# Horngren's Accounting, Global Edition

## Table of Contents

Cover  
Dedication  
About the Authors  
Brief Contents  
Contents  
Changes to This Edition  
Horngren's Accounting . . . Redefining Tradition  
Student and Instructor Resources  
Acknowledgments  

## Chapter 1: Accounting and the Business Environment

- Why is Accounting Important?  
  - Decision Makers: The Users of Accounting Information  
  - The Accounting Profession  

- What are the Organizations and Rules that Govern Accounting?  
  - Governing Organizations  
  - Generally Accepted Accounting Principles  
  - The Economic Entity Assumption  
  - The Cost Principle  
  - The Going Concern Assumption  
  - The Monetary Unit Assumption  
  - International Financial Reporting Standards  
  - Ethics in Accounting and Business  

- What is the Accounting Equation?  
  - Assets  
  - Liabilities  
  - Equity  

- How Do You Analyze a Transaction?  
  - Transaction Analysis for Smart Touch Learning  

- How Do You Prepare Financial Statements?  
  - Income Statement  
  - Statement of Owners Equity  
  - Balance Sheet  
  - Statement of Cash Flows  

- How Do You Use Financial Statements to Evaluate Business Performance?  
  - Green Mountain Coffee Roasters, Inc.  
  - Return on Assets (ROA)  

Review
Table of Contents

Things You Should Know
Summary Problem
Solution
Key Terms
Quick Check
Assess Your Progress
Review Questions
Short Exercises
Exercises
Problems Group A
Problems Group B
Continuing Problem
Critical Thinking
Decision Cases
Ethical Issue 1-1
Fraud Case 1-1
Financial Statement Case 1-1
Team Projects
Communication Activity 1-1
Quick Check Answers

Chapter 2 : Recording Business Transactions

What is an Account?
Assets
Liabilities
Equity
Chart of Accounts
Ledger

What is Double-Entry Accounting?
The T-Account
Increases and Decreases in the Accounts
Expanding the Rules of Debit and Credit
The Normal Balance of an Account
Determining the Balance of a T-Account

How Do You Record Transactions?
Source Documents
The Origin of the Transactions
Journalizing and Posting Transactions
The Ledger Accounts After Posting
The Four-Column Account: An Alternative to the T-Account

What is the Trial Balance?
Preparing Financial Statements from the Trial Balance
Correcting Trial Balance Errors
### Table of Contents

#### Revenues
What is an Alternative Treatment of Recording Prepaid Expenses and Unearned Revenues?
- Prepaid Expenses
- Unearned Revenues

#### Review
Things You Should Know
- Summary Problem 3-1
- Solution
- Key Terms
- Quick Check

#### Assess Your Progress
- Review Questions
- Short Exercises
- Exercises
- Problems Group A
- Problems Group B
- Continuing Problem
- Practice Set

#### Critical Thinking
- Decision Cases
- Ethical Issue 3-1
- Fraud Case 3-1
- Financial Statement Case 3-1
- Team Project 3-1
- Communication Activity 3-1
- Quick Check Answers

#### Chapter 4 : Completing the Accounting Cycle

- How Do We Prepare Financial Statements?
  - Relationships Among the Financial Statements
- How Could a Worksheet Help in Preparing Financial Statements?
  - Section 5 Income Statement
  - Section 6 Balance Sheet
  - Section 7 Determine Net Income or Net Loss
- What is the Closing Process, and How Do We Close the Accounts?
  - Closing Temporary Accounts Net Income
  - Closing Temporary Accounts Net Loss
- How Do We Prepare a Post-Closing Trial Balance?
- What is the Accounting Cycle?
- How Do We Use the Current Ratio to Evaluate Business Performance?
| Appendix 4A: Reversing Entries: An Optional Step |
| What are Reversing Entries? |
| Accounting for Accrued Expenses |
| Accounting Without a Reversing Entry |
| Accounting With a Reversing Entry |
| Review |
| Things You Should Know |
| Summary Problem |
| Solution |
| Key Terms |
| Quick Check |
| Assess Your Progress |
| Review Questions |
| Short Exercises |
| Exercises |
| Problems Group A |
| Problems Group B |
| Continuing Problem |
| Practice Set |
| Critical Thinking |
| Decision Case 4-1 |
| Ethical Issue 4-1 |
| Fraud Case 4-1 |
| Financial Statement Case 4-1 |
| Team Project 4-1 |
| Communication Activity 4-1 |
| Comprehensive Problem 1 for Chapters 14 |
| Comprehensive Problem 2 for Chapters 14 |
| Quick Check Answers |
| Chapter 5: Merchandising Operations |
| What are Merchandising Operations? |
| The Operating Cycle of a Merchandising Business |
| Merchandise Inventory Systems: Perpetual and Periodic Inventory Systems |
| How are Purchases of Merchandise Inventory Recorded in a Perpetual Inventory System? |
| Purchase of Merchandise Inventory |
| Purchase Discounts |
| Purchase Returns and Allowances |
| Transportation Costs |
| Cost of Inventory Purchased |
| How are Sales of Merchandise Inventory Recorded in a Perpetual Inventory System? |
Table of Contents

