

FINANCIAL & MANAGERIAL ACCOUNTING

Information for Decisions

SIXTH EDITION

John J. Wild
Ken W. Shaw
Barbara Chiappetta

The collage features several screenshots from the textbook's digital content:

- Spreadsheets:** A screenshot of a spreadsheet showing manufacturing costs with columns for 'Actual' and 'Standard' costs. Another shows a T-account for 'Cash' with a debit of 12,000 and a credit of 12,000.
- Journal Entries:** A screenshot of a journal entry worksheet for 'Photography fees earned' on August 20, showing a debit to Cash and a credit to Photography fees earned.
- T-accounts:** A screenshot of a T-account for 'Cash' with a debit of 30,000 and a credit of 30,000.
- Job Order Cost Accounting:** A screenshot of a 'JOB ORDER COST ACCOUNTING' section, including a 'Cost Accounting System' and 'Job Order Production' subsection.

Financial and Managerial Accounting

6th
edition

INFORMATION FOR DECISIONS

John J. Wild

University of Wisconsin at Madison

Ken W. Shaw

University of Missouri at Columbia

Barbara Chiappetta

Nassau Community College

**Mc
Graw
Hill**
Education



To my students and family, especially **Kimberly, Jonathan, Stephanie and Trevor.**
To my wife **Linda** and children **Erin, Emily and Jacob.**
To my mother, husband **Bob** and sons **Michael and David.**

FINANCIAL AND MANAGERIAL ACCOUNTING: INFORMATION FOR DECISIONS, SIXTH EDITION

Published by McGraw-Hill Education, 2 Penn Plaza, New York, NY 10121. Copyright © 2016 by McGraw-Hill Education. All rights reserved. Printed in the United States of America. Previous editions © 2013, 2011, and 2009. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of McGraw-Hill Education, including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 DOW/DOW 1 0 9 8 7 6 5

ISBN 978-0-07-802576-1

MHID 0-07-802576-1

Senior Vice President, Products & Markets: *Kurt L. Strand*
Vice President, General Manager,
Products & Markets: *Marty Lange*
Vice President, Content Design &
Delivery: *Kimberly Meriwether David*
Managing Director: *Tim Vertovec*
Marketing Director: *Brad Parkins*
Brand Manager: *Steve Schuetz*
Director, Product Development: *Rose Koos*
Director of Digital Content: *Patricia Plumb*
Lead Product Developer: *Ann Torbert*
Product Developer: *Lindsey Schauer*
Marketing Manager: *Michelle Nolte*
Digital Product Analyst: *Xin Lin*
Director, Content Design & Delivery: *Linda Avenarius*
Program Manager: *Daryl Horrocks*
Content Project Managers: *Lori Koettters, Brian Nacik*
Buyer: *Carol A. Bielski*
Design: *Debra Kubiak*
Content Licensing Specialists: *DeAnna Dausener, Keri Johnson*
Cover Image: *Ascent Xmedia/Getty Images*
Compositor: *Aptara[®], Inc.*
Printer: *R.R. Donnelley*

All credits appearing on page or at the end of the book are considered to be an extension of the copyright page.

Library of Congress Control Number: 2014954119

The Internet addresses listed in the text were accurate at the time of publication. The inclusion of a website does not indicate an endorsement by the authors or McGraw-Hill Education, and McGraw-Hill Education does not guarantee the accuracy of the information presented at these sites.

Adapting to the Needs of Today's Students

Financial and Managerial Accounting, 6e

Enhancements in technology have changed how we live and learn. Working with learning resources across devices, whether smartphones, tablets, or laptop computers, empowers students to drive their own learning by putting increasingly intelligent technology into their hands.

Whether the goal is to become an accountant, a businessperson, or simply an informed consumer of accounting information, *Financial and Managerial Accounting (FinMan)* has helped generations of students succeed. Its leading-edge accounting content, paired with state-of-the-art technology, supports student learning and elevates understanding of key accounting principles.

FinMan excels at **engaging students** with content that will help them see the relevance of accounting. Its chapter-opening vignettes showcase dynamic, successful entrepreneurial individuals and companies and **highlight the usefulness of accounting to business owners**. This edition's featured companies—**Apple, Google, and Samsung**—capture student interest with their products, and their annual reports serve as a pathway for learning financial statements. New in this edition, Need-to-Know illustrations in each chapter demonstrate how to apply key accounting procedures. They are supported by guided video presentations.

FinMan also delivers innovative technology to help student performance. **Connect Accounting** provides students with a media-rich eBook version of the textbook and offers instant grading and feedback for assignments that are completed online. Our system for completing exercise and problem material takes accounting content to the next level, delivering assessment material in a **more intuitive, less restrictive** format that adapts to the needs of today's students.

This technology features:

- a **general journal interface** that looks and feels more like that found in practice.
- an **auto-calculation** feature that allows students to focus on concepts rather than rote tasks.
- a **smart (auto-fill) drop-down design**.

The end result is content that better prepares students for the real world.

Connect Accounting also includes digitally based, interactive, adaptive learning tools that provide an opportunity to

engage students more effectively by offering varied instructional methods and more personalized learning paths that build on different learning styles, interests, and abilities.

The revolutionary technology of the LearnSmart Advantage Series—consisting of **LearnSmart®** and **SmartBook®**—is available only from McGraw-Hill Education. These products are based on an intelligent learning system that uses a series of adaptive questions to pinpoint each student's knowledge gaps and then provides an optimal learning path. Students spend less time in areas they already know and more time in areas they don't. The result: Students study more efficiently, learn faster, and retain more knowledge. Valuable reports provide insights into how students are progressing through textbook content and information useful for shaping in-class time or assessment.

Interactive Presentations teach each chapter's core learning objectives in a rich, multimedia format, bringing the content to life. Your students will come to class prepared when you assign Interactive Presentations. Students can also review the Interactive Presentations as they study. Further, **Guided Examples** provide students with narrated, animated, step-by-step walk-throughs of algorithmic versions of assigned exercises. Students appreciate the Guided Examples, which help them learn accounting and complete assignments outside of class.

A **General Ledger (GL) application**, new to 6e, offers students the ability to see how transactions post from the general journal all the way through the financial statements. It uses the intuitive, less restrictive format used for other homework, and it adds critical thinking components to each GL question, to ensure understanding of the entire process.

The first and only analytics tool of its kind, **Connect Insight®** is a series of visual data displays—each framed by an intuitive question—to provide at-a-glance information about how your class is doing. Connect Insight provides a quick analysis on five key dimensions, available at a moment's notice from a tablet device: *How are my students doing? How is my section doing? How is this student doing? How are my assignments going?* and *How is this assignment going?*

"This is an excellent book that is well-written and contains excellent illustrations. It has the best online supplements of any of the texts that I have reviewed. . . . This is an excellent book that I would recommend to all of my colleagues."

—KAREN CRISONINO, County College of Morris

About the Authors



JOHN J. WILD is a distinguished professor of accounting at the University of Wisconsin at Madison. He previously held appointments at Michigan State University and the University of Manchester in England. He received his BBA, MS, and PhD from the University of Wisconsin.

Professor Wild teaches accounting courses at both the undergraduate and graduate levels. He has received numerous teaching honors, including the Mabel W. Chipman Excellence-in-Teaching Award, the departmental Excellence-in-Teaching Award, and the Teaching Excellence Award from the 2003 and 2005 business graduates at the University of Wisconsin. He also received the Beta Alpha Psi and Roland F. Salmonson Excellence-in-Teaching Award from Michigan State University. Professor Wild has received several research honors and is a past KPMG Peat Marwick National Fellow and is a recipient of fellowships from the American Accounting Association and the Ernst and Young Foundation.



KEN W. SHAW is an associate professor of accounting and the Deloitte Professor of Accounting at the University of Missouri. He previously was on the faculty at the University of Maryland at College Park. He has also taught in international programs at the University of Bergamo (Italy) and the University of Alicante (Spain). He received an accounting degree from Bradley University and an MBA and PhD from the University of Wisconsin. He is a Certified

Public Accountant with work experience in public accounting.

Professor Shaw teaches accounting at the undergraduate and graduate levels. He has received numerous School of Accountancy, College of Business and university-level teaching awards. He was voted the “Most Influential Professor” by three School of Accountancy graduating classes, and is a two-time recipient of the O’Brien Excellence in Teaching Award. He is the advisor to his school’s chapter of the Association of Certified Fraud Examiners.



BARBARA CHIAPPETTA received her BBA in Accountancy and MS in Education from Hofstra University and is a tenured full professor at Nassau Community College. For the past two decades, she has been an active executive board member of the Teachers of Accounting at Two-Year Colleges (TACTYC), serving 10 years as vice president and as president from 1993 through 1999. As an active

member of the American Accounting Association, she has served on the Northeast Regional Steering Committee, chaired the Curriculum Revision Committee of the Two-Year Section, and participated in numerous national committees. Professor Chiappetta has been inducted into the American Accounting Association Hall of Fame for the

Professor Wild is an active member of the American Accounting Association and its sections. He has served on several committees of these organizations, including the Outstanding Accounting Educator Award, Wildman Award, National Program Advisory, Publications, and Research Committees. Professor Wild is author of *Fundamental Accounting Principles*, *Financial Accounting*, *Managerial Accounting*, and *College Accounting*, each published by McGraw-Hill Education. His research articles on accounting and analysis appear in *The Accounting Review*; *Journal of Accounting Research*; *Journal of Accounting and Economics*; *Contemporary Accounting Research*; *Journal of Accounting, Auditing and Finance*; *Journal of Accounting and Public Policy*; and other journals. He is past associate editor of *Contemporary Accounting Research* and has served on several editorial boards including *The Accounting Review*.

In his leisure time, Professor Wild enjoys hiking, sports, travel, people, and spending time with family and friends.

Professor Shaw is an active member of the American Accounting Association and its sections. He has served on many committees of these organizations and presented his research papers at national and regional meetings. Professor Shaw’s research appears in the *Journal of Accounting Research*; *The Accounting Review*; *Contemporary Accounting Research*; *Journal of Financial and Quantitative Analysis*; *Journal of the American Taxation Association*; *Strategic Management Journal*; *Journal of Accounting, Auditing, and Finance*; *Journal of Financial Research*; and other journals. He has served on the editorial boards of *Issues in Accounting Education*; *Journal of Business Research*; and *Research in Accounting Regulation*. Professor Shaw is co-author of *Fundamental Accounting Principles*, *Managerial Accounting*, and *College Accounting*, all published by McGraw-Hill Education.

In his leisure time, Professor Shaw enjoys tennis, cycling, music, and coaching his children’s sports teams.

Northeast Region. She has also received the Nassau Community College dean of instruction’s Faculty Distinguished Achievement Award. Professor Chiappetta was honored with the State University of New York Chancellor’s Award for Teaching Excellence in 1997. As a confirmed believer in the benefits of the active learning pedagogy, Professor Chiappetta has authored *Student Learning Tools*, an active learning workbook for a first-year accounting course, published by McGraw-Hill Education.

In her leisure time, Professor Chiappetta enjoys tennis and participates on a U.S.T.A. team. She also enjoys the challenge of bridge. Her husband, Robert, is an entrepreneur in the leisure sport industry. She has two sons—Michael, a lawyer, specializing in intellectual property law in New York, and David, a composer, pursuing a career in music for film in Los Angeles.

Dear Colleagues and Friends,

As we roll out the new edition of *Financial and Managerial Accounting*, we thank each of you who provided suggestions to improve the textbook and its teaching resources. This new edition reflects the advice and wisdom of many dedicated reviewers, symposium and workshop participants, students, and instructors. Throughout the revision process, we steered this textbook and its teaching tools in the manner you directed. As you'll find, the new edition offers a rich set of features—especially digital features—to improve student learning and assist instructor teaching and grading. We believe you and your students will like what you find in this new edition.

Many talented educators and professionals have worked hard to create the materials for this product, and for their efforts, we're grateful. **We extend a special thank-you to our contributing and technology supplement authors**, who have worked so diligently to support this product:

Contributing Author: Kathleen O'Donnell, *Onondaga Community College*

Accuracy Checkers: Dave Krug, *Johnson County Community College*; Mark McCarthy, *East Carolina University*; Helen Roybark, *Radford University*; Barbara Schnathorst; and Beth Woods

LearnSmart Author: April Mohr, *Jefferson Community and Technical College, SW*

Interactive Presentations: Jeannie Folk, *College of DuPage*

PowerPoint Presentations: Beth Kane, *Northwestern University*

Instructor Resource Manual: Patricia Walczak, *Lansing Community College*

Test Bank Contributors: Anna Boulware, *St. Charles Community College*, and Brenda J. McVey, *University of Mississippi*

Digital Contributor, Connect Content, General Ledger Problems, and Exercise PowerPoints: Kathleen O'Donnell, *Onondaga Community College*

In addition to the invaluable help from the colleagues listed above, we thank the entire *FinMan*, 6e team at McGraw-Hill Education: Tim Vertovec, Steve Schuetz, Michelle Nolte, Lindsey Schauer, Lori Koettters, Ann Torbert, Brad Parkins, Patricia Plumb, Xin Lin, Kevin Moran, Debra Kubiak, Carol Bielski, Keri Johnson, DeAnna Dausener, Sarah Evertson, Ben Pearsall, Brian Nacik, Ron Nelms, and Daryl Horrocks. We could not have published this new edition without your efforts.

