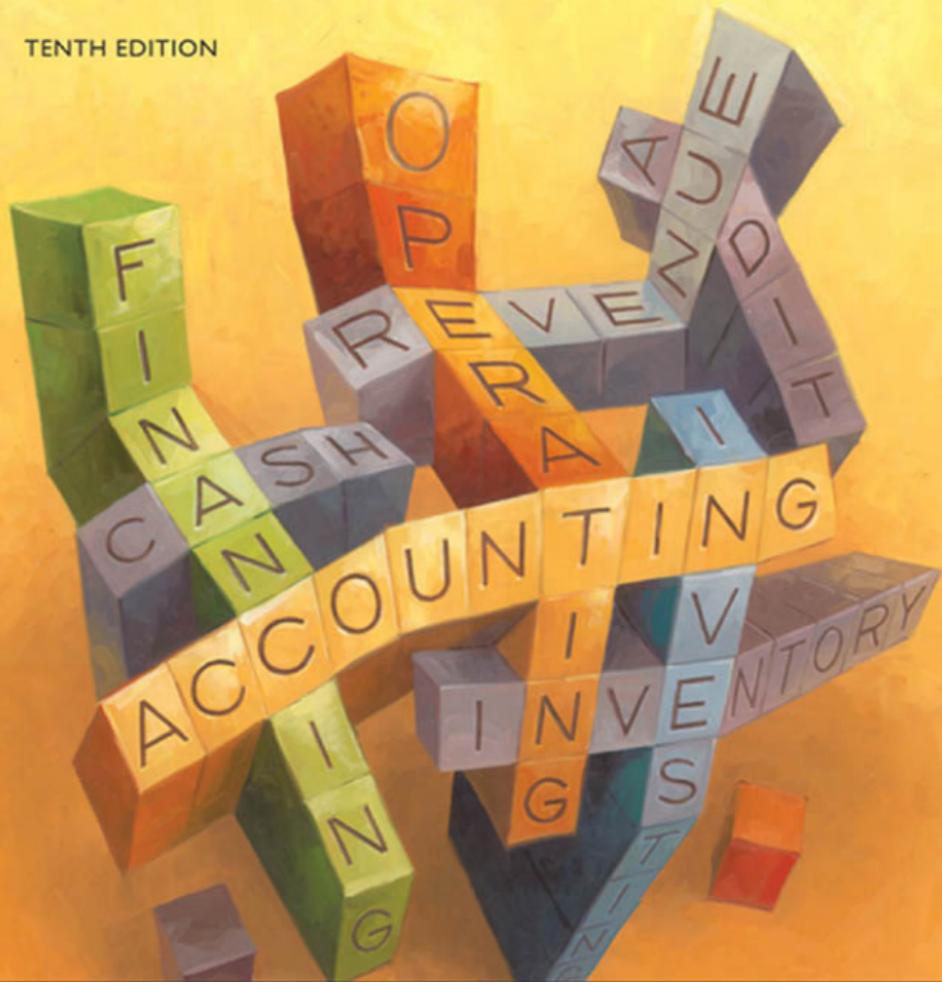


TENTH EDITION



ALBRECHT • STICE • STICE

FINANCIAL
ACCOUNTING

TENTH EDITION

FINANCIAL ACCOUNTING



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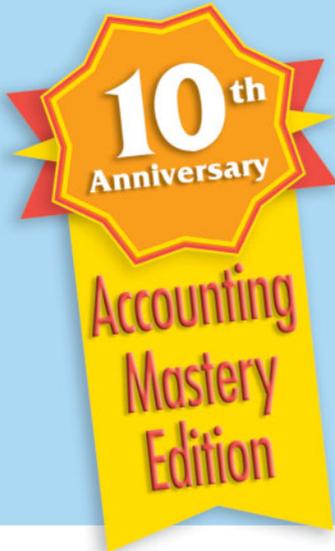
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FINANCIAL ACCOUNTING, 10E WHERE FUTURE BUSINESS CHAMPIONS BEGIN



*Staying on top of the game in today's competitive world means consistently looking for ways to improve, building upon existing strengths, and maximizing every opportunity. **Financial Accounting, 10e** does just that to give you and your students a competitive edge in accounting today. See for yourself how proven accounting leaders Albrecht, Stice, and Stice have improved this edition to help you and your students achieve your personal best — in today's classroom and the business world beyond.*

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Financial Accounting, 10e continues to build upon a winning strategy designed to help you meet the diverse needs of both accounting majors and non-majors in your course. The text's solid presentation of procedures blends with a balanced emphasis on business activities. Students learn how to effectively use and prepare accounting information.

