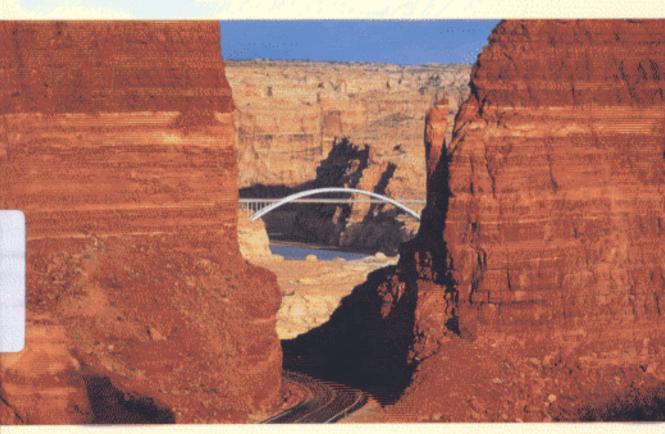


## BRIDGE ACCOUNTING

Procedures, Systems,

and Controls



J. Edward Ketz

CHAPTER 1 AN OVERVIEW OF FINANCIAL ACCOUNTING AND AUDITING 1	CHAPTER 3 THE ACCOUNTING CYCLE 53  Overview of the Accounting Cycle 53
Conceptual Framework of Financial	Journal Entries 56
Accounting 2	Accounting Identity 56
Objective of Financial Accounting	Debits and Credits 57
· · · · · · · · · · · · · · · · · · ·	General Journal 59
Qualitative Characteristics of Information 3	Illustration 61
Elements of Financial Accounting 4	Summary 63
Summary 6	Posting Entries to the General Ledger 64
Transactions and Transactions Processing 7	Trial Balances 70
External and Internal Auditing 8	Adjusting Entries 71
External Auditing 9	Asset-Expense Deferrals 71
Internal Auditing 10	Liability-Revenue Deferrals 72
Internal Controls 10	Asset-Revenue Accruals 72
Management's Responsibility Report and the	Liability-Expense Accruals 73
Independent Auditor's Report 11	Valuation Adjustments 73
Professional Ethics 13	Illustration 74
Sights along the Internet 14	Closing Entries 78
Chapter Summary in Terms of Learning	Basics 78
Objectives 14	The Merchandiser's Sales and COGS 79
Glossary 16	The Manufacturer's COGS 80
	Illustration 82
	Sights along the Internet 82
	Chapter Summary in Terms of Learning
CHAPTER 2 THE BALANCE SHEET, INCOME	Objectives 82
STATEMENT, AND STATEMENT OF CHANGES	Glossary 84
IN STOCKHOLDERS' EQUITY 22	Glossary
IN STOCKHOLDERS EQUIT 22	CHAPTER 4 FURTHER ASPECTS
Balance Sheet 23	OF THE ACCOUNTING CYCLE 96
Assets 23	Of the Accounting Cicle 10
Liabilities 26	Overview of the Accounting Cycle 97
Stockholders' Equity 27	Subsidiary Ledgers 99
Summary 28	Special Journals 104
Income Statement 29	Sales Journal 104
Service Company 29	Purchases Journal 106
Merchandiser 30	Cash Receipts Journal 107
Manufacturing Concern 33	Cash Disbursements Journal 108
Summary 35	Worksheets 110
	Worksheet for a Service Organization 110
2	Worksheet for a Merchandiser 115
Sole Proprietorship and Partnership 37	
Corporation 37	Reversing Entries 118
Summary 39	Correcting Entries 119
Sights along the Internet 39	Sights along the Internet 119
Chapter Summary in Terms of Learning	Chapter Summary in Terms of Learning
Objectives 40	Objectives 120
Glossary 41	Glossary 122