Sale of Merchandise Inventory
Sales Discounts
Sales Returns and Allowances
Transportation CostsFreight Out
Net Sales Revenue and Gross Profit

What are the Adjusting and Closing Entries for a Merchandiser?
  Adjusting Merchandise Inventory Based on a Physical Count
  Closing the Accounts of a Merchandiser
  Worksheet for a Merchandising BusinessPerpetual Inventory System

How are a Merchandisers Financial Statements Prepared?
  Income Statement
  Statement of Owners Equity and the Balance Sheet

How Do We Use the Gross Profit Percentage to Evaluate Business Performance?
Appendix 5A: Accounting for Merchandise Inventory in a Periodic Inventory System

How are Merchandise Inventory Transactions Recorded in a Periodic Inventory System?
  Purchases of Merchandise Inventory
  Sale of Merchandise Inventory
  Adjusting and Closing Entries
  Preparing Financial Statements

Review
  Things You Should Know
  Summary Problem 5-1
  Solution
  Summary Problem 5-2
  Key Terms
  Quick Check

Assess Your Progress
  Review Questions
  Short Exercises
  Exercises
  Problems Group A
  Problems Group B
  Continuing Problem
  Practice Set

Critical Thinking
  Decision Cases
  Ethical Issue 5-1
  Fraud Case 5-1
  Financial Statement Case 5-1
  Team Project 5-1
Table of Contents

Communication Activity 5-1
Comprehensive Problem for Chapters 15
Quick Check Answers

Chapter 6 : Merchandise Inventory
What are the Accounting Principles and Controls that Relate to Merchandise Inventory?
   Accounting Principles
   Control Over Merchandise Inventory

How are Merchandise Inventory Costs Determined Under a Perpetual Inventory System?
   Specific Identification Method
   First-In, First-Out (FIFO) Method
   Last-In, First-Out (LIFO) Method
   Weighted-Average Method

How are Financial Statements Affected by Using Different Inventory Costing Methods?
   Income Statement
   Balance Sheet

How is Merchandise Inventory Valued When Using the Lower-of-Cost-or-Market Rule?
   Computing the Lower-of-Cost-or-Market
   Recording the Adjusting Journal Entry to Adjust Merchandise Inventory

What are the Effects of Merchandise Inventory Errors on the Financial Statements?

How Do We Use Inventory Turnover and Days Sales in Inventory to Evaluate Business Performance?
   Inventory Turnover
   Days Sales in Inventory

Appendix 6A: Merchandise Inventory Costs Under a Periodic Inventory System
How are Merchandise Inventory Costs Determined Under a Periodic Inventory System?
   First-In, First-Out (FIFO) Method
   Last-In, First-Out (LIFO) Method
   Weighted-Average Method

Appendix 6B: Estimating Ending Merchandise Inventory
How Can the Cost of Ending Merchandise Inventory Be Estimated?
   Gross Profit Method
   The Retail Method

Review
   Things You Should Know
   Summary Problem
Chapter 7: Accounting Information Systems

What is an Accounting Information System?
- Effective Accounting Information Systems
- Components of an Accounting Information System

How are Sales and Cash Receipts Recorded in a Manual Accounting Information System?
- Special Journals
- Subsidiary Ledgers
- The Sales Journal
- The Cash Receipts Journal

