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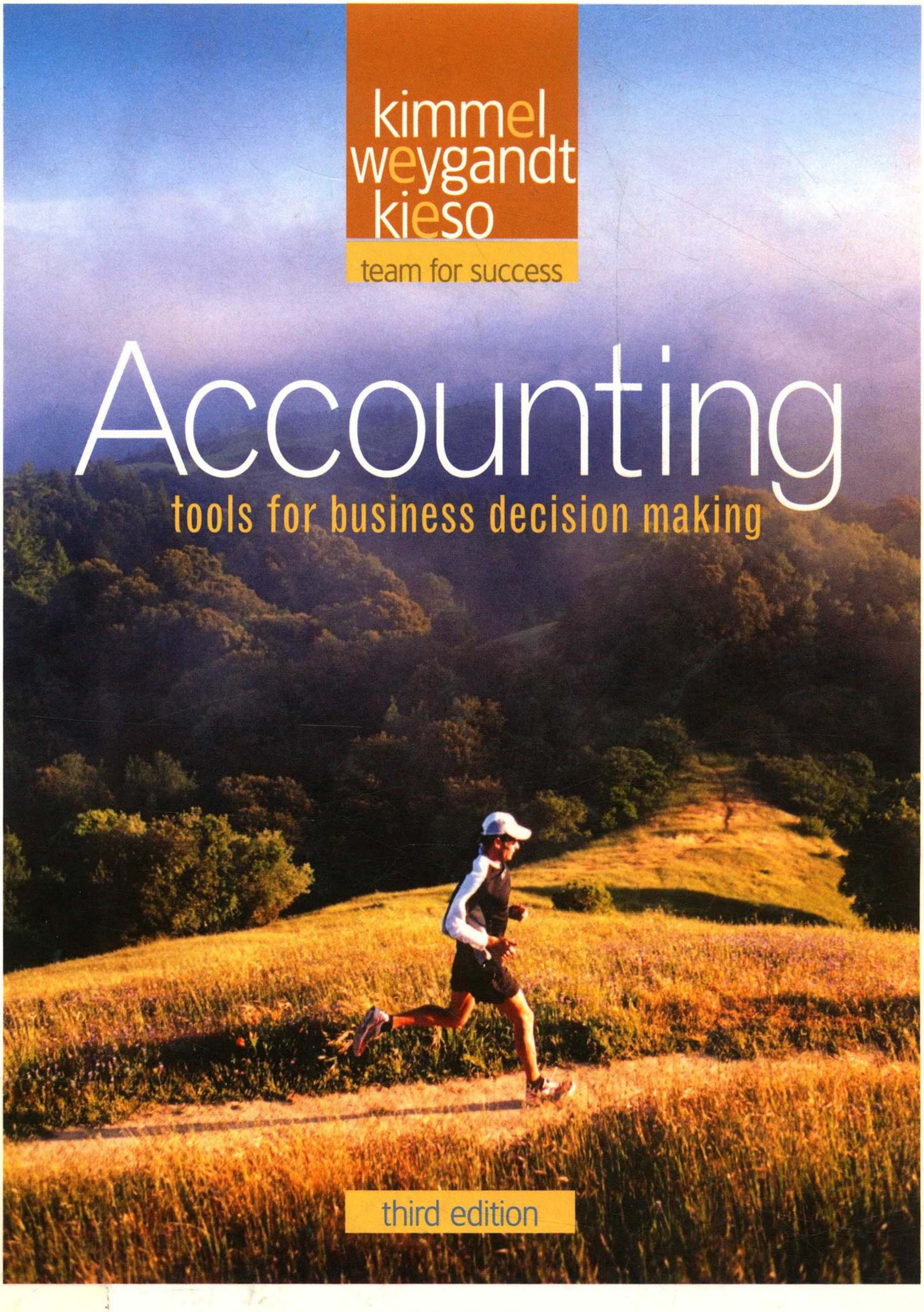

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RAPID REVIEW
Financial Statements

Order of Preparation	Date
1. Income statement	For the period ended
2. Retained earnings statement	For the period ended
3. Balance sheet	As of the end of the period
4. Statement of cash flows	For the period ended

Income Statement (perpetual inventory system)

