible.

CHAPTER OUTLINE		
1	Learning Objectives Discuss the difference between traditional costing and activity-based costing.	<ul style="list-style-type: none"> Traditional costing systems Illustration of a traditional system Need for a new approach Activity-based costing DO IT! 1 Costing Systems
2	Apply activity-based costing to a manufacturer.	<ul style="list-style-type: none"> Identify and class activities and allocate overhead Identify cost drivers Compute activity-based overhead rates Assign overhead costs Comparing unit costs DO IT! 2 Apply ABC to Manufacturer
3	Explain the benefits and limitations of activity-based costing.	<ul style="list-style-type: none"> Advantages of multiple cost pools Advantages of enhanced cost control Advantages of better management decisions Limitations of ABC DO IT! 3 Classify Activity Levels
4	Apply activity-based costing to service industries.	<ul style="list-style-type: none"> Traditional costing example ABC example DO IT! 4 Apply ABC to Service Company



Review and Practice

A new section in the text and in WileyPLUS offers students more opportunities for self-guided practice.

In WileyPLUS, the new practice assignments include several Do ITs, Brief Exercises, Exercises, and Problems, giving students the opportunity to check their work or see the answer and solution after their final attempt.

In the text, the new Review and Practice section includes:

- Learning Objectives Review
- Glossary Review
- Practice Multiple-Choice Questions and Solutions
- Practice Exercises and Solutions
- Practice Problem and Solution

SOLUTIONS TO PRACTICE EXERCISES

1. (a)	Activity Cost Pools	Cost Drivers	Estimated Overhead
	Cutting	Machine hours	\$400,000
	Design	Number of setups	555,000
Activity-based overhead rates:			
	<u>Cutting</u>		<u>Design</u>
	$\frac{\$400,000}{200,000} = \$2 \text{ per machine hour}$		$\frac{\$555,000}{1,500} = \370 per setup
		<u>Wool</u>	<u>Cotton</u>
Activity-based costing			
	Cutting		
	$100,000 \times \$2$	\$200,000	\$200,000
	$100,000 \times \$2$		
	Design		
	$1,000 \times \$370$	370,000	
	$500 \times \$370$		185,000
	Total cost allocated	<u>\$570,000</u>	<u>\$385,000</u>
(b)	Estimated overhead	$\frac{\$955,000}{477,500} = \$2 \text{ per direct labor hour}$	
	Direct labors hours	477,500	

What's New?

WileyPLUS with ORION

Over 5,500 new questions are available for practice and review. WileyPLUS with Orion is an adaptive study and practice tool that helps students build proficiency in course topics.

Updated Content and Design

We scrutinized all chapter material to find new ways to engage students and help them learn accounting concepts. Homework problems were updated in all chapters.

A new learning objective structure helps students practice their understanding of concepts with **do it!** exercises before they move on to different topics in other learning objectives. Coupled with a new interior design and revised infographics, the new outcomes-oriented approach motivates students and helps them make the best use of their time.

WileyPLUS Videos

Over 300 videos are available in WileyPLUS. More than 150 of the videos are new to the 12th Edition. The videos walk students through relevant homework problems and solutions, review important concepts, provide overviews of Excel skills, and explore topics in a real-world context.

Student Practice and Solutions

New practice opportunities with solutions are integrated throughout the textbook and WileyPLUS course. Each textbook chapter now provides students with a **Review and Practice** section that includes learning objective summaries, multiple-choice questions with feedback for each answer choice, and both practice exercises and problems with solutions. Also, each learning objective module in the textbook is now followed by a **do it!** exercise with an accompanying solution.

In **WileyPLUS**, two brief exercises, two **do it!** exercises, two exercises, and a new problem are available for practice with each chapter. These practice questions are algorithmic, providing students with multiple opportunities for advanced practice.

Real World Context

We expanded our practice of using numerous examples of real companies throughout the textbook. For example, new feature stories highlight operations of **Clif Bar**, **Groupon**, and **REI**. Also, in WileyPLUS, real-world Insight boxes now have questions that can be assigned as homework.

Excel

New Excel skill videos help students understand Excel features they can apply in their accounting studies. A new continuing Excel tutorial is also available at the end of each managerial accounting chapter.

More information about the 12th Edition is available on the book's website at www.wiley.com/college/wegandt.

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*Available online at www.wiley.com/college/weygandt.

