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TENTH EDITION



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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.

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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 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
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Author Commitment



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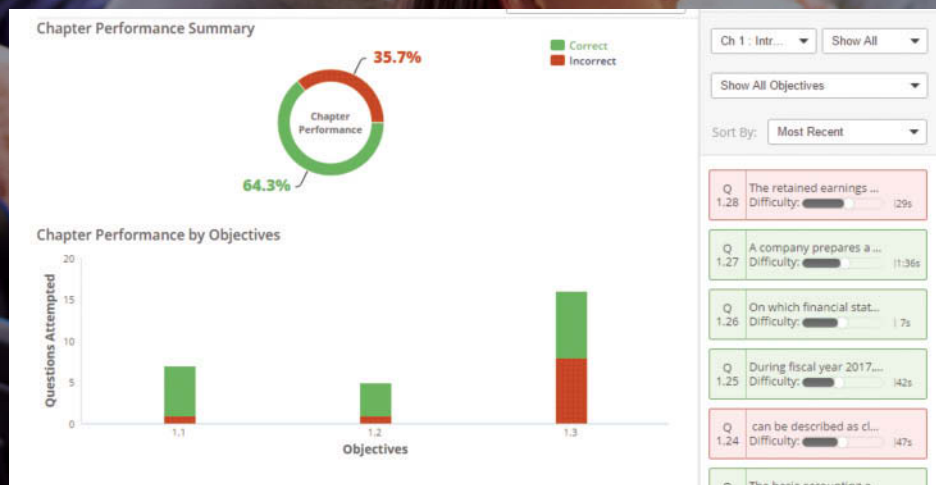


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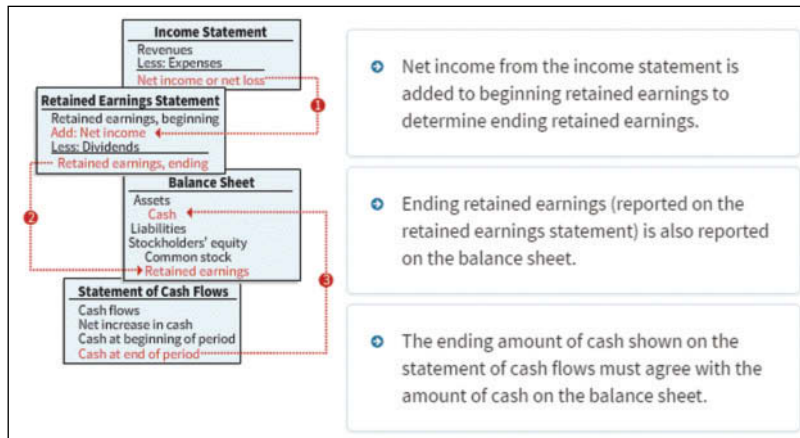
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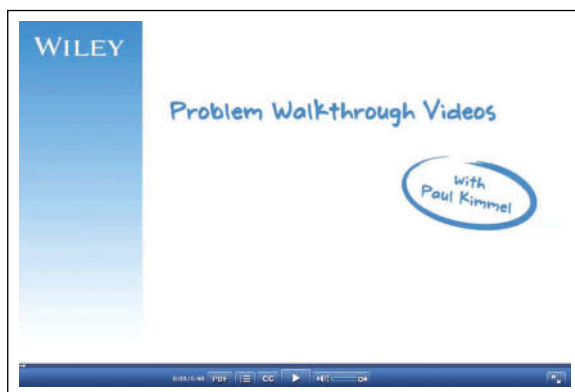
With visual reports, it's easy for both students and educators to gauge problem areas and act on what's most important.

Interactive Tutorials



Interactive mobile videos allow students to review content and respond to interactive questions in the video anywhere, anytime.

Solution Walkthrough Videos



Step-by-step walkthroughs of solutions to exercises similar to those in homework assignments.

Multiple Practice Opportunities

Practice Exercise 2 (Part Level Submission)
Waterway Industries is a private camping ground near the Mount Miguel Recreation Area. It has compiled the following financial information as of December 31, 2017.