Name of Company Income Statement For the Period Ended		
Sales revenues		
Sales	$ X	
Less: Sales returns and allowances	X	
Sales discounts	X	
Net sales		$ X
Cost of goods sold		X
Gross profit		X
Operating expenses		
(Examples: store salaries, advertising, delivery, rent, depreciation, utilities, insurance)		X
Income from operations		X
Other revenues and gains		
(Examples: interest, gains)	X	
Other expenses and losses		
(Examples: interest, losses)	X	X
Income before income taxes		X
Income tax expense		X
Net income		$ X

Income Statement (periodic inventory system)

Name of Company Income Statement For the Period Ended			
Sales revenues			
Sales		$ X	
Less: Sales returns and allowances		X	
Sales discounts		X	
Net sales			$ X
Cost of goods sold			
Beginning inventory		X	
Purchases	$ X		
Less: Purchase returns and allowances	X		
Net purchases	X		
Add: Freight in	X		
Cost of goods purchased		X	
Cost of goods available for sale		X	
Less: Ending inventory		X	
Cost of goods sold			X
Gross profit			X
Operating expenses			
(Examples: store salaries, advertising, delivery, rent, depreciation, utilities, insurance)			X
Income from operations			X
Other revenues and gains			
(Examples: interest, gains)		X	
Other expenses and losses			
(Examples: interest, losses)		X	X
Income before income taxes			X
Income tax expense			X
Net income			$ X

Retained Earnings Statement

Name of Company Retained Earnings Statement For the Period Ended	
Retained earnings, beginning of period	$ X
Add: Net income (or deduct net loss)	X
	X
Deduct: Dividends	X
Retained earnings, end of period	$ X

STOP AND CHECK: Net income (loss) presented on the retained earnings statement must equal the net income (loss) presented on the income statement.

Balance Sheet

Name of Company Balance Sheet As of the End of the Period			
Assets			
Current assets			
(Examples: cash, short-term investments, accounts receivable, merchandise inventory, prepaids)			$ X
Long-term investments			
(Examples: investments in bonds, investments in stocks)			X
Property, plant, and equipment			
Land		$ X	
Buildings and equipment	$ X		
Less: Accumulated depreciation	X	X	X
Intangible assets			X
Total assets			$ X
Liabilities and Stockholders' Equity			
Liabilities			
Current liabilities			
(Examples: notes payable, accounts payable, accruals, unearned revenues, current portion of notes payable)			$ X
Long-term liabilities			
(Examples: notes payable, bonds payable)			X
Total liabilities			X
Stockholders' equity			
Common stock			X
Retained earnings			X
Total liabilities and stockholders' equity			$ X

STOP AND CHECK: Total assets on the balance sheet must equal total liabilities and stockholders' equity; and, ending retained earnings on the balance sheet must equal ending retained earnings on the retained earnings statement.

Statement of Cash Flows

Name of Company Statement of Cash Flows For the Period Ended	
Cash flows from operating activities	
Note: May be prepared using the direct or indirect method	
Cash provided (used) by operating activities	$ X
Cash flows from investing activities	
(Examples: purchase / sale of long-term assets)	
Cash provided (used) by investing activities	X
Cash flows from financing activities	
(Examples: issue / repayment of long-term liabilities, issue of stock, payment of dividends)	
Cash provided (used) by financing activities	X
Net increase (decrease) in cash	X
Cash, beginning of the period	X
Cash, end of the period	$ X

STOP AND CHECK: Cash, end of the period, on the statement of cash flows must equal cash presented on the balance sheet.

RAPID REVIEW
Chapter Content

ACCOUNTING CONCEPTS (Chapters 2–4)

Characteristics	Assumptions	Principles	Constraints
Relevance	Monetary unit	Cost	Materiality
Reliability	Economic entity	Full disclosure	Conservatism
Comparability	Time period	Revenue recognition	
Consistency	Going concern	Matching	

BASIC ACCOUNTING EQUATION (Chapter 3)

Basic Equation — **Assets** = **Liabilities** + **Stockholders' Equity**

Expanded Basic Equation — Assets = Liabilities + Common Stock + Retained Earnings – Dividends + Revenues – Expenses

Debit / Credit Rules	Dr.	Cr.
Assets	+	–
Liabilities	–	+
Common Stock	–	+
Retained Earnings	–	+
Dividends	+	–
Revenues	–	+
Expenses	+	–

ADJUSTING ENTRIES (Chapter 4)

	Type	Adjusting Entry	
Deferrals	1. Prepaid expenses	Dr. Expenses	Cr. Assets
	2. Unearned revenues	Dr. Liabilities	Cr. Revenues
Accruals	1. Accrued revenues	Dr. Assets	Cr. Revenues
	2. Accrued expenses	Dr. Expenses	Cr. Liabilities

Note: Each adjusting entry will affect one or more income statement accounts and one or more balance sheet accounts.