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Twelfth Edition

Karen Andrews
Lewis-Clark State College

Sandra Bailey
Oregon Institute of Technology

Shele Bannon
Queensborough Community College

Robert Barta
Suffolk County Community College

Quent Below
Roane State Community College

Lila Bergman
Hunter College

Glen Brauchle
Dowling College

Douglas Brown
Forsyth Technical Community College

Ronald Campbell
North Carolina A&T State University

Elizabeth Capener
Dominican University of California

Beth Carraway
Horry-Georgetown Technical College

Jackie Caseu
Cape Fear Community College

Kim Charland
Kansas State University

Suzanne Cory
St. Mary's University

Paul Cox
Medgar Evers College

Joseph Cunningham
Harford Community College

Kate Demarest
Carroll Community College

Richard Dugger
Kilgore College

Bill Elliott
Oral Roberts University

Cole Engel
Fort Hays State University

Gary Ford
Tompkins Cortland Community College

Alan Foster
J.S. Reynolds Community College

Dale Fowler
Ohio Christian University

George Gardner
Bemidji State University

Willard Garman
University of California, Los Angeles

Jospeh Jurkowski
D'youville College

Randy Kidd
Metropolitan Community College

Cindy Killian
Wilkes Community College

Shirly Kleiner
Johnson County Community College

David Krug
Johnson County Community College

Christy Land
Catawba Valley Community College

Anita Leslie
York Technical College

Lori Major
Luzerne County Community College

Charles Malone
North Carolina A&T State University

Ken Mark
Kansas City Kansas Community College

Barbara Michal
University of Rio Grande

Allison Moore
Los Angeles Southwest College

Brandis Phillips
North Carolina A&T State University

Mary Phillips
North Carolina Central University

La Vonda Ramey
Schoolcraft College

J. Ramos-Alexander
New Jersey City University

Michelle Randall
Schoolcraft College

Ruthie Reynolds
Tennessee State University

Kathie Rogers
Suffolk Community College

Kent Schneider
East Tennessee State University

Nadia Schwartz
Augustana College

Mehdi Sheikholeslami
Bemidji State University

Bradley Smith
Des Moines Area Community College

Emil Soriano
Contra Costa College

John Stancil
Florida Southern College

Linda Summey
Central Carolina Community College

Joan Van Hise
Fairfield University

Pat Wright
Long Island University

Judith Zander
Grossmont College

WileyPLUS Developers and Reviewers

Carole Brandt-Fink
Laura McNally
Melanie Yon

Ancillary Authors, Contributors, Proofers, and Accuracy Checkers

Bridget Anakwe
Delaware State University

Michael Barnes
Lansing Community College

Ellen Bartley
St. Joseph's College

LuAnn Bean
Florida Institute of Technology

Jack Borke
University of Wisconsin—Platteville

Sandee Cohen
Columbia College Chicago

Terry Elliott
Morehead State University

James Emig
Villanova University

Larry Falcetto
Emporia State University

Heidi Hansel
Kirkwood Community College

Coby Harmon
University of California—Santa Barbara

Karen Hern
Grossmont College

Derek Jackson
St. Mary's University of Minnesota

Laurie Larson
Valencia College

Jeanette Milius
Iowa Western Community College

Jill Misuraca
University of Tampa

Barbara Muller
Arizona State University

Yvonne Phang
Borough of Manhattan Community College

Laura Prosser
Black Hills State University

Alice Sineath
University of Maryland University College

Lakshmy Sivaratnam
Kansas City Kansas Community College

Teresa Speck
St. Mary's University of Minnesota

Lynn Stallworth
Appalachian State University

Calvin Tan
Kapiolani Community College

Mike Trebesh
Lansing Community College

Dick Wasson
Southwestern College

Lori Grady Zaher
Bucks County Community College

Advisory Board

Janice Akao
Butler Community College

Michael Barnes
Lansing Community College

Jackie Casey
Cape Fear Community College

Lisa Cole
Johnson County Community College

Susan Cordes
Johnson County Community College

Kim Gatzke
Delgado Community College

Drew Goodson
Central Carolina Community College

Thomas Kam
Hawaii Pacific University

Alfonso Maldonado
Laredo Community College

Lakshmy Sivaratnam
Kansas City Kansas Community College

Patricia Walczak
Lansing Community College

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Jerry J. Weygandt Paul D. Kimmel Donald E. Kieso
Madison, Wisconsin Milwaukee, Wisconsin DeKalb, Illinois

1

Accounting in Action

The Chapter Preview describes the purpose of the chapter and highlights major topics.

CHAPTER PREVIEW The Feature Story below about **Clif Bar & Company** highlights the importance of having good financial information and knowing how to use it to make effective business decisions. Whatever your pursuits or occupation, the need for financial information is inescapable. You cannot earn a living, spend money, buy on credit, make an investment, or pay taxes without receiving, using, or dispensing financial information. Good decision-making depends on good information.