John J. Wild Ken W. Shaw Barbara Chiappetta

McGraw-Hill **CONNECT ACCOUNTING**


McGraw-Hill *Connect Accounting* is a digital teaching and learning environment that gives students the means to better connect with their coursework, with their instructors, and with the important concepts they will need to know for success now and in the future. With *Connect Accounting*, instructors can easily deliver assignments, quizzes, and tests online. Students can review course material and practice important skills.

McGraw-Hill *Connect Accounting* provides all of the following learning and teaching resources:

- SmartBook, powered by LearnSmart
- Auto-graded online homework
- General ledger problems
- Auto-graded Excel simulations
- Interactive Presentations
- Guided Examples

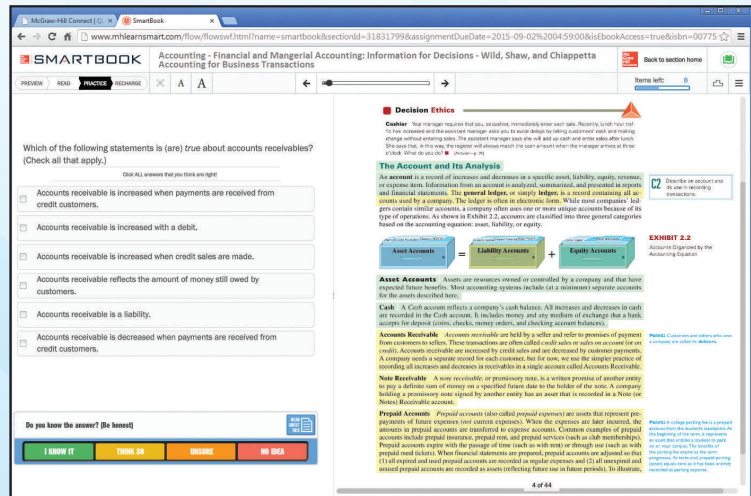
In short, *Connect Accounting* offers students powerful tools and features that optimize their time and energy, enabling them to focus on learning.

SmartBook, Powered by LearnSmart


SMARTBOOK[®] McGraw-Hill LearnSmart[®] is the market-leading adaptive study resource that is proven to strengthen memory recall, increase class retention, and boost grades. LearnSmart allows students to study more efficiently because they are made aware of what they know and don't know.

SmartBook[®], which is powered by LearnSmart, is the first and only adaptive reading experience designed to change the way students read and learn. It creates a personalized reading experience by highlighting the most impactful concepts a student needs to learn at that moment in time. As a student engages with SmartBook, the reading experience continuously adapts by highlighting content based on what the student knows and doesn't know. This ensures that the focus is on the content he or she needs to learn, while simultaneously promoting long-term retention of material.

Use SmartBook's real-time reports to quickly identify the concepts that require more attention from individual students—or the entire class. The end result? Students are more engaged with course content, can better prioritize their time, and come to class ready to participate.



Tailored to You.

Online Assignments

Connect Accounting helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. Connect grades homework automatically and gives immediate feedback on any questions students may have missed. Our assignable, gradable end-of-chapter content includes a general journal application that looks and feels more like what you would find in a general ledger software package. Also, select questions have been redesigned to test students' knowledge more fully. They now include tables for students to work through rather than requiring that all calculations be done off-line. McGraw-Hill's redesigned student interface provides a real-world feel to interactive assignments and end-of-chapter assessment content. This robust accounting software allows for flexibility in learning styles and provides opportunities for courses to be delivered in traditional, online, and blended settings.

General Ledger Problems

New General Ledger problems for select questions enable students to see how transactions post from the general journal all the way through the financial statements. It provides a much-improved experience for students working with accounting cycle questions. Students' work in the general journal is automatically posted to the ledger, navigation is much simpler, scrolling is no longer an issue, and students can easily link back to their original entries simply by clicking the ledger if edits are needed. Many questions now have critical thinking components added, to maximize students' foundational knowledge of accounting concepts and principles.

The screenshot displays the 'connect ACCOUNTING Accounting 101' interface. It shows a 'Balance Sheet Assignment' with a question about Real Answers, a consulting firm. Below the question is a table of account balances as of October 31:

Cash	\$ 11,360	Cash withdrawals by owner	\$ 2,000
Accounts receivable	14,000	Consulting fees earned	14,000
Office supplies	3,250	Rent expense	3,550
Land	48,000	Salaries expense	7,000
Office equipment	18,000	Telephone expense	750
Accounts payable	8,500	Miscellaneous expenses	580
Owner investments	84,000		

Below this is a 'REAL ANSWERS Balance Sheet As of October 31' with Assets and Liabilities sections. The Assets section includes Cash (\$11,360), Accounts receivable (14,000), Office supplies (3,250), and Office equipment (18,000). The Liabilities section includes Accounts payable (\$8,500) and Accounts receivable (14,000).

The bottom part of the screenshot shows a 'General Ledger Account' for 'Cash' and 'Accounts receivable - Art'. The Cash ledger shows transactions from June 30 to July 16, with a final balance of 21,517. The Accounts receivable - Art ledger shows transactions from July 19 to July 19, with a final balance of 1,200.

Interactive Presentations

Interactive Presentations provide engaging narratives of all chapter learning objectives in an assignable interactive online format. They follow the structure of the text and are organized to match the specific learning objectives within each chapter. While the Interactive Presentations are not meant to replace the textbook, they provide additional explanation and enhancement of material from the text chapter, allowing students to learn, study, and practice at their own pace, with instant feedback.

Guided Examples

The Guided Examples in Connect Accounting provide a narrated, animated, step-by-step walk-through of select exercises similar to those assigned. These short presentations, which can be turned on or off by instructors, provide reinforcement when students need it most.

The screenshot shows an interactive presentation slide titled 'Receive Investment by Owner'. It includes a '1. Identify' section with a text box and a '2. Analyze' section with a T-account diagram showing Cash increasing by 15,000 and Owner, Capital increasing by 15,000. The '3. Record' section shows the journal entry: Cash 15,000 and Owner, Capital 15,000. The '4. Post' section shows the ledger entries for Cash and Owner, Capital.

The screenshot shows an Excel simulation with a trial balance table for Salanka Marketing Co. Below the table is a 'Post-closing trial balance' table. The trial balance table has columns for No., Account Title, Adjusted Trial Balance, and Post-Closing Trial Balance. The post-closing trial balance table has columns for No., Account Title, and Post-Closing Trial Balance. A blue arrow points to the 'All balance sheet accounts and amounts' column in the post-closing trial balance table.

Excel Simulations

Simulated Excel questions, assignable within Connect Accounting, allow students to practice their Excel skills—such as basic formulas and formatting—within the context of accounting. These questions feature animated, narrated Help and Show Me tutorials (when enabled), as well as automatic feedback and grading for both students and professors.

The screenshot shows an Excel simulation with a 'Schedule of Cost of Goods Manufactured' table. The table has columns for No., Description, and Amount. The rows include: Raw materials (all direct), Work in process, Finished goods, Total raw materials available, Less raw materials used in production, Total raw materials available, Less raw materials used in production, Total raw materials available, Less raw materials used in production, Total raw materials available, Less raw materials used in production.

McGraw-Hill *CONNECT ACCOUNTING* Features

Simple Assignment Management and Smart Grading

With *Connect Accounting*, creating assignments is easier than ever, enabling instructors to spend more time teaching and less time managing. Simple assignment management and smart grading allow you to:

- Create and deliver assignments easily with selectable end-of-chapter questions and Test Bank items.
- Have assignments scored automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response, manually change grades, or leave comments for students to review.
- Reinforce classroom concepts with practice assignments and instant quizzes and exams.

Student	Total 710 pts	Chapter 2 Practice 150 pts	Chapter 2 Homework 50 pts	Chapter 2 Quiz 100 pts	Chapter 3 LearnSmart 100 pts
Adani, Nikki	691.65	145.50 (97.00 %)	49.23 (98.46 %)	100.00 (100.00 %)	100.00 (100.00 %)
Anglo, Mark	429.90	82.80 (55.20 %)	25.00 (50.00 %)	70.00 (70.00 %)	100.00 (100.00 %)
Banks, Gideon	601.92	131.60 (87.73 %)	21.22 (42.44 %)	90.00 (90.00 %)	100.00 (100.00 %)
Basa, Malik	697.60	148.00 (98.67 %)	50.00 (100.00 %)	100.00 (100.00 %)	100.00 (100.00 %)
Bell, George	524.30	102.50 (68.33 %)	35.00 (70.00 %)	70.00 (70.00 %)	100.00 (100.00 %)
Bhaisakhab, Janam	615.00	130.00 (86.67 %)	45.00 (90.00 %)	90.00 (90.00 %)	100.00 (100.00 %)
Binbaum, Bill	620.00	130.00 (86.67 %)	40.00 (80.00 %)	90.00 (90.00 %)	100.00 (100.00 %)
Brown, Daniel	640.71	135.00 (90.00 %)	44.71 (89.42 %)	100.00 (100.00 %)	100.00 (100.00 %)
Castaldo, Irene	610.00	130.00 (86.67 %)	40.00 (80.00 %)	80.00 (80.00 %)	100.00 (100.00 %)

Assignments	Score	Submitted	Time spent (min:sec)	Date viewed	
Chapter 1 LearnSmart Total Value (Points): 100.00, Average Score: 1.00 (1.00%)	0.00 (0.00%)	10/14/15 12:28:44 EDT	10/14/15 12:28:44 EDT	0:00	10/14/15 12:28:44 EDT
Chapter 2 Practice Total Value (Points): 150.00, Average Score: 145.50 (97.00%)	145.50 (97.00%)	10/13/15 05:41:44 EDT	10/13/15 05:41:44 EDT	0:11	10/14/15 11:22:04 EDT
Chapter 2 Homework Total Value (Points): 50.00, Average Score: 49.23 (98.46%)	49.23 (98.46%)	10/13/15 05:44:48 EDT	10/13/15 05:44:48 EDT	0:39	10/13/15 05:44:48 EDT
Chapter 2 Quiz Total Value (Points): 100.00, Average Score: 100.00 (100.00%)	100.00 (100.00%)	10/13/15 08:32:44 EDT	10/13/15 08:32:44 EDT	0:36	10/13/15 08:32:44 EDT
Chapter 3 LearnSmart Total Value (Points): 100.00, Average Score: 100.00 (100.00%)	100.00 (100.00%)	10/13/15 05:40:44 EDT	10/13/15 05:40:44 EDT	0:07	10/13/15 05:40:44 EDT
Chapter 3 Practice Total Value (Points): 150.00, Average Score: 148.00 (98.67%)	148.00 (98.67%)	10/13/15 05:10:44 EDT	10/13/15 05:10:44 EDT	0:10	10/13/15 05:10:44 EDT
Chapter 3 Homework Total Value (Points): 50.00, Average Score: 50.00 (100.00%)	50.00 (100.00%)	10/13/15 05:21:44 EDT	10/13/15 05:21:44 EDT	0:07	10/13/15 05:21:44 EDT
Chapter 3 Quiz Total Value (Points): 100.00, Average Score: 100.00 (100.00%)	100.00 (100.00%)	10/13/15 05:26:44 EDT	10/13/15 05:26:44 EDT	0:38	10/13/15 05:26:44 EDT

Powerful Instructor and Student Reports

Connect Accounting keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The progress-tracking function enables you to:

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB and AICPA.

Connect Insight

The first and only analytics tool of its kind, McGraw-Hill Connect[®] Insight is a series of visual data displays—each framed by an intuitive question—to provide at-a-glance information about how your class is doing.

Connect Insight provides a quick analysis on five key insights, available at a moment's notice from your tablet device:

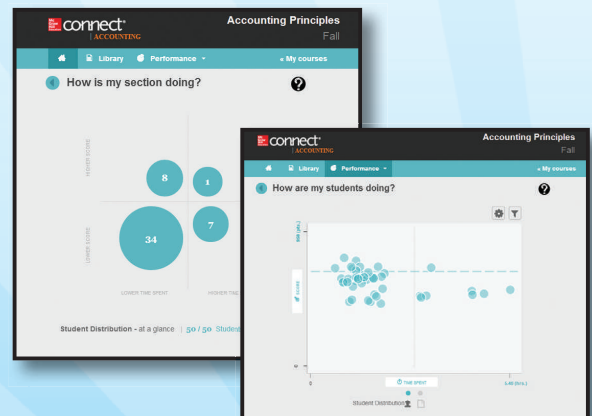
- How are my students doing?
- How are my assignments going?
- How is my section doing?
- How is this assignment going?
- How is this student doing?

