



Contents

PART 1 **Accounting: The Language of Business,**

- * **Introduction: The Accounting Environment, 4**
Learning Objectives, **4** Accounting Defined, **5** Employment Opportunities in Accounting, **6** *Public Accounting. Private or Industrial Accounting. Governmental and Other Not-for-Profit Accounting.* Managerial Accounting versus Financial Accounting, **8** *Managerial Accounting. Financial Accounting.* The Development of Financial Accounting Standards, **10** *American Institute of Certified Public Accountants (AICPA). Financial Accounting Standards Board (FASB). Securities and Exchange Commission (SEC). American Accounting Association (AAA).* Summary, **11** New Terms, **12** Questions, **13**

- 1** **Accounting and Its Use in Business Decisions, 14**
Learning Objectives, **14** Forms of Business Organizations, **15** *Single Proprietorship. Partnership. Corporation.* Types of Business Activities Performed by Business Organizations, **16** Financial Statements of Business Organizations, **17** *The Balance Sheet. The Income Statement.* The Financial Accounting Process, **20** *The Accounting Equation. Analysis of Transactions.* Summary, **30** New Terms, **31** Demonstration Problem, **32** Questions, **34** Exercises, **34** Problems (A), **36** (B), **38** Business Decision Problems, **41** Business Situation for Discussion, **42**

PART 2 **Processing Accounting Information, 45**

- * **2** **Recording Business Transactions, 46**
Learning Objectives, **46** The Account, **47** *The T-Account. Debits and Credits. Double-Entry Procedure. Determining the Balance of an Account. Rules of Debit and Credit Summarized.* The Ledger, **53** The Accounting Process in Operation, **53** The Journal, **60** *The General Journal. Journalizing. Posting. Cross-Indexing. Posting and Cross-Indexing—An Illustration. Compound Journal Entries.* The Trial Balance, **66** Summary, **71** New Terms, **71** Demonstration Problem, **72** Questions, **78** Exercises, **78** Problems (A), **80** (B), **83** Business Decision Problem, **86** Business Situation for Discussion, **87**

- ✧ **3** **Adjusting the Accounts, 89**
 Learning Objectives, 89 The Need for Adjusting Entries, 90 *Cash versus Accrual Basis Accounting*. Classes and Types of Adjusting Entries, 92 Adjustments for Deferred Items, 94 *Asset/Expense Adjustments—Prepaid Expenses and Depreciation. Liability/Revenue Adjustments—Unearned Revenues*. Adjustments for Accrued Items, 103 *Asset/Revenue Adjustments—Accrued Assets. Liability/Expense Adjustments—Accrued Liabilities*. Effects of Failing to Prepare Adjusting Entries, 105 Summary, 106 New Terms, 107 Demonstration Problem, 108 Questions, 110 Exercises, 110 Problems (A), 111 (B), 114 Business Decision Problem, 116 Business Situation for Discussion, 117
- ✧ **4** **Completing the Accounting Cycle: Work Sheet, Closing Entries, and Classified Balance Sheet, 119**
 Learning Objectives, 119 The Accounting Cycle Summarized, 120 The Work Sheet, 121 *The Trial Balance Columns. The Adjustments Columns. The Adjusted Trial Balance Columns. The Income Statement Columns. The Balance Sheet Columns*. Preparing Financial Statements from the Work Sheet, 129 *Income Statement. Statement of Owner's Equity. Balance Sheet*. Journalizing Adjusting Entries, 131 The Closing Process, 132 *Step 1: Closing the Revenue Account(s). Step 2: Closing the Expense Accounts. Step 3: Closing the Income Summary Account. Step 4: Closing the Owner's Drawing Account. Closing Process Summarized. Post-Closing Trial Balance*. The Classified Balance Sheet, 140 *Current Assets. Property, Plant, and Equipment. Current Liabilities. Long-Term Liabilities*. Summary, 143 **Appendix 4-A: Reversing Entries, 144 Appendix 4-B: Ledger Accounts after Closing Process Completed, 146** New Terms, 151 Demonstration Problem, 152 Questions, 156 Exercises, 156 Problems (A), 158 (B), 163 Business Decision Problems, 167 Comprehensive Review Problem, 169 Business Situation for Discussion, 170
- 5** **Merchandising Transactions, Introduction to Inventories, and Classified Income Statement, 172**
 Learning Objectives, 172 Two Income Statements Compared—Service Company and Merchandising Company, 173 Sales Revenues, 174 *Recording Gross Sales. Recording Deductions from Gross Sales. Reporting Net Sales in the Income Statement*. Cost of Goods Sold, 179 *Two Procedures for Accounting for Inventories. Purchases of Merchandise. Deductions from Purchases. Transportation Costs. Merchandise Inventories. Determining Cost of Goods Sold. Lack of Control under Periodic Inventory Procedure*. Classified Income Statement, 187 *Important Relationships in the Income Statement*. The Work Sheet for a Merchandising Company, 190 *Completing the Work Sheet. Financial Statements for a Merchandising Company. Closing Entries*. Summary, 196 **Appendix: Alternative Closing Procedure, 197** New Terms, 200 Demonstration Problems, 202 Questions, 208 Exercises, 208 Problems (A), 210 (B), 213 Business Decision Problem, 216 Business Situation for Discussion, 217
- 6** **Accounting Systems and Special Journals, 219**
 Learning Objectives, 219 The Processing of Data—Manual System, 220 Control Accounts and Subsidiary Ledgers, 220 Special Journals, 222 *Sales Journal. Cash Receipts Journal. Combined Sales and Cash Receipts Journal. The Purchases Journal. Cash Disbursements Journal. A Combined Purchases*

