

## INDEX

Page numbers followed by “n” indicate footnotes and source notes.

## A

- Abbott Laboratories, 303
- Absences, required, 127
- Absolute amounts, 321–322
- Accelerated depreciation methods, double-declining balance, 204, 208–211
- Account balances, 661
- Accounting. *See also* Financial accounting; Managerial accounting
  - accounting equation in, 12–13
  - accounts to gather information in, 11
  - careers in, 7–8
  - defined, 2
  - as language of business, 2
  - measurement rules in, 8
  - reporting entities in, 9–10
  - role in society, 4–10
- Accounting cycle, 44–67
  - accrual accounting, 45, 46–65
  - adjusting entries, 47–49, 58–59, 62
  - deferral, 45, 54
  - events in, 46–49, 53–59
  - steps in, 52–53
  - vertical statements model, 49–52, 62–65, 207–208
- Accounting equation, 12–17
  - components of, 12–13
  - defined, 12
  - recording business events under, 13–17
  - sources of assets in, 12–13
- Accounting events, 13–17
  - in accounting cycle, 46–49, 53–59
  - defined, 13
- Accounting information, 5–6. *See also* Financial statement analysis; Financial statements
  - accounts to gather, 11
  - factors in communicating, 320
  - impact of availability, 437
  - providers of, 6–7
  - relevant, for special decisions. *See* Relevant information
  - types of, 6, 360
  - users of, 6, 7, 320, 360, 362
- Accounting period, 18
- Accounting principles, 338–339. *See also* Generally accepted accounting principles (GAAP); International Financial Reporting Standards (IFRS)
- Accounts
  - defined, 11
  - to gather information, 11
- Accounts payable, 507
  - asset use transactions, 57, 94
- Accounts receivable, 156–166
  - aging of, 165
  - allowance method, 158–163
  - asset exchange transactions, 46–47, 56
  - defined, 46, 156
  - ending balance, 165–166
  - percent of receivables method, 164–166
  - percent of revenue (sales) method, 163–164
- Accounts receivable collections
  - adjustments to book balance, 133, 135
  - allowance method, 158–159, 162–163
- Accounts receivable ratios, 327–328, 336
- Accounts receivable turnover, 327–328, 336
- Accrual, 45
- Accrual accounting
  - adjusting entries, 47–49, 58–59, 62
  - conservatism principle, 53, 338–339
  - defined, 45
  - events in, 46–65
  - historical cost principle, 338–339
  - matching concept, 18, 53, 168
- Accrued expenses
  - adjusting entries, 47–49
  - defined, 48
- Accrued interest
  - defined, 167
  - in notes receivable accounting, 167–168
- Accumulated conversion factor, 567
- Accumulated depreciation, 206–207, 215
- Accuracy, relevant information and, 466
- Acid-test ratio, 326–327, 336
- Activities, 377
- Activity base, 406
- Activity-based management (ABM), 361, 376, 377
- Actual cost, estimated cost versus, 432
- Adjusting entries
  - for accrued expenses, 47–49, 58–59, 62
  - in bank reconciliation, 132–133, 134–136
  - defined, 48, 168
  - inventory shrinkage, 101
  - in notes receivable accounting, 168
  - recording procedures for, 663–664
- Adverse opinions, 141
- Aggregation
  - of individual costs into cost pools, 445
  - level of, in financial accounting, 360, 362
- Aging of accounts receivable, 165
- AICPA (American Institute of Certified Public Accountants), Code of Professional Conduct, 137, 138, 141, 374
- Allocation, 434–436. *See also* Cost allocation; Resource allocation
- Allocation base, 435
- Allocation rate, 435
- Allowance for doubtful accounts, 158, 164–166
- Allowance method of accounting for doubtful accounts, 158–163
  - collection of receivables, 158–159, 162–163
  - financial statements and, 160–161
  - recognizing uncollectible accounts expense, 159–160
  - recovery of uncollectible account receivable, 162–163
  - revenue recognition, 158
  - write-off of uncollectible accounts receivable, 161–162
- American Cancer Society (ACS), 3, 11
- American Institute of Certified Public Accountants (AICPA), 137, 138, 141, 374
- American Standard Companies, Inc., 372
- American Stock Exchange, 288
- Amortization
  - bond discount, 264–267
  - defined, 219, 248
  - effective interest rate method, 264–267
  - intangible assets with identifiable useful lives, 202, 219
  - intangible assets with indefinite useful lives, 202–203, 219
  - of long-term liabilities, 248, 256–261, 264–267
  - straight-line method, 256–261
- Annual reports
  - defined, 25
  - real-world, 25, 596–660
- Annuities
  - defined, 567
  - ordinary annuity assumption, 568
  - present value tables for, 566–567, 583
- Apple, 397
- Appropriated retained earnings, 301
- Articles of incorporation, 288
- Articulation, 18
- Asset exchange transactions
  - collection of accounts receivable, 46–47, 56
  - defined, 14, 17, 66
  - purchasing inventory with cash, 90
  - purchasing land with cash, 57, 91, 253, 257
- Assets. *See also* Current assets; Long-term operational assets
  - in accounting equation, 12–13
  - allocating inventory costs between expense accounts and, 89
  - costs as expenses versus, 363–364
  - defined, 4
  - preferences for preferred stockholders, 294
  - Assets = claims (accounting equation), 12.
  - See also* Accounting equation
- Asset source transactions
  - defined, 13–14, 17, 66
  - issuing notes receivable, 242
  - providing services on account, 55–56
  - purchases on account, 55
  - receipt of unearned revenue, 55
  - revenue, 15
  - stockholders' equity, 13–14, 46, 57, 90
- Asset turnover ratio, 332, 336
- Asset use transactions
  - defined, 15, 17, 66
  - dividend payments, 16, 57
  - expenses, 15–16, 47, 56, 57, 58, 91, 97
  - payment of salaries, 53–54, 56
- Atlanta Braves, 432
- AT&T, 291
- Audits
  - defined, 139
  - work of independent auditors, 7, 139–142
- Audit services, 7, 139–142
- Authority manual, 127
- Authorized stock, 293
- Average cost per unit, 362–363

