Chapter 3  The Double-Entry Accounting System  138

Chapter Opening  138
Debit/Credit Terminology  140
Recording Transactions in T-Accounts  140
  Asset Source Transactions  140
  Asset Exchange Transactions  143
  Asset Use Transactions  144
  Claims Exchange Transactions  146
  Adjusting the Accounts  147
  Overview of Debit/Credit Relationships  149
The General Journal  149
Trial Balance and Financial Statements  153
  Closing Entries  155
  Post-Closing Trial Balance  156
The Financial Analyst  157
  Assessing the Effective Use of Assets  157

Assessing Debt Risk  158
Real-World Data  159
Scope of Coverage  160
A Look Back  160
A Look Forward  161
Appendix  161
Self-Study Review Problem  163
Key Terms  166
Questions  166
Multiple-Choice Questions  167
Exercises—Series A  167
Problems—Series A  175
Exercises—Series B  182
Problems—Series B  191
Analyze, Think, Communicate  198
Comprehensive Problem  204
Chapter 4  Accounting for Merchandising Businesses  206

Chapter Opening  206
Accounting for Inventory
Transactions  209
  Allocating Inventory Cost between Asset and Expense Accounts  210
  Perpetual Inventory System  210
  Effects of 2013 Events on Financial Statements  210
  Ledger Accounts and Financial Statements  212
Transportation Cost, Purchase Returns and Allowances, and Cash Discounts Related to Inventory Purchases  214
  Effects of 2014 Events on Financial Statements  214
  Accounting for Purchase Returns and Allowances  215
  Purchase Discounts  216
  The Cost of Financing Inventory  217
  Accounting for Transportation Costs  217
Recognizing Gains and Losses  220
Multistep Income Statement  222
Lost, Damaged, or Stolen Inventory  224
Events Affecting Sales  225

Chapter 5  Accounting for Inventories  268

Chapter Opening  268
Inventory Cost Flow Methods  270
  Specific Identification  270
  First-In, First-Out (FIFO)  270
  Last-In, First-Out (LIFO)  270
  Weighted Average  270
  Physical Flow  270
  Effect of Cost Flow on Financial Statements  271
  Multiple Layers with Multiple Quantities  272
Chapter 6  Internal Control and Accounting for Cash  312

Chapter Opening  312
Key Features of Internal Control Systems  314
   Separation of Duties  315
   Quality of Employees  315
   Bonded Employees  315
   Required Absences  315
   Procedures Manual  315
   Authority and Responsibility  316
   Prenumbered Documents  316
   Physical Control  316
   Performance Evaluations  317
   Limitations  317
Accounting for Cash  317
   Controlling Cash  318
   Checking Account Documents  320
Reconciling the Bank Account  321
   Determining True Cash Balance  321
   Adjustments to the Bank Balance  322
   Adjustments to the Book Balance  322
   Correction of Errors  323
   Certified Checks  323
   Illustrating a Bank Reconciliation  323
   Updating GSRI's Accounting Records  324
   Cash Short and Over  326
Using Petty Cash Funds  327
The Financial Analyst  329
Notes to the Financial Statements  329
Management's Discussion and Analysis  330
Role of the Independent Auditor  330
   The Financial Statements Audit  330
   Materiality and Financial Statements Audits  331
   Types of Audit Opinions  332
   Confidentiality  332
The Securities and Exchange Commission  332
A Look Back  333
A Look Forward  334
Self-Study Review Problem  335
Key Terms  336
Questions  336
Multiple-Choice Questions  336
Exercises—Series A  337
Problems—Series A  341
Exercises—Series B  345
Problems—Series B  349
Analyze, Think, Communicate  354
Comprehensive Problem  358
Chapter 7  Accounting for Receivables  360

Chapter Opening  360
Allowance Method of Accounting for Uncollectible Accounts  362
  Accounting Events Affecting the 2013 Period  362
  Recording and Reporting Uncollectible Accounts Events in the Double-Entry System  364
  Financial Statements  364
  Accounting Events Affecting the 2014 Period  365
Estimating Uncollectible Accounts Expense Using the Percent of Revenue (Sales) Method  368
  Recording and Reporting Uncollectible Accounts Events in the Double-Entry System  369
  Analysis of Financial Statements  370
Estimating Uncollectible Accounts Expense Using the Percent of Receivables Method  370
  Matching Revenues and Expenses versus Asset Measurement  372
Recognizing Uncollectible Accounts Expense Using the Direct Write-Off Method  372
Accounting for Notes Receivable  373
  Recording and Reporting Transactions Related to Notes Receivable  374
  Financial Statements  377
Accounting for Credit Card Sales  378
The Financial Analyst  379
Costs of Credit Sales  379
  Average Number of Days to Collect Accounts Receivable  380
  Real-World Data  381
A Look Back  383
A Look Forward  384
Self-Study Review Problem  384
Key Terms  385
Questions  385
Multiple-Choice Questions  386
Exercises—Series A  386
Problems—Series A  393
Exercises—Series B  398
Problems—Series B  405
Analyze, Think, Communicate  410
Comprehensive Problem  414