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Building on the strengths that make this a market-leading text, this edition takes the accounting experience to a new level. The flexibility of expanded coverage, new applications in every chapter, reorganized and streamlined content, and the innovative online ThomsonNOW™ course management system are everything you need to put your students ahead of the game!



Now It's Your Turn.
Take a look for yourself!

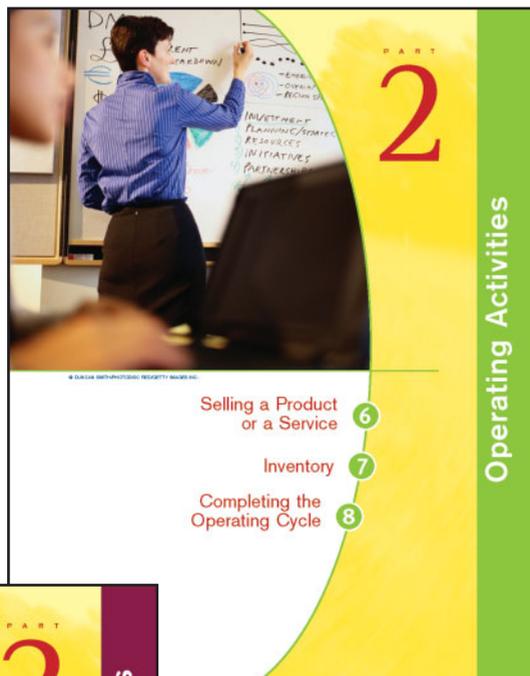
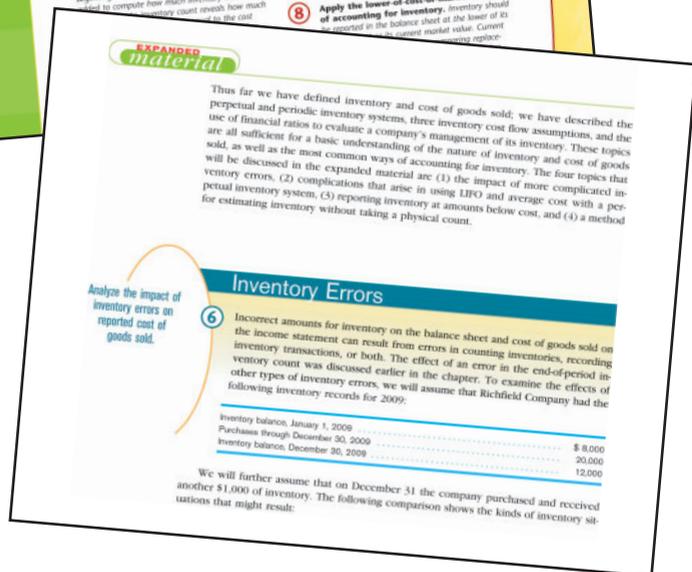
SEE page iv



YOU'VE MET YOUR MATCH — WITH ALL THE COVERAGE YOU NEED

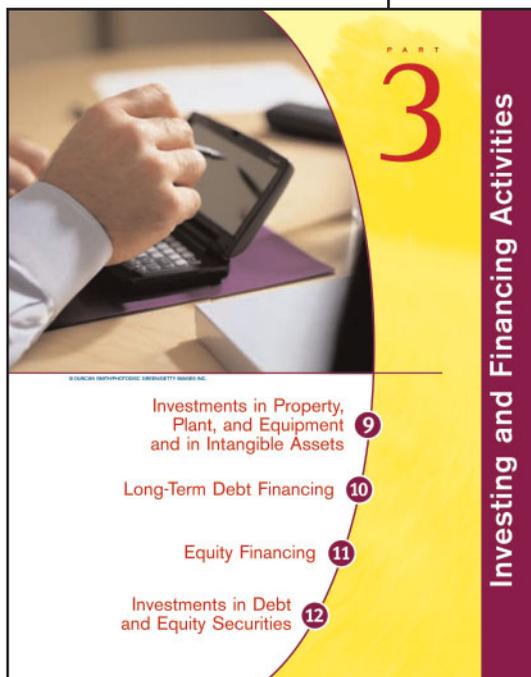
YOU WIN WITH FLEXIBILITY TAILORED TO YOUR COURSE NEEDS

Always a hallmark of this text, **expanded coverage within each chapter**, in addition to solid **basic coverage** of essential accounting concepts, allows you to choose how much depth you wish for exploring advanced topics. The result is maximum flexibility for your class.