- Average number of days to collect receivables, 328, 336
- Average number of days to sell inventory, 328–329, 336
- Avoidable cost, 467, 471–472, 476
- B**
- Balanced scorecard, 545
- Balance sheet
- accounting for notes receivable, 169
  - classified, 262
  - defined, 20
  - impact of inventory cost flow methods on, 173
  - international differences, 263
  - long-term operational assets on, 220, 221
  - preparing, 20
  - pro forma, 512
  - terms for, 10n
  - vertical analysis, 324
  - in vertical statements model, 50, 51, 64
- Bank checks, 131
- Bank reconciliation, 131–136
- adjusting entries, 132–133, 134–136
  - defined, 131
  - illustration, 134–136
  - steps in, 131–136
- Bank statement credit memos, 131
- Bank statement debit memos, 131
- Bank statements
- defined, 131
  - reconciling, 131–136
- BASF, 399
- Basket purchases, 203–204
- cost allocation, 203–204
  - relative fair market value method, 203–204
- Batch-level costs, 467–468
- Bayer Corporation, 372
- Behavioral issues
- controlling emotions, 447
  - in cost accounting, 439–440, 445–447
- Benchmarking, 376
- Bernard L. Madoff Investments (BMI), 125, 136, 137
- Best Buy Co., 247, 372
- Best practices, 376
- Blackstone Group, 300
- Blue Nile, 87, 88, 89, 99, 104
- BMW, 473
- Board of directors
- defined, 290
  - role of, 290–291
- Bond certificates, 251
- Bond discount, 256–261
- amortization using effective interest rate method, 264–267
  - amortization using straight-line method, 256–261
  - defined, 256
- Bonded employees, 127
- Bondholders, 251
- Bond premium
- amortization using effective interest rate method, 267
  - amortization using straight line method, 260–261
- Bonds payable, 251–261
- advantages of issuing bonds, 252
  - financial statements and, 254–255, 256–259, 265–267
  - issued at discount, 256–261, 264–267
  - issued at face value, 252–255
  - issued at premium, 260–261, 267
  - payoff, 254, 258
- Book balance
- adjustments to, 133, 135
  - unadjusted, 131–132, 135
- Books of original entry, 662
- Book value, 207
- Book value per share, 293, 334, 336
- BP, Plc., 25
- Break-even point, 406–408
- contribution margin per unit method for computing, 408
  - defined, 407
  - equation method for computing, 407
  - margin of safety, 410
- British Petroleum, 25
- Budgeted cost of goods sold, 506
- Budgeted sales, 506
- Budgets and budgeting, 498–514. *See also* Capital investments
- advantages of, 501
  - budgeting, defined, 498
  - capital budgeting, 500, 502
  - cash budget, 508–511
  - cost allocation in budgeting decision, 445
  - flexible budgets, 533–534, 537–540
  - governmental entity, 510
  - human behavior and, 501–502
  - illustration, 503–512
  - inventory purchases budget, 505–507
  - master budget, 498, 502–503, 533
  - operating budgets, 500, 502
  - participative, 502
  - perpetual (continuous) budgeting, 500
  - pro forma financial statements, 502, 505, 507, 508, 510–512
  - sales budget, 503–505
  - selling and administrative expense budget, 507–508
  - static budgets, 533–534
- Buildings, cost components, 203
- Burger King, 6, 372, 448
- Business entities
- not-for-profit entities versus, 24
  - types of, 24
- BusinessWeek*, 7
- C**
- Cadbury PLC, 319, 323
- Capital, ability to raise, 291
- Capital budgeting, 500, 502
- Capital budgets, 502
- Capital expenditures, 214–215
- Capital investments, 562–583
- analysis techniques, 569–578
  - cash flow measurement, 571–572
  - comparing alternative capital investment opportunities, 572–578
  - internal rate of return, 570–571, 574–576
  - net present value, 569–570, 572–574
  - converting future cash flows to equivalent present values, 565–569
  - decisions for, 564–565
  - defined, 564
  - payback method, 578–579
  - postaudits, 581
  - real-world reporting practices, 581
  - tax considerations, 577–578
  - techniques that ignore time value of money, 578–581
  - time value of money, 564–578
  - unadjusted rate of return, 579–580
- Capital stock, 293–304
- cash dividend payments, 294–295, 299–300
  - categories of, 293, 298–299
  - classes of, 294–295
  - dividend income, 303
  - exercising control through ownership of, 304
  - financial statement presentation, 293, 297, 302–303
  - investing in, 303
  - par value, 293
  - stated value, 293
  - stock dividends, 300–301
  - stock splits, 294, 301
  - transactions after day of issue, 298–301
  - transactions on day of issue, 296–297
  - valuation of, 293
- Capital structure, in financial statements, 291–293
- Careers in accounting, 7–8
- private accounting, 8
  - public accounting, 7–8
- Carrying value, 219
- Cash, 129–136
- bank account reconciliation, 131–136
  - cash payments, 129–130
  - cash receipts, 129
  - checking accounts, 130–136
  - controlling, 129–130
  - cost of protecting, 130
  - defined, 129
  - true cash balance, 131–134
- Cash basis accounting, 45
- Cash budget, 508–511
- cash payments section, 509–510
  - cash receipts section, 509
  - defined, 508
  - financing section, 510
  - pro forma financial statement data, 510–512
- Cash discounts
- defined, 94
  - in perpetual inventory system, 92, 94
- Cash dividends, 294–295, 299–300
- asset use transactions, 16, 57
  - cash dividend payments, 294–295, 299–300
  - date of record, 299–300
  - declaration date, 299
  - payment date, 300
  - for preferred stockholders, 294–295
  - receiving, 303
  - stock price and, 303–304
- Cash flow. *See also* Statement of cash flows
- cash flow planning, 505
  - measuring cash inflows, 571
  - measuring cash outflows, 572
  - net income versus, 259
- Cash flow from operating activities, net income
- compared with, 51–52
- Cash payments, 129–130, 509–510
- Cash receipts, 129, 509
- CBS, 300
- Certified checks, 133–134
- Certified Internal Auditor (CIA), 8
- Certified Management Accountants (CMAs), 8, 374
- Certified public accountants (CPAs), 7–8, 139–142
- Certified suppliers, 472