How are Purchases, Cash Payments, and Other Transactions Recorded in a Manual Accounting Information System?
- The Purchases Journal
- The Cash Payments Journal
- The General Journal

How are Transactions Recorded in a Computerized Accounting Information System?
- Entry-Level Software
- Enterprise Resource Planning (ERP) Systems
- QuickBooks

Review
- Things You Should Know
- Summary Problem
Chapter 8: Internal Control and Cash

What is Internal Control and How Can It Be Used to Protect a Company's Assets?
- Internal Control and the Sarbanes-Oxley Act
- The Components of Internal Control
- Internal Control Procedures
- The Limitations of Internal Control
- Costs and Benefits

What are the Internal Control Procedures With Respect to Cash Receipts?
- Cash Receipts Over the Counter
- Cash Receipts by Mail

What are the Internal Control Procedures With Respect to Cash Payments?
- Controls Over Payment by Check

How Can a Petty Cash Fund Be Used for Internal Control Purposes?
- Setting Up the Petty Cash Fund
- Replenishing the Petty Cash Fund
- Changing the Amount of the Petty Cash Fund

How Can the Bank Account Be Used as a Control Device?
- Signature Card
- Deposit Ticket
- Check
- Bank Statement
- Electronic Funds Transfers
- Bank Reconciliation
# Table of Contents

Recovery of Accounts Previously Written Off
Allowance Method

Estimating and Recording Bad Debts Expense
Allowance Method

Comparison of Accounting for Uncollectibles

How are Notes Receivable Accounted for?
- Identifying Maturity Date
- Computing Interest on a Note
- Accruing Interest Revenue and Recording Honored Notes Receivable
- Recording Dishonored Notes Receivable

How Do We Use the Acid-Test Ratio, Accounts Receivable Turnover Ratio, and Days Sales in Receivables to Evaluate Business Performance?
- Acid-Test (or Quick) Ratio
- Accounts Receivable Turnover Ratio
- Days Sales in Receivables

Review
- Things You Should Know
- Summary Problem 9-1
- Solution
- Summary Problem 9-2
- Solution
- Key Terms
- Quick Check

Assess Your Progress
- Review Questions
- Short Exercises
- Exercises
- Problems Group A
- Problems Group B
- Continuing Problem
- Practice Set

Critical Thinking
- Decision Cases
- Ethical Issue 9-1
- Fraud Case 9-1
- Financial Statement Case 9-1
- Team Project 9-1
- Communication Activity 9-1
- Quick Check Answers

