

Sixth Edition

in similes

ROBERT N. ANTHONY

JAMES S. REECE

Contents

PART 1 FINANCIAL ACCOUNTING

The Nature and Purpose of Accounting

The Need for Information: Operating Information. Financial Accounting. Management Accounting. The Definition of Accounting.

The Profession of Accounting. Our Approach to Accounting: Preconceptions about Accounting. Plan of the Book. The Financial Accounting Framework: Accounting's Historical Antecedents. Accounting as a Language. The Nature of Principles. Criteria. The Source of Accounting Principles. Financial Statements: Financial Statement Objectives. Income Tax Reporting.

Basic Accounting Concepts: The Balance Sheet

21

3

Basic Concepts: 1. The Money Measurement Concept. Entity Concept. 3. The Going-Concern Concept. 4. The Cost Concept. 5. The Dual-Aspect Concept. The Balance Sheet: An Overall View. Account Categories. Assets. Liabilities. Owners' Equity. Balance Sheet Changes: Original Capital Contribution. Ratios. Bank Loan. Purchase of Merchandise. Sale of Merchandise

XI

Basic Accounting Concepts: The Income Statement

The Nature of Income. The Accounting Period Concept: Interim Reports. Relation between Income and Owners' Equity. Income Not the Same as Increase in Cash. The Conservatism Concept: Application to Revenue Recognition. The Realization Concept. The Matching Concept. Recognition of Expenses: Terminology. Expense Recognition. Expenses and Expenditures. Dividends. Summary of Expense Measurement. Gains and Losses. The Consistency Concept. The Materiality Concept. The Income Statement: Revenues. Cost of Sales. Gross Margin. Expenses. Net Income. Statement of Retained Earnings. Relation between Balance Sheet and Income Statement. Income Statement Percentages. Other Concepts of Income: Accrual versus Cash-Basis Accounting. Income Tax Accounting. Economic Income.

4 Accounting Records and Systems

Recordkeeping Fundamentals: The Account. Permanent Accounts and Temporary Accounts. The Ledger. The Chart of Accounts. Debit and Credit. Transaction Analysis: Example: Campus Pizzeria, Inc. Balancing Accounts. The Trial Balance. The Adjusting and Closing Process: Adjusting Entries. Closing Entries. Statement Preparation. The Journal. Summary of the Accounting Process. Accounting Systems: Special Journals. Control Accounts and Subsidiary Ledgers. Imprest Funds. Internal Accounting Controls. Significant Recordkeeping Ideas. Computer-Based Accounting Systems: Relationship to Manual Accounting. Two Important Differences. Appendix: Additional Accounting Cycle Procedures.

5 Revenue and Monetary Assets

Timing of Revenue Recognition: Basic Hecognition Criteria. Delivery Method. Percentage-of-Completion Method. Production Method. Installment Method. Amount of Revenue Recognized: Bad Debts. Sales Discounts. Credit Card Sales. Sales Returns and Allowances. Revenue Adjustment versus Expense. Warranty Costs. Interest Revenue. Monetary Assets: Difference in Reporting Monetary and Nonmonetary Assets. Cash. Receivables. Marketable Securities. Analysis of Monetary Assets: Current Ratio. Acid-Test Ratio. Days' Cash. Days' Receivables.

6 Cost of Sales and Inventories

Types of Companies: Supplies. Merchandising Companies: Acquisition Cost. The Basic Measurement Problem. Periodic Inventory Method. Perpetual Inventory Method. Comparison of Periodic and Perpetual Methods. Retail Method. Manufacturing Companies: Inventory Accounts. Materials Used. Cost of Goods Manufactured. Cost of Goods Sold. Product-Costing Systems. Product Costs and Period Costs. Service Companies. Inventory Costing Methods: Spe107

133

CONTENTS xiii

cific Identification Method. Average Cost Method. First-In, First-Out Method. Last-In, First-Out Method. Comparison of Methods. Lower of Cost or Market. Analysis of Inventory: Inventory Turnover.

7 Long-Lived Assets and Their Amortization

163

Nature of Long-Lived Assets: Types of Long-Lived Assets. Plant and Equipment: Acquisition: Distinction between Asset and Expense. Items Included in Cost. Acquisitions Recorded at Other than Cost. Basket Purchases. Plant and Equipment: Depreciation: Judgments Required. Service Life. Depreciation Methods. Choice of a Depreciation Method. Accounting for Depreciation: Change in Depreciation Rates. Partial Year Depreciation. Disclosure. Plant and Equipment: Disposal: Exchanges and Trade-Ins. Group Depreciation. Significance of Depreciation. Income Tax Considerations: Income Tax Depreciation. Investment Tax Credit. Leased Assets: Capital Leases. Natural Resources: Depletion. Accretion and Appreciation. Intangible Assets: Goodwill. Patents, Copyrights, Franchise Rights. Leasehold Improvements. Deferred Charges. Research and Development Costs.

8 Sources of Capital: Debt

195

Nature of Liabilities: Contingencies. Liabilities as a Source of Funds. Debt Capital: Term Loans. Bonds. Accounting for Bonds: Recording a Bond Issue. Balance Sheet Presentation. Bond Interest Expense. Retirement of Bonds. Refunding a Bond Issue. Other Liabilities: Current Liabilities. Leases. Deferred Taxes. Appendix: Present Value.