Service revenue (from camping fees)	\$179,520	Dividends	\$12,240
Sales revenue (from general store)	34,000	Notes payable	68,000
Accounts payable	14,960	Expenses during 2017	171,360
Cash	11,560	Supplies	7,480
Equipment	155,040	Common stock	54,400
		Retained earnings (1/1/2017)	6,800

▼ (a)
Determine Waterway Industries's net income for 2017.

Waterway Industries's net income for 2017 \$

In addition to WileyPLUS with ORION practice questions, students can assess their understanding of accounting with algorithmic versions of questions similar to those in homework assignments.



What's New?

Focus on the Accounting Cycle

To help students master accounting cycle concepts, we added (1) new, recurring illustrations that show students the big picture of the accounting cycle, (2) new comprehensive accounting cycle exercises and problems, and (3) new accounting cycle questions in the Test Bank and [WileyPLUS with ORION](#).

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 new practice questions are algorithmic, providing students with multiple opportunities for advanced practice.

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. 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 150 videos are available in WileyPLUS, many of which are new to the Tenth 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.

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, new financial reporting problems in each chapter require students to analyze the financial statements of **Apple**, **Wal-Mart**, **Louis Vuitton**, and **Amazon.com**. Finally, in WileyPLUS, real-world Insight boxes now have questions that can be assigned as homework.

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1

Accounting in Action

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

CHAPTER PREVIEW The Feature Story below about **Columbia Sportswear 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 purpose of this chapter is to show you that accounting is the system used to provide useful financial 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.

Knowing the numbers is sometimes even a matter of corporate survival. Consider the story of **Columbia Sportswear Company**, headquartered in Portland, Oregon. Gert Boyle’s family fled Nazi Germany when she was 13 years old and then purchased a small hat company in Oregon, Columbia Hat Company. In 1971, Gert’s husband, who was then running the company, died suddenly of a heart attack. The company was in the midst of an aggressive expansion, which had taken its sales above \$1 million for the first time but which had also left the company financially stressed. Gert took over the small, struggling company with help from her son Tim, who was then a senior at the University of Oregon. Somehow, they kept the company afloat. Today, Columbia has more than 4,000 employees and annual sales in excess of \$1 billion. Its brands

include Columbia, Mountain Hardwear, Sorel, and Montrail. Gert still heads up the Board of Directors, and Tim is the company’s President and CEO.

Columbia doesn’t just focus on financial success. The company is very committed to corporate, social, and environmental responsibility. For example, several of its factories have participated in a project to increase health awareness of female factory workers in developing countries. Columbia was also a founding member of the Sustainable Apparel Coalition, which is a group that strives to reduce the environmental and social impact of the apparel industry. In addition, it monitors all of the independent factories that produce its products to ensure that they comply with the company’s Standards of Manufacturing Practices. These standards address issues including forced labor, child labor, harassment, wages and benefits, health and safety, and the environment.

Employers such as Columbia Sportswear generally assume that managers in all areas of the company are “financially literate.” To help prepare you for that, in this textbook you will learn how to read and prepare financial statements, and how to use basic tools to evaluate financial results.



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CHAPTER OUTLINE

Learning Objectives

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

1

Identify the activities and users associated with accounting.

- Three activities
- Who uses accounting data

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
- Stockholders' equity

DO IT!

3

Stockholders' Equity Effects

4

Analyze the effects of business transactions on the accounting equation.

- Accounting transactions
- Transaction analysis
- Summary of transactions

DO IT!

4

Tabular Analysis

5

Describe the four financial statements and how they are prepared.

- Income statement
- Retained earnings 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 telephone services by **AT&T**, and the payment of wages by **Facebook**.