and Cash Disbursements Journal. General Ledger Illustrated. The General Journal. Alternative Methods of Processing Data, 241 Manual System. Bookkeeping Machine System. Microcomputers and Minicomputers. Service Bureaus. Time-Sharing Terminals. Mainframe In-House Computer. Summary, 243 Appendix: Electronic Data Processing—The Computer, 244 New Terms, 246 Demonstration Problems, 247 Questions, 250 Exercises, 250 Problems (A), 252 (B), 257 Business Decision Problems, 261 Comprehensive Review Problem, 262 Business Situation for Discussion, 265

PART 3

Assets and Liabilities, 267

7

Control of Cash, 268

Learning Objectives, **268** Internal Control, **269** *Protection of Assets. Compliance with Company Policies and Federal Law. Evaluation of Personnel Performance. Accuracy of Accounting Reports.* Controlling Cash, **273** *Controlling Cash Receipts. Controlling Cash Disbursements.* The Bank Checking Account, **276** *The Signature Card. Deposit Ticket. Check. Bank Statement.* Bank Reconciliation Statement, **280** *Certified and Cashier's Checks.* Petty Cash Funds, **284** *Establishing the Fund. Operating the Fund. Replenishing the Fund. Cash Short and Over.* Net Price Method, **286** The Voucher System, **288** *Procedures for Preparing a Voucher. Special Journals Used. Procedures for Paying a Voucher. Files Maintained in a Voucher System.* Summary, **293** New Terms, **294** Demonstration Problems, **296** Questions, **301** Exercises, **302** Problems (A), **305** (B), **308** Business Decision Problems, **311** Business Situation for Discussion, **313**

8

Receivables and Payables, 315

Learning Objectives, **315** Accounts Receivable, **316** *The Allowance Method for Recording Bad Debts. The Direct Write-Off Method for Recording Bad Debts. Credit Cards.* Notes Receivable and Notes Payable, **324** *Interest Calculation. Determination of Maturity Date. Accounting for Notes in Normal Business Transactions. Dishonored Notes. Accruing Interest. Discounting (Selling) Notes Receivable. Short-Term Financing through Notes Payable. Long-Term Mortgage Notes Payable.* Summary, **335** New Terms, **336** Demonstration Problem, **337** Questions, **339** Exercises, **339** Problems (A), **341** (B), **343** Business Decision Problems, **346** Business Situation for Discussion, **347**