- Chain of command, 127
  - Chart of accounts, 662
  - Checking accounts, 130–136
    - bank checks, 131
    - bank statements, 131
    - certified checks, 133–134
    - deposit tickets, 131
    - reconciling, 131–136
    - signature cards, 130
    - true balance, 131–134
  - Checks
    - bank, 131
    - in bank reconciliation, 131–136
    - certified, 133–134
    - defined, 131
  - Chevron Corp., 25
  - Chief executive officers (CEOs)
    - backgrounds of, 7
    - entrenched management and, 291
  - Chrysler, 400
  - Circuit City, 67
  - Citigroup, 300
  - Claims
    - on assets, 12
    - defined, 12
  - Claims exchange transactions
    - accounting for unearned revenue, 59
    - accrued salary expense, 62
    - defined, 48
    - recognizing expenses incurred on account, 56
  - Classified balance sheets, 262
  - Closely held corporations, 288
  - Closing process, 15, 22, 52
  - CNBC, 337
  - CNN, 337
  - Coca-Cola, 216–217
  - Code of Professional Conduct, 137, 138, 141, 374
  - Collateral
    - for business loans, 261
    - defined, 167, 261
    - promissory note, 167
  - Collusion, 128
  - Committee of Sponsoring Organizations of the Treadway Commission (COSO), 126
    - Enterprise Risk Management (ERM)-An Integrated Framework*, 126
    - Internal Control-An Integrated Framework*, 126
  - Common costs, 434
  - Common size financial statements, 103–105
  - Common stock, 12, 294
  - Confidentiality
    - of auditor opinion, 141–142
    - defined, 141
  - Conservatism principle, 53, 338–339
  - Consistency
    - defined, 177
    - inventory cost flow methods and, 177
  - Consulting services, 7
  - Consumers, 4, 5
  - Context
    - context-sensitive definitions of fixed and variable costs, 406
    - relevant information and, 466, 470–471
  - Contingent liabilities
    - accounting for, 244–245
    - defined, 244
    - general uncertainties and, 244
  - Continuity, 290
  - Continuous budgeting, 500
  - Continuous improvement, 376
  - Contra asset account, 160, 206–207, 215
  - Contribution margin approach
    - contribution margin, defined, 402
    - income statement under, 402–403
    - measuring operating leverage using, 403–404
  - Contribution margin per unit method
    - for computing break-even point, 408
    - for computing sales volume needed for desired profit, 409
    - contribution margin per unit, defined, 408
  - Controllability concept, 532
  - Controllable costs, 434
  - Conversion agents, 4–6
  - Cooper, R., 467n
  - Coordination, as advantage of budgeting, 501
  - Copyrights, 217
  - Corporations
    - advantages and disadvantages of, 288–291
    - capital stock characteristics, 293–295
    - defined, 12n, 288
    - double taxation, 289
    - equity presentation in financial statements, 293, 297, 302–303
    - limited liability of, 289–290
    - regulation of, 288–289
  - Corrective action, as advantage of budgeting, 501
  - Cost
    - defined, 54
    - expense versus, in prepaid items, 54–55
  - Cost accounting, 430–448
    - assignment of costs in retail business, 432–433
    - behavioral issues in, 439–440, 445–447
    - cost allocation, 433, 434–436, 444–447
    - cost drivers, 436–444, 446–447
    - cost tracing, 433
    - determining cost of cost objects, 432
    - direct costs, 433
    - fixed overhead costs, 443–444
    - human factor in, 439–440, 445–447
    - indirect costs, 433, 434–436
    - timing problems, 444–445
  - Cost accumulation, 432
  - Cost allocation, 368
    - in budgeting decision, 445
    - cost of goods available for sale, 91, 174–175
    - cost of goods sold, 91
    - defined, 433, 434
    - human factor in, 445–447
    - of indirect costs to objects, 434–436
  - Cost behavior
    - contribution margin, 402–404
    - cost drivers, 440–444
    - defined, 398
    - fixed cost, 398
    - summarized, 404–406
    - variable cost, 397, 401–402
  - Cost centers, 532
  - Cost classifications, 434
  - Costco Wholesale Corporation, 372
  - Cost drivers
    - in cost allocation process, 446–447
    - cost behaviors and, 440–444
    - defined, 432
    - selecting, 436–444, 447
  - Cost hierarchy, 467–468, 476
  - Cost method of accounting for treasury stock, 298–299
  - Cost objects
    - allocating indirect costs to, 434–436
    - assignment of costs in retail business, 432–433
    - defined, 430, 432
    - determining cost of, 432
  - Cost of capital, 565
  - Cost of goods available for sale
    - cost allocation, 91, 174–175
    - defined, 89, 91
  - Cost of goods sold, 24–25, 89
    - budgeted, 506
    - cost allocation, 91
    - cost tracing and, 433
    - as direct cost, 433
    - expense recognition, 90–91, 102
    - inventory cost flow methods, 171–178
    - materials costs and, 365, 369
    - schedule of cost of goods sold, 106
    - tracing, 433
  - Cost-plus pricing, 362
  - Cost pools, 445
  - Cost tracing, 433
  - Cost-volume-profit analysis, 399
  - Cox Communications, 222
  - Credit card sales, 170–171
  - Credit entries, 661
    - bank statement credit memos, 131
  - Creditors
    - defined, 4
    - financial resources from, 4–5
  - Cruise, Tom, 544
  - Cumulative dividends, 295
  - Current (short-term) assets
    - defined, 200, 261
    - noncurrent assets versus, 261–262
    - in working capital, 325–326, 336, 571
  - Current (short-term) liabilities, 242–247
    - accounts payable, 57, 94, 507
    - contingent liabilities, 244–245
    - defined, 241, 261
    - on financial statements, 246
    - noncurrent liabilities versus, 261–262
    - notes payable, 242–243
    - sales tax, 243–244
    - warranty obligations, 245–246, 247
    - in working capital, 325–326, 336, 571
  - Current ratio, 326, 336
  - Customer satisfaction, 376
  - Cutoff rate, 571
- D**
- Date of record, 299–300
  - Debit entries, 661
    - bank statement debit memos, 131
  - Debt ratios, 329, 336
  - Debt to assets ratio, 329, 336
  - Debt to equity ratio, 329, 336
  - Decentralization concept, 532
  - Decision making
    - capital investment, 564–565
    - cost allocation in budgeting decision, 445
    - financial statement analysis and, 320
    - quantitative versus qualitative characteristics, 466–467, 474–476
    - relevant information, 470–471

- Declaration date, 299
- Deferral  
 defined, 45  
 prepaid items, 54
- Deflation  
 inflation versus, 177  
 inventory cost flow methods and, 177
- Delta Airlines, 402
- Depletion  
 defined, 202, 205  
 in recognizing expense for intangible assets, 202, 216
- Deposits in transit, 132
- Deposit ticket, 131
- Depreciable cost, 204
- Depreciation, 202
- Depreciation expense, 202, 204–213  
 comparing methods, 212–213  
 defined, 204  
 depreciation product cost versus, 368  
 double-declining-balance method, 204, 208–211  
 straight-line method, 204, 205–208  
 units-of-production method, 204, 211–212
- Desired ending inventory, 506
- Differential revenue, 467
- Direct costs, identifying, 433
- Direct labor, 366, 369
- Direct labor hours, 441
- Direct materials, 365, 369, 441–442
- Direct raw materials, 365
- Disclaimer of opinion, 141
- Discontinued items, 99n
- Discount on bonds payable, 256–257, 264–267
- Discounts  
 bond, 256–261, 264–267  
 cash, 92, 94  
 purchase, 94  
 sales, 101–103
- Dividends, 16, 57. *See also* Cash dividends; Stock dividends
- Dividends in arrears, 295
- Dividend yield, 335, 336
- Documents  
 checking account, 130–131  
 prenumbered, 128
- Domino's Pizza, 377, 531
- Double-declining-balance method of depreciation, 208–211  
 compared with other methods, 204, 212–213  
 defined, 208  
 financial statements under, 210–211  
 recognizing depreciation expense, 208–209
- Double-entry accounting, 661–666  
 debit/credit terminology, 661–662  
 defined, 661  
 general ledger, 662  
 illustration of recording procedures, 662–666
- Double-entry bookkeeping, 14
- Double taxation, 289
- Dow Chemical, 300
- Dow Jones Industrial Average (DJIA), 328
- Downstream costs, 371
- E**
- Earnings, 10  
 as added value, 4
- Earnings per share (EPS), 334, 336
- Eastman Kodak Inc., 397
- Ebbers, Bernie, 126
- EDGAR database, U.S. Securities and Exchange Commission (SEC), 337, 595
- Effective interest rate amortization, 264–267  
 bond discount, 264–267  
 bond premium, 267
- Effective interest rates, 256
- Elements of financial statements, 10–13  
 list of, 10  
 terminology variations, 10–11
- Embezzlement, 128
- Employees  
 authority and responsibility of, 127  
 fidelity bonds, 127  
 performance evaluations, 128, 530–546  
 physical control and, 128  
 procedures manual, 127  
 quality of, 127  
 required absences, 127  
 separation of duties, 126–127
- Ending inventory, 507
- Enron, 126, 137
- Enterprise Risk Management (ERM)-An Integrated Framework (COSO)*, 126
- Entity concept, nature of reporting entities, 9–10
- Entrenched management, 291
- Equation method  
 for computing break-even point, 407  
 for computing sales volume needed for desired profit, 409
- Equipment  
 cost components, 203  
 replacement decisions, 477–478
- Equity. *See also* Stockholders' equity  
 in corporations, 293–304  
 defined, 12  
 in partnerships, 292  
 presentation in financial statements, 293, 297, 302–303  
 in sole proprietorships, 291
- Ernst & Young, 372
- Errors, in bank reconciliation, 133, 135
- Estimate cost, actual cost versus, 432
- Estimated useful life  
 defined, 204  
 extending, 214–215  
 identifiable useful lives of intangible assets, 202, 219  
 indefinite useful lives of intangible assets, 202–203, 219  
 revising estimates of remaining useful life, 213
- Estimates  
 long-term operational assets and, 220–221  
 revising, 213, 214–215
- Ethics, 137–139  
 examples of problems, 125, 126, 136, 137  
 features of ethical misconduct, 137–139  
*National Government Ethics Survey* (Ethics Resource Center), 375  
*Statement of Ethical Professional Practice* (IMA), 374
- Ethics Resource Center, 375
- Ex-dividend date, 299–300
- Expenses  
 accrued, 47–49  
 allocating inventory costs between assets and, 89  
 asset use transactions, 15–16, 47, 56, 57, 58, 91, 97  
 costs as assets versus, 214–215, 363–364  
 costs that are expensed, 214  
 cost versus, in prepaid items, 54–55  
 defined, 15, 18, 18n, 51, 66  
 depletion, 202, 205  
 depreciation, 202, 204–213  
 expanded definition, 66  
 liabilities versus, 48  
 recognizing, 90–91, 96, 163, 202, 216, 219, 254
- Extraordinary items, 99n
- Exxon Corporation, 322
- ExxonMobil, 25, 140, 157, 159, 290, 303
- F**
- Face value  
 bonds payable, 252–255  
 defined, 251–252
- Facility-level costs, 468
- Facility-sustaining costs, 468
- Favorable variances, 535
- Ferrari, 337
- Fidelity bonds, 127
- Financial accounting. *See also* Financial statements  
 defined, 6, 359  
 information characteristics, 361, 362  
 international issues, 361  
 level of aggregation, 360, 362  
 managerial accounting versus, 359, 360–362  
 regulation of, 361, 362  
 reporting frequency, 361, 362  
 time horizon, 361, 362  
 types of information, 360, 362  
 users of, 6, 7, 360, 362
- Financial Accounting Foundation (FAF), 8n
- Financial Accounting Standards Board (FASB), 8n  
 auditing standards of, 361  
 compared with International Accounting Standards Board (IASB), 9  
 defined, 8  
 role of, 8, 8n  
 Statement of Financial Accounting Standards (SFAS) 95, 100  
 terminology for statement of cash flows, 10n
- Financial audits, 140
- Financial resources  
 allocating, 4–5  
 from creditors, 4–5  
 defined, 4  
 from investors, 4–5
- Financial statement analysis, 318–339  
 horizontal analysis, 23–24, 321–323  
 information analysis, 320  
 limitations of, 337–339  
 presentation of analytical relationships, 336  
 ratio analysis, 324–336  
 types of decisions, 320  
 users of, 320  
 vertical analysis, 49–52, 62–65, 207–208, 324
- Financial statement audit, 140
- Financial statements. *See also* Financial statement analysis  
 allowance method of accounting for doubtful accounts, 160–161  
 bonds payable and, 254–255, 256–259, 265–267  
 capital stock presentation on, 293, 297, 302–303  
 capital structure in, 291–293  
 common size, 103–105