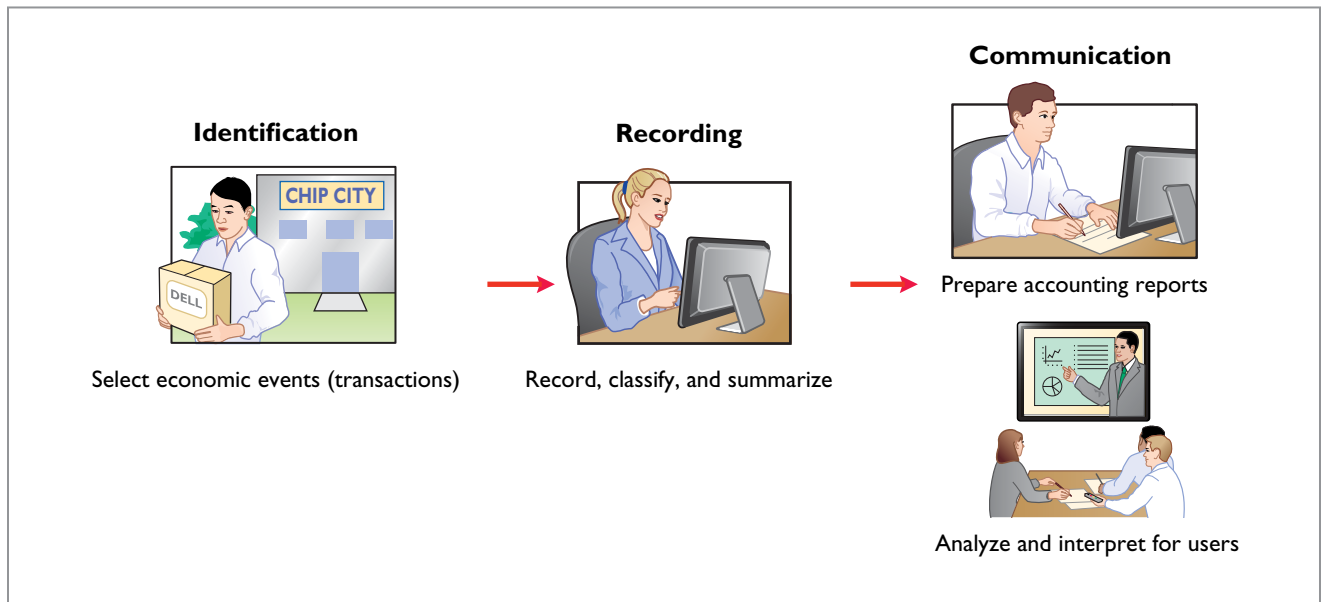
Once a company like PepsiCo identifies economic events, it **records** those events in order to provide a history of its financial activities. Recording consists of keeping a **systematic, chronological diary of events**, measured in dollars and cents. In recording, PepsiCo also classifies and summarizes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



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

Illustration 1-1

The activities of the accounting process

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 the managers who plan, organize, and run a 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.

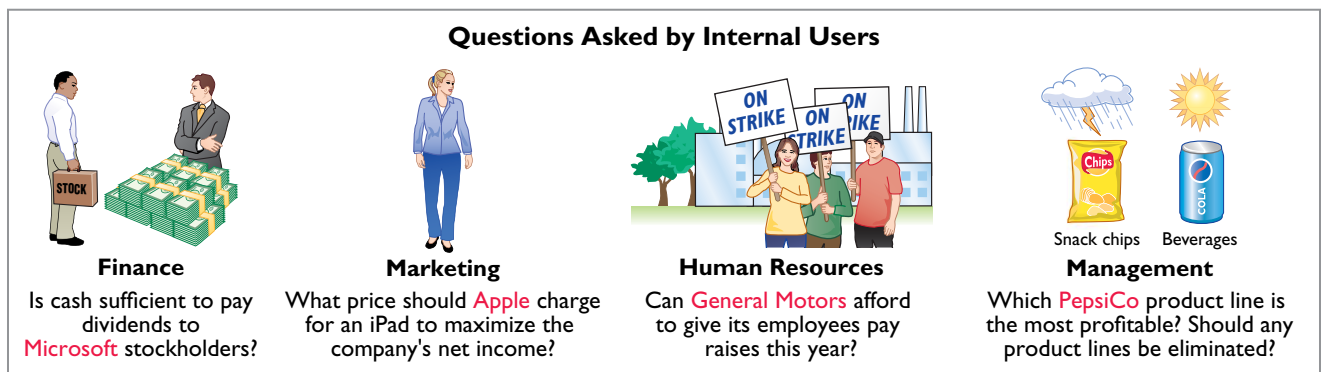


Illustration 1-2

Questions that internal users ask

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.