Chapter 10: Plant Assets, Natural Resources, and Intangibles

How Does a Business Measure the Cost of a Plant Asset?
- Land and Land Improvements
- Buildings
<table>
<thead>
<tr>
<th>Section</th>
<th>Subsection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and Equipment</td>
<td></td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td></td>
</tr>
<tr>
<td>Lump-Sum Purchase</td>
<td></td>
</tr>
<tr>
<td>Capital and Revenue Expenditures</td>
<td></td>
</tr>
<tr>
<td>What is Depreciation and How is it Computed?</td>
<td></td>
</tr>
<tr>
<td>Factors in Computing Depreciation</td>
<td></td>
</tr>
<tr>
<td>Depreciation Methods</td>
<td></td>
</tr>
<tr>
<td>Partial-Year Depreciation</td>
<td></td>
</tr>
<tr>
<td>Changing Estimates of a Depreciable Asset</td>
<td></td>
</tr>
<tr>
<td>Reporting Plant Assets</td>
<td></td>
</tr>
<tr>
<td>How are Disposals of Plant Assets Recorded?</td>
<td></td>
</tr>
<tr>
<td>Discarding Plant Assets</td>
<td></td>
</tr>
<tr>
<td>Selling Plant Assets</td>
<td></td>
</tr>
<tr>
<td>How are Natural Resources Accounted For?</td>
<td></td>
</tr>
<tr>
<td>How are Intangible Assets Accounted For?</td>
<td></td>
</tr>
<tr>
<td>Accounting for Intangibles</td>
<td></td>
</tr>
<tr>
<td>Specific Intangibles</td>
<td></td>
</tr>
<tr>
<td>Reporting of Intangible Assets</td>
<td></td>
</tr>
<tr>
<td>How Do We Use the Asset Turnover Ratio to Evaluate Business Performance?</td>
<td></td>
</tr>
<tr>
<td>Appendix 10A: Exchanging Plant Assets</td>
<td></td>
</tr>
<tr>
<td>How are Exchanges of Plant Assets Accounted For?</td>
<td></td>
</tr>
<tr>
<td>Exchange of Plant Assets</td>
<td></td>
</tr>
<tr>
<td>Gain Situation</td>
<td></td>
</tr>
<tr>
<td>Loss Situation</td>
<td></td>
</tr>
<tr>
<td>Review</td>
<td></td>
</tr>
<tr>
<td>Things You Should Know</td>
<td></td>
</tr>
<tr>
<td>Summary Problem</td>
<td></td>
</tr>
<tr>
<td>Solution</td>
<td></td>
</tr>
<tr>
<td>Key Terms</td>
<td></td>
</tr>
<tr>
<td>Quick Check</td>
<td></td>
</tr>
<tr>
<td>Assess Your Progress</td>
<td></td>
</tr>
<tr>
<td>Review Questions</td>
<td></td>
</tr>
<tr>
<td>Short Exercises</td>
<td></td>
</tr>
<tr>
<td>Exercises</td>
<td></td>
</tr>
<tr>
<td>Problems Group A</td>
<td></td>
</tr>
<tr>
<td>Problems Group B</td>
<td></td>
</tr>
<tr>
<td>Continuing Problem</td>
<td></td>
</tr>
<tr>
<td>Critical Thinking</td>
<td></td>
</tr>
<tr>
<td>Decision Case 10-1</td>
<td></td>
</tr>
<tr>
<td>Ethical Issue 10-1</td>
<td></td>
</tr>
<tr>
<td>Fraud Case 10-1</td>
<td></td>
</tr>
<tr>
<td>Financial Statement Case 10-1</td>
<td></td>
</tr>
</tbody>
</table>
# Chapter 11: Current Liabilities and Payroll

## How are Current Liabilities of Known Amounts Accounted For?
- Accounts Payable
- Sales Tax Payable
- Unearned Revenues
- Short-Term Notes Payable
- Current Portion of Long-Term Notes Payable

## How Do Companies Account for and Record Payroll?
- Gross Pay and Net (Take-Home) Pay
- Employee Payroll Withholding Deductions
- Payroll Register
- Journalizing Employee Payroll
- Employer Payroll Taxes
- Internal Control Over Payroll

## How are Current Liabilities that Must Be Estimated Accounted For?
- Bonus Plans
- Vacation, Health, and Pension Benefits
- Warranties

## How are Contingent Liabilities Accounted For?
- Remote Contingent Liability
- Reasonably Possible Contingent Liability
- Probable Contingent Liability

## How Do We Use the Times-Interest-Earned Ratio to Evaluate Business Performance?

## Review
- Things You Should Know
- Summary Problem 11-1
- Solution
- Summary Problem 11-2
- Solution
- Key Terms
- Quick Check

## Assess Your Progress
- Review Questions
- Short Exercises
- Exercises
- Problems Group A
- Problems Group B
- Continuing Problem
Table of Contents

Critical Thinking
    Decision Cases
    Ethical Issue 11-1
    Fraud Case 11-1
    Financial Statement Case 11-1
    Team Project 11-1
    Communication Activity 11-1
    Quick Check Answers

Chapter 12: Partnerships
    What are the Characteristics and Types of Partnerships?
        Partnership Characteristics
        Types of Partnerships
        Other Forms of Business
    How are Partnerships Organized?
        The Start-up of a Partnership
        Partnership Financial Statements
    How are Partnership Profits and Losses Allocated?
        Allocation Based on a Stated Ratio
        Allocation Based on Capital Balances
        Allocation Based on Services, Capital Balances, and Stated Ratios
        Partner Withdrawal of Cash and Other Assets
        Statement of Partners Equity
    How is the Admission of a Partner Accounted For?
        Admission by Purchasing an Existing Partners Interest
        Admission by Contributing to the Partnership
    How is the Withdrawal of a Partner Accounted For?
    How is the Liquidation of a Partnership Accounted For?
        Sale of Assets at a Gain
        Sale of Assets at a Loss With Capital Deficiency
    Review
        Things You Should Know
        Summary Problem 12-1
        Solution
        Key Terms
        Quick Check