Interest Computation

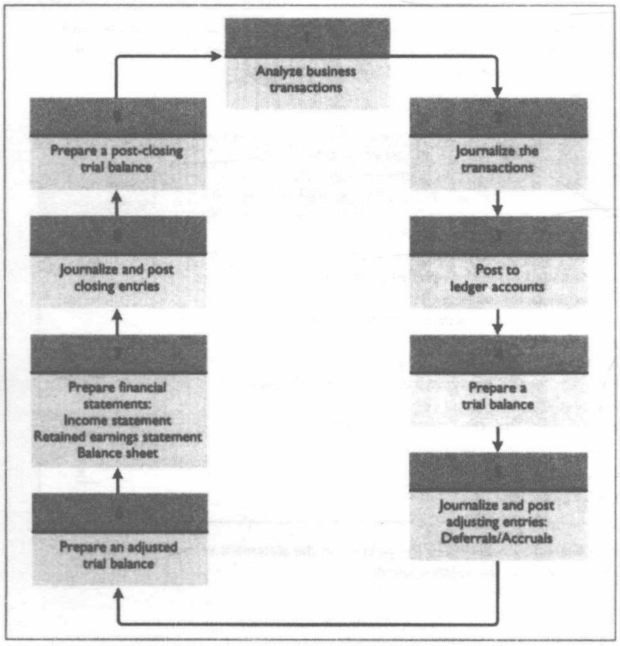
Interest = Face value of note × Annual interest rate × Time in terms of one year

CLOSING ENTRIES (Chapter 4)

Purpose

1. Update the Retained Earnings account in the ledger by transferring net income (loss) and dividends to retained earnings.
2. Prepare the temporary accounts (revenue, expense, dividends) for the next period's postings by reducing their balances to zero.

ACCOUNTING CYCLE (Chapter 4)



INVENTORY (Chapters 5 and 6)

Ownership

Freight Terms	Ownership of goods on public carrier resides with:
FOB Shipping point	Buyer
FOB Destination	Seller

Perpetual vs. Periodic Journal Entries

Event	Perpetual	Periodic

Purchase of goods	Inventory
	  Cash (A/P)
		Purchases
		  Cash (A/P)

Freight (shipping point)	Inventory
	  Cash
		Freight In
		  Cash

Return of goods	Cash (or A/P)
	  Inventory
		Cash (or A/P)
		  Purchase Returns and Allowances

Sale of goods	Cash (or A/R)
	  Sales
	Cost of Goods Sold
	  Inventory
		Cash (or A/R)
		  Sales
		No entry

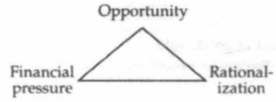
End of period	No entry	Closing or adjusting entry required

FRAUD, INTERNAL CONTROL, AND CASH (Chapter 7)

Principles of Internal Control

Establishment of responsibility
Segregation of duties
Documentation procedures
Physical controls
Independent internal verification
Human resource controls

The Fraud Triangle



Bank Reconciliation

Bank	Books
Balance per bank statement Add: Deposits in transit Deduct: Outstanding checks Adjusted cash balance	Balance per books Add: Unrecorded credit memoranda from bank statement Deduct: Unrecorded debit memoranda from bank statement Adjusted cash balance

Note: 1. Errors should be offset (added or deducted) on the side that made the error.
2. Adjusting journal entries should only be made for items affecting books.

STOP AND CHECK: Does the adjusted cash balance in the Cash account equal the reconciled balance?

RAPID REVIEW
Chapter Content

RECEIVABLES (Chapter 8)

Two Methods to Account for Uncollectible Accounts

Direct write-off method	Record bad debts expense when the company determines a particular account to be uncollectible.
Allowance method	At the end of each period estimate the amount of uncollectible receivables. Debit Bad Debts Expense and credit Allowance for Doubtful Accounts in an amount that results in a balance in the allowance account equal to the estimate of uncollectibles. As specific accounts become uncollectible, debit Allowance for Doubtful Accounts and credit Accounts Receivable.

Steps to Manage Accounts Receivable

1. Determine to whom to extend credit.
2. Establish a payment period.
3. Monitor collections.
4. Evaluate the receivables balance.
5. Accelerate cash receipts from receivables when necessary.