- current liabilities and, 246
- defined, 10
- depreciation accounting, 207–208, 210–212
- in double-entry accounting system, 664–666
- effect of product costs on, 364–369
- elements of, 10–13
- horizontal statements model, 23–24, 321–323
- impact of inventory cost flow methods on, 172–173, 175–177
- long-term liabilities and, 249–250
- notes receivable accounting and, 166–169
- percent of revenue (sales) method of
  - accounting for doubtful accounts, 163–164
  - preparing, 18–26
  - pro forma, 502, 505, 507, 508, 510–512
  - real-world financial reports, 24–26
  - stakeholder information through, 3
  - types. *See* Balance sheet; Income statement; Statement of cash flows; Statement of changes in stockholders' equity
  - vertical statements model, 49–52, 62–65, 207–208
- Financing activities
  - cost of financing inventory, 94–95
  - defined, 21
- Finished goods inventory, 362, 363, 370–371
- First-in, first-out (FIFO) cost flow method, 172, 174–175
- Fixed costs, 536–537
  - context-sensitive definitions of, 406
  - defined, 398
  - fixed cost behavior, 398
  - in mixed (semivariable) costs, 405
- Fixed cost volume variance, 537
- Fixed interest rate
  - defined, 247
  - on long-term liabilities, 247
- Fixed overhead costs, 443–444
- Flexible budgets
  - preparing, 533–534
  - variances, 537–540
- Flexible budget variances, 537–540
  - calculating sales price variance, 537–538
  - human element in, 539–540
- FOB (free on board) destination, 95–97
- FOB (free on board) shipping point, 95–97
- Ford Motor Company, 241, 249, 371, 372
- Franchises, 217–218
- Frankfurt Stock Exchange, 399
- Fraud
  - examples of, 125, 136
  - internal controls to prevent, 126–128
- Friehling, David, 136
- Full disclosure
  - defined, 177
  - inventory cost flow methods and, 177
- G**
- Gains
  - defined, 98
  - recognizing, 98
- GEICO Insurance, 14
- General, selling, and administrative (G,S,&A), 367
- General authority, 127
- General Electric (GE), 139, 178, 300
- General journal, 661–662
- General ledger, 662
  - closing process, 15, 22, 52
  - defined, 17
  - summary of events, 17, 49, 62
- Generally accepted accounting principles (GAAP)
  - accrual accounting under, 45
  - defined, 9
  - ethics and departures from, 141
  - financial versus managerial accounting, 361
  - international. *See* International Financial Reporting Standards (IFRS)
  - stock splits, 294
- General Mills, 363
- General Motors (GM), 373, 400
- General uncertainties
  - contingent liabilities and, 244
  - defined, 244
- Going concern assumption, 240
- Goodwill, 218–219
- Governmental entities
  - budgets and budgeting, 510
  - National Government Ethics Survey* (Ethics Resource Center), 375
- Great Depression, 289
- Gross margin, 89, 91
  - on multistep income statement, 98–99
- Gross profit, 89
- Grove, Andy, 358–359
- H**
- Healthy Choice, 218
- Hershey, 319, 323
- Historical cost concept, 9, 16, 338–339
  - defined, 203
  - for long-term assets, 203–204
- The Home Depot, Inc., 372
- Horizontal analysis, 321–323
  - absolute amounts, 321–322
  - defined, 321
  - percentage analysis, 322–323
- Horizontal statements model, 23–24
- Hospital Corporation of America (HCA), 438
- Human behavior
  - budgeting and, 501–502
  - cost accounting and, 439–440, 445–447
  - flexible budget variances and, 539–540
- Hurdle rate, 571
- I**
- Income, as added value, 4
- Income statement
  - accounting for notes receivable, 169
  - under contribution margin approach, 402–403
  - defined, 18
  - impact of inventory cost flow methods on, 172–173, 177
  - long-term operational assets on, 221
  - matching concept, 18
  - multistep, 98–100
  - preparing, 18
  - pro forma, 511
  - single-step statement, 99
  - taxes and, 176–177
  - terms for, 10n
  - vertical analysis, 50, 51, 63, 324
- Income taxes. *See* Taxes
- Incremental revenues, 571
- Independent auditors, 139–142
  - confidentiality and, 141–142
  - defined, 140
- financial statement audits, 140
- materiality of financial audits, 140–141
- roles of, 140
- types of audit opinions, 141
- Indirect costs, 368
  - allocating to objects, 434–436
  - identifying, 433
- Indirect labor, 369
- Indirect materials, 369, 441
- Industry
  - effects of events on stock prices, 25
  - long-term operational assets and, 221–222
  - ratio analysis and, 338
- Inflation
  - defined, 177
  - inventory cost flow methods and, 177
  - time value of money, 564
- Information characteristics, financial accounting and, 361, 362
- Information overload, 320
- Installment loans payable, 248–251
- Installment notes, 248–251
- Institute of Certified Management Accountants, 8
- Institute of Internal Auditors, 8, 137
- Institute of Management Accountants (IMA), 137
  - Statement of Ethical Professional Practice*, 374
- Intangible assets, 216–219
  - copyrights, 217
  - defined, 202, 216
  - expense recognition, 202–203, 219
  - franchises, 217–218
  - goodwill, 218–219
  - with identifiable useful lives, 202, 219
  - with indefinite useful lives, 202–203, 219
  - patents, 217
  - trademarks, 216–217
- Intel Corporation, 358–359
- Interest, 5, 167
- Interest expense
  - on bonds payable, 253–254, 255, 256
  - current liabilities, 242–243
  - line of credit, 251
  - on long-term liabilities, 247–249, 251
  - paying cash for interest expense, 97, 242–243
  - on promissory note, 242–243
  - semiannual payments, 255
- Interest income
  - accrued, 167–168
  - adjustments to book balance, 133
  - promissory note, 167, 168–169
  - time value of money, 564
- Interest rates
  - effective, 256
  - fixed, 247
  - market, 260–261, 264
  - variable, 247
- Internal Control—An Integrated Framework* (COSO), 126
- Internal control systems, 126–143
  - accounting for cash, 129–136
  - ethics, 125, 126, 137–139
  - independent auditor role, 7, 139–142
  - internal control, defined, 126
  - key features, 126–128
- Internal rate of return
  - comparing alternative capital investment opportunities, 574–576
  - decision rule, 571
  - defined, 570–571