Assess Your Progress
    Review Questions
    Short Exercises
    Exercises
    Problems Group A
    Problems Group B
## Table of Contents

### Continuing Problem

### Critical Thinking
- Decision Cases
- Ethical Issue 12-1
- Fraud Case 12-1
- Financial Statement Case 12-1
- Team Project 12-1
- Communication Activity 12-1
- Quick Check Answers

### Chapter 13: Corporations

#### What is a Corporation?
- Characteristics of Corporations
- Stockholders Equity Basics

#### How is the Issuance of Stock Accounted For?
- Issuing Common Stock at Par Value
- Issuing Common Stock at a Premium
- Issuing Common Stock at a Discount
- Issuing No-Par Common Stock
- Issuing Stated Value Common Stock
- Issuing Common Stock for Assets Other Than Cash
- Issuing Preferred Stock

#### How are Dividends and Stock Splits Accounted For?
- Cash Dividends
- Stock Dividends
- Stock Splits
  - Cash Dividends, Stock Dividends, and Stock Splits Compared

#### How is Treasury Stock Accounted For?
- Treasury Stock Basics
- Purchase of Treasury Stock
- Sale of Treasury Stock
- Retirement of Stock

#### How is Equity Reported for a Corporation?
- Statement of Retained Earnings
- Statement of Stockholders Equity

#### How Do We Use Stockholders Equity Ratios to Evaluate Business Performance?
- Earnings per Share
- Price/Earnings Ratio
- Rate of Return on Common Stock

### Review
- Things You Should Know
- Summary Problem 13-1
Chapter 14 : Long-Term Liabilities

How are Long-Term Notes Payable and Mortgages Payable Accounted For?
- Long-Term Notes Payable
- Mortgages Payable

What are Bonds?
- Types of Bonds
- Bond Prices
- Present Value
- Bond Interest Rates
- Bond Financing Versus Issuing Stock

How are Bonds Payable Accounted for Using the Straight-Line Amortization Method?
- Issuing Bonds Payable at Face Value
- Issuing Bonds Payable at a Discount
- Issuing Bonds Payable at a Premium

How is the Retirement of Bonds Payable Accounted for?
- Retirement of Bonds at Maturity
- Retirement of Bonds Before Maturity

How are Liabilities Reported on the Balance Sheet?

How Do We Use the Debt to Equity Ratio to Evaluate Business Performance?

Appendix 14A: The Time Value of Money

What is the Time Value of Money, and How is the Present Value of a Future Amount Calculated?
# Table of Contents

Time Value of Money Concepts
- Present Value of a Lump Sum
- Present Value of an Annuity
- Present Value of Bonds Payable

Appendix 14B: Effective-Interest Method of Amortization
- How are Bonds Payable Accounted for Using the Effective-Interest Amortization Method?
  - Effective-Interest Amortization for a Bond Discount
  - Effective-Interest Amortization of a Bond Premium

Review
- Things You Should Know
- Summary Problem 14-1
- Solution
- Key Terms
- Quick Check

Assess Your Progress
- Review Questions
- Short Exercises
- Exercises
- Problems Group A
- Problems Group B
- Continuing Problem

Critical Thinking
- Decision Case 14-1
- Ethical Issue 14-1
- Fraud Case 14-1
- Financial Statement Case 14-1
- Team Project 14-1
- Communication Activity 14-1
- Quick Check Answers

## Chapter 15: Investments

Why Do Companies Invest?
- Debt Securities Versus Equity Securities
- Reasons to Invest
- Classification and Reporting of Investments

How are Investments in Debt Securities Accounted For?
- Purchase of Debt Securities
- Interest Revenue
- Disposition at Maturity

How are Investments in Equity Securities Accounted For?
- Equity Securities With Less Than 20% Ownership (Cost Method)
### Table of Contents

**Equity Securities With 20% or More, But Less Than 50%, Ownership (Equity Method)**

**Equity Securities With 50% or More Ownership (Consolidations)**

**How are Debt and Equity Securities Reported?**
- Trading Investments
- Available-for-Sale Investments
- Held-to-Maturity Investments