9 Sources of Capital: Owners' Equity

215

Forms of Business Organization: Single Proprietorship. Partnership. Corporation. Accounting for Proprietor's and Partners' Equity: Proprietorship Equity. Partnership Equity. Ownership in a Corporation: Preferred Stock. Common Stock. Treasury Stock. Reserves. Retained Earnings. Dividends. Warrants and Stock Options. Balance Sheet Presentation. Earnings Per Share: Common Stock Equivalents. Analysis of Capital Structure: Debt/Equity Ratios. Times Interest Earned. Bond Ratings. The Line Between Debt and Equity: Zero-Coupon Bonds. Redeemable Preferred Stock.

10 Other Items that Affect Net Income

235

Personnel Costs: Pensions. Compensated Absences. Income Taxes: Book-to-Tax Differences. Deferred Taxes. Nonoperating Items: Extraordinary Items. Discontinued Operations. Change in Accounting Principles. Adjustments to Retained Earnings. Foreign Currency Accounting: Foreign Currency Transactions. Foreign Currency Translation. Net Income. Appendix: Accounting and Changing Prices.

11 The Statement of Cash Flows

The Concept of Flow Statements: Purpose of the Cash Flow Statement. Other Concepts of Funds. Sources and Uses of Cash. The Cash Flow Statement: Statement Categories. Investing Activities. Financing Activities. Noncash Transactions. Cash Flow from Operating Activities. Indirect Method Calculations. Summary of the Cash Flow Statement. Misconceptions about Depreciation: Cash Flow Earnings. Preparation of the Cash Flow Statement: Cash Flow Worksheet. Worksheet Entries. T Account Method. Statement Preparation. Summary of Preparation Procedures. Analysis of the Cash Flow Statement: Ratios. Cash Flow Projections.

12 Acquisitions and Consolidated Statements

Accounting for Investments: Cost Method. Equity Method. Consolidated Basis. Business Combinations: Purchase versus Pooling. Accounting as a Pooling. Accounting as a Purchase. Impact on Balance Sheet. Impact on Earnings. Consolidated Statements: Basis for Consolidation. Consolidation Procedure. Asset Valuation. Minority Interest.

13 Financial Statement Analysis

Business Objectives: Return on Investment. Sound Financial Position. Structure of the Analysis. Return on Investment. Investment Turnover and Profit Margin. Price/Earnings Ratio. Profitability Ratios: Profit Margin. Investment Utilization Ratios: Investment Turnover. Capital Intensity. Working Capital Measures. Financial Condition Ratios: Liquidity and Solvency. Dividend Policy. Growth Measures. Making Comparisons: Difficulties. Possible Bases for Comparison. Use of Comparisons.

14 Understanding Financial Statements

Additional Information in Annual Reports: Auditors' Opinion.
Notes to Financial Statements. Segment Reporting. Full Disclosure.
Comparative Statements. Securities and Exchange Commission
(SEC) Reports. Review of Criteria and Concepts: Criteria. Concepts.
Accounting Alternatives: Regulatory Requirements. Income Tax
Principles. Latitude in Methods. Basis of Choice. Controversies
over Principles. Implications of These Differences. Inherent Limitations. Meaning of the Financial Statements: Income Statement.
Balance Sheet. Statement of Cash Flows.

PART 2 MANAGEMENT ACCOUNTING

15 The Nature of Management Accounting

Management Accounting as One Type of Information: Information.

Management Accounting. Management Accountants. Contrast be-

361

31

335

tween Management Accounting and Financial Reporting: Differences. Similarities. Source Disciplines. Types of Management Accounting Information and Their Uses: Full Cost Accounting. Differential Accounting. Responsibility Accounting. Relation to Planning and Control. General Observations on Management Accounting: Different Numbers for Different Purposes. Accounting Numbers Are Approximations. Working with Incomplete Data. Accounting Evidence Is Only Partial Evidence. People, Not Numbers, Get Things Done.

16 The Behavior of Costs

377

Relation of Costs to Volume: Variable and Fixed Costs. Cost-Volume Diagrams. Relation to Unit Costs. Cost Assumptions. Estimating the Cost-Volume Relationship. Measures of Volume. The Profit-graph: Break-Even Volume. Operating Leverage. Contribution. Cash versus Accrual Profitgraphs. Using the Profitgraph. Several Products. Other Influences on Costs.

Appendix: Learning Curves.

17 Full Costs and Their Uses

405

Cost Concepts: General Definition. Cost Object. Full Cost. Direct and Indirect Costs. Applicable Accounting Principles. Elements of Product Cost. Product Costing Systems: Account Flowchart. Non-manufacturing Costs: Merchandising Companies. Service Organizations. Nonprofit Organizations. Uses of Full Cost: Financial Reporting. Analysis of Profitability. What Did It Cost? Setting Regulated Prices. Normal Pricing.