Instructor Library

The *Connect Accounting* Instructor Library is a repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The *Connect Accounting* Instructor Library includes:

- Presentation slides.
- Animated PowerPoint exhibits and exercises.
- Solutions Manual.
- Test Bank.
- Instructor's Resource Manual.

The *Connect Accounting* Instructor Library also allows you to upload your own files.



For more information about *Connect Accounting*, go to <http://connect.mheducation.com>, or contact your local McGraw-Hill Higher Education representative.

Tailored to You.

Other Technology Offered by McGraw-Hill

Tegrity Campus: Lectures 24/7



Tegrity Campus is a service that makes class time available 24/7 by automatically capturing every lecture. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio in a format that is easily searchable, frame by frame. Students can replay any part of any recorded class with easy-to-use browser-based viewing on a PC, Mac, or mobile device.

Help turn your students' study time into learning moments immediately supported by your lecture. With Tegrity Campus, you also increase intent listening and class participation by easing students' concerns about note-taking.

To learn more about Tegrity, watch a two-minute Flash demo at <http://tegritycampus.mhhe.com>.

McGraw-Hill Campus



McGraw-Hill Campus[®] is a new one-stop teaching and learning experience available to users of any learning management system. This institutional service allows faculty and students to enjoy single sign-on (SSO) access to all McGraw-Hill Higher Education materials, including the award-

winning McGraw-Hill Connect platform, from directly within the institution's website. To learn more about McGraw-Hill Campus, visit <http://mhcampus.mhhe.com>.

Custom Publishing through Create

McGraw-Hill Create[™] is a self-service website that allows instructors to create custom course materials by drawing upon McGraw-Hill's comprehensive, cross-disciplinary content. Instructors can add their own content quickly and easily and tap into other rights-secured, third-party sources as well, then arrange the content in a way that makes the most sense for their course.

Through Create, you can:

- Combine material from different sources and even upload your own content.
- Personalize your product with the course name and information.
- Choose the best format for your students—color print, black-and-white print, or eBook.
- Edit and update your course materials as often as you'd like.

Begin creating now at www.mcgrawhillcreate.com.

ALEKS: A Superior, Student-Friendly Accounting Experience

Artificial intelligence: Fills knowledge gaps.

Cycle of learning and assessment: Increases learning momentum and engages students.

Customizable curriculum: Aligns with your course syllabi and textbooks.

Dynamic, automated reports: Monitors detailed student and class progress.

To learn more, visit www.aleks.com/highered/business.

CourseSmart



Learn Smart. Choose Smart.

CourseSmart is a way for faculty to find and review eTextbooks. It's also a great option for students who are interested in accessing their course materials digitally and saving money.

CourseSmart offers thousands of the most commonly adopted textbooks across hundreds of courses from a wide variety of higher education publishers. With the CourseSmart eTextbook, students can save up to 45 percent off the cost of a print book, reduce their impact on the environment, and access powerful web tools for learning. CourseSmart is an online eTextbook, which means users access and view their textbook online when connected to the Internet. Students can also print sections of the book for maximum portability. CourseSmart eTextbooks are available in one standard online reader with full text search, notes and highlighting, and e-mail tools for sharing notes between classmates. For more information on CourseSmart, go to www.coursesmart.com.

McGraw-Hill Customer Experience Group Contact Information

At McGraw-Hill, we understand that getting the most from new technology can be challenging. That's why our services don't stop after you purchase our products. You can contact our Product Specialists 24 hours a day to get product training online. Or you can search the knowledge bank of Frequently Asked Questions on our support website. For customer support, call 800-331-5094 or visit www.mhhe.com/support.

Innovative Textbook Features . . .

Using Accounting for Decisions

Whether we prepare, analyze, or apply accounting information, one skill remains essential: decision making. To help develop good decision-making habits and to illustrate the relevance of accounting, we use a pedagogical framework we call the Decision Center. This framework encompasses a variety of approaches and subject areas, giving students insight into every aspect of business decision making; see the four nearby examples for the different types of decision boxes, including those that relate to fraud. Answers to Decision Maker and Ethics boxes are at the end of each chapter.

Profit Margin and Current Ratio ■ ■ **Decision Analysis**

Profit Margin
A useful measure of a company's operating results is the ratio of its net income to net sales. This ratio is called **profit margin**, or *return on sales*, and is computed as in Exhibit 3.22.

$$\text{Profit margin} = \frac{\text{Net income}}{\text{Net sales}}$$

EXHIBIT 3.22
Profit Margin
A1
Compute profit margin and describe its use in analyzing company performance.

This ratio is interpreted as reflecting the percent of profit in each dollar of sales. To illustrate how we compute and use profit margin, let's look at the results of **Limited Brands, Inc.**, in Exhibit 3.23 for its fiscal years 2009 through 2013.

Decision Insight

Women Entrepreneurs **SPANX** has given more than \$20 million to charity. The Center for Women's Business Research reports that women-owned businesses, such as SPANX (owner Sara Blakely in photo), are growing and that they:

- Total approximately 11 million and employ nearly 20 million workers.
- Generate \$2.5 trillion in annual sales and tend to embrace technology.
- Are philanthropic—70% of owners volunteer at least once per month.
- Are more likely funded by individual investors (73%) than venture firms (15%). ■

Paul Morigi/Getty Images for FORTUNE

Decision Ethics

Payables Manager As a new accounts payable manager, you are being trained by the outgoing manager. She explains that the system prepares checks for amounts net of favorable cash discounts, and the checks are dated the last day of the discount period. She also tells you that checks are not mailed until five days later, adding that "the company gets free use of cash for an extra five days, and our department looks better. When a supplier complains, we blame the computer system and the mailroom." Do you continue this payment policy? ■ [Answers follow the chapter's Summary.]

Decision Maker

Supplier A retailer requests to purchase supplies on credit from your company. You have no prior experience with this retailer. The retailer's current ratio is 2.1, its acid-test ratio is 0.5, and inventory makes up most of its current assets. Do you extend credit? ■ [Answers follow the chapter's Summary.]

"Authors do a good job of relating material to real-life situations and putting students in the decision-maker role."

—MORGAN ROCKETT, Moberly Area Community College

Chapter Preview

Each chapter opens with a visual chapter preview. Students can begin their reading with a clear understanding of what they will learn and when, allowing them to stay more focused and organized along the way. Learning objective numbers highlight the location of related content.

Chapter Preview

MERCHANDISING ACTIVITIES	MERCHANDISING PURCHASES	MERCHANDISING SALES	MERCHANDISE REPORTING AND ANALYSIS
C1 Reporting income and inventory C2 Operating cycles and inventory system	P1 Accounting for: Purchase discounts Purchase returns and allowances Transportation costs	P2 Accounting for: Sales of merchandise Sales discounts Sales returns and allowances	P3 Adjusting and closing for merchandisers P4 Multiple-step and single-step income statements A1 Acid-test analysis A2 Gross margin analysis

Learning Objectives

CONCEPTUAL	ANALYTICAL	PROCEDURAL
C1 Explain the steps in processing transactions and the role of source documents. C2 Describe an account and its use in recording transactions. C3 Describe a ledger and a chart of accounts.	C4 Define <i>debits</i> and <i>credits</i> and explain double-entry accounting. A1 Analyze the impact of transactions on accounts and financial statements. A2 Compute the debt ratio and describe its use in analyzing financial condition.	P1 Record transactions in a journal and post entries to a ledger. P2 Prepare and explain the use of a trial balance. P3 Prepare financial statements from business transactions.

CAP Model

The Conceptual/Analytical/Procedural (CAP) Model allows courses to be specially designed to meet the teaching needs of a diverse faculty. This model identifies learning objectives, textual materials, assignments, and test items by C, A, or P, allowing different instructors to teach from the same materials, yet easily customize their courses toward a conceptual, analytical, or procedural approach (or a combination thereof) based on personal preferences.

Bring Accounting to Life

NEED-TO-KNOW 1-5 Prepare the (a) income statement, (b) statement of owner's equity, and (c) balance sheet, for Apple using the following condensed data from its fiscal year ended September 28, 2013. (All \$s are in millions.)

Financial Statements

Accounts payable	\$ 22,367	Investments and other assets	\$163,042
Other liabilities	61,084	Land and equipment	16,597
Cost of sales and other expenses	119,724	Selling and other expenses	14,149
Cash	14,259	Accounts receivable	13,102
Owner, Capital, Sep. 29, 2012	118,210	Net income	37,037
Withdrawals in fiscal year 2013	31,698	Owner, Capital, Sep. 28, 2013	123,549
Revenues	170,910		

Solution

APPLE Income Statement For Fiscal Year Ended September 28, 2013		
Revenues		\$170,910
Expenses		
Cost of sales and other expenses	119,724	
Selling and other expenses	14,149	

Need-to-Know Illustrations

New in this edition are several Need-to-Know illustrations located at key junctures in each chapter. These illustrations pose questions about the material just presented—content that students “need to know” to successfully learn accounting. Accompanying solutions walk students through key procedures and analysis necessary to be successful with homework and test materials. Need-to-Know illustrations are supplemented with narrated, animated, step-by-step walk-through videos led by an instructor and available via *Connect*.

Global View

The Global View section explains international accounting practices relating to the material covered in that chapter. The aim of this section is to describe accounting practices and to identify the similarities and differences in international accounting practices versus those in the United States. As we move toward global convergence in accounting practices, and as we witness the likely convergence of U.S. GAAP to IFRS, the importance of student familiarity with international accounting grows. This innovative section helps us begin down that path. This section is purposefully located at the end of each chapter so that each instructor can decide what emphasis, if at all, is to be assigned to it.



GLOBAL VIEW

This section discusses similarities and differences between U.S. GAAP and IFRS in accounting and reporting for merchandise purchases and sales, and for the income statement.

Accounting for Merchandise Purchases and Sales Both U.S. GAAP and IFRS include broad and similar guidance for the accounting of merchandise purchases and sales. Specifically, all of the transactions presented and illustrated in this chapter are accounted for identically under the two systems. The closing process for merchandisers also is identical for U.S. GAAP and IFRS. In the next chapter we describe how inventory valuation can, in some cases, be different for the two systems.

Income Statement Presentation We explained that net income, profit, and earnings refer to the same (*bottom line*) item. However, IFRS tends to use the term *profit* more than any other term, whereas U.S. statements tend to use *net income* more than any other term. Both U.S. GAAP and IFRS income statements begin with the net sales or net revenues (*top line*) item. For merchandisers and manufacturers, this is followed by cost of goods sold. The presentation is similar for the remaining items with the following differences.

- U.S. GAAP offers little guidance about the presentation or order of expenses. IFRS requires separate disclosures for financing costs (interest expense), income tax expense, and some other special items.
- Both systems require separate disclosure of items when their size, nature, or frequency are important.
- IFRS permits expenses to be presented by their function or their nature. U.S. GAAP provides no direction but the SEC requires presentation by function.
- Neither U.S. GAAP nor IFRS define *operating* income, which results in latitude in reporting.
- IFRS permits alternative income measures on the income statement; U.S. GAAP does not.

VOLKSWAGEN Volkswagen Group provides the following example of income statement reporting. We see the separate disclosure of finance costs, taxes, and other items. We also see the unusual practice of using the minus

Sustainability and Accounting The founders of **Proof Eyewear**, as introduced in this chapter's opening feature, assert that “sustainability is a key test in every product decision . . . it has to have an aspect of sustainability to it or we just won't develop it.” This level of commitment to sustainability is impressive. The founders also impose a “three-pillar foundation” in everything they do, which is graphically portrayed below. Some of their recent activities include: (1) planting a tree for each pair of sunglasses sold on Earth Day, (2) financing a portion of sight-saving surgeries for each pair of frames purchased, (3) using only wood from sustainably managed forests and rejecting endangered wood, and (4) contributing to reforestation efforts.



Sustainability and Accounting

New in this edition are brief sections that highlight the importance of sustainability within the broader context of global accounting (and accountability). Companies increasingly address sustainability in their public reporting and consider the sustainability accounting standards (from the Sustainability Accounting Standards Board) and the expectations of our global society. These boxes, located near the end of the Global View section, cover different aspects of sustainability, often within the context of the chapter's featured entrepreneurial company.

“I like the layout of the text and the readability. The illustrations and comics in the book make the text seem less intimidating and boring for students. The PowerPoint slides are easy to understand and use, the pictorials are great, and the text has great coverage of accounting material. The addition of IFRS information and the updates to the opening stories are great. I like that the decision insights are about businesses the students can relate to (i.e., Facebook, women start-up businesses, etc.).”

—JEANNIE LIU, Chaffey College

Outstanding Assignment Material . . .

Once a student has finished reading the chapter, how well he or she retains the material can depend greatly on the questions, exercises, and problems that reinforce it. This book leads the way in comprehensive, accurate assignments.