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.

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

Accounting Across the Organization Clif Bar & Company



© Dan Moore/iStockphoto

Owning a Piece of the Bar

The original Clif Bar® energy bar was created in 1990 after six months of experimentation by Gary Erickson and his mother in her kitchen. Today, the company has almost 300 employees and is considered one of the leading Landor's Breakaway Brands®. One of Clif Bar & 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. 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 basic accounting knowledge, employees are more aware of the financial impact of their actions, which leads to better decisions.

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

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.

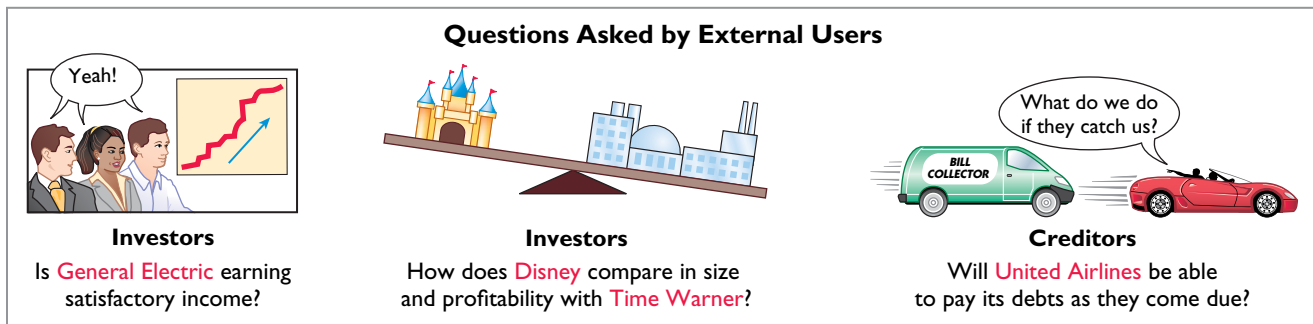


Illustration 1-3

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 **Tesla Motors** 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.

*The **DO IT!** exercises ask you to put newly acquired knowledge to work. They outline the **Action Plan** necessary to complete the exercise, and they show a **Solution**.*

DO IT!**1****Basic Concepts**

Indicate whether each of the five statements presented below is true or false. If false, indicate how to correct the statement.

1. The three steps in the accounting process are identification, recording, and communication.
2. Bookkeeping encompasses all steps in the accounting process.
3. Accountants prepare, but do not interpret, financial reports.
4. The two most common types of external users are investors and company officers.
5. Managerial accounting activities focus on reports for internal users.

Solution

1. True. 2. False. Bookkeeping involves only the recording step. 3. False. Accountants analyze and interpret information in reports as part of the communication step. 4. False. The two most common types of external users are investors and creditors. 5. True.

Related exercise material: **DO IT!** 1-1, E1-1, and E1-2.

Action Plan

- ✓ Review the basic concepts discussed.
- ✓ Develop an understanding of the key terms used.

LEARNING OBJECTIVE

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

A doctor follows certain protocols in treating a patient's illness. An architect follows certain structural guidelines in designing a building. Similarly, an accountant follows certain standards in reporting financial information. These standards are based on specific principles and assumptions. For these standards to work, however, a fundamental business concept must be present—ethical behavior.

Ethics in Financial Reporting

People won't gamble in a casino if they think it is "rigged." Similarly, people won't play the stock market if they think share prices are rigged. At one time, the financial press was full of articles about financial scandals at **Enron**, **WorldCom**, **HealthSouth**, and **AIG**. As more scandals came to light, a mistrust of financial reporting in general seemed to be developing. One article in the *Wall Street Journal* noted that "repeated disclosures about questionable accounting practices have bruised investors' faith in the reliability of earnings reports, which in turn has sent stock prices tumbling." Imagine trying to carry on a business or invest money if you could not depend on the financial statements to be honestly prepared. Information would have no credibility. There is no doubt that a sound, well-functioning economy depends on accurate and dependable financial reporting.