ORGANIZATION PLAYS TO TODAY'S BUSINESS STRENGTHS

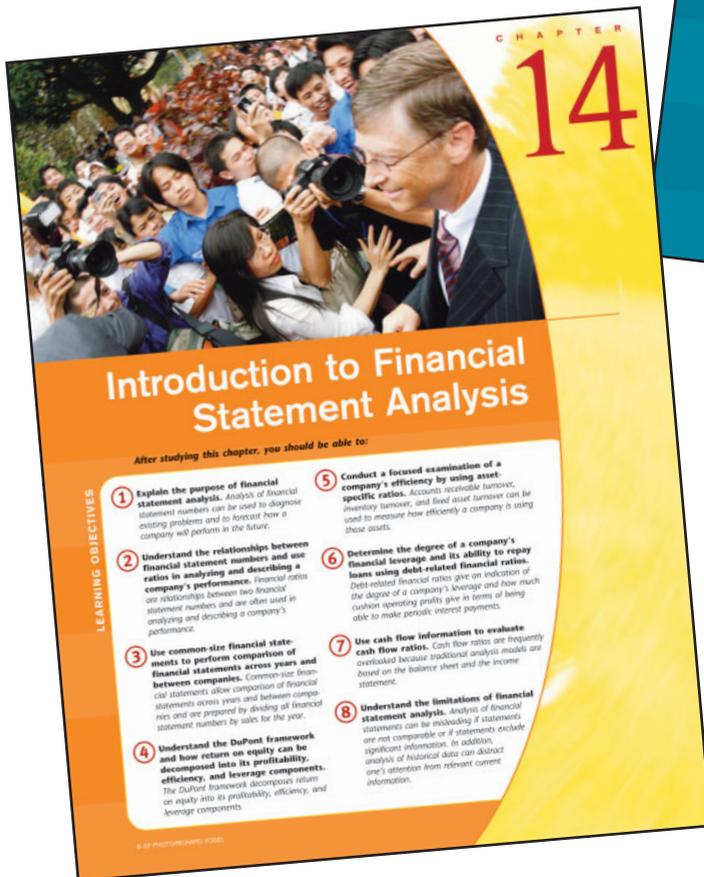
The text's unique approach, emphasizing business activities, provides a solid framework for understanding how an organization performs its primary business activities. This realistic approach makes it easier for students to understand accounting's role.



STREAMLINED SOLUTIONS ADD UP TO SUCCESS

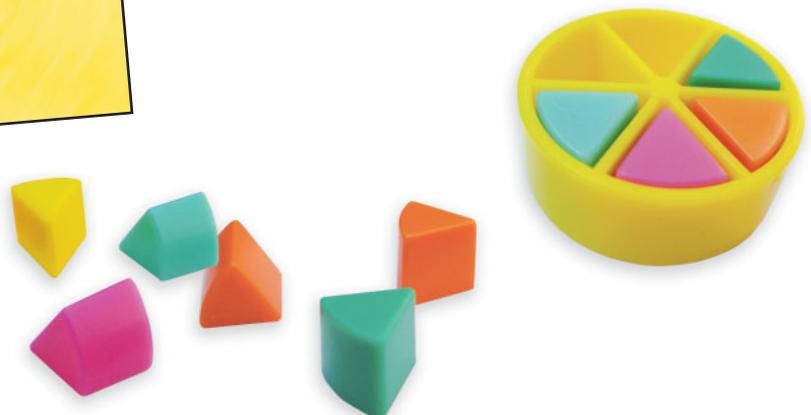
FINANCIAL CHAPTERS LEAVE NOTHING TO CHANCE

- Based on your feedback, **the financial statement analysis chapter appears as the last chapter** (Ch. 14). This now serves as a capstone chapter, getting students into analysis.
- The **unique chapter on financial statement integrity** (now Ch. 5) provides a strong ethical foundation for students to better understand the impact of the Sarbanes-Oxley Act and today's increased focus on earnings management.



MODIFIED TABLE OF CONTENTS

Based on your feedback, the table of contents has been modified to introduce topics similar to the order they are presented on the balance sheet.