**How Do We Use the Rate of Return on Total Assets to Evaluate Business Performance?**

**Review**
- Things You Should Know
- Summary Problem 15-1
- Solutions
- Key Terms
- Quick Check

**Assess Your Progress**
- Review Questions
- Short Exercises
- Exercises
- Problems Group A
- Problems Group B
- Continuing Problem

**Critical Thinking**
- Decision Case 15-1
- Ethical Issue 15-1
- Fraud Case 15-1
- Financial Statement Case 15-1
- Team Project 15-1
- Communication Activity 15-1
- Quick Check Answers

### Chapter 16 : The Statement of Cash Flows

**What is the Statement of Cash Flows?**
- Purpose of the Statement of Cash Flows
- Classification of Cash Flows
- Two Formats for Operating Activities

**How is the Statement of Cash Flows Prepared Using the Indirect Method?**
- Cash Flows From Operating Activities
- Cash Flows From Investing Activities
- Cash Flows From Financing Activities
- Net Change in Cash and Cash Balances
- Non-cash Investing and Financing Activities

**How Do We Use Free Cash Flow to Evaluate Business Performance?**
Table of Contents

Appendix 16A: Preparing the Statement of Cash Flows by the Direct Method
How is the Statement of Cash Flows Prepared Using the Direct Method?
   Cash Flows From Operating Activities

Appendix 16B: Preparing the Indirect Statement of Cash Flows Using a Spreadsheet
How is the Statement of Cash Flows Prepared Using the Indirect Method and a Spreadsheet?

Review
   Things You Should Know
   Summary Problem 16-1
   Solution
   Key Terms
   Quick Check

Assess Your Progress
   Review Questions
   Short Exercises
   Exercises
   Problems Group A
   Problems Group B
   Continuing Problem

Critical Thinking
   Decision Cases
   Ethical Issue 16-1
   Fraud Case 16-1
   Financial Statement Case 16-1
   Team Projects
   Communication Activity 16-1
   Quick Check Answers

Chapter 17: Financial Statement Analysis
How are Financial Statements Used to Analyze a Business?
   Purpose of Analysis
   Tools of Analysis
   Corporate Financial Reports

How Do We Use Horizontal Analysis to Analyze a Business?
   Horizontal Analysis of the Income Statement
   Horizontal Analysis of the Balance Sheet
   Trend Analysis

How Do We Use Vertical Analysis to Analyze a Business?
   Common-Size Statements
   Benchmarking

How Do We Use Ratios to Analyze a Business?
Table of Contents

Evaluating the Ability to Pay Current Liabilities
Evaluating the Ability to Sell Merchandise Inventory and Collect Receivables
Evaluating the Ability to Pay Long-Term Debt
Evaluating Profitability
Evaluating Stock as an Investment
Red Flags in Financial Statement Analyses

Appendix 17A: The Corporate Income Statement

How is the Complete Corporate Income Statement Prepared?
Continuing Operations
Discontinued Operations
Extraordinary Items
Earnings per Share

Review
Things You Should Know
Summary Problem 17-1
Solution
Summary Problem 17-2
Solution
Key Terms
Quick Check

Assess Your Progress
Review Questions
Short Exercises
Exercises
Problems Group A
Problems Group B
Continuing Problem

Critical Thinking
Decision Cases
Ethical Issue 17-1
Fraud Case 17-1
Financial Statement Case 17-1
Team Projects
Communication Activity 17-1

Comprehensive Problem for Chapter 17
Quick Check Answers

Chapter 18: Introduction to Managerial Accounting

Why is Managerial Accounting Important?
Financial Versus Managerial Accounting
Management Accountability
Todays Business Environment
Table of Contents

Job Order Costing
Process Costing

How Do Materials and Labor Costs Flow Through the Job Order Costing System?
Materials
Labor

How Do Overhead Costs Flow Through the Job Order Costing System?
Before the PeriodCalculating the Predetermined Overhead Allocation Rate
During the PeriodAllocating Overhead
At the End of the PeriodAdjusting for Overallocated and Underallocated Overhead

What Happens When Products are Completed and Sold?
Transferring Costs to Finished Goods Inventory
Transferring Costs to Cost of Goods Sold