International Accounting Standards Board (IASB), 9  
 International Financial Reporting Standards (IFRS)  
   balance sheet presentation, 263  
   defined, 9  
   LIFO inventory cost flow method and, 178  
   stock splits, 294  
 International issues  
   balance sheet format, 263  
   cash flow planning, 505  
   cost-volume-profit analysis, 399  
   financial accounting, 361  
   International Financial Reporting Standards (IFRS), 9, 178, 263, 294  
   LIFO in other countries, 178  
   managerial accounting, 361  
   performance evaluation, 543  
 Inventory  
   allocating cost between asset and expense accounts, 89  
   cost flow methods, 171–178  
   just-in-time (JIT), 372–373, 376  
   merchandise, 86, 91, 100–101, 128  
   periodic inventory system, 106–107, 108–109  
   perpetual inventory system, 89–97, 106–107, 108–109, 174–177  
   raw materials, 370–371  
 Inventory cost flow methods, 171–178  
   defined, 174  
   first-in, first-out (FIFO), 172, 174–175  
   impact on financial statements, 172–173, 175–177  
   last-in, first-out (LIFO), 172, 175, 178  
   physical flow, 172  
   specific identification, 172  
   weighted average, 172, 175  
 Inventory holding costs, 372  
 Inventory purchases budget, 505–507  
   pro forma financial statement data, 507  
   schedule of cash payments for inventory purchases, 506  
 Inventory ratios, 328–329, 336  
 Inventory turnover, 328, 336  
 Investing activities, 21  
 Investment centers, 532  
 Investors  
   defined, 4  
   financial resources from, 4–5  
 Issued stock  
   accounting for transactions after day of issue, 298–301  
   accounting for transactions on day of issue, 296–297  
   defined, 293  
 Issuer  
   of bonds payable, 251  
   defined, 242, 251  
   of notes payable, 242

**J**

JCPenney, 86, 360, 473–474  
 Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003, 289n  
 Journals  
   defined, 662  
   general journal, 661–662  
   special journals, 662  
 JP Morgan Chase, 300  
 Just-in-time (JIT) inventory, 372–373, 376  
   defined, 372  
   illustration, 372–373

**K**

Kaplan, R. S., 467n  
 Kelly Services, 222  
 Kraft Foods, Inc., 319, 323  
 Kroger Food Stores, 402  
 Kroger's, 178

**L**

Labor costs, 365–366, 369  
 Labor resources  
   allocating, 5  
   defined, 5  
 Land  
   cost components, 203  
   defined, 202  
   purchasing with cash, 57, 91, 253, 257  
   rental revenue, 257  
   sale for cash, 254, 258  
   as tangible asset, 202  
 Last-in, first-out (LIFO) cost flow method, 172, 175, 178  
 Legal capital, 293, 296  
 Lehman Brothers, 137  
 Leverage. *See* Operating leverage  
 Liabilities, 240–267. *See also* Current (short-term) liabilities; Long-term liabilities  
   defined, 12  
   expenses versus, 48  
   long-term, 247–255  
 Limited liability, 290  
 Limited liability companies (LLCs), 289  
 Line of credit, 251  
 Lipitor, 463  
 Liquidation, 4  
 Liquidity  
   accounting for notes receivable, 169  
   defined, 20, 169  
 Liquidity ratios, 325–329, 336  
   accounts receivable ratios, 327–328, 336  
   current ratio, 326, 336  
   defined, 325  
   inventory ratios, 328–329, 336  
   quick ratio, 326–327, 336  
   working capital, 325–326, 336  
 Little Caesar's, 377  
 Long-term liabilities, 247–255  
   amortization  
     defined, 248  
     using effective interest rate method, 264–267  
     using straight-line method, 256–261  
   bonds, 251–261, 265–267  
   current (short-term) liabilities versus, 261–262  
   defined, 247  
   on financial statements, 249–250  
   installment notes payable, 248–251  
   interest expense, 247–249  
   line of credit, 251  
   principal repayment, 248, 249  
   security for loan agreements, 261  
 Long-term operational assets, 200–223  
   balance sheet presentation, 220, 221  
   continuing expenditures for plant assets, 214–215  
   cost determination, 203–204  
   costs that are capitalized, 214–215, 363–364  
   costs that are expensed, 214  
   defined, 200  
   depreciation expense recognition, 204–213  
   effect of industry characteristics, 221–222  
   effect of judgment and estimation, 220–221

intangible, 202–203, 216–219  
 natural resources, 202, 216  
 revision of estimates, 213  
 tangible, 202

**Losses**

defined, 98  
 recognizing, 98  
 Low-ball pricing, 472  
 Lowes, 67  
 Lowe's Companies Inc., 303  
 Lump-sum cash flows, 566, 582

**M**

Madoff, Bernard, 125, 136, 137  
 Magna International, 473  
 Magna Steyr, 473  
 Maker  
   defined, 167  
   promissory note, 167  
 Making the numbers, 536  
 Management by exception, 540  
 Management's discussion and analysis (MD&A), 25  
 Management structure, 290–291  
 Managerial accounting, 358–378  
   defined, 6, 359  
   emerging trends in, 376–378  
   financial accounting versus, 359, 360–362  
   international issues, 361  
   just-in-time inventory, 372–373, 376  
   management accounting reports, 8  
   product costing in manufacturing companies, 362–371  
   product costing in merchandising companies, 89, 371–372  
   product costing in service companies, 371–372  
   statement of ethical professional practice, 374–375  
   users of, 7  
 Managerial performance measurement, 540  
 Manufacturing businesses  
   average cost per unit, 362–363  
   defined, 24  
   downstream costs, 371  
   product costing in, 362–371  
   schedule of cost of goods manufactured and sold, 370–371  
   upstream costs, 371  
 Manufacturing overhead, 368, 369  
 Margin, 542  
 Margin of safety, 410  
 Market rate of interest, 260–261, 264  
 Markets  
   defined, 4  
   financial resources and, 4–5  
   in resource allocation, 5  
   to set resource priorities, 4–5  
 Market value, 293  
 Master budget, 498, 502–503, 533  
 Matching concept  
   deferring expense recognition, 54  
   defined, 18, 53, 168  
   in notes receivable accounting, 168  
 Materiality  
   absolute amounts and, 321–322  
   defined, 140, 321  
   financial audits and, 140–141  
 Materials cost, 365, 369, 441  
 Maturity date  
   defined, 167  
   promissory note, 167, 168–169