United States regulators and lawmakers were very concerned that the economy would suffer if investors lost confidence in corporate accounting because of unethical financial reporting. In response, Congress passed the **Sarbanes-Oxley Act (SOX)** to reduce unethical corporate behavior and decrease the likelihood of future corporate scandals. As a result of SOX, top management must now certify the accuracy of financial information. In addition, penalties for fraudulent financial activity are much more severe. Also, SOX increased the independence

ETHICS NOTE

Circus-founder P.T. Barnum is alleged to have said, "Trust everyone, but cut the deck." What Sarbanes-Oxley does is to provide measures that (like cutting the deck of playing cards) help ensure that fraud will not occur.

Ethics Notes help sensitize you to some of the ethical issues in accounting.

requirements of the outside auditors who review the accuracy of corporate financial statements and increased the oversight role of boards of directors.

The standards of conduct by which actions are judged as right or wrong, honest or dishonest, fair or not fair, are **ethics**. Effective financial reporting depends on sound ethical behavior. To sensitize you to ethical situations in business and to give you practice at solving ethical dilemmas, we address ethics in a number of ways in this textbook:

1. A number of the *Feature Stories* and other parts of the textbook discuss the central importance of ethical behavior to financial reporting.
2. *Ethics Insight* boxes and marginal *Ethics Notes* highlight ethics situations and issues in actual business settings.
3. Many of the *People, Planet, and Profit Insight* boxes focus on ethical issues that companies face in measuring and reporting social and environmental issues.
4. At the end of the chapter, an *Ethics Case* simulates a business situation and asks you to put yourself in the position of a decision-maker in that case.

When analyzing these various ethics cases and your own ethical experiences, you should apply the three steps outlined in Illustration 1-4.

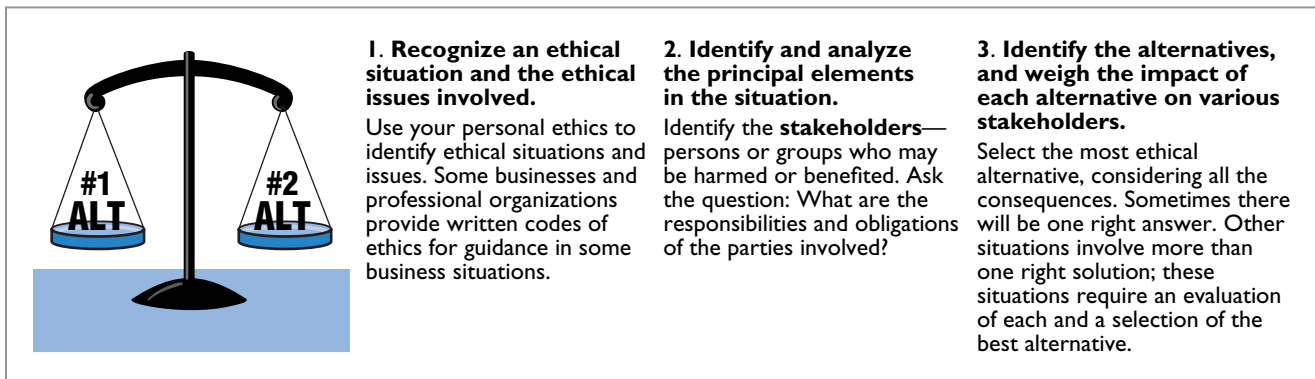


Illustration 1-4
Steps in analyzing ethics cases and situations

Insight boxes provide examples of business situations from various perspectives—ethics, investor, international, and corporate social responsibility. Guideline answers to the critical thinking questions are available in WileyPLUS and at www.wiley.com/college/weygandt. Additional questions are offered in WileyPLUS.

