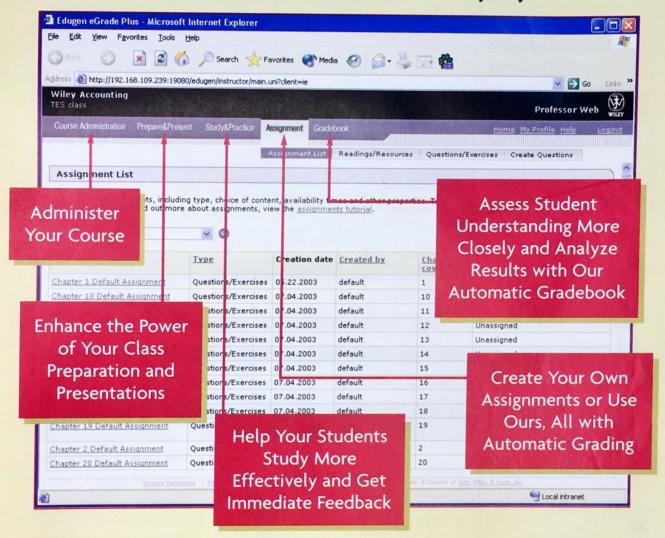


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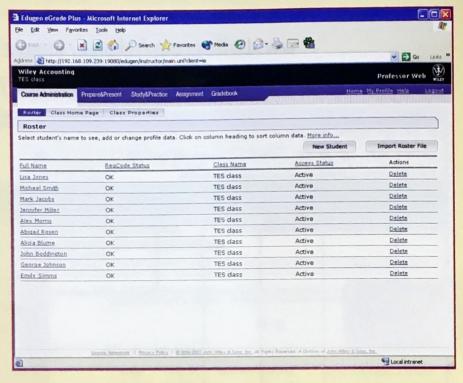
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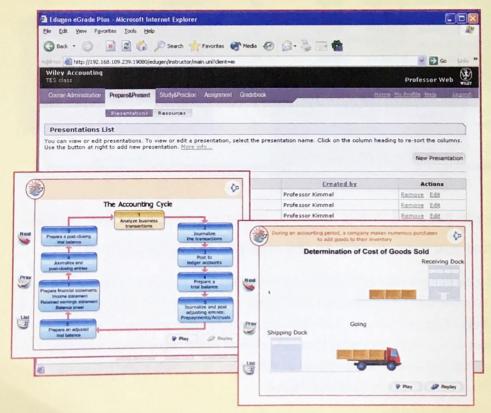
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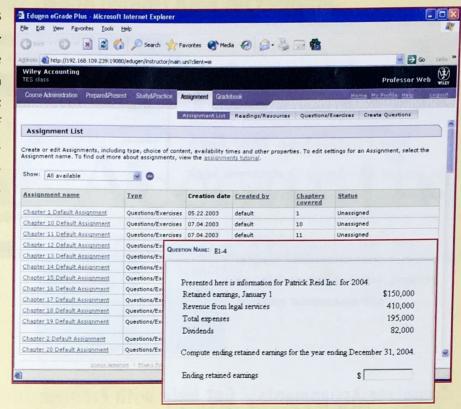
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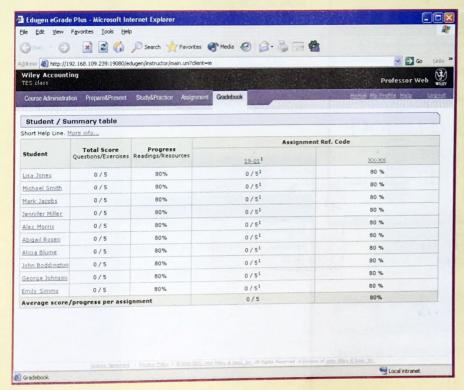
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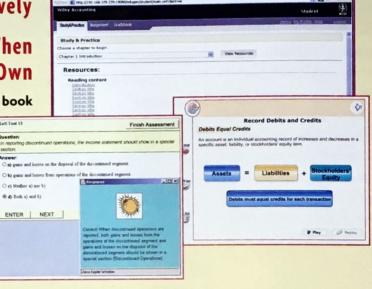
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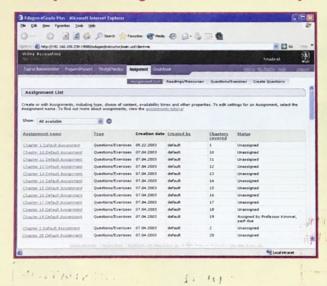
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content, so that you can review the