Comprehensive Need-to-Know Problems present both a problem and a complete solution, allowing students to review the entire problem-solving process and achieve success.

Chapter Summaries provide students with a review organized by learning objectives. Chapter Summaries are a component of the CAP model (see page x), which recaps each conceptual, analytical, and procedural objective.

Water Sports Company (WSC) patented and successfully test-marketed a new product. To expand its ability to produce and market the new product, WSC needs to raise \$800,000 of financing. On January 1, 2015, the company obtained the money in two ways:

NEED-TO-KNOW
COMPREHENSIVE

- WSC signed a \$400,000, 10% installment note to be repaid with five equal annual installments to be made on December 31 of 2015 through 2019.
- WSC issued five-year bonds with a par value of \$400,000. The bonds have a 12% annual contract rate and pay interest on June 30 and December 31. The bonds' annual market rate is 10% as of January 1, 2015.

Required

- For the installment note, (a) compute the size of each annual payment, (b) prepare an amortization table such as Exhibit 14.14, and (c) prepare the journal entry for the first payment.
- For the bonds, (a) compute their issue price; (b) prepare the January 1, 2015, journal entry to record their issuance; (c) prepare an amortization table using the straight-line method; (d) prepare the June 30, 2015, journal entry to record the first interest payment; and (e) prepare a journal entry to record retiring the bonds at a \$416,000 call price on January 1, 2017.

3P Redo parts 2(c), 2(d), and 2(e) assuming the bonds are amortized using the effective interest method.

PLANNING THE SOLUTION

- For the installment note, divide the borrowed amount by the annuity factor (from Table B.3) using the 10% rate and five payments to compute the amount of each payment. Prepare a table similar to Exhibit 14.14 and use the numbers in the table's first line for the journal entry.
- Compute the bonds' issue price by using the market rate to find the present value of their cash flows (use tables found in Appendix B). Then use this result to record the bonds' issuance. Next, prepare an amortization table like Exhibit 14.11 (and Exhibit 14B.2) and use it to get the numbers needed for the journal entry. Also use the table to find the carrying value as of the date of the bonds' retirement that you need for the journal entry.

SOLUTION

Part 1: Installment Note

- Annual payment = Note balance/PV Annuity factor = \$400,000/3.7908 = \$105,519 (The present value annuity factor is for five payments and a rate of 10%.)
- An amortization table for the long-term note payable follows.

Key Terms		
Account	Debit	Posting
Account balance	Debt ratio	Posting reference (PR) column
Balance column account	Double-entry accounting	Source documents
Chart of accounts	General journal	T-account
Compound journal entry	General ledger	Trial balance
Credit	Journal	Unearned revenue
Creditors	Journalizing	

Key Terms are bolded in the text and repeated at the end of the chapter. A complete glossary of key terms is available online through *Connect Accounting*.

Multiple Choice Quiz	Answers at end of chapter
<ol style="list-style-type: none"> A company forgot to record accrued and unpaid employee wages of \$350,000 at period-end. This oversight would <ol style="list-style-type: none"> Understate net income by \$350,000. Overstate net income by \$350,000. Have no effect on net income. Overstate assets by \$350,000. Overstate assets by \$350,000. Prior to recording adjusting entries, the Supplies account has a \$450 debit balance. 	<ol style="list-style-type: none"> On November 1, 2015, Stockton Co. receives \$3,600 cash from Hans Co. for consulting services to be provided evenly over the period November 1, 2015, to April 30, 2016—at which time Stockton credited \$3,600 to Unearned Consulting Fees. The adjusting entry on December 31, 2015 (Stockton's year-end) would include a <ol style="list-style-type: none"> Debit to Unearned Consulting Fees for \$1,200. Debit to Unearned Consulting Fees for \$2,400. Credit to Consulting Fees Earned for \$2,400.

Multiple Choice Quiz questions quickly test chapter knowledge before a student moves on to complete Quick Studies, Exercises, and Problems.

QUICK STUDY	Choose from the following list of terms/phrases to best complete the statements below.
<p>QS 3-1 Periodic reporting</p> <ol style="list-style-type: none"> _____ presumes that an organization's activities can be divided into specific time periods. Financial reports covering a one-year period are known as _____. A _____ consists of any 12 consecutive months. A _____ consists of 12 consecutive months ending on December 31. The value of information is often linked to its _____. 	<ol style="list-style-type: none"> Fiscal year Timeliness Calendar year Accounting period Annual financial statements Interim financial statements Natural business year Time period assumption Quarterly statements

Quick Study assignments are short exercises that often focus on one learning objective. Most are included in *Connect Accounting*. There are at least 10–15 Quick Study assignments per chapter.

Exercises are one of this book's many strengths and a competitive advantage. There are at least 10–15 per chapter, and most are included in *Connect Accounting*.

EXERCISES
<p>Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities. Classify the following activities as part of the identifying (I), recording (R), or communicating (C) aspects of accounting.</p> <ol style="list-style-type: none"> Analyzing and interpreting reports. Presenting financial information. Keeping a log of service costs. Measuring the costs of a product. Preparing financial statements. Seeing revenues generated from a service. Observing employee tasks behind a product. Registering cash sales of products sold.

<p>PROBLEM SET A</p> <p>Problem 2-1A Preparing and posting journal entries; preparing a trial balance</p> <p>C3 C4 A1 P1 P2</p>	<p>Karla Tanner opens a water sports store in its first month of operation. The company's transactions in September are as follows:</p> <p>1. Tanner invests \$25,000 in the company.</p> <p>2. The company purchases office equipment valued at \$15,000.</p> <p>3. The company purchases office space. (Hint: Debit Prepaid Rent.)</p> <p>4. The company purchases office equipment and \$2,400 in office supplies.</p> <p>5. The company receives \$3,280 cash.</p>	<p>PROBLEM SET B</p> <p>Problem 2-1B Preparing and posting journal entries; preparing a trial balance</p> <p>C3 C4 A1 P1 P2</p>
---	--	---

Problem Sets A & B are proven problems that can be assigned as homework or for in-class projects. All problems are coded according to the CAP model (see page x), and Set A is included in *Connect Accounting*.

Helps Students Master Key Concepts

Beyond the Numbers exercises ask students to use accounting figures and understand their meaning. Students also learn how accounting applies to a variety of business situations. These creative and fun exercises are all new or updated and are divided into sections:

- Reporting in Action
- Comparative Analysis
- Ethics Challenge
- Communicating in Practice
- Taking It to the Net
- Teamwork in Action
- Hitting the Road
- Entrepreneurial Decision
- Global Decision

Beyond the Numbers

REPORTING IN ACTION

AI P1 P2 P3 P4 P5

APPLE

BTN 3-1 Refer to Apple's financial statements in Appendix A to answer the following.

1. Identify and write down the revenue recognition principle as explained in the chapter.
2. Review Apple's footnotes (in Appendix A and/or from its 10-K on its website) to discover how it applies the revenue recognition principle and when it recognizes revenue. Report what you discover.
3. What is Apple's profit margin for fiscal years ended September 28, 2013, and September 29, 2012.
4. For the fiscal year ended September 28, 2013, what amount is credited to Income Summary to summarize its revenues earned?
5. For the fiscal year ended September 28, 2013, what amount is debited to Income Summary to summarize its expenses incurred?
6. For the fiscal year ended September 28, 2013, what is the balance of its Income Summary account before it is closed?

This serial problem began in Chapter 1 and continues through most of the book. If previous chapter segments were not completed, the serial problem can still begin at this point. It is helpful, but not necessary, to use the Working Papers that accompany the book.

SERIAL PROBLEM
Business Solutions
P1 P2 P3 P4 P5

SP 3 After the success of the company's first two months, Santana Rey continues to operate Business Solutions. (Transactions for the first two months are described in the Chapter 2 serial problem.) The November 30, 2015, unadjusted trial balance of Business Solutions (reflecting its transactions for October and November of 2015) follows.

No.	Account Title	Debit	Credit
101	Cash	\$38,264	
106	Accounts receivable	12,418	
126	Computer supplies	2,545	
128	Prepaid insurance	2,220	
131	Prepaid rent	3,300	
143	Office equipment	8,000	
164	Accumulated depreciation—Office equipment		\$ 0

Serial Problems use a continuous running case study to illustrate chapter concepts in a familiar context. The Serial Problem can be followed continuously from the first chapter or picked up at any later point in the book; enough information is provided to ensure students can get right to work.

"The serial problems are excellent. . . I like the continuation of the same problem to the next chapters if applicable. I use the Quick Studies as practice problems. . . Students have commented that this really works for them if they work (these questions) before attempting the assigned exercises and problems. I also like the discussion (questions) and make this an assignment. You have done an outstanding job presenting accounting to our students."

—JERRI TITTLE, Rose State College

General Ledger Problems New General Ledger problems enable students to see how transactions post. Students can track an amount in any financial statement all the way back to the original journal entry. Critical thinking components then challenge students to analyze the business activities in the problem.

Using transactions from the following assignments, prepare journal entries for each transaction and identify the financial statement impact of each entry. The financial statements are automatically generated based on the journal entries recorded.

GL 2-1 Transactions from the FastForward illustration in this chapter

GL 2-2 Based on Exercise 2-9

GL 2-3 Based on Exercise 2-12

GL 2-4 Based on Problem 2-1A

Using transactions from the following assignments, record journal entries, create financial statements, and assess the impact of each transaction on financial statements.

GENERAL LEDGER PROBLEM

Available in Connect

connect
ACCOUNTING

Requirements: General Journal, General Ledger, Trial Balance, Schedule of Receivables, Schedule of Payables, Income Statement, Impact on Income

view transaction list view general journal

Journal Entry Worksheet

The cost of the merchandise sold to Art Co. was \$800.

Date	Account Title	Debit	Credit
Jul 19	Cost of goods sold	800	
			800
	120: Merchandise inventory		
	307: Common stock		
	700: Income summary		

The End of the Chapter Is Only the Beginning Our valuable and proven assignments aren't just confined to the book. From problems that require technological solutions to materials found exclusively online, this book's end-of-chapter material is fully integrated with its technology package.

McGraw Hill
connect
ACCOUNTING



- Quick Studies, Exercises, and Problems available in *Connect* are marked with an icon.
- Assignments that focus on global accounting practices and companies are often identified with an icon.
- Assignments that involve decision analysis are identified with an icon.

Content Revisions Enhance Learning

This edition's revisions are driven by feedback from instructors and students.

- Many new, revised, and updated assignments throughout, including serial problem and entrepreneurial assignments.
- New Need-to-Know illustrations added to each chapter, at key junctures to reinforce key topics.
- New Sustainability section for each chapter, with examples linked to the company featured in the chapter opener.
- New annual reports and comparison assignments: **Apple**, **Google**, and **Samsung**.
- New streamlined opening layout for each chapter.
- Revised art program, visual infographics, and text layout.
- Updated ratio/tool analysis, using data from well-known firms.
- New General Ledger questions added to most chapters.
- New material on International Financial Reporting Standards (IFRS).
- New and revised entrepreneurial examples and elements.
- New technology content integrated and referenced in the book.
- Revised terminology from *goods in process* to *work in process*.
- Changed the title of *Manufacturing Statement* to *Schedule of Cost of Goods Manufactured* due to its use in practice.

Chapter 1

Apple NEW opener.
Added titles to revenue and expense entries in columnar layout of transaction analysis.
Streamlined section on Dodd-Frank.
Bulleted presentation of accounting principles and fraud triangle.
Deleted world map of IFRS coverage.
Updated salary information.
New discussion of FASB and IASB convergence.
Updated return on assets for Dell.

Chapter 2

Akola Project NEW opener.
New layout showing financial statements drawn from trial balance.
New preliminary coverage of classified and unclassified balance sheets.
Changed selected numbers for FastForward.
Revised Piaggio's (IFRS) balance sheet.
Updated debt ratio section using Skechers.

Chapter 3

International Princess Project NEW opener.
Enhanced the innovative three-step process for adjusting accounts.
Changed selected numbers for FastForward.
New multicolor-coded five-step layout for work sheet preparation and use.
Updated profit margin and current ratio decision analysis section using Limited Brands.

Chapter 4

Sseko Designs NEW opener.
Enhanced exhibit on transportation costs and FOB terms.
New T-accounts to highlight inventory flow.
Enhanced two-step process for recording merchandise sales.
Updated gross margin and quick ratios section using JCPenney.

Chapter 5

Proof Eyewear NEW opener.
Streamlined inventory presentation.
Added several new T-accounts to facilitate learning of inventory flow.

New explanatory notes added to exhibits as learning aids.
Updated inventory ratios section using Toys "R" Us.
Simplified presentation and exhibits for periodic inventory methods.

Chapter 6

Dandelion Chocolate NEW opener.
New learning notes added to bank reconciliation.
New chart for timing differences for bank reconciliation.
Updated receivables analysis using Hasbro and Mattel.