9

Measuring and Reporting Inventories, 348

Learning Objectives, **348** Inventories and Cost of Goods Sold, **349** *Taking a Physical Inventory. Importance of Proper Inventory Valuation.* Determining Inventory Cost, **352** *Costs Included in Inventory Cost. Inventory Valuation under Changing Prices. Methods of Determining Inventory Cost. Differences in Cost Methods Summarized.* Departures from Cost Basis of Inventory Measurement, **361** *Net Realizable Value. Lower-of-Cost-or-Market Method. Changing Inventory Methods. Estimating Inventory.* Perpetual Inventory Procedure, **365** *Perpetual Inventory Cards. Journal Entries under Perpetual Procedure.* Summary, **368** New Terms, **369** Demonstration Problems, **370** Questions, **372** Exercises, **373** Problems (A), **376** (B), **379** Business Decision Problems, **383** Business Situation for Discussion, **384**

10**Property, Plant, and Equipment, 385**

Learning Objectives, **385** Nature of Plant Assets, **386** Initial Recording of Plant Assets, **386** *Land and Land Improvements. Buildings. Land and Buildings Purchased Jointly. Machinery. Self-Constructed Assets. Noncash Acquisitions. Gifts of Plant Assets.* Subsidiary Plant Asset Records, **391** Depreciation of Plant Assets, **392** *Nature of Depreciation. Recording Depreciation. Factors Affecting Depreciation.* Depreciation Methods, **394** *Straight-Line Depreciation. Units-of-Production (Output) Method. Accelerated Depreciation Methods. Partial-Year Depreciation. Changes in Estimates.* Depreciation and Financial Reporting, **400** *A Misconception. Costs or Market Values in the Balance Sheet.* Depreciation and Taxes, **401** Capital and Revenue Expenditures, **402** *Expenditures Capitalized in Asset Accounts. Expenditures Capitalized as Charges to Accumulated Depreciation. Expenditures Charged to Expense.* Summary, **404** New Terms, **404** Demonstration Problems, **405** Questions, **407** Exercises, **408** Problems (A), **410** (B), **412** Business Decision Problems, **414** Business Situation for Discussion, **415**

11**Plant Asset Disposals, Natural Resources, and Intangible Assets, 417**

Learning Objectives, **417** Disposal of Plant Assets, **418** *Sale of Plant Assets. Retirement of Plant Assets without Sale. Destruction of Plant Assets. Exchanges of Dissimilar Plant Assets. Exchanges of Similar Plant Assets. Removal Costs.* Natural Resources, **424** *Depletion.* Intangible Assets, **427** *Acquisition of Intangible Assets. Amortization of Intangible Assets. Patents. Copyrights. Franchises. Trademarks; Trade Names. Leases. Leasehold Improvements. Goodwill. Reporting Amortization.* Summary, **434** New Terms, **435** Demonstration Problems, **436** Questions, **438** Exercises, **439** Problems (A), **440** (B), **442** Business Decision Problems, **445** Business Situation for Discussion, **446**

12**Payroll Accounting, 448**

Learning Objectives, **448** Objectives of Payroll Accounting, **448** Internal Control over Payroll, **449** *Payroll Fraud.* Gross Earnings of Employees, **450** *Computing Gross Earnings.* Payroll Taxes and Deductions, **451** *Federal and State Income Tax. FICA (Social Security) Taxes. Other Payroll Deductions.* Employee Earnings Record, **456** Payroll Journal, **457** Payroll Checking Account, **458** Employer Payroll Taxes, **459** *FICA (Social Security) Taxes. Federal Unemployment Tax. State Unemployment Tax.* Remitting Withholding, Taxes, and Deductions, **461** *Taxes Withheld. Unemployment Taxes. Other Payroll Deductions.* End-of-Period Accruals, **462** *Wages and Payroll Taxes. Vacation Pay.* More Efficient Methods of Payroll Accounting, **464** Summary, **464** New Terms, **465** Demonstration Problem, **467** Questions, **468** Exercises, **469** Problems (A), **470** (B), **472** Business Decision Problems, **474** Business Situation for Discussion, **475**

PART 4**Accounting Theory and Partnerships, 477****13****Accounting Theory; Inflation Accounting, 478**