#### Complete Assignments / Get Help with Problem Solving

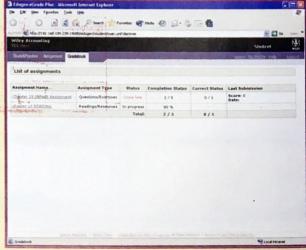


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# Principles of Accounting

Tools for Business Decision Making

## PAUL D. KIMMEL, PHD, CPA

Associate Professor of Accounting University of Wisconsin—Milwaukee

#### JERRY J. WEYGANDT, PHD, CPA

Arthur Andersen Professor of Accounting University of Wisconsin

#### DONALD E. KIESO, PHD, CPA

KPMG Emeritus Professor of Accountancy Northern Illinois University

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Dedicated to our parents and our in-laws, and to our families, most especially our spouses,

Merlynn Enid Donna

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Paul D. Kimmel, PhD, CPA, received his bachelor's degree from the University of Minnesota and his doctorate in accounting from the University of Wisconsin. He is an Associate Professor at the University of Wisconsin—Milwaukee, and has public accounting experience with Deloitte & Touche (Minneapolis). He was the recipient of the UWM School of Business Advisory Council Teaching Award and the Reggie Taite Excellence in Teaching Award, and is a three-time winner of the Outstanding Teaching Assistant Award at the University of Wisconsin. He is also a recipient of the Elijah Watts Sells Award for Honorary Distinction for his results

on the CPA exam. He is a member of the American Accounting Association and has published articles in Accounting Review, Accounting Horizons, Advances in Management Accounting, Managerial Finance, Issues in Accounting Education, Journal of Accounting Education, as well as other journals. His research interests include accounting for financial instruments and innovation in accounting education. He has published papers and given numerous talks on incorporating critical thinking into accounting education, and helped prepare a catalog of critical thinking resources for the Federated Schools of Accountancy.

Jerry J. Weygandt, PhD, CPA, is Arthur Andersen Alumni Professor of Accounting at the University of Wisconsin-Madison. He holds a Ph.D. in accounting from the University of Illinois. Articles by Professor Weygandt have appeared in the Accounting Review, Journal of Accounting Research, Accounting Horizons, Journal of Accountancy, and other academic and professional journals. These articles have examined such financial reporting issues as accounting for pricelevel adjustments, pensions, convertible securities, stock option contracts, and interim reports. Professor Weygandt is author of other accounting and financial reporting books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Wisconsin Society of Certified Public Accountants. He has served on numerous committees of the American Accounting Association and as a member of the editorial board of the Accounting Review; he also has

served as President and Secretary-Treasurer of the American Accounting Association. In addition, he has been actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee (AcSEC) of that organization. He has served on the FASB task force that examined the reporting issues related to accounting for income taxes and is presently a trustee of the Financial Accounting Foundation. Professor Weygandt has received the Chancellor's Award for Excellence in Teaching and the Beta Gamma Sigma Dean's Teaching Award. He is on the board of directors of M & I Bank of Southern Wisconsin and the Dean Foundation. He is the recipient of the Wisconsin Institute of CPA's Outstanding Educator's Award and the Lifetime Achievement Award. In 2001 he received the American Accounting Association's Outstanding Accounting Educator Award.

Donald E. Kieso, PhD, CPA, received his bachelor's degree from Aurora University and his doctorate in accounting from the University of Illinois. He has served as chairman of the Department of Accountancy and is currently KPMG Emeritus Professor of Accountancy at Northern Illinois University. He has public accounting experience with Price Waterhouse & Co. (San Francisco and Chicago) and Arthur Andersen & Co. (Chicago) and research experience with the Research Division of the American Institute of Certified Public Accountants (New York). He has done postdoctorate work as a Visiting Scholar at the University of California at Berkeley and is a recipient of NIU's Teaching Excellence Award and four Golden Apple Teaching Awards. Professor Kieso is the author of numerous other accounting and business books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants,

and the Illinois CPA Society. He has served as a member of the Board of Directors of the Illinois CPA Society, the AACSB's Accounting Accreditation Committees, the State of Illinois Comptroller's Commission, as Secretary-Treasurer of the Federation of Schools of Accountancy, as Secretary-Treasurer of the American Accounting Association and on several corporate boards. Professor Kieso is currently serving on the Board of Trustees and Executive Committee of Aurora University, and as a member of the Boards of Directors of Kishwaukee Community Hospital and Valley West Community Hospital. He served as a charter member of the national Accounting Education Change Commission. He is the recipient of the Outstanding Accounting Educator Award from the Illinois CPA Society, the FSA's Joseph A. Silvoso Award of Merit, and the NIU Foundation's Humanitarian Award for Service to Higher Education.