- Measures of managerial effectiveness, 331–333, 336
- Merchandise inventory
  - cost allocation, 91
  - defined, 86
  - shrinkage, 100–101, 128
- Merchandising businesses, 86–107
  - common size financial statements, 103–105
  - cost assignment to cost objects in retail business, 432–433
  - defined, 24, 86
  - events effecting sales, 101–103
  - inventory cost allocation, 89
  - inventory cost flow methods, 171–178
  - multistep income statement, 98–100
  - periodic inventory system, 106–107, 108–109
  - perpetual inventory system, 89–97, 106–107, 174–177
  - product costing in, 89, 371–372
  - recognizing gains and losses, 98
  - selling and administrative costs, 89, 91, 97
  - shrinkage, 100–101, 128
  - types of, 24, 86
- Merck & Company, 218
- Meredith Corporation, 45, 60, 61
- Minimum rate of return, 564–565
- Mixed costs, 405
- Model Business Corporation Act, 288
- Motorola, 300
- Multistep income statement, 98–100
  
- N**
- National Government Ethics Survey* (Ethics Resource Center), 375
- Natural resources
  - defined, 202
  - depletion expense recognition, 202, 216
- Nestle, 319, 323
- Net accounts receivable, 327
- Net credit sales, 327
- Net income, 99
  - cash flow versus, 51–52, 259
  - defined, 18
- Net loss, 18
- Net margin, 331–332, 336
- Net present value
  - comparing alternative capital investment opportunities, 572–574
  - defined, 569–570
  - net present value decision rule, 570
- Net realizable value, 158, 161
- Net sales, 103
- New York Stock Exchange, 16, 288, 290, 399, 564
- New York Times*, 300
- Nike, 216–217
- Non-sufficient-funds (NSF) checks, 133
- Nonvalue-added activities, 377
- Notes payable
  - accounting for, 242–243
  - borrowing cash by issuing, 93
  - cash payment for interest, 242–243
  - defined, 242
  - installment, 248–251
  - issuing, 242
  - principal repayment, 243
- Notes receivable
  - accounting for promissory notes, 166–169
  - defined, 156, 166
  - issuing, 242
- Not-for-profit entities
  - business entities versus, 24
  - defined, 6
- NSF checks
  - adjustments to book balance, 133, 136
  - defined, 133
  
- O**
- Office Depot, 67
- Operating activities, 21
- Operating budgets, 500, 502
- Operating cycle, 261
- Operating expenses, 572
- Operating income (loss)
  - defined, 99
  - on multistep income statement, 99
- Operating leverage, 398–400
  - calculating percentage change, 399–400
  - defined, 398
  - measuring using contribution margin, 403–404
  - risk and reward assessment, 400
- Operations budgeting, 500, 502
- Opportunity, as feature of ethical misconduct, 138–139
- Opportunity cost, 373, 464–465, 470, 472, 476
- Ordinary annuity, 568
- Outsourcing decisions, 471–473
- Outstanding checks, 132–133
- Outstanding stock, 293
- Overhead costs, 366, 367–368
  - defined, 362, 433
  - fixed, 443–444
  - as indirect cost, 433
  - manufacturing overhead, 368, 369
  - predetermined overhead rate, 445
  - variable, 440–442
  
- P**
- Paid-in capital in excess of par (stated) value, 296
- Papa John's, 531
- Participative budgeting, 502
- Partnership agreement, 288
- Partnerships
  - advantages and disadvantages of, 288–291
  - defined, 12n, 288
  - equity presentation in financial statements, 292
- Par value
  - defined, 293
  - issuing par value stock, 296
  - stock issued with no par value, 297
- Patents, 217
- Payback method, 578–579
  - interpreting payback, 578–579
  - unequal cash flows, 579
- Payee
  - defined, 167
  - promissory note, 167
- Payment date, 300
- Peace Corps, 6
- PepsiCo, 377–378
- Percentage analysis, 322–323
- Percent of receivables method of accounting for
  - doubtful accounts, 164–166
  - allowance for doubtful accounts, 164–166
  - ending balance in, 165–166
  - percent of revenue (sales) method versus, 166
- Percent of revenue (sales) method of accounting
  - for doubtful accounts, 163–164
  - estimating uncollectible accounts expense, 164–166
- financial statements and, 163–164
- percent of receivables method versus, 166
- Performance evaluation, 128, 530–546
  - as advantage of budgeting, 501
  - decentralization concept, 532
  - flexible budget variances, 537–540
  - international issues in, 543
  - managerial performance measurement, 540
  - preparing flexible budgets, 533–534
  - residual income, 543–545
  - return on investment (ROI), 332–333, 336, 540–542
  - sales and variable cost volume variances, 535–537
  - variance determination, 535–540
- Period costs, 53, 89, 367
- Periodic inventory system
  - described, 108–109
  - perpetual inventory system versus, 106–107
- Permanent accounts, 22
- Perpetual (continuous) budgeting, 500
- Perpetual inventory system, 89–97
  - cash discounts, 92, 94
  - cost flow methods under, 174–177
  - cost of financing inventory, 94–95
  - defined, 89
  - effects of events on financial statements, 90–91, 92–93
  - periodic inventory system versus, 106–107
  - purchase returns and allowances, 92, 93
  - transportation cost, 92, 95–97
- Perry, Tyler, 544
- Pfizer Inc., 300, 470
- Physical flow of goods, 172
- Physical resources
  - allocating, 5
  - defined, 5
- Pierce, Bernard, 361n
- Pizza Hut Restaurants, 406, 531
- Planning, 498–514. *See also* Budgets and budgeting; Capital investments
  - as advantage of budgeting, 501
  - international issues in, 505
  - levels of planning for business activity, 500
  - planning process, 500
- Plant assets to long-term liabilities ratio, 331, 336
- PMO.com, 531
- Polo, 216–217
- Ponzi schemes, 125, 137
- Postaudits, 581
- Posting, 662
- Predetermined overhead rate, 445
- Preferred rights, 334
- Preferred stock, 294–295
  - defined, 294
  - dividends, 294–295
  - preferences granted to stockholders, 294–295
- Premium on bonds payable, 260–261, 267
- Prenumbered documents, 128
- Prepaid items
  - adjusting entries, 58
  - cost versus expense, 54–55
  - defined, 54
- Present value
  - converting future cash inflows to equivalent present values, 565–569
  - ordinary annuity assumption, 568
  - present value table for annuities, 566–567, 583
  - present value table for single-amount cash inflows, 566, 582
  - reinvestment assumption, 568–569
  - software programs that calculate, 567–568