The Feature Story helps you picture how the chapter topic relates to the real world of accounting and business.

FEATURE STORY

Knowing the Numbers

Many students who take this course do not plan to be accountants. If you are in that group, you might be thinking, “If I’m not going to be an accountant, why do I need to know accounting?” Well, consider this quote from Harold Geneen, the former chairman of **IT&T**: “To be good at your business, you have to know the numbers—cold.” In business, accounting and financial statements are the means for communicating the numbers. If you don’t know how to read financial statements, you can’t really know your business.

Many businesses agree with this view. They see the value of their employees being able to read financial statements and understand how their actions affect the company’s financial results. For example, consider **Clif Bar & Company**. The original Clif Bar® energy bar was created in 1990 by Gary Erickson and his mother in her kitchen. Today, the company has almost 300 employees.

Clif Bar is guided by what it calls its Five Aspirations—Sustaining Our Business, Our Brands, Our People, Our Community, and the Planet. Its website documents its efforts and accomplishments in these five areas. Just a few examples include the company’s use of organic products to protect soil, water, and biodiversity; the “smart” solar array (the largest in North America), which provides nearly all the electrical needs for its 115,000-square foot building; and the incentives Clif Bar provides to employees to reduce their personal

environmental impact, such as \$6,500 toward the purchase of an efficient car or \$1,000 per year for eco-friendly improvements toward their homes.

One of the company’s proudest moments was the creation of an employee stock ownership plan (ESOP) in 2010. This plan gives its employees 20% ownership of the company (Gary and his wife Kit own the other 80%). The ESOP also resulted in Clif Bar enacting an open-book management program, including the commitment to educate all employee-owners about its finances. Armed with this basic financial knowledge, employees are more aware of the financial impact of their actions, which leads to better decisions.

Many other companies have adopted this open-book management approach. Even in companies that do not practice open-book management, employers generally assume that managers in all areas of the company are “financially literate.”

Taking this course will go a long way to making you financially literate. In this textbook, you will learn how to read and prepare financial statements, and how to use basic tools to evaluate financial results. Throughout this textbook, we attempt to increase your familiarity with financial reporting by providing numerous references, questions, and exercises that encourage you to explore the financial statements of well-known companies.



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The Chapter Outline presents the chapter's topics and subtopics, as well as practice opportunities.

CHAPTER OUTLINE

Learning Objectives

1

Identify the activities and users associated with accounting.

- Three activities
- Accounting data users

DO IT!

1

Basic Concepts

2

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

- Ethics
- GAAP
- Measurement principles
- Assumptions

DO IT!

2

Building Blocks of Accounting

3

State the accounting equation, and define its components.

- Assets
- Liabilities
- Owner's equity

DO IT!

3

Owner's Equity Effects

4

Analyze the effects of business transactions on the accounting equation.

- Transaction analysis
- Summary of transactions

DO IT!

4

Tabular Analysis

5

Describe the four financial statements and how they are prepared.

- Income statement
- Owner's equity statement
- Balance sheet
- Statement of cash flows

DO IT!

5

Financial Statement Items

Go to the **REVIEW AND PRACTICE** section at the end of the chapter for a review of key concepts and practice applications with solutions.

Visit **WileyPLUS with ORION** for additional tutorials and practice opportunities.

Identify the activities and users associated with accounting.

*Essential terms are printed in blue when they first appear, and are defined in the end-of-chapter **Glossary Review**.*

What consistently ranks as one of the top career opportunities in business? What frequently rates among the most popular majors on campus? What was the undergraduate degree chosen by **Nike** founder Phil Knight, **Home Depot** co-founder Arthur Blank, former acting director of the **Federal Bureau of Investigation (FBI)** Thomas Pickard, and numerous members of Congress? Accounting.¹ Why did these people choose accounting? They wanted to understand what was happening financially to their organizations. Accounting is the financial information system that provides these insights. In short, to understand your organization, you have to know the numbers.

Accounting consists of three basic activities—it **identifies**, **records**, and **communicates** the economic events of an organization to interested users. Let's take a closer look at these three activities.

Three Activities

As a starting point to the accounting process, a company **identifies** the **economic events relevant to its business**. Examples of economic events are the sale of snack chips by **PepsiCo**, the provision of cell phone services by **AT&T**, and the payment of wages by **Facebook**.