How is the Manufacturing Overhead Account Adjusted?
Summary

How Do Service Companies Use a Job Order Costing System?
Review
Things You Should Know
Summary Problem 19-1
Solution
Key Terms
Quick Check

Assess Your Progress
Review Questions
Short Exercises
Exercises
Problems Group A
Problems Group B
Continuing Problem

Critical Thinking
Decision Cases
Ethical Issue 19-1
Fraud Case 19-1
Team Project 19-1
Communication Activity 19-1
Quick Check Answers

Chapter 20 : Process Costing
How Do Costs Flow Through a Process Costing System?
Job Order Costing Versus Process Costing
Flow of Costs Through a Process Costing System

What are Equivalent Units of Production, and How Do You Calculate Them?
Table of Contents

Equivalent Units of Production
Conversion Costs

How is a Production Cost Report Prepared?
  Production Cost Report
  First Process
  Assembly Department
  Production Cost Report
  Second Process
  Cutting Department

What Journal Entries are Required in a Process Costing System?
How Can the Production Cost Report Be Used to Make Decisions?
Appendix 20A: Process Costing: First-In, First-Out Method

How is a Production Cost Report Prepared Using the FIFO Method?
  Comparison of Weighted-Average and FIFO Methods

Review
  Things You Should Know
  Summary Problem 1
  Summary Problem 1 Solution
  Summary Problem 2
  Summary Problem 2 Solution
  Key Terms
  Quick Check

Assess Your Progress
  Review Questions
  Short Exercises
  Exercises
  Problems Group A
  Problems Group B

Critical Thinking
  Decision Case 20-1
  Ethical Issue 20-1
  Team Project 20-1
  Communication Activity 20-1
  Quick Check Answers

Chapter 21: Cost-Volume-Profit Analysis
  How Do Costs Behave When There is a Change in Volume?
    Variable Costs
    Fixed Costs
    Mixed Costs
  What is Contribution Margin, and How is it Used to Compute Operating Income?
    Contribution Margin
    Unit Contribution Margin
    Contribution Margin Ratio
    Contribution Margin Income Statement
  How is Cost-Volume-Profit (CVP) Analysis Used?
Table of Contents

Assumptions
Target Profit
Three Approaches
Breakeven Point
A Variation of Target Profit
CVP Graph
A Graphic Portrayal

How is CVP Analysis Used for Sensitivity Analysis?
Changes in the Selling Price
Changes in Variable Costs
Changes in Fixed Costs

What are Some Other Ways CVP Analysis Can Be Used?
Margin of Safety
Operating Leverage
Sales Mix

Appendix 21A: Variable Costing

How Does Variable Costing Differ From Absorption Costing?
Absorption Costing
Variable Costing
Comparison of Unit Costs

How Does Operating Income Differ Between Variable Costing and Absorption Costing?
Production Equals Sales
Production Exceeds Sales
Production is Less than Sales
Summary

Review
Things You Should Know
Summary Problem 21-1
Solution
Summary Problem 21-2
Solution
Key Terms
Quick Check

Assess Your Progress
Review Questions
Short Exercises
Exercises
Problems Group A
Problems Group B
Continuing Problem

Critical Thinking
Decision Case 21-1
Ethical Issue 21-1
# Table of Contents

Team Project 21-1  
Communication Activity 21-1  
Quick Check Answers

## Chapter 22: Master Budgets

Why Do Managers Use Budgets?  
- Budgeting Objectives  
- Budgeting Benefits  
- Budgeting Procedures  
- Budgeting and Human Behavior

Are There Different Types of Budgets?  
- Strategic and Operational Budgets  
- Static and Flexible Budgets  
- Master Budgets

How are Operating Budgets Prepared for a Manufacturing Company?  
- Sales Budget  
- Production Budget  
- Direct Materials Budget  
- Direct Labor Budget  
- Manufacturing Overhead Budget  
- Cost of Goods Sold Budget  
- Selling and Administrative Expense Budget

How are Financial Budgets Prepared for a Manufacturing Company?  
- Capital Expenditures Budget  
- Cash Budget  
- Budgeted Income Statement  
- Budgeted Balance Sheet  
- Budgeted Statement of Cash Flows

How Can Information Technology Be Used in the Budgeting Process?  
- Sensitivity Analysis  
- Budgeting Software