Ethics Insight Dewey & LeBoeuf LLP



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I Felt the Pressure—Would You?

"I felt the pressure." That's what some of the employees of the now-defunct law firm of **Dewey & LeBoeuf LLP** indicated when they helped to overstate revenue and use accounting tricks to hide losses and cover up cash shortages. These employees worked for the former finance director and former chief financial officer (CFO) of the firm. Here are some of their comments:

- "I was instructed by the CFO to create invoices, knowing they would not be sent to clients. When I created these invoices, I knew that it was inappropriate."

- "I intentionally gave the auditors incorrect information in the course of the audit."

What happened here is that a small group of lower-level employees over a period of years carried out the instructions of their bosses. Their bosses, however, seemed to have no concern as evidenced by various e-mails with one another in which they referred to their financial manipulations as accounting tricks, cooking the books, and fake income.

Source: Ashby Jones, "Guilty Pleas of Dewey Staff Detail the Alleged Fraud," *Wall Street Journal* (March 28, 2014).

Why did these employees lie, and what do you believe should be their penalty for these lies? (Go to WileyPLUS for this answer and additional questions.)

Generally Accepted Accounting Principles

The accounting profession has developed standards that are generally accepted and universally practiced. This common set of standards is called **generally accepted accounting principles (GAAP)**. These standards indicate how to report economic events.

The primary accounting standard-setting body in the United States is the **Financial Accounting Standards Board (FASB)**. The **Securities and Exchange Commission (SEC)** is the agency of the U.S. government that oversees U.S. financial markets and accounting standard-setting bodies. The SEC relies on the FASB to develop accounting standards, which public companies must follow. Many countries outside of the United States have adopted the accounting standards issued by the **International Accounting Standards Board (IASB)**. These standards are called **International Financial Reporting Standards (IFRS)**.

As markets become more global, it is often desirable to compare the results of companies from different countries that report using different accounting standards. In order to increase comparability, in recent years the two standard-setting bodies have made efforts to reduce the differences between U.S. GAAP and IFRS. This process is referred to as **convergence**. As a result of these convergence efforts, it is likely that someday there will be a single set of high-quality accounting standards that are used by companies around the world. Because convergence is such an important issue, we highlight any major differences between GAAP and IFRS in *International Notes* (as shown in the margin here) and provide a more in-depth discussion in the *A Look at IFRS* section at the end of each chapter.

International Note



Over 115 countries use international standards (called IFRS). For example, all companies in the European Union follow IFRS. The differences between U.S. and international standards are not generally significant.

International Notes highlight differences between U.S. and international accounting standards.

International Insight



Toru-Hanai-Pool/Getty Images, Inc.

The Korean Discount

If you think that accounting standards don't matter, consider recent events in South Korea. For many years, international investors complained that the financial reports of South Korean companies were inadequate and inaccurate. Accounting practices there often resulted in huge differences between stated revenues and actual revenues. Because investors did not have faith in the accuracy of the numbers, they were unwilling to pay as much for the shares of these companies relative to shares of comparable companies in different countries. This difference in

share price was often referred to as the "Korean discount."

In response, Korean regulators decided that companies would have to comply with international accounting standards. This change was motivated by a desire to "make the country's businesses more transparent" in order to build investor confidence and spur economic growth. Many other Asian countries, including China, India, Japan, and Hong Kong, have also decided either to adopt international standards or to create standards that are based on the international standards.

Source: Evan Ramstad, "End to 'Korea Discount'?" *Wall Street Journal* (March 16, 2007).

What is meant by the phrase "make the country's businesses more transparent"? Why would increasing transparency spur economic growth? (Go to WileyPLUS for this answer and additional questions.)

Measurement Principles

GAAP generally uses one of two measurement principles, the historical cost principle or the fair value principle. Selection of which principle to follow generally relates to trade-offs between relevance and faithful representation. **Relevance** means that financial information is capable of making a difference in a decision.

Helpful Hint

Relevance and faithful representation are two primary qualities that make accounting information useful for decision-making.