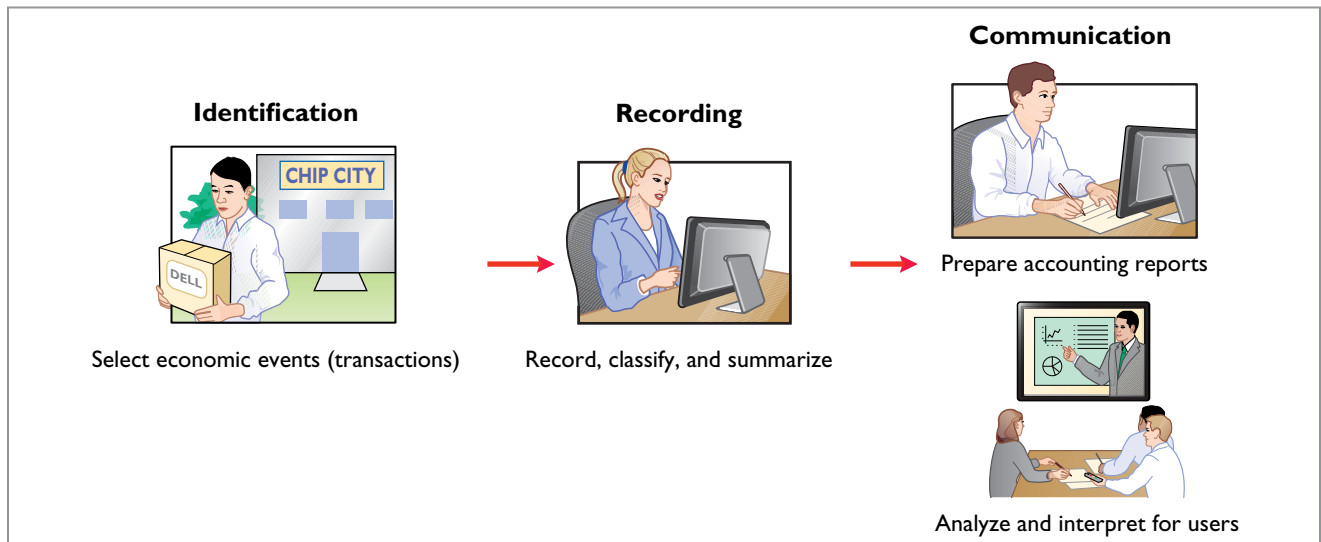
Once a company like PepsiCo identifies economic events, it **records** those events in order to provide a history of its financial activities. Recording consists of keeping a **systematic, chronological diary of events**, measured in dollars and cents. In recording, PepsiCo also classifies and summarizes economic events.

Finally, PepsiCo **communicates** the collected information to interested users by means of **accounting reports**. The most common of these reports are called **financial statements**. To make the reported financial information meaningful, PepsiCo reports the recorded data in a standardized way. It accumulates information resulting from similar transactions. For example, PepsiCo accumulates all sales transactions over a certain period of time and reports the data as one amount in the company's financial statements. Such data are said to be reported **in the aggregate**. By presenting the recorded data in the aggregate, the accounting process simplifies a multitude of transactions and makes a series of activities understandable and meaningful.

A vital element in communicating economic events is the accountant's ability to **analyze and interpret** the reported information. Analysis involves use of ratios, percentages, graphs, and charts to highlight significant financial trends and relationships. Interpretation involves **explaining the uses, meaning, and limitations of reported data**. Appendices A–E show the financial statements of **Apple Inc.**, **PepsiCo Inc.**, **The Coca-Cola Company**, **Amazon.com, Inc.**, and **Wal-Mart Stores, Inc.**, respectively. (In addition, in the *A Look at IFRS* section at the end of each chapter, the French company **Louis Vuitton Moët Hennessy** is analyzed.) We refer to these statements at various places throughout the textbook. At this point, these financial statements probably strike you as complex and confusing. By the end of this course, you'll be surprised at your ability to understand, analyze, and interpret them.

Illustration 1-1 summarizes the activities of the accounting process.

¹The appendix to this chapter describes job opportunities for accounting majors and explains why accounting is such a popular major.