PLANT ASSETS (Chapter 9)

Computation of Annual Depreciation Expense

Straight-line	$\dfrac{\text{Cost} - \text{Salvage value}}{\text{Useful life (in years)}}$
***Declining-balance**	Book value at beginning of year × Declining balance rate* *Declining-balance rate = 1 ÷ Useful life (in years)
***Units-of-activity**	$\dfrac{\text{Depreciable cost}}{\text{Useful life (in units)}} \times$ Units of activity during year

Note: If depreciation is calculated for partial periods, the straight-line and declining-balance methods must be adjusted for the relevant proportion of the year. Multiply the annual depreciation expense by the number of months expired in the year divided by 12 months.

BONDS (Chapter 10)

Premium	Market interest rate < Contractual interest rate
Face Value	Market interest rate = Contractual interest rate
Discount	Market interest rate > Contractual interest rate

Computation of Annual Bond Interest Expense

Interest expense = Interest paid (payable) + Amortization of discount
(OR − Amortization of premium)

***Straight-line amortization**	$\dfrac{\text{Bond discount (premium)}}{\text{Number of interest periods}}$	
***Effective-interest amortization (preferred method)**	Bond interest expense	Bond interest paid
	Carrying value of bonds at beginning of period × Effective interest rate	Face amount of bonds × Contractual interest rate

STOCKHOLDERS' EQUITY (Chapter 11)

No-Par Value vs. Par Value Stock Journal Entries

No-Par Value	Par Value
Cash Common Stock	Cash Common Stock (par value) Paid-in Capital in Excess of Par Value

Comparison of Dividend Effects

	Cash	Common Stock	Retained Earnings
Cash dividend	↓	No effect	↓
Stock dividend	No effect	↑	↓
Stock split	No effect	No effect	No effect

*Items with asterisk are covered in appendix.

STATEMENT OF CASH FLOWS (Chapter 12)

Cash flows from operating activities (**indirect method**)

Net income			
Add:	Amortization and depreciation	$ X	
	Losses on disposals of assets	X	
	Decreases in current assets	X	
	Increases in current liabilities	X	
Deduct:	Increases in current assets	(X)	
	Decreases in current liabilities	(X)	
	Gains on disposals of assets	(X)	
Cash provided (used) by operating activities			$ X

Cash flows from operating activities (**direct method**)

Cash receipts		
(Examples: from sales of goods and services to customers, from receipts of interest and dividends)	$ X	
Cash payments		
(Examples: to suppliers, for operating expenses, for interest, for taxes)	(X)	
Cash provided (used) by operating activities		$ X

FINANCIAL STATEMENT ANALYSIS (Chapter 13)

Discontinued operations	Income statement (presented separately after "Income from continuing operations")
Extraordinary items	Income statement (presented separately after "Discontinued operations")
Changes in accounting principle	In most instances, use the new method in current period and restate previous years results using new method. For changes in depreciation and amortization methods, use the new method in the current period, but do not restate previous periods.

Income Statement and Comprehensive Income

Sales	$ XX
Cost of goods sold	XX
Gross profit	XX
Operating expenses	XX
Income from operations	XX
Other revenues (expenses) and gains (losses)	XX
Income before income taxes	XX
Income tax expense	XX
Income before irregular items	XX
Irregular items (net of tax)	**XX**
Net income	**XX**
Other comprehensive income items (net of tax)	**XX**
Comprehensive income	**$ XX**

INVESTMENTS (Appendix H)

Comparison of Long-Term Bond Investment and Liability Journal Entries

Event	Investor	Investee
Purchase / issue of bonds	Debt Investments Cash	Cash Bonds Payable
Interest receipt / payment	Cash Interest Revenue	Interest Expense Cash

Comparison of Cost and Equity Methods of Accounting for Long-Term Stock Investments

Event	Cost	Equity
Acquisition	Stock Investments Cash	Stock Investments Cash
Investee reports earnings	No entry	Stock Investments Investment Revenue
Investee pays dividends	Cash Dividend Revenue	Cash Stock Investments