- Present value index, 574
- Present value tables  
for annuities, 566–567, 583  
defined, 566  
for single-payment cash inflows, 566, 582
- Pressure, as feature of ethical misconduct, 138, 139
- Price-earnings (P/E) ratio, 334–335, 336
- Principal  
amortization of, 248  
defined, 167  
long-term liability, 248, 249  
promissory note, 167, 168–169, 243
- Private accounting, 8
- Procedures manual, 127
- Procter & Gamble, Inc., 290
- Product cost, materials costs, 365
- Product costing  
costs as assets or expenses, 363–364  
defined, 362  
in manufacturing companies, 362–371  
in merchandising companies, 371–372  
in service companies, 371–372
- Product costs  
defined, 88–89, 362  
effect on financial statements, 364–369  
general, selling, and administrative costs (G,S,&A), 367  
labor costs, 365–366, 369  
overhead costs. *See* Overhead costs  
total product cost, 366–367
- Product-level costs, 468
- Profit  
as added value, 4  
computing sales volume needed for, 409  
cost-volume-profit analysis, 399  
gross profit, 89
- Profitability ratios, 331–333, 335, 336  
asset turnover ratio, 332, 336  
net margin (return on sales), 331–332, 336  
profitability, defined, 331  
reasoning behind, 335  
return on equity, 333, 336  
return on investment. *See* Return on investment (ROI)
- Profit centers, 532
- Pro forma financial statements  
balance sheet, 512  
cash budget, 510–512  
defined, 502  
income statement, 511  
inventory purchases budget and, 507  
sales budgets and, 505  
selling and administrative expense budget, 507–508  
statement of cash flows, 512
- Projected cost of goods sold, 506
- Projected sales, 504
- Promissory notes  
accounting for notes payable, 242–243  
accounting for notes receivable, 166–169  
defined, 166
- Property, plant, and equipment  
continuing expenditures for, 214–215  
defined, 202
- Proprietorships. *See* Sole proprietorships
- Public accounting, 7–8  
audit services, 7, 139–142  
consulting services, 7  
defined, 7  
tax services, 7
- Public Company Accounting Oversight Board (PCAOB), 289
- Purchase allowances  
defined, 93  
in perpetual inventory system, 93
- Purchase discounts  
defined, 94  
in perpetual inventory systems, 94
- Purchase returns  
defined, 93  
in perpetual inventory system, 93
- Q**
- Qualified opinions, 141
- Qualitative characteristics  
in decision making, 471, 472–473  
quantitative characteristics versus, 466–467, 474–476  
for return on investment (ROI), 541
- Quality  
of employees, 127  
expenditures to improve, 214  
total quality management (TQM), 376
- Quantitative characteristics, in decision making, 468–469, 471–472, 477–478  
qualitative characteristics versus, 466–467, 474–475
- Quick ratio, 326–327, 336
- R**
- Radcliffe, Daniel, 544
- Rate of return  
internal, 570–571, 574–576  
minimum, 564–565  
simple, 579–580  
unadjusted, 579–580
- Ratio analysis, 324–336  
defined, 324  
liquidity ratios, 325–329, 336  
measures of managerial effectiveness, 331–333, 336  
objectives of, 325  
presentation of analytical relationships, 336  
profitability measures, 331–333, 336  
profitability ratios, 331–333, 335, 336  
solvency ratios, 329–331, 336  
stock market ratios, 293, 333–335, 336
- Rationalization, as feature of ethical misconduct, 138, 139
- Raw materials, 365
- Raw materials inventory, 370–371
- Realization, 44
- Real-world financial reports, 24–26  
annual report, 25, 596–660  
capital investments, 581  
special terms in, 25–26
- Recognition, 8  
accrual, 45  
deferral, 45  
defined, 44  
expense, 90–91, 96, 163, 202, 204–213  
interest payments, 254  
warranty expense, 246  
gains, 98  
losses, 98  
revenue, 90, 96, 158, 162, 170–171, 253
- Recovery of investment, 580
- Reengineering, 376
- Regulation  
of corporations, 288–289  
of financial accounting, 361, 362  
of securities trading, 25, 289, 337
- Reinstating accounts receivable, 162–163
- Reinvestment assumption, 568–569
- Relative fair market value method, 203–204
- Relevant costs, 465–466
- Relevant information, 462–479  
accuracy and, 466  
context and, 466, 470–471  
cost avoidance and cost hierarchy, 467–468, 476  
defined, 464  
equipment replacement decisions, 477–478  
opportunity cost, 464–465, 470  
outsourcing decisions, 471–473  
qualitative characteristics, 466–467, 474–476  
quantitative characteristics, 466–467, 474–476  
relevance as independent concept, 465–466  
reliability concept versus, 16  
segment elimination decisions, 473–476  
special order decisions, 468–471  
sunk cost, 464, 573  
time value of money and, 576
- Relevant range, 405
- Reliability concept, 16
- Reporting entities, 9–10
- Reporting frequency, for financial accounting, 361
- Residual income, 543–545  
balanced scorecard, 545  
calculating multiple RIs for same company, 545  
defined, 543  
increasing, 544  
responsibility accounting, 545
- Resource allocation, 4–5  
financial resources, 4–5  
labor resources, 5  
nonbusiness resource usage, 6  
physical resources, 5
- Resource owners, 4, 5
- Responsibility accounting, 530, 545. *See also* Performance evaluation
- Responsibility centers, 532
- Restrictive covenants, 261
- Results of operations. *See* Income statement
- Retail companies, 24, 86. *See also* Merchandising businesses  
assignment of costs to cost objects, 432–433
- Retained earnings  
appropriation of, 301  
defined, 12–13
- Return on equity (ROE), 333, 336
- Return on investment (ROI), 332–333, 336, 540–542, 564  
calculating multiple ROIs for same company, 545  
in comparative evaluations, 540–541  
defined, 540  
determining minimum rate of return, 564–565  
factors affecting, 542  
qualitative considerations, 541
- Return on sales, 331–332, 336
- Revenue  
asset source transactions, 15  
defined, 15, 18, 18n, 59, 66  
differential, 467  
expanded definition, 66  
incremental revenues, defined, 571  
recognizing, 90, 96, 158, 162, 170–171, 253  
unearned, 55, 59