**Illustration 1-1**

The activities of the accounting process

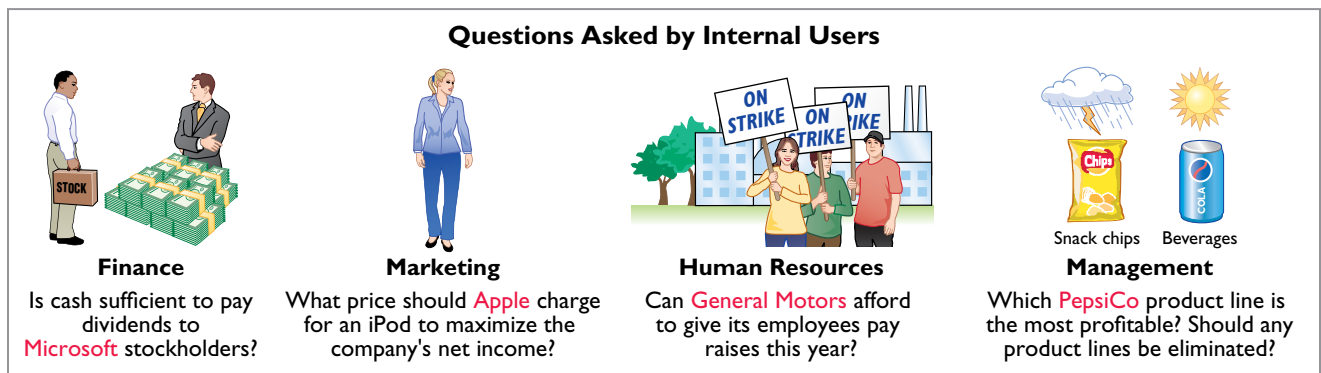
You should understand that the accounting process **includes** the bookkeeping function. **Bookkeeping** usually involves **only** the recording of economic events. It is therefore just one part of the accounting process. In total, accounting involves **the entire process of identifying, recording, and communicating economic events.**²

Who Uses Accounting Data

The financial information that users need depends upon the kinds of decisions they make. There are two broad groups of users of financial information: internal users and external users.

INTERNAL USERS

Internal users of accounting information are managers who plan, organize, and run the business. These include marketing managers, production supervisors, finance directors, and company officers. In running a business, internal users must answer many important questions, as shown in Illustration 1-2.

**Illustration 1-2**

Questions that internal users ask

To answer these and other questions, internal users need detailed information on a timely basis. **Managerial accounting** provides internal reports to help users make decisions about their companies. Examples are financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.

²The origins of accounting are generally attributed to the work of Luca Pacioli, an Italian Renaissance mathematician. Pacioli was a close friend and tutor to Leonardo da Vinci and a contemporary of Christopher Columbus. In his 1494 text *Summa de Arithmetica, Geometria, Proportione et Proportionalite*, Pacioli described a system to ensure that financial information was recorded efficiently and accurately.

Accounting Across the Organization

Rhino Foods



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The Scoop on Accounting

Accounting can serve as a useful recruiting tool even for the human resources department. **Rhino Foods**, located in Burlington, Vermont, is a manufacturer of specialty ice cream. Its corporate website includes the following:

“Wouldn’t it be great to work where you were part of a team? Where your input and hard work made a difference?”

Where you weren’t kept in the dark about what management was thinking? . . . Well—it’s not a dream! It’s the way we do business . . . Rhino Foods believes in family, honesty and open communication—we really care about and appreciate our employees—and it shows. Operating results are posted and monthly group meetings inform all employees about what’s happening in the Company. Employees also share in the Company’s profits, in addition to having an excellent comprehensive benefits package.”

Source: www.rhinofoods.com/workforus/workforus.html.


What are the benefits to the company and its employees of making the financial statements available to all employees? (Go to **WileyPLUS** for this answer and additional questions.)

Accounting Across the Organization boxes demonstrate applications of accounting information in various business functions.

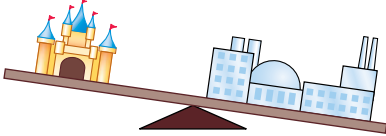
EXTERNAL USERS

External users are individuals and organizations outside a company who want financial information about the company. The two most common types of external users are investors and creditors. **Investors** (owners) use accounting information to decide whether to buy, hold, or sell ownership shares of a company. **Creditors** (such as suppliers and bankers) use accounting information to evaluate the risks of granting credit or lending money. Illustration 1-3 shows some questions that investors and creditors may ask.


Questions Asked by External Users



Investors
Is **General Electric** earning satisfactory income?



Investors
How does **Disney** compare in size and profitability with **Time Warner**?



Creditors
Will **United Airlines** be able to pay its debts as they come due?

Illustration 1-3

Questions that external users ask

Financial accounting answers these questions. It provides economic and financial information for investors, creditors, and other external users. The information needs of external users vary considerably. **Taxing authorities**, such as the Internal Revenue Service, want to know whether the company complies with tax laws. **Regulatory agencies**, such as the Securities and Exchange Commission or the Federal Trade Commission, want to know whether the company is operating within prescribed rules. **Customers** are interested in whether a company like **Telsa** will continue to honor product warranties and support its product lines. **Labor unions** such as the **Major League Baseball Players Association** want to know whether the owners have the ability to pay increased wages and benefits.