Learning Objectives, **478** Underlying Assumptions, **479** *Going Concern (Continuity). Money Measurement. Periodicity (Time Periods).* Other Basic Con-

cepts, **481** *General-Purpose Financial Statements. Substance over Form. Consistency. Double Entry. Articulation. Measurement in Accounting, 482 Measuring Assets and Liabilities. Measuring Changes in Assets and Liabilities. The Major Principles, 483 Exchange-Price (or Cost) Principle. Matching Principle. Revenue Recognition Principle. Expense and Loss Recognition Principle. Full Disclosure Principle. Modifying Conventions (or Constraints), 489 The Conceptual Framework Project. Inflation—A Serious Reporting Problem, 490 The Nature and Measurement of Inflation. Consequences of Ignoring Effects of Inflation. Accounting Responses to Changing Prices. Current Cost Accounting, 494 Current Cost Accounting—Pro and Con. Constant Dollar Accounting, 496 Constant Dollar Accounting—Pro and Con. The FASB Requirements, 499 Summary, 500 Appendix: The Conceptual Framework Project, 500 New Terms, 508 Demonstration Problems, 510 Questions, 512 Exercises, 513 Problems (A), 515 (B), 518 Business Decision Problem, 520 Business Situation for Discussion, 521*

14**Partnership Accounting, 523**

Learning Objectives, **523** Partnership Agreement, **524** Characteristics of a Partnership, **524** *Voluntary Association. Mutual Agency. Limited Life. Unlimited Liability. Advantages of a Partnership, 524 Unique Features in Partnership Accounting, 526 The Partners' Capital Accounts. Partners' Drawing Accounts. End-of-Period Entries. Division of Partnership Income or Loss, 530 Illustrations of Distributions of Partnership Income. Financial Statements of a Partnership, 534 Partnership Income Statement. Statement of Partners' Capital. Partnership Balance Sheet. Changes in Partnership Personnel, 537 Admission of a New Partner. Retirement of a Partner. Liquidation of a Partnership, 542 Partnership Liquidation Illustrated. Summary, 547 New Terms, 548 Demonstration Problem, 549 Questions, 550 Exercises, 550 Problems (A), 553 (B), 557 Business Decision Problems, 562 Business Situations for Discussion, 563*

PART 5**Corporations, 571****15*****Corporations: Formation, Administration, and Classes of Capital Stock, 572**

Learning Objectives, **572** The Corporation, **573** *Advantages of Corporation Form of Organization. Disadvantages of the Corporation. Incorporating. Articles of Incorporation. Bylaws. Organization Costs. Directing the Corporation. Documents, Books, and Records Relating to Capital Stock, 577 Stockholders' Ledger. The Minutes Book. Capital Stock Authorized and Outstanding, 578 Par Value and No-Par Capital Stock, 579 Par Value Stock. No-Par Stock. No-Par Stock with a Stated Value. Other Values Commonly Associated with Capital Stock, 580 Market Value. Book Value. Liquidation Value. Redemption Value. Classes of Capital Stock, 581 Common Stock. Preferred Stock. Types of Preferred Stock, 582 Stock Preferred as to Dividends. Stock Preferred as to Assets. Convertible Preferred Stock. Callable Preferred Stock. Balance Sheet Presentation of Stock, 585 Stock Issuances for Cash, 586 Issuance of Par Value Stock for Cash. Issuance of No-Par, Stated Value Stock for Cash. Issuance of No-Par Stock without a Stated Value for Cash. Recording Capital Stock*

Issued by Subscription, **588** *The Stock Subscribed Account. Issuance by Subscription of Par Value Stock. Issuance by Subscription of No-Par Stock with a Stated Value. Issuance by Subscription of No-Par Stock without a Stated Value. Balance Sheet Presentation of Subscriptions Receivable and Stock Subscribed. Defaulted Subscriptions.* Capital Stock Issued for Property or Services, **592** Balance Sheet Presentation of Paid-In Capital in Excess of Par (or Stated) Value—Common or Preferred, **593** Book Value, **593** Summary, **595** New Terms, **595** Demonstration Problems, **598** Questions, **600** Exercises, **600** Problems (A), **602** (B), **605** Business Decision Problems, **608** Business Situation for Discussion, **609**

16**Corporations: Paid-In Capital, Retained Earnings, Dividends, and Treasury Stock, 611**