18 Additional Aspects of Product Costing Systems

425

Job Order Costing and Process Costing: Production Processes. Averaging. Basic Types of System. Job Order Costing. Process Costing. Choice of a System. Variations in Practice. Measurement of Direct Costs: Direct Labor Cost. Direct Material Cost. Direct versus Variable Cost. Allocation of Indirect Costs: Distinction between Direct and Indirect Costs. Nature of Allocation. Cost Centers. Calculating Overhead Rates. Predetermined Overhead Rates. Procedure for Establishing Predetermined Rates. Underabsorbed and Overabsorbed Overhead. Transaction-Based Charges.

19 Standard Costs, Joint Costs, and Variable Costing Systems

453

Standard Costs: Standard Cost Sheet. Account Flowchart. Variations in the Standard Cost Idea. Terminology Ambiguities. Uses of Standard Costs. Joint Products and By-Products: Joint-Product Costing. By-Product Costing. Validity of Full Costs: Judgment Calls. Tendencies toward Uniformity. Variable Costing Systems: Comparison of Absorption and Variable Costing. Why Use Full Costing? Cost

System Design Choices. Appendix A: Standard Costing Illustration Appendix B: Absorption versus Variable Costing's Impact on Income

20 Production Cost Variances

Direct Material and Labor Variances: Direct Material Variances. Direct Labor Variances. Overhead Variances: Production Volume Variance. Spending Variance. Calculation of Overhead Variances. Appendix A: Fixed Costs and the Overhead Volume Variance. Appendix B: Three-Part Overhead Variance Analysis.

21 Differential Accounting: Short-Run Decisions

The Differential Concept: Cost Constructions for Various Purposes. Differential Costs and Revenues. Contrasts with Full Costs. Contribution Analysis: Types of Cost. Alternative Choice Problems: Objectives. Steps in the Analysis. Differential Costs: Mechanics of the Calculation. Other Terminology. Estimates of Future Costs. Sunk Costs. Importance of the Time Span. Example: Operating an Automobile. Types of Alternative Choice Problems: Problems Involving Costs. Problems Involving Both Revenues and Costs. Sensitivity Analysis. Some Practical Pointers. Appendix: Useful Decision Models.

22 Longer-Run Decisions: Capital Budgeting

Nature of the Problem: General Approach. Return on Investment. Estimating the Variables: Required Rate of Return. Economic Life. Cash Inflows. Depreciation. Investment. Terminal Value. Non-monetary Considerations Summary of the Analytical Process. Other Methods of Analysis: Internal Rate of Return Method. Payback Method. Unadjusted Return on Investment Method. Multiple Decision Criteria. Preference Problems: Criteria for Preference Problems. Comparison of Preference Rules. Nonprofit Organizations.

23 Responsibility Accounting: The Management Control Environment

Management Control. The Environment: The Nature of Organizations. Rules, Guidelines, and Procedures. Culture. External Environment. Responsibility Centers: Inputs and Outputs. Responsibility Accounting. Effectiveness and Efficiency. Types of Responsibility Centers: Revenue Centers. Expense Centers. Profit Centers. Transfer Prices. Investment Centers. Nonmonetary Measures.

24 Responsibility Accounting: The Management Control Process

Phases of Management Control: Programming. Budgeting. Measurement and Reporting. Evaluation. Accounting Information Used in Management Control: Controllable Costs. Engineered, Discretionary, Behavior of Participants. Motivation. Incentives. Goal Congruence.

An Example: The Data Processing Department. Cooperation and Conflict. Other Types of Control.

25 Programming and Budgeting

599

Programming: Ongoing Programs. Proposed New Programs. Formal Programming Systems. Budgeting: Uses of the Budget. The Master Budget. The Operating Budget: Program Budgets and Responsibility Budgets. Project Budgets. Variable (Flexible) Budgets. Management by Objectives. Preparing the Operating Budget: Organization for Budget Preparation. Budget Timetable. Setting Planning Guidelines. Preparing the Sales Budget. Initial Preparation of Other Budget Components. Negotiation. Coordination and Review. Final Approval and Distribution. Revisions. Variations in Practice. The Cash Budget. The Capital Expenditure Budget: Project Proposals. Authorization.

26 Analyzing and Reporting Performance

623

Overview of the Analytical Process: The Need for Variance Analysis. Scope and Types of Variance. Marketing Variances: Expense Variances. Gross Margin Variance. Production Cost Variances: Correct Volume Measures. Other Variances. Complete Analysis: Marketing Variances. Production Cost Variances. Uses of Variances. Control Reports: Types of Management Reports. Contents of Control Reports. Timing of Reports. Use of Control Reports. Steps in the Control Process. Appendix: Variances with Variable Costing.

27 Management Accounting System Design

651

Types of Accounting Information: Full Cost Accounting. Differential Accounting. Responsibility Accounting. Relative Importance. Cost Categories. Designing the Management Accounting System: Accounting Data Base. Level of Detail. Cost Accounting Systems. Management Control Systems.

APPENDIX TABLES

| Table A. | Present Value of \$1 Received N Years Hence | |
|----------|--|--|
| | Present Value of \$1 Received Annually for N Years | |
| | | |

INDEX

665

662

663