Chapter 7

Skai Blue Media NEW opener.
Enhanced three-step process for estimating allowance for uncollectibles.
New T-accounts to enhance learning of receivables.
Enhanced infographic on methods to estimate bad debts.
New notes on pros/cons of allowance vs. direct write-off.
Updated receivables analysis using Dell and HP.

Chapter 8

New Glarus Brewing Co. NEW opener.
Rearranged presentation of plant assets.
New learning notes on book value and depreciation.
Updated asset turnover analysis using Boston Beer and Molson Coors.
New goodwill example using Facebook's purchase of WhatsApp.

Chapter 9

Uncharted Play NEW opener.
Updated payroll rates to 2014.
New explanation of *Additional Medicare Tax*.
Updated FUTA rate.
Clarified bonus explanation and computations.
Enhanced payroll reports and exhibits.

Chapter 10

Stone + Cloth NEW opener.
New learning notes for bond interest computations.
New color highlighting for learning amortization.

New T-accounts for bond amortization.
Updated debt-to-equity analysis using Amazon.

Chapter 11

Alibaba Group NEW opener.
New dividend taxation information.
New learning notes for computations.
Updated PE and dividend yield ratios for Amazon and Altria.

Chapter 12

LSTN NEW opener.
New infographics for operating, investing, and financing activities.
New linkage of cash flow classifications to balance sheet.
Simplified discussion of noncash investing and financing.
New, simplified preparation steps for statement of cash flows.
New, overall summary T-account for preparing statement of cash flows.
New reconstruction entries to help determine cash.
Updated cash flow analysis using Nike.
3 new Quick Studies and 3 revised Exercises.

Chapter 13

Motley Fool REVISED opener.
New companies—Apple, Google, and Samsung—throughout the text and exhibits.
New boxed discussion of the role of financial statement analysis to fight and prevent fraud.
Enhanced horizontal and vertical ratio analysis using new companies and industry data.
New analysis for segment data.

Chapter 14

SunSaluter NEW opener.
Revised discussions of the purpose of managerial accounting and cost classifications and their uses.
Reduced number of cost classifications from five to three.
Revised exhibit and example of direct vs. indirect costs.

Added new exhibit comparing the balance sheet and income statement for different types of companies.
Reduced level of detail in exhibit on income statement reporting.
Revised discussion of the flow of manufacturing costs.
New four-step process to illustrate the schedule of cost of goods manufactured (COGM).
Added T-accounts to show the flow of costs for the COGM.
Added a third column to the schedule of COGM, for enhanced presentation.
Simplified exhibit on cost flows across the financial statements.
New discussion of corporate social responsibility.
Added 6 Quick Studies and 4 Exercises.

Chapter 15

Middleton Made Knives NEW opener.
New discussion of differences between job order and process operations.
Moved discussion of job order costing for services to later in chapter.
Revised/simplified discussions of cost flows and job cost sheets.
Simplified journal entries for labor costs.
New exhibits to show postings of product cost journal entries to general ledger accounts and to job cost sheets.
Revised exhibits on materials and labor cost flows.
Revised text and new exhibit on four-step process to record overhead.
Revised discussion of applying overhead and recording actual overhead.
Added new discussion and presentation of journal entries for indirect materials and indirect labor.
Added new exhibit showing calculations for overhead applied to individual jobs.
Added new exhibit on the flow of costs to general ledger accounts, the manufacturing statement, and the financial statements.
Added new schedule of cost of goods manufactured exhibit.
Added 2 Quick Studies and 2 Exercises.

Chapter 16

Kar's Nuts NEW opener.

Major change: Revised the overview exhibit of process operations and expanded the illustration to show *two departments*.

Major change: Combined coverage of direct labor and overhead into *conversion costs*.

Revised exhibits/examples to show fewer processes and simpler, more engaging products (tennis balls and trail mix).

Added discussion, with journal entries, of transfers of costs across departments.

Added discussion of multiple work in process (WIP) inventory accounts. Revised discussion of job order vs. process costing.

Revised discussion, with new exhibit, on computation of equivalent units.

Added conversion costs per unit to equivalent units discussion.

Added a section differentiating the weighted-average and FIFO methods. New exhibit showing units transferred out and units remaining in ending work in process inventory.

Added formula for computing equivalent units under the weighted-average method.

Moved discussion of journal entries to later in the chapter.

Revised the process costing summary report to focus on direct materials and conversion costs.

Revised journal entries to show two WIP Inventory accounts and to eliminate the Factory Payroll account.

Added discussion of Volkswagen's use of robotics in process operations.

Revised and added Comprehensive Need-to-Knows to reflect changes in chapter (including *two processes*).

New exhibits showing transfer of units and costs across departments, using T-accounts.

In the FIFO method appendix:

- Added discussion of differences between FIFO and weighted-average approaches to computing equivalent units.
- Added exhibits on computing equivalent units and cost per equivalent unit under FIFO.
- Revised discussion of applying four-step process using FIFO.

Added 16 Quick Studies and 7 Exercises.

Chapter 17

Suja Juice Company NEW opener.

Clarified departmental overhead rate method and ABC methods as four-step processes.

Re-graded heading levels to highlight plantwide and departmental overhead rate method topics.

Expanded discussion of examples used in the ABC application, to enhance clarity.

Revised Exhibit 17.16, separating Costs of Good Quality from Costs of Poor Quality, thus highlighting the Cost of Quality Report.

4 new Quick Studies, and some old Quick Studies repurposed to Exercises.

Chapter 18

Fast Yeti Custom Tees NEW opener.

Revised discussion of fixed and variable costs.

Revised discussion of *relevant range*.

Reorganized discussion of the high-low method as a three-step process.

Enhanced exhibit on high-low method.

Revised discussion of how changes in estimates affect break-even points.

Revised *target income* discussion to focus on pretax income.

Simplified exhibit on using the contribution margin income statement to compute sales needed for target income.

Revised discussion of sensitivity analyses, with examples of buying a new machine or increasing advertising.

Added exhibit on using the contribution margin income statement in sensitivity analysis.

Eliminated the *weighted-average*

contribution margin method of computing multiproduct break-even.

Added two exhibits on calculations of *operating leverage*.

Added appendix on variable costing.

Added 5 Quick Studies and 6 Exercises.

Chapter 19

Happy Family Brands UPDATED opener.

Added new discussion of the three-step process to determine product selling price in the "Setting Prices" section.

Added short section on sources of data for CVP Analysis when preparing income statement under variable costing versus absorption costing.

Replaced previous break-even Decision Analysis example with special-order example using IceAge Company.

3 new Quick Studies and 4 new Exercises.

Chapter 20

Solben NEW opener.

Major change: Uses a *manufacturing company* as the example within the chapter. Budgeting for a

merchandising company now appears in the chapter-end appendix. Shortened/tightened section on budget process and administration.

Added section on the benefits of budgeting.

New section on the master budget differences between manufacturers and merchandisers.

Revised exhibit on the sequence of preparing the master budget for a *manufacturer*.

Reformatted sales budget exhibit. Streamlined and reformatted several exhibits in Excel format.

Rewrote sections on preparing the direct materials, direct labor, and factory overhead budgets.

Clarified explanation of capital expenditures budget.

Slightly expanded section on preparation of the cash budget.

Added section on using the master budget.

In appendix, added new exhibit on the master budget sequence for a merchandiser.

Added 5 Quick Studies and 6 Exercises.

Chapter 21

Niner Bikes NEW opener.

Revised discussions of fixed and flexible budget performance reports.

Revised several flexible budget exhibits.

Revised discussion of setting standard costs.

Revised discussion of computing and analyzing cost variances.

Revised exhibits on computing direct materials and direct labor variances.

Revised sections on analyzing materials, labor, and overhead variances.

Simplified discussion of setting overhead standards.

Revised discussion of computing the predetermined overhead rate.

Revised exhibits on overhead variances and overhead variance report.

Revised discussion of sales variances in Decision Analysis.

Added learning objective for overhead spending and efficiency variances (in appendix).

In the appendix, added discussion, with an exhibit, on the standard costing income statement.

Added 7 Exercises.

Chapter 22

United by Blue UPDATED opener.

Added discussion of advantages and disadvantages of decentralization.

Reorganized discussion of cost, profit, and investment centers into a bulleted list, with examples using Kraft Foods Group.

Revised discussion and exhibit of responsibility accounting for cost centers.

Streamlined and clarified discussion and exhibits in the allocation of indirect expenses example.

Added discussion of the usefulness of departmental income statements in decision making.

Revised discussion of the use of return on investment and residual income in decision making.

Revised example of profit margin and investment turnover calculations, using Walt Disney Company

Added 3 Quick Studies, 5 Exercises, and 1 Problem.

Chapter 23

Charlie's Brownies UPDATED opener.

Expanded discussion and exhibits for short-term decisions, including additional business, make or buy, scrap or rework, sell or process

further, sales mix, and segment elimination.

Added a Need-to-Know illustration for each short-term decision.

New Global View on segment elimination.

Added 3 Quick Studies.

Chapter 24

Adafruit Industries NEW opener.

Revised separate discussions of the accounting rate of return, net present value, and internal rate of return.

Updated graphic showing cost of capital estimates by industry.

Revised discussion of profitability index, with new exhibit.

Added 7 Quick Studies and 6 Exercises.

Appendix C

New three-step process for fair value adjustment.

New learning note for investee vs. investor securities.

New Google example for comprehensive income.

Updated return analysis using Gap.

Appendix D

New LLC example using STARZ.

New T-accounts to enhance learning of partnership capital.

Appendix E

Streamlined several sections.

Updated segment analysis using Callaway Golf.

Instructor Resources

Connect is your all-in-one location for a variety of instructor resources. You can create custom presentations from your own materials and access all of the following. Here's what you'll find there:

- **Instructor's Resource Manual**

Written by April Mohr, Jefferson Community and Technical College, SW.

This manual contains (for each chapter) a Lecture Outline, a chart linking all assignment materials to learning objectives, and additional visuals with transparency masters.

- **Solutions Manual**

Written by John J. Wild, University of Wisconsin–Madison, and Ken W. Shaw, University of Missouri–Columbia.

- **Test Bank, Computerized Test Bank**

Revised by James Racic, Lakeland Community College

- **PowerPoint® Presentations**

Prepared by Anna Boulware, St. Charles Community College.

Presentations allow for revision of lecture slide, and include a viewer, allowing screens to be shown with or without the software.

- **Exercise PowerPoints**

Prepared by Kathleen O'Donnell, Onandaga Community College.

Exercise PowerPoints are animated walk-throughs of end-of-chapter exercises that you can edit and customize for your classroom use. These presentations are a powerful tool for the smart classroom, allowing you to spend more time teaching and less time writing on the board.

Student Supplements

Working Papers

Vol. 1, Chapters 1–13

Available on demand through Create.

Vol. 2, Chapters 12–24

Available on demand through Create.

Written by John J. Wild.

Connect Accounting with LearnSmart Access Code Card

ISBN: 9780077633059

MHID: 0077633059

"This textbook does address many learning styles and at the same time allows for many teaching styles ... our faculty have been very pleased with the continued revisions and supplements. From paper working papers ... to continually improved homework sites and ebooks. I'm a 'Wild' fan!"

—RITA HAYS, Southwestern Oklahoma State University

Meeting Accreditation Needs



Assurance of Learning Ready

Many educational institutions today are focused on the notion of assurance of learning, an important element of some accreditation standards. *Financial and Managerial Accounting* is designed specifically to support your assurance of learning initiatives with a simple, yet powerful solution. Each test bank question for *Financial and Managerial Accounting* maps to a specific chapter learning objective listed in the text. You can use our test bank software, EZ Test Online, or *Connect Accounting* to easily query for learning objectives that directly relate to the learning objectives for your course. You can then use the EZ Test reporting features to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

“*Connect* certainly offers so much for the students and at the same time helps the professors. The professors can offer more learning opportunities to the students without intensive time investment.”

—CONSTANCE HYLTON, George Mason University



AACSB Statement

The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Financial and Managerial Accounting* recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the test bank to the general knowledge and skill guidelines in the AACSB standards. The statements contained in *Financial and Managerial Accounting* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Financial and Managerial Accounting* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have within *Financial and Managerial Accounting* labeled select questions according to the general knowledge and skills areas.

Acknowledgments

John J. Wild, Ken W. Shaw, Barbara Chiappetta, and McGraw-Hill Education recognize the following instructors for their valuable feedback and involvement in the development of *Financial and Managerial Accounting*, 6e. We are thankful for their suggestions, counsel, and encouragement.