- Revenue expenditures, 214
- Rosetta Stone, 290
- Rowling, J. K., 544
- S**
- Salaries payable, 48
- Sales
  - budgeting, 506
  - determining sales volume necessary to reach desired profit, 409
  - events affecting, 101–103
  - margin of safety, 410
  - return on, 331–332, 336
- Sales budgets, 503–505
  - pro forma financial statement data, 505
  - projected sales, 504
  - schedule of cash receipts, 504
- Sales discounts
  - accounting for, 102–103
  - defined, 101
- Sales price variances, 537–538
- Sales returns and allowances
  - accounting for, 102
  - net sales and, 103
- Sales taxes, accounting for, 243–244
- Sales volume variances, 535–537
  - defined, 535
  - fixed cost considerations, 536–537
  - interpreting, 535–536
- Salvage value
  - defined, 204
  - determining, 209
  - revising estimates, 213
- Sam's Club, 86
- Sarbanes-Oxley Act of 2002 (SOX), 126, 137, 289
- Schedule of cash payments for inventory purchases, 506
- Schedule of cash receipts, 504
- Schedule of cost of goods manufactured and sold, 370–371
- Schedule of cost of goods sold, 106
- Schering-Plough Corporation, 218
- Schwinn, 359, 368
- S Corporations, 289
- Sears, 14, 86, 359, 368
- Sears Roebuck Company, 360
- Securities Act of 1933, 289
- Securities and Exchange Commission (SEC), 25, 289
  - EDGAR database, 337, 595
- Securities Exchange Act of 1934, 289
- Security for loan agreements, 261
- Segment elimination decisions, 473–476
- Segment reports, 474
- Segments, 473
- Selling and administrative costs
  - defined, 89
  - general, selling, and administrative (G,S,&A), 367
  - in merchandising businesses, 89, 91, 97
- Selling and administrative expense budget, 507–508
  - pro forma financial statement data, 508
  - schedule of cash payments for selling and administrative expenses, 507–508
- Semiannual interest payments, 255
- Semivariable costs, 405
- Separation of duties, 126–127
- Service businesses
  - defined, 24
  - product costing in, 371–372
- Service charges
  - adjustments to book balance, 133, 136
  - defined, 133
- Shrinkage
  - inventory, 100–101, 128
  - physical control and, 128
- Signature card, 130
- Simple rate of return, 579–580
- Single-payment cash flows, 566, 582
- Single-step income statement, 99
- Smith, Will, 544
- Sole proprietorships
  - advantages and disadvantages of, 288–291
  - defined, 12n, 288
  - equity presentation in financial statements, 291
- Solvency ratios, 329–331, 336
  - debt ratios, 329, 336
  - defined, 329
  - number of times interest earned, 329–330, 336
  - plant assets to long-term liabilities, 331, 336
- Source documents, 661
- Southwest Airlines, 435
- Special journals, 662
- Special order decision, 468–471
- Specific authorizations, 127
- Specific identification, 172
- Spending variances, 536–537
- St. Jude Children's Hospital, 371–372
- Stakeholders
  - defined, 3, 6, 10
  - link with conversion agents, 6
  - as users of accounting information, 6, 320
- Starbucks, 3, 11
- Stated interest rate, bonds payable, 251–252
- Stated value
  - defined, 293
  - stock issued at, 296–297
- Statement of capital. *See* Statement of changes in stockholders' equity
- Statement of cash flows, 10n
  - classification scheme for, 21
  - defined, 21
  - preparing, 21
  - pro forma, 512
  - in vertical statements model, 50, 51, 64
- Statement of changes in stockholders' equity, 10n
  - defined, 20
  - preparing, 20
  - in vertical statements model, 50, 51, 64
- Statement of earnings. *See* Income statement
- Statement of ethical professional practice, 374
- Statement of Financial Accounting Standards (SFAS) 95, 100
- Statement of financial position. *See* Balance sheet
- Statement of stockholders' equity. *See* Statement of changes in stockholders' equity
- Static budgets, 533–534
- Stock certificates, 288
- Stock dividends, 300–301
- Stockholders
  - defined, 12, 290
  - exercising control through ownership, 304
- Stockholders' equity. *See also* Equity
  - in accounting equation, 13
  - asset source transactions, 13–14, 46, 57, 90
  - defined, 12–13
  - transactions after day of issue, 298–299
- Stock market crash of 1929, 289
- Stock market ratios, 333–335, 336
  - book value per share, 293, 334, 336
  - dividend yield, 335, 336
  - earnings per share (EPS), 334, 336
  - price-earnings ratio, 334–335, 336
- Stock splits
  - defined, 301
  - international differences in treatment, 294
- Straight-line amortization, 256–261
  - bonds issued at discount, 256–259
  - bonds issued at premium, 260–261
  - defined, 257–258
- Straight-line depreciation, 205–208
  - compared with other methods, 204, 212–213
  - defined, 205
  - financial statements under, 207–208
  - recognizing depreciation expense, 206–207
- Strategic planning, 500
- Suboptimization, 543
- Sunk costs, 464, 573
- Supplies, adjusting entries, 58
- T**
- T-accounts, 661
- Tangible assets
  - defined, 202
  - long-term, 202
  - types, 202
- Target Corporation, 25, 86, 596–660
- Taxes
  - comparing alternative capital investment opportunities, 577–578
  - double-taxation of corporations, 289
  - impact on inventory cost flow methods, 176–177
  - sales tax liability, 243–244
- Tax services, 7
- Temporary accounts, 22
- 10-K, 25, 596–660
- Terrorist attacks of 2001, 304
- Texaco, Inc., 372
- Textron, 300
- Time horizon, for financial accounting, 361, 362
- Times interest earned ratio, 329–330, 336
- Time value of money, 564–578
  - defined, 564
  - relevance and, 576
- Timing problems, cost allocation and, 444–445
- Total product cost, 366–367
- Total quality management (TQM), 376
- Toyota Motor Corporation, 337, 372
- Trademarks, 216–217
- Transaction classification
  - asset exchange transactions, 14, 17, 66
  - asset source transactions, 13–14, 17, 66
  - asset use transactions, 15–16, 17–18, 66
  - claims exchange transactions, 48, 66
- Transactions
  - capital stock, 296–301
  - classification of. *See* Transaction classification
  - defined, 13
  - in general ledger, 17
  - summary of events, 17, 49, 62
- Transferability of ownership, 290
- Transportation costs
  - in perpetual inventory system, 92, 95–97
  - terms, 95–96
- Transportation-in (freight-in), 95–96

- Transportation-out (freight-out), 95–97
  - Treasury stock
    - cost method of accounting for, 298–299
    - defined, 293, 298
    - transactions after day of issue, 298–299
  - Trend analysis. *See* Horizontal analysis
  - Trial balance, 664
  - True cash balance, 131–134
  - Turnover, 542
  - Turnover ratios
    - accounts receivable, 327–328, 336
    - asset, 332, 336
    - inventory, 328, 336
  - 2/10, net/30 purchase terms, 94–95
- U**
- Unadjusted bank balance, 131, 134
  - Unadjusted book balance, 131–132, 135
  - Unadjusted rate of return, 579–580
  - Uncollectible accounts
    - allowance method of accounting for, 158–163
    - percent of receivables method of accounting for, 164–166
    - percent of revenue (sales) method of accounting for, 163–164
    - recovery of uncollectible accounts receivable, 162–163
  - Uncollectible accounts expense, 159–160
  - Unearned revenues, 55, 59
  - Unfavorable variances, 535
  - United Airlines, 222
  - United States Olympic Committee (USOC), 499, 513
  - Unit-level costs, 467
  - Units-of-production method of depletion, 216
  - Units-of-production method of depreciation, 211–212
    - compared with other methods, 204, 212–213
    - defined, 211
  - financial statements under, 212
    - recognizing depreciation expense, 211
  - Unqualified opinions, 141
  - Upstream costs, 371
  - Users, of accounting information, 6, 7, 320, 360, 362
  - US Steel, 8
- V**
- Value-added activities, 377
  - Value-added assessment, 361, 376
  - Value chain analysis, 377–378
  - Value Line Investment Survey*, 337
  - Valmet Automotive, 473
  - Variable costs
    - context-sensitive definitions of, 406
    - defined, 397
    - in mixed (semivariable) costs, 405
    - risk and reward assessment, 401
    - variable cost behavior, 401–402
  - Variable cost-volume variances, 535–536
    - defined, 535
    - interpreting, 535–536
  - Variable interest rate
    - defined, 247
    - on long-term liabilities, 247
  - Variable overhead costs, 440–442
  - Variances, 535–540
    - defined, 535
    - favorable, 535
    - flexible budget, 537–540
    - sales and variable cost volume, 535–537
    - sales price, 537–538
    - unfavorable, 535
  - Vertical analysis
    - balance sheet, 324
    - defined, 324
    - income statement, 50, 51, 63, 324
  - Vertical integration, 472
  - Vertical statements model, 49–52, 62–65
    - depreciation accounting, 207–208
  - Volume measures, as cost drivers, 440–442
  - Vulcan Materials Co., 178
- W**
- Wagoner, Rick, 400
  - Walmart, 67, 291, 544
  - Walt Disney, 397
  - Warranty obligations
    - accounting for, 245–246
    - extended warranties, 247
    - warranties, defined, 245
  - Weighted-average cost flow method, 172, 175
  - Wendy's, 6, 372
  - Weyerhaeuser Company, 201
  - Wholesale companies, 24, 86
  - Withdrawals, 291
  - Wm. Wrigley Jr. Company, 323
  - Working capital, 325–326, 336, 571
  - Working capital ratio, 325–326, 336
  - Work in process inventory, 370–371
  - WorldCom, 126, 137
  - World Trade Center terrorist attacks (2001), 304
  - Write-off, uncollectible accounts receivable, 161–162
- Y**
- Yield, dividend, 335, 336
- Z**
- Zales, 87, 88, 89, 99, 104
  - Zero defects, 376
  - Zocor, 463