GAME ON! UNRAVEL THE PUZZLE

LEARNING FEATURES STUDENTS REALLY USE

Accounting Cycle

After studying this chapter, you should be able to:

- Describe how accrual accounting allows for timely reporting and a better measure of a company's economic performance. Proper accrual accounting involves recording the effects from a company's business activities that occur when they occur, regardless of when cash is collected or paid.
- Explain the need for adjusting entries and make adjusting entries for unrecorded receivables, unrecorded liabilities, prepaid expenses, and unearned revenues. Some economic activities, such as the growth in the amount of interest a company owes, happen gradually. Without special adjustments, the accounting records would not reflect the impact of these gradual activities. Adjusting entries must be made at the end of each accounting period to ensure that all balance sheet and income statement items are stated at the correct amount.
- Explain the preparation of the financial statements, the explanation of the notes, and the audit process. Financial statements are prepared and the necessary adjusting entries are made, the account balances in the trial balance accurately reflect the company's economic circumstances and performance. The account balances are the raw material used to prepare the financial statements; for some companies, including all public companies, these balances are checked by an independent auditor.
- Complete the closing process in the accounting cycle. Closing entries are used to transfer earnings, expense, and dividend data to the retained earnings account so that the transactions of a new period can be recorded.
- Understand how all the steps in the accounting cycle fit together. To ensure transactions are first analyzed and then recorded in debit-and-credit format, journals before financial statements are prepared, adjusting entries are made to ensure that all amounts are correct. The books are then closed.



Brief Explanations that accompany Learning Objectives at the beginning of every chapter direct students' attention while reading. They are an ideal resource to refresh student understanding before lectures and tests.



Revised Remember This... Summaries at the end of each topical section of the chapter highlight the most important material within that section. Bulleted lists assist with retention, while tables visually demonstrate important relationships or connections.

360 Part 2 Operating Activities

when there is significant uncertainty about whether an expenditure should be capitalized or expensed, expense it. This approach is in line with the traditional conservatism of accounting, but be aware that it can result in a significant understatement of the economic assets of a company.

REMEMBER THIS...

- Conceptually, a cost should be recorded as an asset whenever it has a probable future economic benefit.
- In practice, it is frequently quite difficult to tell when a cost should be recorded as an asset (capitalized) and when it should be recorded as an expense.
- In some areas, such as research and development (R&D) and advertising, specific accounting rules have been developed to create more uniformity about which costs should be expensed and which should be capitalized.

Summarizing Operations on an Income Statement

Prepare an income statement summarizing operating activities as well as other revenues and expenses, extraordinary items.

5 Having now completed our discussion of operating revenues and expenses (in Chapters 6, 7, and thus far in 8), you are ready to examine an income statement. Chapters 6, 7, and thus far in 8, you are ready to examine an income statement, such as the one in Exhibit 6, and see how operating results are communicated to investors and creditors. The numbers in the income statement do not relate to any previous examples; they are shown here for illustrative purposes only. This income statement shows that with sales revenue of \$2,475,000, P & L



Improved Chapter-Opening Exhibits place events in context, while showing both the timeline of events for a particular business activity and the impact of these events on the financial statements. These enhanced exhibits provide a clear visual aid as students begin to conceptualize the relationships between various activities of a business and the proper accounting procedures that accompany them.

286 Part 2 Operating Activities

EXHIBIT 2 Time Line of Business Issues Involved with Inventory

Activity - Buying/Making and Selling Inventory*

| BUY | ADD | SELL | COMPUTE |
|-----------------------------------|-----------------------------------|---|--|
| raw materials or parts | value-labor and overhead | finished inventory | ending inventory and shipped goods |
| Journal Entry: Inventory A/P | Inventory A/P or Cash | A/R Sales COGS Inventory | COGS ^{††} Inventory ^{††} |
| F/S Impact: Inventory (I) A/P (I) | Inventory (I) Cash (I) or A/P (I) | A/R (I) Sales (I) Exp (I) Inventory (I) | Exp (I) Inventory (I) |

* Exhibit assumes the inventory account is updated with each purchase.
 ** A physical count of inventory may require an adjustment to the inventory and COGS accounts.

Inventory
 Goods held for resale.

cost of goods sold
 The costs incurred to purchase or manufacture.

The time line in Exhibit 2 illustrates the business issues involved with inventory as well as the financial statement effects of those business issues. The accounting questions associated with the items in the time line are as follows:

- When is inventory considered to have been purchased—when it is ordered, shipped, received, or paid for?
- Similarly, when is the inventory considered to have been sold?
- Which of the costs associated with the “value added” process are consid-

FYI boxes draw examples from real business events or situations to show students the immediate relevance of the information they are learning.

Stop and Think features highlight thought-provoking issues or concepts that reinforce the importance of developing critical-thinking skills for success in today's competitive business world.

Caution boxes remind students of the important points to consider when resolving more difficult situations or learning more complex concepts.