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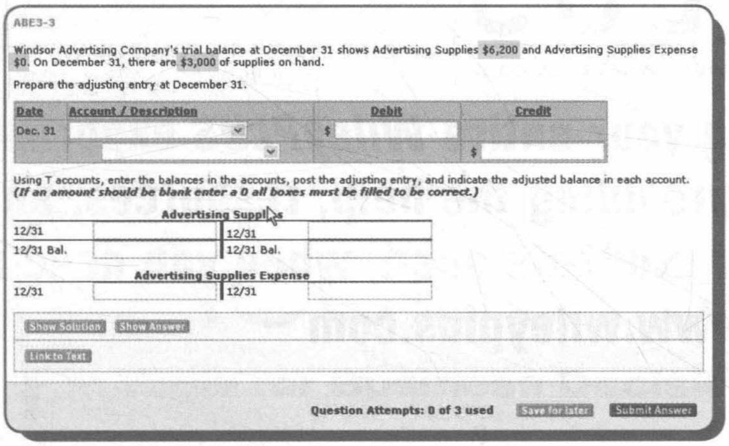
easy to use system.



ABE3-3

Windsor Advertising Company's trial balance at December 31 shows Advertising Supplies $6,200 and Advertising Supplies Expense $0. On December 31, there are $3,000 of supplies on hand.

Prepare the adjusting entry at December 31.

Date	Account / Description	Debit	Credit
Dec. 31		$	
			$

Using T accounts, enter the balances in the accounts, post the adjusting entry, and indicate the adjusted balance in each account.
(If an amount should be blank enter a 0 all boxes must be filled to be correct.)

Advertising Supplies

12/31		12/31	
12/31 Bal.		12/31 Bal.	

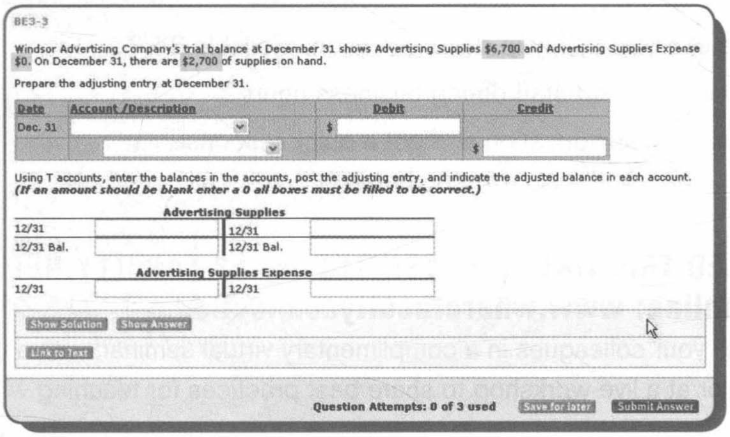
Advertising Supplies Expense

12/31		12/31	

Show Solution Show Answer

Link to Text

Question Attempts: 0 of 3 used Save for later Submit Answer



BE3-3

Windsor Advertising Company's trial balance at December 31 shows Advertising Supplies $6,700 and Advertising Supplies Expense $0. On December 31, there are $2,700 of supplies on hand.

Prepare the adjusting entry at December 31.

Date	Account /Description	Debit	Credit
Dec. 31		$	
			$

Using T accounts, enter the balances in the accounts, post the adjusting entry, and indicate the adjusted balance in each account.
(If an amount should be blank enter a 0 all boxes must be filled to be correct.)

Advertising Supplies

12/31		12/31	
12/31 Bal.		12/31 Bal.	

Advertising Supplies Expense

12/31		12/31	

Show Solution Show Answer

Link to Text

Question Attempts: 0 of 3 used Save for later Submit Answer

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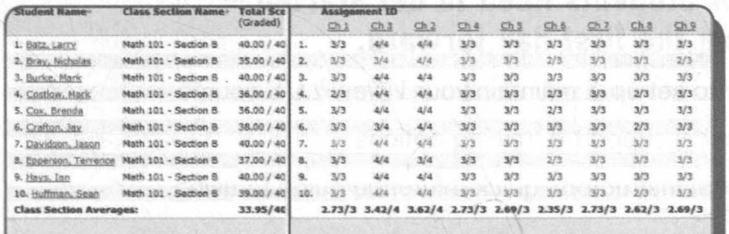
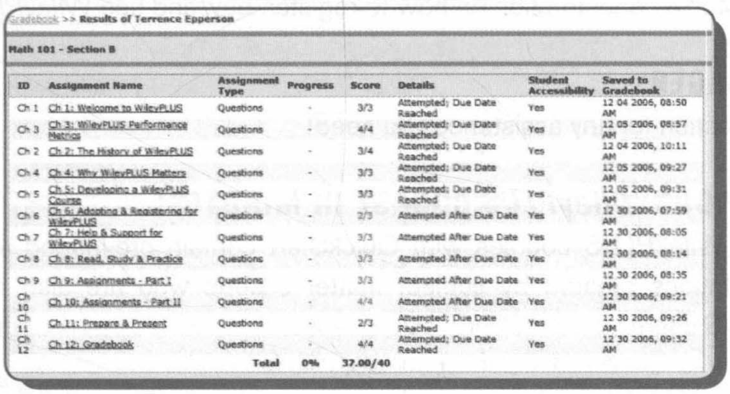