Chapter 8  Accounting for Long-Term Operational Assets  416

Chapter Opening  416
Tangible versus Intangible Assets  418
  Tangible Long-Term Assets  418
  Intangible Assets  419
Determining the Cost of Long-Term Assets  419
  Basket Purchase Allocation  419
Methods of Recognizing Depreciation Expense  420
  Dryden Enterprises Illustration  421
  Straight-Line Depreciation  421
Financial Statements  423
  Double-Declining-Balance Depreciation  425
  Units-of-Production Depreciation  427
  Comparing the Depreciation Methods  429
Income Tax Considerations  429
Revision of Estimates  431
  Revision of Life  431
  Revision of Salvage  432
Chapter 10  Accounting for Long-Term Debt  534

Chapter Opening  534
Installment Notes Payable  536
Line of Credit  539
Bond Liabilities  539
  Advantages of Issuing Bonds  540
  Security of Bonds  541
  Timing of Maturity  541
  Special Features  542
  Bond Ratings  543
  Restrictive Covenants  543
  Bonds Issued at Face Value  543
  Journal Entries and Financial Statement Effects  543
  Effect of Events on Financial Statements  543
  Financial Statements  545
Amortization Using the Straight-Line Method  546
  Bonds Issued at a Discount  546
  Bonds Issued at a Premium  551
  Bond Redemptions  552
Amortization Using the Effective Interest Rate Method  553
  Amortizing Bond Discounts  554
  Amortizing Bond Premiums  555
The Financial Analyst  557
  Financial Leverage and Tax Advantage of Debt Financing  557
  EBIT and Ratio Analysis  558
  Times Interest Earned Ratio  559
A Look Back  560
A Look Forward  560
Self-Study Review Problem  560
Key Terms  561
Questions  561
Multiple-Choice Questions  562
Exercises—Series A  562
Problems—Series A  569
Exercises—Series B  573
Problems—Series B  580
Analyze, Think, Communicate  583
Comprehensive Problem  590

Chapter 11  Proprietorships, Partnerships, and Corporations  592

Chapter Opening  592
Forms of Business Organizations  594
  Regulation  594
  Double Taxation  595
  Limited Liability  596
  Continuity  596
  Transferability of Ownership  596
  Management Structure  596
  Ability to Raise Capital  597
  Appearance of Capital Structure in Financial Statements  597
Accounting for Capital Stock  599
  Par Value  599
  Stated Value  599
  Other Valuation Terminology  599
  Stock: Authorized, Issued, and Outstanding  599
  Classes of Stock  599
  Accounting for Stock Transactions  601
  Financial Statement Presentation  603
Treasury Stock  603
Chapter 12  Statement of Cash Flows  640

Chapter Opening  640
An Overview of the Statement of Cash Flows  642
   Operating Activities  642
   Investing Activities  643
   Financing Activities  643
   Noncash Investing and Financing Activities  644
   Reporting Format for the Statement of Cash Flows  644
Preparation of a Statement of Cash Flows  645
Preparation of the Operating Activities Section of a Statement of Cash Flows Using the Indirect Method  646
   Indirect Method—Reconciliation Approach  648
   Indirect Method—Rule-Based Approach  652
Preparation of the Operating Activities Section of a Statement of Cash Flows Using the Direct Method  655
Preparation of the Investing Activities Section of a Statement of Cash Flows  656
   Reconciliation of Investment Securities  656
   Reconciliation of Store Fixtures  657
   Reconciliation of Land  657
Preparation of the Financing Activities Section of a Statement of Cash Flows  658
   Reconciliation of Mortgage Payable  659
   Reconciliation of Bonds Payable  659
   Reconciliation of Common Stock  660
   Reconciliation of Retained Earnings  660
   Reconciliation of Treasury Stock  660
Preparation of the Schedule of Noncash Investing and Financing Activities  663
The Financial Analyst  663
   Real-World Data  663
A Look Back  665
A Look Forward  666