Learning Objectives, **611** Paid-In (or Contributed) Capital, **612** *Paid-In Capital—Stock Dividend. Paid-In Capital—Treasury Stock Transactions. Paid-In Capital—Donations.* Retained Earnings, **613** Paid-In Capital and Retained Earnings in the Balance Sheet, **614** Dividends, **614** *Cash Dividends. Stock Dividends. Recording Stock Dividends. Stock Splits. Legality of Dividends. Liquidating Dividends.* Retained Earnings Appropriations, **619** *Retained Earnings Appropriations in the Balance Sheet.* The Statement of Retained Earnings, **621** Treasury Stock, **622** *Acquisition and Reissuance of Treasury Stock. Treasury Stock in the Balance Sheet. Stockholders' Equity in the Balance Sheet.* Net Income Inclusions and Exclusions, **625** *Extraordinary Items. Changes in Accounting Principle. Prior Period Adjustments. Accounting for Tax Effects.* Earnings per Share, **629** *Summary of Illustrative Financial Statements.* Possible Future Change in Income Statement Format, **630** Summary, **631** New Terms, **632** Demonstration Problems, **633** Questions, **635** Exercises, **636** Problems (A), **638** (B), **641** Business Decision Problems, **644** Business Situation for Discussion, **646**

17**Bonds Payable and Bond Investments, 647**

Learning Objectives, **647** Bonds Payable, **648** *Comparison with Stock. Selling (Issuing) Bonds. Characteristics of Bonds. Advantages of Issuing Debt. Disadvantages of Issuing Debt. Accounting for Bonds. Bond Prices and Interest Rates. Computing Bond Prices. Discount/Premium Amortization. Redeeming Bonds Payable. Serial Bonds. Bond Redemption or Sinking Funds. Convertible Bonds.* Bond Investments, **664** *Short-Term Bond Investments. Long-Term Bond Investments. Sale of Bond Investments. Valuation of Bond Investments.* Summary, **667** Appendix: Future Value and Present Value, **669** New Terms, **673** Demonstration Problems, **674** Questions, **676** Exercises, **677** Problems (A), **678** (B), **680** Business Decision Problems, **682** Business Situation for Discussion, **683**

18**Stock Investments—Cost, Equity, and Consolidations, 684**

Learning Objectives, **684** Cost and Equity Methods, **685** Accounting for Short-Term Stock Investments and for Long-Term Stock Investments of Less than 50%, **685** *Cost Method for Short-Term Investments and for Long-Term Investments of 20% or Less. Subsequent Valuation of Stock Investments under the Cost Method.* The Equity Method for Long-Term Investments of between

20% and 50%, **691** Accounting for Stock Investments of More than 50%, **692** *Parent and Subsidiary Corporations. Eliminations. Consolidated Balance Sheet at Time of Acquisition, 694* *Acquisition of Subsidiary at Book Value. Acquisition of Subsidiary at a Cost above or below Book Value. Acquisition of Less than 100% of Subsidiary. Accounting for Income, Losses, and Dividends of a Subsidiary, 700* *Cost Method for Investments in Subsidiaries. Equity Method for Investments in Subsidiaries. Consolidated Financial Statements at a Date after Acquisition, 701* *Purchase versus Pooling of Interests, 704* *Uses and Limitations of Consolidated Statements, 707* *Summary, 707* *New Terms, 709* *Demonstration Problems, 709* *Questions, 712* *Exercises, 712* *Problems (A), 714* *(B), 716* *Business Decision Problems, 719* *Business Situation for Discussion, 720*

PART 6

Analysis of Financial Statements, 723

19

Statement of Cash Flows and Analysis of Working Capital, 724

Learning Objectives, **724** *Statement of Cash Flows, 725* *Uses of the Statement of Cash Flows, 725* *Management Uses. Investor and Creditor Uses. Information in the Statement of Cash Flows, 726* *Net Cash Flow from Operating Activities, 727* *Statement of Cash Flows, 728* *Step 1: Determining the Net Cash Flow from Operating Activities. Step 2: Analyzing the Noncurrent Accounts. Step 3: Arranging Information into Statement of Cash Flows. Comprehensive Illustration, 733* *Completing the Working Paper. The Formal Statement. Working Capital or Cash Flows, 741* *The Shift toward Cash Flows. Analysis of Working Capital. Summary, 743* *New Terms, 744, Demonstration Problem, 745* *Questions, 748* *Exercises, 749* *Problems (A), 750, (B), 755* *Business Decision Problems, 759* *Business Situation for Discussion, 762*