Khaled Abdou, Penn State University–Berks
Anne Marie Anderson, Raritan Valley Community College
Elaine Anes, Heald College–Fresno
Jerome Apple, University of Akron
Jack Aschkenazi, American Intercontinental University
Sidney Askew, Borough of Manhattan Community College
Lawrence Awopetu, University of Arkansas–Pine Bluff
Jon Backman, Spartanburg Community College
Charles Baird, University of Wisconsin–Stout
Michael Barendse, Grossmont College
Richard Barnhart, Grand Rapids Community College
Beverly R. Beatty, Anne Arundel Community College
Anna Beavers, Laney College
Judy Benish, Fox Valley Technical College
Patricia Bentley, Keiser University
Teri Bernstein, Santa Monica College
Jaswinder Bhangal, Chabot College
Sandra Bitenc, University of Texas at Arlington
Susan Blizzard, San Antonio College
Marvin Blye, Wor-Wic Community College
Patrick Borja, Citrus College
Anna Boulware, St. Charles Community College
Gary Bower, Community College of Rhode Island–Flanagan
Leslee Brock, Southwest Mississippi Community College
Gregory Brookins, Santa Monica College
Regina Brown, Eastfield College
Tracy L. Bundy, University of Louisiana at Lafayette
Roy Carson, Anne Arundel Community College
Deborah Carter, Coahoma Community College
Roberto Castaneda, DeVry University Online
Martha Cavalaris, Miami Dade College
Amy Chataginer, Mississippi Gulf Coast Community College
Gerald Childs, Waukesha County Technical College
Colleen Chung, Miami Dade College–Kendall
Shifei Chung, Rowan University
Robert Churchman, Harding University
Marilyn Ciolino, Delgado Community College
Thomas Clement, University of North Dakota
Oyinka Coakley, Broward College
Susan Cockrell, Birmingham–Southern College
Lisa Cole, Johnson County Community College
Robbie R. Coleman, Northeast Mississippi Community College
Christie Comunale, Long Island University–C.W. Post Campus
Jackie Conrecode, Florida Gulf Coast University
Debora Constable, Georgia Perimeter College
Susan Cordes, Johnson County Community College
Anne Cordozo, Broward College
Cheryl Corke, Genesee Community College
James Cosby, John Tyler Community College
Ken Couvillion, Delta College
Loretta Darche, Southwest Florida College
Judy Daulton, Piedmont Technical College
Annette Davis, Glendale Community College

Dorothy Davis, University of Louisiana–Monroe
Walter DeAgüero, Saddleback College
Mike Deschamps, MiraCosta College
Pamela Donahue, Northern Essex Community College
Steve Doster, Shawnee State University
Larry Dragosavac, Edison Community College
Samuel Duah, Bowie State University
Robert Dunlevy, Montgomery County Community College
Jerrilyn Eisenhauer, Tulsa Community College–Southeast
Ronald Elders, Virginia College
Terry Elliott, Morehead State University
Patricia Feller, Nashville State Community College
Albert Fisher, College of Southern Nevada
Annette Fisher, Glendale Community College
Ron Fitzgerald, Santa Monica College
David Flannery, Bryant and Stratton College
Hollie Floberg, Tennessee Wesleyan College
Linda Flowers, Houston Community College
Jeannie Folk, College of DuPage
Rebecca Foote, Middle Tennessee State University
Paul Franklin, Kaplan University
Tim Garvey, Westwood College
Barbara Gershman, Northern Virginia Community College–Woodbridge
Barbara Gershowitz, Nashville State Technical Community College
Mike Glasscock, Amarillo College
Diane Glowacki, Tarrant County College
Ernesto Gonzalez, Florida National College
Lori Grady, Bucks County Community College
Gloria Grayless, Sam Houston State University
Ann Gregory, South Plains College
Rameshwar Gupta, Jackson State University
Amy Haas, Kingsborough Community College
Pat Halliday, Santa Monica College
Keith Hallmark, Calhoun Community College
Rebecca Hancock, El Paso Community College–Valley Verde
Mechelle Harris, Bossier Parish Community College
Tracey Hawkins, University of Cincinnati–Clermont College
Thomas Hayes, University of Arkansas–Ft. Smith
Laurie Hays, Western Michigan University
Roger Hehman, University of Cincinnati–Clermont College
Cheri Hernandez, Des Moines Area Community College
Margaret Hicks, Howard University
Melanie Hicks, Liberty University
James Higgins, Holy Family University
Patricia Holmes, Des Moines Area Community College
Barbara Hopkins, Northern Virginia Community College–Manassas
Wade Hopkins, Heald College
Aileen Huang, Santa Monica College
Les Hubbard, Solano College
Deborah Hudson, Gaston College
James Hurst, National College

Constance Hylton, George Mason University
Christine Irujo, Westfield State University
Tamela Jarvais, Prince George's Community College
Fred Jex, Macomb Community College
Gina M. Jones, Aims Community College
Jeff Jones, College of Southern Nevada
Rita Jones, Columbus State University
Odessa Jordan, Calhoun Community College
Dmitriy Kalyagin, Chabot College
Thomas Kam, Hawaii Pacific University
Naomi Karolinski, Monroe Community College
Shirly A. Kleiner, Johnson County Community College
Kenneth A. Koerber, Bucks County Community College
Jill Kolody, Anne Arundel Community College
Tamara Kowalczyk, Appalachian State University
Anita Kroll, University of Wisconsin–Madison
David Krug, Johnson County Community College
Christopher Kwak, DeAnza College
Tara Laken, Joliet Junior College
Jeanette Landin, Empire College
Beth Lasky, Delgado Community College
Neal Leviton, Santa Monica College
Danny Litt, University of California Los Angeles
James L. Lock, Northern Virginia Community College
Steve Ludwig, Northwest Missouri State University
Debra Luna, El Paso Community College
Amado Mabul, Heald College
Lori Major, Luzerne County Community College
Jennifer Malfitano, Delaware County Community College
Maria Mari, Miami Dade College–Kendall
Thomas S. Marsh, Northern Virginia Community College–Annandale
Karen Martinson, University of Wisconsin–Stout
Brenda Mattison, Tri-County Technical College
Stacie Mayes, Rose State College
Clarice McCoy, Brookhaven College
Tammy Metzke, Milwaukee Area Technical College
Jeanine Metzler, Northampton Community College
Theresa Michalow, Moraine Valley Community College
Julie Miller, Chippewa Valley Tech College
Tim Miller, El Camino College
John Minchin, California Southern University
Edna C. Mitchell, Polk State College
Jill Mitchell, Northern Virginia Community College
Lynn Moore, Aiken Technical College
Angela Mott, Northeast Mississippi Community College
Andrea Murowski, Brookdale Community College
Timothy Murphy, Diablo Valley College
Kenneth F. O'Brien, Farmingdale State College
Kathleen O'Donnell, Onondaga Community College
Ahmed Omar, Burlington County College
Robert A. Pacheco, Massasoit Community College
Margaret Parilo, Cosumnes River College
Paige Paulsen, Salt Lake Community College
Yvonne Phang, Borough of Manhattan Community College
Gary Pieroni, Diablo Valley College
Debbie Porter, Tidewater Community College, Virginia Beach
Kristen Quinn, Northern Essex Community College
James Racic, Lakeland Community College
David Ravetch, University of California Los Angeles
Ruthie Reynolds, Howard University
Cecile Roberti, Community College of Rhode Island
Morgan Rockett, Moberly Area Community College
Patrick Rogan, Cosumnes River College
Paul Rogers, Community College of Beaver County
Brian Routh, Washington State University–Vancouver
Helen Roybark, Radford University
Alphonse Ruggiero, Suffolk County Community College
Joan Ryan, Clackamas Community College
Martin Sabo, Community College of Denver
Arjan Sadhwani, South University
Gary K. Sanborn, Northwestern Michigan College
Kin Kin Sandhu, Heald College
Marcia Sandvold, Des Moines Area Community College
Gary Schader, Kean University
Barbara Schnathorst, The Write Solution, Inc.
Darlene Schnuck, Waukesha County Technical College
Elizabeth Serapin, Columbia Southern University
Geeta Shankhar, University of Dayton
Regina Shea, Community College of Baltimore County–Essex
James Shelton, Liberty University
Jay Siegel, Union County College
Gerald Singh, New York City College of Technology
Lois Slutsky, Broward College–South
Gerald Smith, University of Northern Iowa
Kathleen Sobieralski, University of Maryland University College
Charles Spector, State University of New York at Oswego
Diane Stark, Phoenix College
Thomas Starks, Heald College
Carolyn L. Strauch, Crowder College
Latazia Stuart, Fortis University Online
Gene Sullivan, Liberty University
David Sulzen, Ferrum College
Dominique Svarc, William Rainey Harper College
Linda Sweeney, Sam Houston State University
Carl Swoboda, Southwest Tennessee Community College, Macon
Margaret Tanner, University of Arkansas–Ft. Smith
Ulysses Taylor, Fayetteville State University
Anthony Teng, Saddleback College
Paula Thomas, Middle Tennessee State University
Teresa Thompson, Chaffey Community College
Leslie Thysell, John Tyler Community College
Melanie Torborg, Globe University
Shafi Ullah, Broward College
Bob Urell, Irvine Valley College
Adam Vitalis, Georgia Tech
Patricia Walczak, Lansing Community College
Terri Walsh, Seminole State College–Oviedo
Shunda Ware, Atlanta Technical College
Janis Weber, University of Louisiana–Monroe
Dave Welch, Franklin University
Jean Wells-Jessup, Howard University
Christopher Widmer, Tidewater Community College
Andrew Williams, Edmonds Community College
Jonathan M. Wild, University of Wisconsin–Madison
Wanda Wong, Chabot College
John Woodward, Polk State College
Patricia Worsham, Norco College, Riverside Community College
Gail E. Wright, Stevenson University
Lynnette Yerbury, Salt Lake Community College
Judy Zander, Grossmont College
Mary Zenner, College of Lake County
Jane Zlojutro, Northwestern Michigan College

Brief Contents

- 1** Accounting in Business 2
- 2** Accounting for Business Transactions 52
- 3** Adjusting Accounts for Financial Statements 98
- 4** Accounting for Merchandising Operations 164
- 5** Inventories and Cost of Sales 212
- 6** Cash and Internal Controls 262
- 7** Accounting for Receivables 308
- 8** Accounting for Long-Term Assets 344
- 9** Accounting for Current Liabilities 388
- 10** Accounting for Long-Term Liabilities 434
- 11** Corporate Reporting and Analysis 480
- 12** Reporting Cash Flows 526
- 13** Analysis of Financial Statements 582
- 14** Managerial Accounting Concepts and Principles 628
- 15** Job Order Costing and Analysis 666
- 16** Process Costing and Analysis 708
- 17** Activity-Based Costing and Analysis 756
- 18** Cost Behavior and Cost-Volume-Profit Analysis 798
- 19** Variable Costing and Analysis 838
- 20** Master Budgets and Performance Planning 870
- 21** Flexible Budgets and Standard Costs 922
- 22** Performance Measurement and Responsibility Accounting 970
- 23** Relevant Costing for Managerial Decisions 1014
- 24** Capital Budgeting and Investment Analysis 1046
- Appendix A** Financial Statement Information A-1
- Appendix B** Time Value of Money B
- Appendix C** Investments and International Operations C
- *Appendix D** Accounting for Partnerships
- *Appendix E** Accounting with Special Journals

*Appendices D & E are available in McGraw-Hill *Connect* and as print copies from a McGraw-Hill representative.

Contents

Preface iii

1 Accounting in Business 2



Importance of Accounting 4

Users of Accounting Information 4
Opportunities in Accounting 6

Fundamentals of Accounting 7

Ethics—A Key Concept 7
Fraud Triangle 8
Generally Accepted Accounting Principles 8
International Standards 9
Conceptual Framework and Convergence 9
Sarbanes-Oxley (SOX) 12
Dodd-Frank 13

Transaction Analysis and the Accounting Equation 14

Accounting Equation 14
Transaction Analysis 15
Summary of Transactions 19

Financial Statements 20

Income Statement 20
Statement of Owner's Equity 20
Balance Sheet 22
Statement of Cash Flows 22

Global View 23

Decision Analysis—Return on Assets 24

Appendix 1A Return and Risk Analysis 28

Appendix 1B Business Activities and the Accounting Equation 28

2 Accounting for Business Transactions 52



Analyzing and Reporting Accounts 54

Source Documents 54
The Account and Its Analysis 55

Analyzing and Processing Transactions 58

Ledger and Chart of Accounts 58
Debits and Credits 59
Double-Entry Accounting 59

Journalizing and Posting Transactions 61
Analyzing Transactions—An Illustration 64
Accounting Equation Analysis 68

Trial Balance 70

Preparing a Trial Balance 70
Using a Trial Balance to Prepare Financial Statements 72

Global View 74

Decision Analysis—Debt Ratio 75

3 Adjusting Accounts for Financial Statements 98



Timing and Reporting 100

The Accounting Period 100
Accrual Basis versus Cash Basis 100
Recognizing Revenues and Expenses 101

Adjusting Accounts 102

Framework for Adjustments 102
Prepaid (Deferred) Expenses 103
Unearned (Deferred) Revenues 107
Accrued Expenses 109
Accrued Revenues 111
Links to Financial Statements 113
Adjusted Trial Balance 114

Closing Process 116

Temporary and Permanent Accounts 117
Recording Closing Entries 117
Post-Closing Trial Balance 118
Accounting Cycle 120