Student Name	Class Section Name	Total Sce (Graded)	Assignment ID	Ch 1	Ch 3	Ch 2	Ch 4	Ch 5	Ch 6	Ch 7	Ch 8	Ch 9
1. Batz, Larry	Math 101 - Section B	40.00 / 40	1.	3/3	4/4	4/4	3/3	3/3	3/3	3/3	3/3	3/3
2. Bray, Nicholas	Math 101 - Section B	35.00 / 40	2.	3/3	3/4	4/4	3/3	3/3	2/3	3/3	3/3	2/3
3. Burke, Mark	Math 101 - Section B	40.00 / 40	3.	3/3	4/4	4/4	3/3	3/3	3/3	3/3	3/3	3/3
4. Costlow, Mark	Math 101 - Section B	36.00 / 40	4.	2/3	4/4	4/4	3/3	3/3	2/3	3/3	2/3	3/3
5. Cox, Brenda	Math 101 - Section B	36.00 / 40	5.	3/3	4/4	4/4	3/3	3/3	2/3	3/3	3/3	3/3
6. Crafton, Jay	Math 101 - Section B	38.00 / 40	6.	3/3	3/4	4/4	3/3	3/3	3/3	3/3	2/3	3/3
7. Davidson, Jason	Math 101 - Section B	40.00 / 40	7.	3/3	4/4	4/4	3/3	3/3	3/3	3/3	3/3	3/3
8. Epperson, Terrence	Math 101 - Section B	37.00 / 40	8.	3/3	4/4	3/4	3/3	3/3	2/3	3/3	3/3	3/3
9. Hays, Ian	Math 101 - Section B	40.00 / 40	9.	3/3	4/4	4/4	3/3	3/3	3/3	3/3	3/3	3/3
10. Huffman, Sean	Math 101 - Section B	39.00 / 40	10.	3/3	4/4	4/4	3/3	3/3	3/3	3/3	2/3	3/3
Class Section Averages:		**33.95/40**		**2.73/3**	**3.42/4**	**3.62/4**	**2.73/3**	**2.69/3**	**2.35/3**	**2.73/3**	**2.62/3**	**2.69/3**



Gradebook >> **Results of Terrence Epperson**

Math 101 - Section B

ID	Assignment Name	Assignment Type	Progress	Score	Details	Student Accessibility	Saved to Gradebook
Ch 1	Ch 1: Welcome to WileyPLUS	Questions	-	3/3	Attempted; Due Date Reached	Yes	12 04 2006, 08:50 AM
Ch 3	Ch 3: WileyPLUS Performance Metrics	Questions	-	4/4	Attempted; Due Date Reached	Yes	12 05 2006, 08:57 AM
Ch 2	Ch 2: The History of WileyPLUS	Questions	-	3/4	Attempted; Due Date Reached	Yes	12 04 2006, 10:11 AM
Ch 4	Ch 4: Why WileyPLUS Matters	Questions	-	3/3	Attempted; Due Date Reached	Yes	12 05 2006, 09:27 AM
Ch 5	Ch 5: Developing a WileyPLUS Course	Questions	-	3/3	Attempted; Due Date Reached	Yes	12 05 2006, 09:31 AM
Ch 6	Ch 6: Adopting & Registering for WileyPLUS	Questions	-	2/3	Attempted After Due Date	Yes	12 30 2006, 07:59 AM
Ch 7	Ch 7: Help & Support for WileyPLUS	Questions	-	3/3	Attempted After Due Date	Yes	12 30 2006, 08:05 AM
Ch 8	Ch 8: Read, Study & Practice	Questions	-	3/3	Attempted After Due Date	Yes	12 30 2006, 08:14 AM
Ch 9	Ch 9: Assignments - Part I	Questions	-	3/3	Attempted After Due Date	Yes	12 30 2006, 08:35 AM
Ch 10	Ch 10: Assignments - Part II	Questions	-	4/4	Attempted After Due Date	Yes	12 30 2006, 09:21 AM
Ch 11	Ch 11: Prepare & Present	Questions	-	2/3	Attempted; Due Date Reached	Yes	12 30 2006, 09:26 AM
Ch 12	Ch 12: Gradebook	Questions	-	4/4	Attempted; Due Date Reached	Yes	12 30 2006, 09:32 AM
		Total	**0%**	**37.00/40**			