20

Analysis and Interpretation of Financial Statements, 763

Learning Objectives, **763** *Objectives of Financial Statement Analysis, 764* *Financial Statement Analysis, 764* *Horizontal and Vertical Analysis: An Illustration, 767* *Analysis of Balance Sheet. Analysis of Statement of Income and Retained Earnings. Trend Percentages, 768* *Ratio Analysis, 770* *Liquidity Ratios. Equity, or Long-Term Solvency, Ratios. Profitability Tests. Market Tests. Final Considerations in Financial Statement Analysis, 784* *Need for Comparable Data. Influence of External Factors. Impact of Inflation. Need for Comparative Standards. Summary, 787* *New Terms, 787* *Demonstration Problems, 789* *Questions, 792* *Exercises, 793* *Problems (A), 794* *(B), 800* *Business Decision Problems, 805* *Business Situation for Discussion, 806*

PART 7

Accounting in Manufacturing Companies, 809

21

Income Measurement in Manufacturing Companies, 810

Learning Objectives, **810** *Merchandiser and Manufacturer Accounting Differences, 811* *Cost Classifications, 811* *Manufacturing Costs. Nonmanufac-*

turing Costs. Product and Period Costs. Fixed and Variable Costs. Periodic Inventory Procedure, 816 Accounts Used for Materials and Other Inventories. Estimation of Inventory Cost. The Work Sheet for a Manufacturing Company Using Periodic Procedure, 819 Adjustments Columns. Manufacturing Statement Columns. The Closing Entries, 823 Closing the Accounts in the Manufacturing Statement Columns. Closing the Accounts in the Income Statement Columns. Financial Reporting by Manufacturing Companies, 825 The Statement of Cost of Goods Manufactured. The Income Statement. The Balance Sheet. Perpetual Inventory Procedure—The General Cost Accumulation Model, 828 Product and Cost Flows. Manufacturing Cost Flows under Perpetual Inventory Procedure Illustrated. Use of a Work Sheet under Perpetual Procedure. Summary, 835 New Terms, 837 Demonstration Problem, 838 Questions, 844 Exercises, 844 Problems (A), 846 (B), 851 Business Decision Problem, 856 Business Situation for Discussion, 856

22**Job Order and Process Cost Systems, 858**

Learning Objectives, 858 Job Order Cost Systems, 859 Basic Records Used in Job Order Systems. Accounting for Materials. Accounting for Labor. Accounting for Manufacturing Overhead. Job Order Costing—an Example. Process Cost Systems, 871 Basic System Design. Process Costing Illustration. Summary, 878 New Terms, 879 Demonstration Problems, 880 Questions, 883 Exercises, 884 Problems (A), 885 (B), 888 Business Decision Problem, 891 Business Situation for Discussion, 892

PART 8**Planning, Control, and Decision Making, 895****23****Control through Standard Costs, 896**

Learning Objectives, 896 Standard Costs, 897 Nature of Standard Costs. Computing Variances, 898 Materials Variances. Labor Variances. Overhead Variances. Goods Completed and Sold, 909 Investigating Variances from Standard, 910 Disposing of Variances from Standard, 911 Advantages of Using Standard Costs, 912 Summary, 913 Appendix: Applying Standard Costs in Job Order and Process Cost Systems, 914 New Terms, 919 Demonstration Problem, 919 Questions, 920 Exercises, 921 Problems (A), 922 (B), 925 Business Decision Problems, 928 Business Situation for Discussion, 929

24**Responsibility Accounting; Segmental Analysis, 931**

Learning Objectives, 931 Responsibility Accounting, 932 The Concept of Control, 933 Responsibility Reports, 934 Features of Responsibility Reports. Responsibility Reports—An Illustration, 935 Responsibility Centers, 938 Expense Centers. Profit Centers. Investment Centers. Segmental Analysis, 940 Concepts Used in Segmental Analysis, 941 Direct Cost and Indirect Cost. Net Income of a Segment—Evaluation Criteria for a Profit Center, 942 Investment Center Analysis, 945 Return on Investment (ROI). Residual Income. Segmental Reporting in External Financial Statements, 949 Summary, 950 New Terms, 951 Demonstration Problem, 952 Questions, 953 Exercises, 954 Problems (A), 956 (B), 959 Business Decision Problem, 962 Business Situation for Discussion, 963