Classified Balance Sheet 121

Classification Structure 121
Classification Categories 122

Global View 124

Decision Analysis—Profit Margin and Current Ratio 125

Appendix 3A—Alternative Accounting for Prepayments 129

Appendix 3B—Work Sheet as a Tool 131

Appendix 3C—Reversing Entries 133

4 Accounting for Merchandising Operations 164



Merchandising Activities 166

- Reporting Income for a Merchandiser* 166
- Reporting Inventory for a Merchandiser* 166
- Operating Cycle for a Merchandiser* 167
- Inventory Systems* 167

Accounting for Merchandise Purchases 168

- Purchase Discounts* 169
- Purchase Returns and Allowances* 170
- Transportation Costs and Ownership Transfer* 171

Accounting for Merchandise Sales 173

- Sales of Merchandise* 173
- Sales Discounts* 174
- Sales Returns and Allowances* 174

Completing the Accounting Cycle 176

- Adjusting Entries for Merchandisers* 176
- Preparing Financial Statements* 177
- Closing Entries for Merchandisers* 177
- Summary of Merchandising Entries* 177

Financial Statement Formats 179

- Multiple-Step Income Statement* 179
- Single-Step Income Statement* 180
- Classified Balance Sheet* 180

Global View 182

Decision Analysis—Acid-Test and Gross Margin Ratios 183

Appendix 4A Periodic Inventory System 188

Appendix 4B Work Sheet—Perpetual System 192

5 Inventories and Cost of Sales 212



Inventory Basics 214

- Determining Inventory Items* 214
- Determining Inventory Costs* 214
- Internal Controls and Taking a Physical Count* 215

Inventory Costing under a Perpetual System 215

- Inventory Cost Flow Assumptions* 216
- Inventory Costing Illustration* 217
- Specific Identification* 217
- First-In, First-Out* 218
- Last-In, First-Out* 219
- Weighted Average* 220

Financial Statement Effects of Costing Methods 221

Consistency in Using Costing Methods 222

Valuing Inventory at LCM and the Effects of Inventory Errors 224

Lower of Cost or Market 224

Financial Statement Effects of Inventory Errors 227

Global View 228

Decision Analysis—Inventory Turnover and Days' Sales in Inventory 229

Appendix 5A Inventory Costing under a Periodic System 235

Appendix 5B Inventory Estimation Methods 240

6 Cash and Internal Controls 262



Internal Control 264

- Purpose of Internal Control* 264
- Principles of Internal Control* 264
- Technology and Internal Control* 266
- Limitations of Internal Control* 267

Control of Cash 268

- Cash, Cash Equivalents, and Liquidity* 269
- Cash Management* 269
- Control of Cash Receipts* 270
- Control of Cash Disbursements* 272

Banking Activities as Controls 277

- Basic Bank Services* 277
- Bank Statement* 278
- Bank Reconciliation* 280

Global View 284

Decision Analysis—Days' Sales Uncollected 284

Appendix 6A—Documentation and Verification 287

Appendix 6B—Control of Purchase Discounts 289

7 Accounting for Receivables 308



Accounts Receivable 310

- Recognizing Accounts Receivable* 310
- Valuing Accounts Receivable—Direct Write-Off Method* 314
- Valuing Accounts Receivable—Allowance Method* 315

- Estimating Bad Debts—Percent of Sales Method* 317
- Estimating Bad Debts—Percent of Receivables Method* 318
- Estimating Bad Debts—Aging of Receivables Method* 319

Notes Receivable 322

- Computing Maturity and Interest* 322
- Recognizing Notes Receivable* 323
- Valuing and Settling Notes* 323

Disposal of Receivables 325

- Selling Receivables* 325
- Pledging Receivables* 326

Global View 326

Decision Analysis—Accounts Receivable Turnover 327



8 Accounting for Long-Term Assets 344

SECTION 1—PLANT ASSETS 346

Cost Determination 347

- Machinery and Equipment* 347
- Buildings* 347
- Land Improvements* 347
- Land* 347
- Lump-Sum Purchase* 348

Depreciation 348

- Factors in Computing Depreciation* 349
- Depreciation Methods* 349
- Partial-Year Depreciation* 354
- Change in Estimates for Depreciation* 354
- Reporting Depreciation* 355

Additional Expenditures 356

- Ordinary Repairs* 357
- Betterments and Extraordinary Repairs* 357

Disposals of Plant Assets 358

- Discarding Plant Assets* 358
- Selling Plant Assets* 359

SECTION 2—NATURAL RESOURCES 361

- Cost Determination and Depletion* 361
- Plant Assets Tied into Extracting* 362

SECTION 3—INTANGIBLE ASSETS 362

- Cost Determination and Amortization* 363
- Types of Intangibles* 363

Global View 366

Decision Analysis—Total Asset Turnover 367

Appendix 8A Exchanging Plant Assets 370

9 Accounting for Current Liabilities 388



Characteristics of Liabilities 390

- Defining Liabilities* 390
- Classifying Liabilities* 390
- Uncertainty in Liabilities* 391

Known Liabilities 392

- Accounts Payable* 392
- Sales Taxes Payable* 392
- Unearned Revenues* 392
- Short-Term Notes Payable* 393
- Payroll Liabilities* 396
- Multi-Period Known Liabilities* 399

Estimated Liabilities 400

- Health and Pension Benefits* 400
- Vacation Benefits* 400
- Bonus Plans* 401
- Warranty Liabilities* 401
- Multi-Period Estimated Liabilities* 402

Contingent Liabilities 402

- Accounting for Contingent Liabilities* 402
- Reasonably Possible Contingent Liabilities* 402
- Uncertainties That Are Not Contingencies* 403

Global View 405

Decision Analysis—Times Interest Earned Ratio 405

Appendix 9A Payroll Reports, Records, and Procedures 408

Appendix 9B Corporate Income Taxes 414

10 Accounting for Long-Term Liabilities 434



Basics of Bonds 436

- Bond Financing* 436
- Bond Trading* 437
- Bond-Issuing Procedures* 437

Bond Issuances 438

- Issuing Bonds at Par* 438
- Bond Discount or Premium* 438
- Issuing Bonds at a Discount* 439
- Issuing Bonds at a Premium* 442
- Bond Pricing* 445

Bond Retirement 446

- Bond Retirement at Maturity* 446
- Bond Retirement before Maturity* 446
- Bond Retirement by Conversion* 447

Long-Term Notes Payable 447*Installment Notes 447**Mortgage Notes and Bonds 449***Global View 451****Decision Analysis—Debt Features and the Debt-to-Equity Ratio 451****Appendix 10A Present Values of Bonds and Notes 455****Appendix 10B Effective Interest Amortization 457****Appendix 10C Issuing Bonds between Interest Dates 459****Appendix 10D Leases and Pensions 461****11 Corporate Reporting and Analysis 480****Corporate Form of Organization 482***Characteristics of Corporations 482**Corporate Organization and Management 483**Stockholders of Corporations 483**Basics of Capital Stock 484***Common Stock 486***Issuing Par Value Stock 486**Issuing No-Par Value Stock 487**Issuing Stated Value Stock 487**Issuing Stock for Noncash Assets 487***Dividends 489***Cash Dividends 489**Stock Dividends 490**Stock Splits 491***Preferred Stock 493***Issuance of Preferred Stock 493**Dividend Preference of Preferred Stock 494**Convertible Preferred Stock 495**Callable Preferred Stock 495**Reasons for Issuing Preferred Stock 495***Treasury Stock 497***Purchasing Treasury Stock 497**Reissuing Treasury Stock 498**Retiring Stock 499***Reporting of Equity 500***Statement of Retained Earnings 500**Statement of Stockholders' Equity 501**Reporting Stock Options 501***Global View 501****Decision Analysis—Earnings per Share, Price-Earnings Ratio, Dividend Yield, and Book Value per Share 502****12 Reporting Cash Flows 526****Basics of Cash Flow Reporting 528***Purpose of the Statement of Cash Flows 528**Importance of Cash Flows 528**Measurement of Cash Flows 528**Classification of Cash Flows 529**Noncash Investing and Financing 530**Format of the Statement of Cash Flows 531**Preparing the Statement of Cash Flows 531***Cash Flows from Operating 533***Indirect and Direct Methods of Reporting 533**Applying the Indirect Method**of Reporting 535**Summary Adjustments for Operating**Activities—Indirect Method 538***Cash Flows from Investing 539***Three-Stage Process of Analysis 539**Analyzing Noncurrent Assets 539**Analyzing Additional Assets 540***Cash Flows from Financing 541***Three-Stage Process of Analysis 541**Analyzing Noncurrent Liabilities 541**Analyzing Equity 542**Proving Cash Balances 543***Overall Summary Using T-Accounts 544****Global View 546****Decision Analysis—Cash Flow Analysis 546****Appendix 12A Spreadsheet Preparation of the Statement of Cash Flows 551****Appendix 12B Direct Method of Reporting Operating Cash Flows 553****13 Analysis of Financial Statements 582****Basics of Analysis 584***Purpose of Analysis 584**Building Blocks of Analysis 584**Information for Analysis 585**Standards for Comparisons 585**Tools of Analysis 586***Horizontal Analysis 586***Comparative Statements 586**Trend Analysis 589*

Vertical Analysis 591*Common-Size Statements 591**Common-Size Graphics 591***Ratio Analysis 594***Liquidity and Efficiency 595**Solvency 598**Profitability 600**Market Prospects 601**Summary of Ratios 602***Global View 604****Decision Analysis—Analysis Reporting 605****Appendix 13A Sustainable Income 608****14 Managerial Accounting
Concepts and
Principles 628****Managerial Accounting Basics 630***Purpose of Managerial Accounting 630**Nature of Managerial Accounting 631**Managerial Decision Making 632**Fraud and Ethics in Managerial Accounting 633***Managerial Cost Concepts 634***Types of Cost Classifications 634**Identification of Cost Classifications 636**Cost Concepts for Service Companies 636***Reporting 637***Manufacturers' Costs 637**Balance Sheet 638**Income Statement 639**Flow of Manufacturing Activities 642**Schedule of Cost of Goods Manufactured 643**Trends in Managerial Accounting 645***Global View 647****Decision Analysis—Raw Materials Inventory****Turnover and Days' Sales of Raw Materials
Inventory 647****15 Job Order Costing
and Analysis 668****Job Order Costing 668***Cost Accounting System 668**Job Order Production 668**Comparing Job Order and Process
Operations 668**Production Activities in Job Order Costing 669**Cost Flows 669**Job Cost Sheet 670***Job Order Cost Flows and Reports 670***Materials Cost Flows and Documents 670**Labor Cost Flows and Documents 673**Overhead Cost Flows and Recording Applied
Overhead 675**Recording Actual Overhead 678**Summary of Cost Flows 679**Schedule of Cost of Goods Manufactured 681***Adjusting Factory Overhead 681***Factory Overhead T-Account 681**Underapplied or Overapplied**Overhead 682**Job Order Costing of Services 683***Global View 683****Decision Analysis—Pricing for Services 683****16 Process Costing and
Analysis 708****Process Operations 710***Organization of Process Operations 710**Comparing Process and Job Order Costing
Systems 711**Equivalent Units of Production 712***Process Costing Illustration 713***Overview of GenX Company's Process
Operation 713**Step 1: Determine Physical Flow
of Units 714**Step 2: Compute Equivalent Units
of Production 714**Step 3: Compute Cost per Equivalent
Unit 715**Step 4: Assign and Reconcile Costs 716
Process Cost Summary 717***Accounting and Reporting for Process
Costing 718***Accounting for Materials Costs 719**Accounting for Labor Costs 720**Accounting for Factory Overhead 721**Accounting for Transfers 722**Trends in Process Operations 724***Global View 724****Decision Analysis—Hybrid Costing System 725****Appendix 16A—FIFO Method of
Process Costing 729**

17 Activity-Based Costing and Analysis 756



Assigning Overhead Costs 758

- Alternative Methods of Overhead Allocation* 758
- Plantwide Overhead Rate Method* 758
- Departmental Overhead Rate Method* 760
- Assessing the Plantwide and Departmental Overhead Rate Methods* 763
- Activity-Based Costing Rates and Method* 763

Applying Activity-Based Costing 764

- Step 1: Identify Activities and the Costs They Cause* 764
- Step 2: Trace Overhead Costs to Activity Cost Pools* 765
- Step 3: Determine Activity Rates* 765
- Step 4: Assign Overhead Costs to Cost Objects* 766

Assessing Activity-Based Costing 769

- Advantages of Activity-Based Costing* 769
- Disadvantages of Activity-Based Costing* 771
- ABC for Service Providers* 771
- Types of Activities* 771

Global View 772

Decision Analysis—Customer Profitability 772

18 Cost Behavior and Cost-Volume-Profit Analysis 798



Identifying Cost Behavior 800

- Fixed Costs* 800
- Variable Costs* 801
- Mixed Costs* 801
- Step-wise Costs and the Relevant Range* 802
- Curvilinear Costs* 802