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Accounting

Tools for Business Decision Making

PAUL D. KIMMEL PhD, CPA
University of Wisconsin—Milwaukee

JERRY J. WEYGANDT PhD, CPA
University of Wisconsin

DONALD E. KIESO PhD, CPA
Northern Illinois University

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Paul D. Kimmel
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about the authors

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.

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 seved 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 Accounting Educator Award.

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 postdoctorate 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, the 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. Silvoso 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.

preface

The goal of this text is to introduce students to accounting in a way that demonstrates the importance of accounting to society and the relevance of accounting to their future careers. We strive to teach the students those things that they really need to know and to do it in a way that maximizes their opportunities for successful completion of the course. To accomplish these goals, the foundation of this text relies on a few key beliefs.

"It really matters" The collapse of Enron, WorldCom, Arthur Andersen, and others had devastating consequences. A number of the book's features are designed to reveal accounting's critical role to society: Some of the *Feature Stories*, the *Ethics Insight* boxes, end-of-chapter *Ethics Cases* and *Research Cases*, and the new *Anatomy of a Fraud* boxes introduce students to the important effects of accounting on business and society. In short, it has never been more apparent that accounting really matters.

"Less is more" Our instructional objective is to provide students with an understanding of those core concepts that are fundamental to the use of accounting. Most students will forget procedural details within a short period of time. On the other hand, students should remember well-taught concepts for a lifetime. Concepts are especially important in a world where the details are constantly changing.

"Don't just sit there—do something" The overriding pedagogical objective of this book is to provide students with continual opportunities for active learning. One of the best tools for active learning is strategically placed questions and activities. Our discussions are framed by questions, often beginning with rhetorical questions and ending with review questions. Our analytical devices, called *Decision Toolkits*, use key questions to demonstrate the purpose of each. Also, the "Do it!" exercises, considerably expanded in this edition, invite students to practice concepts and techniques just covered in the text.

"Get real" Students will be most willing to commit time and energy to a topic when they believe that it is relevant to their future careers. There is no better way to demonstrate relevance than to ground discussion in the real world. We do this in several ways: First, we use high-profile companies such as Nike, Microsoft, and Intel to frame our discussion of accounting issues. Second, the book employs a "macro" approach in its first two chapters, teaching students how to understand and use the real financial statements of Tootsie Roll, Hershey, and Best Buy, before teaching how to record transactions. Many students determine their opinion of a course during the initial weeks, and this macro approach clearly demonstrates the relevance of accounting while students are forming their impression of the course. Finally, *Accounting Across the Organization* boxes specifically connect accounting to business functions such as finance, marketing, and management, and show uses of accounting for students with business majors other than accounting.

"Make a decision" All business people must make decisions. Decision making involves critical evaluation and analysis of the information at hand, and this takes practice. We have integrated important analytical tools throughout the book. After each new decision tool is presented, we summarize the key features of that tool in a *Decision Toolkit*. At the end of each chapter we provide a comprehensive demonstration of an analysis of a real company using the decision tools presented in the chapter. This sequence of decision tools culminates in a capstone analysis chapter at the end of the book.

"It's a small world" To heighten student awareness of international issues, we have many references to international companies and issues. Also, many *Interpreting Financial Statements* problems have an international focus. In addition, through our *International Notes*, and a comprehensive summary discussion and table (at the back of the text), we provide insight into how U.S. accounting standards may change in the near future as U.S. GAAP converges with international accounting standards.

TOOLS FOR STUDENT SUCCESS

Accounting, 3rd Edition, provides many proven pedagogical tools to help students learn accounting concepts and apply them to decision making in the business world. The **Student Owner's Manual** at the book's companion site describes all the learning tools of the book in detail. Here are a few key features.