- 25** **Budgeting, 965**
Learning Objectives, **965** The Budget—for Planning and Control, **966** *Purposes of Budgets. Considerations in Preparing a Budget. Some General Principles of Budgeting. Behavioral Implications of Budgets.* The Master Budget, **968** *Preparing the Planned Operating Budget at the Expected Level of Operations. Preparing the Financial Budget.* The Master Budget Illustrated, **971** *Preparing the Planned Operating Budget in Units for the Leed Company. Preparing the Planned Operating Budget in Dollars. The Planned Operating Budget Illustrated. Flexible Operating Budgets. Preparing the Financial Budget for the Leed Company. The Financial Budget Illustrated. Purchases Budget for a Merchandising Company.* Summary, **986** New Terms, **987** Demonstration Problem, **988** Questions, **989** Exercises, **989** Problems (A), **990** (B), **995** Business Decision Problem, **999** Business Situation for Discussion, **999**
- 26** **Short-Term Decision Making, 1001**
Learning Objective, **1001** Cost Behavior Patterns, **1002** *Methods for Analyzing Costs. Cost-Volume-Profit (CVP) Analysis, 1005 Break-Even Chart. Changing the Break-Even Point. Margin of Safety. Assumptions Made in Cost-Volume-Profit Analysis. Cost-Volume-Profit Analysis Illustrated. Calculating Break-Even for a Multiproduct Company.* Differential Analysis, **1014** *The Nature of Fixed Costs. Opportunity Cost. Applications of Differential Analysis.* Absorption versus Direct Costing, **1022** *Absorption Costing. Direct Costing. Comparing the Two Methods.* Summary, **1025** New Terms, **1026** Demonstration Problems, **1028** Questions, **1029** Exercises, **1030** Problems (A), **1033** (B), **1036** Business Decision Problems, **1039** Business Situation for Discussion, **1041**
- 27** **Capital Budgeting: Long-Range Planning, 1045**
Learning Objectives, **1045** Capital Budgeting Defined, **1046** Project Selection: A General View, **1046** *Time Value of Money. Net Cash Inflow.* Project Selection: Payback Period, **1050** Project Selection: Unadjusted Rate of Return, **1052** Project Selection: Net Present Value Method and the Profitability Index, **1053** *Net Present Value Method. Profitability Index.* Project Selection: The Time-Adjusted Rate of Return, **1056** Investments in Working Capital, **1058** The Postaudit, **1059** Summary, **1059** New Terms, **1061** Demonstration Problem, **1062** Questions, **1063** Exercises, **1063** Problems (A), **1065** (B), **1068** Business Decision Problems, **1071** Business Situation for Discussion, **1072**
- 28** **Personal and Corporate Income Taxes, 1074**
Learning Objectives, **1074** Personal Federal Income Taxes, **1075** *Who Must File a Return. Gross Income. Adjusted Gross Income. Taxable Income. Exemptions. Computing Tax Liability. Capital Gains and Losses. Tax Credits. Filing the Tax Return.* Comprehensive Illustration—Personal Income Taxes, **1081** Corporate Federal Income Taxation, **1081** *Taxable Income. Tax Loss Carrybacks and Carryforwards. Depreciation Methods Used for Tax Purposes.* Income Tax Allocation, **1086** *Permanent Differences. Temporary Differences.* Summary, **1090** New Terms, **1091** Demonstration Problems, **1093** Questions, **1096** Exercises, **1096** Problems (A), **1098** (B), **1100** Business Decision Problem, **1102** Business Situations for Discussion, **1102**

APPENDIX A A Set of Consolidated Financial Statements and Other Financial Data
for General Motors Corporation, **A-1**

APPENDIX B International Accounting, **A-25**

APPENDIX C Compound Interest and Annuity Tables, **A-35**

INDEX **I-1**