## CHAPTER 5 THE CASH FLOW File Processing 187 STATEMENT 136 Queries 187 Sights along the Internet 188 Purpose of the Cash Flow Statement 136 Chapter Summary in Terms of Learning Components of the Cash Flow Statement 137 Objectives 188 The Change-in-Cash Formula 140 Glossary 190 Derivation of the Change-in-Cash Formula 140 Application of the Change-in-Cash CHAPTER 7 FUNDAMENTALS OF Formula 141 INTERNAL CONTROL SYSTEMS Cash Flows from Operating Activities: The Direct Method 143 Management Assertions 197 Revenues and Cash Received from Internal Control Systems 199 Revenues 143 Internal Control Systems 200 Case 1: Cash Received after Revenue Components of an Internal Control System 200 Recognition 143 Summary Comments 201 Case 2: Cash Received before Revenue Control Objectives 202 Recognition 144 Control Policies and Procedures 203 Expenses and Cash Disbursed for Expenses Assignment of Authority and Case 1: Cash Paid after Expense Responsibility 203 Recognition 145 Authorization of Transactions 204 Case 2: Cash Paid before Expense Maintenance of Adequate Accounting Recognition 148 Records 205 Case 3: Cash Paid before and/or After Limited Access to Assets 206 Expense Recognition 146 Independent Verifications 206 Case 4: No Cash Involved though an Expense Segregation of Duties 207 Is Recognized 146 Summary 207 Preparing the Cash Flow Statement with the Control of Cash 207 T-Account Method 147 Cash Audit Procedures 208 Indirect Method 147 Cash Registers 208 Direct Method 154 Electronic Funds Transfers (EFT) 209 Preparing the Cash Flow Statement with Bank Reconciliations 209 a Worksheet 157 Petty Cash 212 Indirect Method 157 Sights along the Internet 213 Direct Method 159 Chapter Summary in Terms of Learning Sights along the Internet 159 Objectives 214 Chapter Summary in Terms of Learning Glossary 216 Objectives 161 Glossary 162 CHAPTER 8 THE GENERAL LEDGER CYCLE 228 FUNDAMENTALS OF **CHAPTER 6** Some General Issues 228 ACCOUNTING INFORMATION SYSTEMS 172 The Accounting Manual 229 The Firm as a System 173 Standard Accounting Entries 229 Systems Terminology 178 The Chart of Accounts 230 Firms Are Systems 174 Coding Schemes 230 Accounting Information Systems 176 Documentation of an Accounting System 234 Accounting Cycles 176 Document Flowcharts 234 Transactions Processing: Converting Data into Good Flowcharting Techniques 236 Information 178 Template for Examining Accounting Cycles 237 Transactions Processing System 179 The General Ledger Cycle 238 Input and Output Documents 180 Functions of the Cycle 238 Management Reports 182 Departments Involved in the Cycle 239 Accounting Files 184 Basic Journal Entries 240 Files and Components of Files 184 Control Objectives 240 Types of Files 185

Documents 240

Management Reports and Queries 241 Files in an EDP Environment 242 Document Flowcharts 242 Maintenance of the General Ledger 242 End-of-Period Procedures 243 Sights along the Internet 245 Chapter Summary in Terms of Learning Objectives 246 Glossary 247	Control Objectives 303 Buying in Today's Technological World 303 Credit Purchases 304 Documents 304 Management Reports and Queries 307 Credit Purchases Flowchart 307 Files in an EDP Environment 311 Purchase Returns 312 Documents 313 Management Reports and Queries 313
CHAPTER 9 THE REVENUE CYCLE 255  Overview of the Revenue Cycle 256  Functions of the Cycle 256  Business Departments 256  Basic Steps 257  Basic Journal Entries 258  Control Objectives 260  Selling in Today's Technological World 260  Credit Sales 261  Documents 261  Management Reports and Queries 265	Purchase Returns Flowchart 313 Files in an EDP Environment 313 Cash Disbursements 313 Documents 313 Management Reports and Queries 314 Cash Disbursements Flowchart 314 Files in an EDP Environment 314 Sights along the Internet 315 Chapter Summary in Terms of Learning Objectives 317 Glossary 318
Credit Sales Flowchart 265 Files in an EDP Environment 269 Sales Returns 269	CHAPTER 11 PAYROLL, FACILITIES, INVESTMENTS, FINANCING, AND PRODUCTION CYCLES 327
Documents 269 Management Reports and Queries 270 Sales Returns Flowchart 270 Files in an EDP Environment 271 Cash Receipts 272 Documents 272 Management Reports and Queries 273 Cash Receipts Flowchart 273 Files in an EDP Environment 275 Write-offs of Accounts Receivable 276 Documents 276 Management Reports and Queries 277 Write-off of Accounts Receivable Flowchart 277	Payroll Cycle 327 Functions of the Cycle 328 Business Departments 328 Basic Steps and Basic Journal Entries 328 Control Objectives 330 Documents 330 Flowchart 333 Facilities Cycle 333 Investments and Financing Cycles 338 Production Cycle 339 Accounting Issues 340 Overview of Production Accounting 340
Files in an EDP Environment 279 Sights along the Internet 279 Chapter Summary in Terms of Learning Objectives 280 Glossary 282	Example 342 Depreciation 345 Documents 346 Summary 347 Sights along the Internet 348 Chapter Summary in Terms of Learning
Overview of the Expenditure Cycle 293 Functions of the Cycle 293 Business Departments 294	Objectives 349 Glossary 350 CHAPTER 12 RECOGNITION, MEASUREMENT, AND DISCLOSURE ISSUES 358
Basic Steps 295 Basic Journal Entries 295 Gross and Net Methods for Recording Cash Discounts 295 Periodic versus Perpetual Inventory System 297 Inventory Subsidiary Ledger 297	The Conceptual Framework: A Reprise and an Extension 359 Objectives 359 Qualitative Characteristics 359 Elements of Financial Statements 361

## **X** CONTENTS

INDEX 391

Recognition and Measurement 362	Securities 371
Summary 363	Present Value 372
Revenue Recognition 363	Computing Present Value 372
The Recognition Imperative 363	Bonds 374
Some Methods of Revenue Recognition 364	Leases 378
Measurement Issues 366	Summary 379
Historical Cost 366	Disclosure 379
Historical Cost at Acquisition 367	Auditing Management's Assertions 380
Historical Cost Depreciation 367	Sights along the Internet 380
Partial Disposal 367	Chapter Summary in Terms of Learning
Market Value Method 370	Objectives 381
Replacement Cost and Net Realizable Value 370	Glossary 383