Learning How to Use the Text

- Students who take the new online **Learning Styles Quiz** will identify their learning style. Pages xxiv and xxv list learning strategies and tips for the seven learning styles, and page xxvi shows resources in WileyPLUS and the textbook that relate to those learning styles.
- **The Navigator** guides students through each chapter by pulling all the learning tools together into a learning system. Throughout the chapter, **The Navigator** prompts students to use the learning aids and to set priorities as they study.
- Marginal notes in blue in Chapter 1 explain how to use the text's learning tools to help achieve success in the course.

Understanding the Context

- **Study Objectives,** listed at the beginning of each chapter, reappear in the margins and again in the **Summary of Study Objectives.**
- A **Feature Story** helps students understand how the chapter topic relates to the real world of accounting and business and illustrates the necessity of sound accounting as the basis of informed decisions.
- A **Chapter Preview** links the Feature Story to the major topics of the chapter and provides a road map to the chapter.

preview of chapter 2

If you are thinking of purchasing Best Buy stock, or any stock, how can you decide what the stock is worth? If you manage J. Crew's credit department, how should you determine whether to extend credit to a new customer? If you are a financial executive of IBM, how do you decide whether your company is generating adequate cash to expand operations without borrowing? Your decision in each of these situations will be influenced by a variety of considerations. One of them should be your careful analysis of a company's financial statements. The reason: Financial statements offer relevant and reliable information, which will help you in your decision making.

In this chapter we take a closer look at the balance sheet and introduce some useful ways for evaluating the information provided by the financial statements. We also examine the financial reporting concepts underlying the financial statements.

A Further Look At Financial Statements

The Classified Balance Sheet	Using the Financial Statements	Financial Reporting Concepts
• Current assets	• Ratio analysis	• The standard-setting environment
• Long-term investments	• Using the income statement	• Characteristics of useful information
• Property, plant, and equipment	• Using the statement of stockholders' equity	• Assumptions and principles
• Intangible assets	• Using a classified balance sheet	• Constraints
• Current liabilities	• Using the statement of cash flows	
• Long-term liabilities		
• Stockholders' equity		

Learning the Material

- Emphasis on accounting experiences of **real companies and business situations throughout**.
- Different types of **Insight** boxes highlight ethics, investor, management, and international perspectives. These stories provide glimpses into how real companies make decisions using accounting information. In addition, **Accounting Across the Organization** boxes provide glimpses of how individuals in non-accounting functions use accounting information in their decision making.
- The **Insight** boxes and the **Accounting Across the Organization** boxes end with a question, which tests students' understanding of the real-world application in the box. Guideline answers for these questions appear at the end of the **Broadening Your Perspective** section at the end of the chapter.
- **Color illustrations**, including **infographics**, create "visual anchors" that help students visualize and apply accounting concepts.
- **Do it! exercises** appear at key breaks in the chapter narrative. These mini-demonstration problems invite students to test their understanding of the just-completed section before they proceed to the next one.

before you go on...

PLANT ASSET DISPOSALS

Do it! Overland Trucking has an old truck that cost $30,000 and has accumulated depreciation of $16,000. Assume two different situations:

1. The company sells the old truck for $17,000 cash.
2. The truck is worthless, so the company simply retires it.

What entry should Overland use to record each scenario?

Action Plan

- Compare the asset's book value and its fair value to determine whether a gain or loss has occurred.
- Make sure that both the Truck account and Accumulated Depreciation–Truck are reduced upon disposal.

Solution

1. Sale of truck for cash:

Cash	17,000	
Accumulated Depreciation—Truck	16,000	
Truck		30,000
Gain on Disposal [$17,000 − ($30,000 − $16,000)]		3,000
(To record sale of truck at a gain)		

2. Retirement of truck:

Accumulated Depreciation—Truck	16,000	
Loss on Disposal	14,000	
Truck		30,000
(To record retirement of truck at a loss)		

- **Accounting equation analyses** in the margin next to key journal entries reinforce understanding of the impact of an accounting transaction on the financial statements. They also report the **cash effect** of each transaction to reinforce understanding of the difference between cash effects and accrual accounting.
- **Helpful Hints, Alternative Terminology,** and blue-highlighted **key terms and concepts** help focus students on key concepts as they study the material.
- In the margins, **International Notes** and **Ethics Notes** provide a convenient way to expose students to international and ethics issues. The Third Edition greatly expands the number of these notes.

A	=	L	+	SE
+3,430				
				−70 Rev
−3,500				

Cash Flows
+3,430