The goal of this text is to introduce students to accounting in a way that demonstrates the importance of accounting to society and the relevance of accounting to their future careers. We strive to teach students those things that they really need to know and to do it in a way that maximizes their opportunities for successful completion of the course. To accomplish these goals, the foundation of this text relies on a few key beliefs.



"It really matters." The failures of Enron, WorldCom, Arthur Andersen, and others has had devastating consequences. Our Business Insight—Ethics Perspective boxes, Ethics cases, video clips on the CD, and a number of our Feature Stories and Research Cases are designed to reveal accounting's critical role to society. In short, it has never been more clear that accounting really matters.



"Less is More." Our instructional objective is to provide students with an understanding of those core concepts that are fundamental to the use of accounting. Most students will forget procedural details within a short period of time. On the other hand, concepts, if well taught, should be remembered for a lifetime. Concepts are especially important in a world where the details are constantly changing.

**Decision Checkpoints** 



"Don't just sit there—do something." The overriding pedagogical objective of this book is to provide students with continual opportunities for active learning. One of the best tools for active learning is strategically placed questions. Our discussions are framed by questions, often beginning with rhetorical questions and ending with review questions. Even our selection of analytical devices, called Decision Toolkits, uses key questions to demonstrate the purpose of each.



**"I'll believe it when I see it."** This text employs a "macro" approach in its first two chapters. That is, rather than start by showing how to record transactions, we instead use the first two chapters to teach students how to understand and use the real financial statements of **Tootsie Roll**, **Hershey**, and **Best Buy**. Many students determine their opinion of a course during the initial weeks. Students will be most willing to commit time and energy to a topic when they believe that it is relevant to their future career. By employing this macro approach, we clearly demonstrate the relevance of accounting during the period that students are forming their impression of the course.



**"You need to make a decision."** All business people must make decisions. Decision making involves critical evaluation and analysis of the information at hand, and this takes practice. We have integrated important analytical tools throughout the book. After each new decision tool is presented, we summarize the key features of that tool in a Decision Toolkit. At the end of each chapter, we provide a comprehensive demonstration of an analysis of a real company using the decision tools presented in the chapter.



"It's a small world." The Internet has made it possible for even small businesses to sell their products virtually anywhere in the world. Few business decisions can be made without consideration of international factors. To heighten student awareness of international issues, we have many references to international companies and issues and provide A Global Focus exercise in each of the financial accounting chapters.



#### TOOLS FOR STUDENT SUCCESS

**Principles of Accounting** provides many proven pedagogical tools to help students learn accounting concepts and apply them to decision making in the business world. This pedagogical framework emphasizes the *processes* students undergo as they learn. Turn to the **Student Owner's Manual** on page xx to see all the learning tools of the book in detail. Here are a few key features.

#### **Learning How to Use the Text**

- The Student Owner's Manual, p. xx, and notes in red in Chapter 1, explain
  to students how to take advantage of the text's learning tools to help achieve
  success in the course.
- A Learning Styles Quiz, p. xxix, includes tips on in-class and at-home learning strategies.
- The Navigator guides students through each chapter by pulling all the learning tools together into a learning system. Throughout the chapter, The Navigator prompts students to use the learning aids and to set priorities as they study.



#### **Understanding the Context**

- Study Objectives, listed at the beginning of each chapter, reappear in the margins and again in the Summary of Study Objectives.
- A Feature Story helps students picture how the chapter topic relates to the real world of accounting and business and serves as a recurrent example.
- A Chapter Preview links the Feature Story to the major topics of the chapter and provides a road map to the chapter.

#### PREVIEW OF CHAPTER Merchandising is one of the largest and most influential industries in the United States. Therefore, understanding the financial statements of merchandising companies is important. In this chapter you will learn the basics about reporting merchandising transactions. In addition, you will learn how to prepare and analyze a commonly used form of the income statement—the multiple-step income statement. The content and organization of the chapter are as follows. **MERCHANDISING OPERATIONS** Merchandising **Recording Purchases Recording Sales of Income Statement Evaluating** Operations of Merchandise Merchandise Presentation **Profitability** · Gross profit rate Purchase returns and Sales returns and Sales revenues Operating cycles allowances allowances · Inventory systems-Gross profit · Profit margin ratio Sales discounts perpetual and periodic Freight costs Operating expenses Purchase discounts Nonoperating Summary of activities purchasing Determining cost of transactions goods sold-periodic system