Appendix 22A: Budgeting for Merchandising Companies

How are Operating Budgets Prepared for a Merchandising Company?  
- Sales Budget  
- Inventory, Purchases, and Cost of Goods Sold Budget  
- Selling and Administrative Expense Budget

How are Financial Budgets Prepared for a Merchandising Company?  
- Capital Expenditures Budget  
- Cash Budget  
- Budgeted Income Statement  
- Budgeted Balance Sheet  
- Budgeted Statement of Cash Flows
# Table of Contents

## Review
- Things You Should Know
- Summary Problem 22-1
- Solution
- Summary Problem 22-2
- Solution
- Key Terms
- Quick Check

## Assess Your Progress
- Review Questions
- Short Exercises
- Exercises
- Problems Group A
- Problems Group B
- Continuing Problem

## Critical Thinking
- Decision Cases
- Ethical Issue 22-1
- Fraud Case 22-1
- Team Project 22-1
- Communication Activity 22-1
- Quick Check Answers

## Chapter 23: Flexible Budgets and Standard Cost Systems
- How Do Managers Use Budgets to Control Business Activities?
  - Performance Reports Using Static Budgets
  - Performance Reports Using Flexible Budgets
- Why Do Managers Use a Standard Cost System to Control Business Activities?
  - Setting Standards
  - Standard Cost System Benefits
  - Variance Analysis for Product Costs
- How are Standard Costs Used to Determine Direct Materials and Direct Labor Variances?
  - Direct Materials Variances
  - Direct Labor Variances
- How are Standard Costs Used to Determine Manufacturing Overhead Variances?
  - Allocating Overhead in a Standard Cost System
  - Variable Overhead Variances
  - Fixed Overhead Variances
- What is the Relationship Among the Product Cost Variances and Who is Responsible for Them?
  - Variance Relationships
Table of Contents

Revenue, and Profit Centers?
  Controllable Versus Noncontrollable Costs
  Responsibility Reports

How Does Performance Evaluation In Investment Centers Differ From Other Centers?
  Return on Investment (ROI)
  Residual Income (RI)
  Limitations of Financial Performance Measures

Appendix 24A: Transfer Pricing

How Do Transfer Prices Affect Decentralized Companies?
  Objectives in Setting Transfer Prices
  Setting Transfer Prices

Review
  Things You Should Know
  Summary Problem 24-1
  Solution
  Summary Problem 24-2
  Solution
  Key Terms
  Quick Check

Assess Your Progress
  Review Questions
  Short Exercises
  Exercises
  Problems Group A
  Problems Group B
  Continuing Problem

Critical Thinking
  Decision Case 24-1
  Ethical Issue 24-1
  Fraud Case 24-1
  Team Project 24-1
  Communication Activity 24-1
  Quick Check Answers

Chapter 25: Short-Term Business Decisions

How is Relevant Information Used to Make Short-Term Decisions?
  Relevant Information
  Relevant Nonfinancial Information
  Differential Analysis

How Does Pricing Affect Short-Term Decisions?
  Setting Regular Prices
  Special Pricing
# Table of Contents

How Do Managers Decide Which Products to Produce and Sell?
- Dropping Unprofitable Products and Segments
- Product Mix
- Sales Mix

How do Managers Make Outsourcing and Processing Further Decisions?
- Outsourcing
- Sell or Process Further

Review
- Things You Should Know
- Summary Problem 25-1
- Solution
- Summary Problem 25-2
- Solution
- Key Terms
- Quick Check

Assess Your Progress
- Review Questions
- Short Exercises
- Exercises
- Problems Group A
- Problems Group B
- Continuing Problem

Critical Thinking
- Decision Case 25-1
- Ethical Issue 25-1
- Fraud Case 25-1
- Team Project 25-1
- Communication Activity 25-1
- Quick Check Answers

## Chapter 26: Capital Investment Decisions

What is Capital Budgeting?
- The Capital Budgeting Process
- Focus on Cash Flows

How Do the Payback and Accounting Rate of Return Methods Work?
- Payback
- Accounting Rate of Return (ARR)

What is the Time Value of Money?
- Time Value of Money Concepts
- Present Value of a Lump Sum
- Present Value of an Annuity
- Summary