Measuring Cost Behavior 803

- Scatter Diagrams* 803
- High-Low Method* 804
- Least-Squares Regression* 805
- Comparison of Cost Estimation Methods* 805

Contribution Margin and Break-Even Analysis 806

- Contribution Margin and Its Measures* 806
- Computing the Break-Even Point* 807

- Computing the Margin of Safety* 808
- Preparing a Cost-Volume-Profit Chart* 808
- Working with Changes in Estimates* 809

Applying Cost-Volume-Profit Analysis 810

- Computing Income from Sales and Costs* 810
- Computing Sales for a Target Income* 811
- Using Sensitivity Analysis* 813
- Computing a Multiproduct Break-Even Point* 814
- Making Assumptions in Cost-Volume-Profit Analysis* 816

Global View 816

Decision Analysis—Degree of Operating Leverage 817

Appendix 18A Using Excel to Estimate Least-Squares Regression 819

Appendix 18B Variable Costing and Performance Reporting 820

19 Variable Costing and Analysis 838



Introducing Variable Costing and Absorption Costing 840

- Computing Unit Cost* 841

Income Reporting Implications 842

- Units Produced Equal Units Sold* 842
- Units Produced Exceed Units Sold* 843
- Units Produced Are Less Than Units Sold* 844
- Summarizing Income Reporting* 845
- Converting Income under Variable Costing to Absorption Costing* 847

Comparing Variable Costing and Absorption Costing 847

- Planning Production* 847
- Setting Prices* 849
- Controlling Costs* 850
- CVP Analysis* 850
- Limitations of Reports Using Variable Costing* 850
- Variable Costing for Service Firms* 851

Global View 851

Decision Analysis—Pricing Special Orders 851

20 Master Budgets and Performance Planning 870



Budget Process and Administration 872

- Budgeting as a Management Tool* 872
- Benefits of Budgeting* 872
- Budgeting and Human Behavior* 872
- Budget Reporting and Timing* 873
- Budget Committee* 874

The Master Budget 874

- Master Budget Components* 874
- Operating Budgets* 876
- Cash Budget* 882

Budgeted Financial Statements 885

- Budgeted Income Statement* 885
- Budgeted Balance Sheet* 886
- Using the Master Budget* 886

Global View 887

Decision Analysis—Activity-Based Budgeting 887

Appendix 20A Merchandise Purchases Budget 895

21 Flexible Budgets and Standard Costs 922



SECTION 1—FLEXIBLE BUDGETS 924

Fixed Budget Reports 924

- Fixed Budget Performance Report* 924
- Budget Reports for Evaluation* 925

Flexible Budget Reports 926

- Purpose of Flexible Budgets* 926
- Preparation of Flexible Budgets* 926
- Flexible Budget Performance Report* 927

SECTION 2—STANDARD COSTS 929

Materials and Labor Standards 930

- Identifying Standard Costs* 930
- Setting Standard Costs* 930

Cost Variance Analysis 931

- Cost Variance Computation* 931
- Computing Materials and Labor Variances* 932

Overhead Standards and Variances 935

- Flexible Overhead Budgets* 935
- Setting Overhead Standards* 935
- Computing Overhead Cost Variances* 937

Global View 939

Decision Analysis—Sales Variances 940

Appendix 21A Expanded Overhead Variances and Standard Cost Accounting System 945

22 Performance Measurement and Responsibility Accounting 970



Decentralization 972

- Advantages of Decentralization* 972
- Disadvantages of Decentralization* 972
- Performance Evaluation* 972

Responsibility Accounting 973

- Controllable versus Uncontrollable Costs* 973
- Responsibility Accounting System* 973
- Responsibility Accounting Report* 974

Profit Centers 975

- Direct and Indirect Expenses* 975
- Allocation of Indirect Expenses* 976
- Departmental Income Statements* 977
- Departmental Contribution to Overhead* 981

Evaluating Investment Center Performance 982

- Financial Performance Evaluation Measures* 982
- Nonfinancial Performance Evaluation Measures* 985

Global View 987

Decision Analysis—Cycle Time and Cycle Efficiency 987

Appendix 22A Transfer Pricing 991

Appendix 22B Joint Costs and Their Allocation 992

23 Relevant Costing for Managerial Decisions 1014



Decisions and Information 1016

- Decision Making* 1016
- Relevant Costs and Benefits* 1016

Managerial Decision Scenarios 1017

- Additional Business* 1017
- Make or Buy* 1019

Scrap or Rework 1021
Sell or Process Further 1021
*Sales Mix Selection When Resources
 Are Constrained* 1022
Segment Elimination 1024
Keep or Replace Equipment 1025

Global View 1026

Decision Analysis—Setting Product Price 1026

24 Capital Budgeting and Investment Analysis 1046



Methods Not Using Time Value of Money 1048

Payback Period 1048
Accounting Rate of Return 1050

Methods Using Time Value of Money 1052

Net Present Value 1052
Internal Rate of Return 1055
Comparison of Capital Budgeting Methods 1057

Global View 1058

Decision Analysis—Break-Even Time 1058

**Appendix 24A Using Excel to Compute Net Present
 Value and Internal Rate of Return** 1061

Appendix A Financial Statement Information A-1

Apple A-2

Google A-10

Samsung A-14

Appendix B Time Value of Money B

Appendix C Investments and International
 Operations C

***Appendix D** Accounting for Partnerships

***Appendix E** Accounting with Special Journals

Index IND-1

Chart of Accounts CA

Financial and Managerial Accounting

INFORMATION FOR DECISIONS

chapter 1

Accounting in Business

Chapter Preview

IMPORTANCE OF ACCOUNTING

- C1** Purpose of accounting
- C2** Accounting information users
Opportunities in accounting

FUNDAMENTALS OF ACCOUNTING

- C3** Ethics—key concept
- C4** Generally accepted accounting principles
International standards
Conceptual framework

TRANSACTION ANALYSIS

- A1** Accounting equation and its components
- P1** Transaction analysis—illustrated

FINANCIAL STATEMENTS

- P2** Income statement
Statement of retained earnings
Balance sheet
Statement of cash flows
- A2** Financial analysis

*Chapter Preview is organized by key topics and includes learning objectives
Learning Objectives are classified as conceptual, analytical, or procedural*

Learning Objectives

CONCEPTUAL

- C1** Explain the purpose and importance of accounting.
- C2** Identify users and uses of, and opportunities in, accounting.
- C3** Explain why ethics are crucial to accounting.
- C4** Explain generally accepted accounting principles and define and apply several accounting principles.
- C5** *Appendix 1B*—Identify and describe the three major activities of organizations.

ANALYTICAL

- A1** Define and interpret the accounting equation and each of its components.
- A2** Compute and interpret return on assets.
- A3** *Appendix 1A*—Explain the relation between return and risk.

PROCEDURAL

- P1** Analyze business transactions using the accounting equation.
- P2** Identify and prepare basic financial statements and explain how they interrelate.



Big Apple

A **Decision Feature** launches each chapter showing the relevance of accounting for a real entrepreneur. An **Entrepreneurial Decision** assignment returns to this feature with a mini-case

CUPERTINO, CA—"When I designed the Apple stuff," says Steve Wozniak (a.k.a. the *Wizard of Woz*), "I never thought in my life I would have enough money to fly to Hawaii or make a down payment on a house." But some dreams do come true. Woz, along with Steve Jobs and Ron Wayne, founded Apple on April 1, 1976. Today, **Apple (Apple.com)** boasts a value of over \$500 billion and revenues of over \$170 billion. Along the way, the young entrepreneurs faced many challenges, including accounting issues such as how to properly read and interpret accounting data. The first challenge was how to finance the new company, which they did by selling some of their prized possessions, such as Woz's Hewlett-Packard scientific calculator and Jobs's Volkswagen van. The \$1,300 they raised helped them purchase the electronic equipment Woz used to build the first Apple computer.

In setting up their company, the two young entrepreneurs also had to decide what type of entity to form—a partnership or a corporation. They decided on a partnership, and Ron Wayne "sat down at a typewriter and typed our partnership contract right out of his head," recalls Woz. "He did an etching of Newton under the apple tree for the cover of our Apple I manual [and] he wrote the manual." The original partnership agreement included Wayne as a third partner with 10% ownership. However, a few days later, Wayne had a change of heart when he considered the unlimited liability of a partnership.

He pulled out, leaving Woz and Jobs holding 50 percent each. Within nine months, Woz and Jobs identified some advantages to the corporate form of business organization, and they converted Apple to a corporation on January 3, 1977.

As their company grew, Woz and Jobs had to learn more accounting, along with details of preparing and interpreting financial statements. Important questions involving transaction analysis and financial reporting arose, and the owners took care to do things right. "Everything we did," asserts Woz, "we were setting the tone for the world." Still, there were some doubters, including Woz's father who worried about his cash controls. "A person like him shouldn't have that much money," said his father after finding \$250,000 worth of uncashed checks lying around in Woz's Porsche.

Woz and Jobs tightened the accounting system and focused it on providing information for Apple's business decisions. Today, Woz believes that Apple is integral to the language of technology, just as accounting is the language of business. In retrospect, Woz says, "Every dream I have ever had in life has come true ten times over." He adds: "In the end, I hope there's a little note somewhere that says I designed a good computer."

Sources: *Woz website*, Woz.org, January 2015; *iWoz: From Computer Geek to Cult Icon*, W.W. Norton & Co., 2006; *Founders at Work*, Apress, 2007; *Apple website*, September 2014

*"Wherever smart people work,
doors are unlocked"*

—Steve Wozniak

IMPORTANCE OF ACCOUNTING

C1

Explain the purpose and importance of accounting.

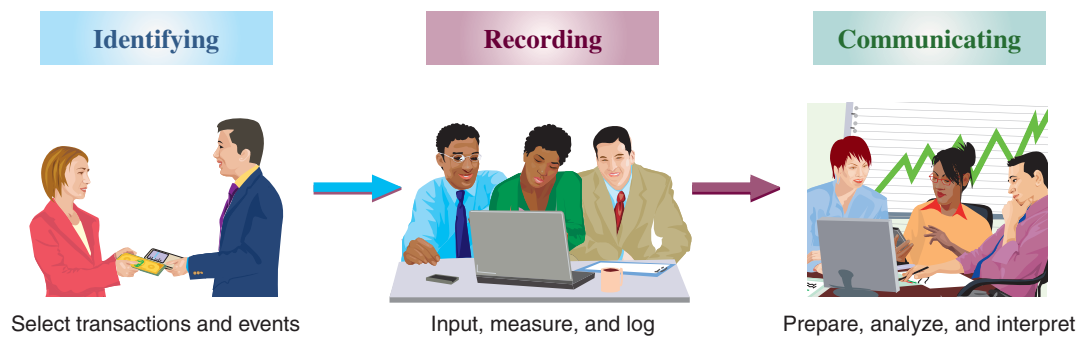
Why is accounting so popular on campus? Why are there so many openings for accounting jobs? Why is accounting so important to companies? Why do politicians and business leaders focus on accounting regulations? The answer is that we live in an information age, where that information, and its reliability, impacts us all.

Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities. *Identifying* business activities requires that we select relevant transactions and events. Examples are the sale of iPhones by **Apple** and the receipt of ticket money by **TicketMaster**. *Recording* business activities requires that we keep a chronological log of transactions and events measured in dollars. *Communicating* business activities requires that we prepare accounting reports such as financial statements, which we analyze and interpret. (The financial statements and notes of Apple are shown in Appendix A near the end of this book. This appendix also shows the financial statements of **Google** and **Samsung**.) Exhibit 1.1 summarizes accounting activities.

Real company names are printed in bold magenta

EXHIBIT 1.1

Accounting Activities



Accounting is part of our everyday lives. Our most common contact with accounting is through credit approvals, checking accounts, tax forms, and payroll. These experiences tend to focus on the recordkeeping parts of accounting. **Recordkeeping**, or **bookkeeping**, is the recording of transactions and events, either manually or electronically. This is just one part of accounting. Accounting also identifies and communicates information on transactions and events, and it includes the crucial processes of analysis and interpretation.

Technology is a key part of modern business and plays a major role in accounting. Technology reduces the time, effort, and cost of recordkeeping while improving clerical accuracy. Some small organizations continue to perform various accounting tasks manually, but even they are impacted by technology. As technology makes more information available, the demand for accounting increases and so too the skills for applying that information. Consulting, planning, and other financial services are now closely linked to accounting. These services require sorting through data, interpreting their meaning, identifying key factors, and analyzing their implications.

Users of Accounting Information

Accounting is called the *language of business* because all organizations set up an accounting information system to communicate data to help people make better decisions. Exhibit 1.2 shows that accounting serves many users (this is a partial listing) who can be divided into two groups: external users and internal users.

External Information Users External users of accounting information are *not* directly involved in running the organization. They include shareholders (investors), lenders, directors, customers, suppliers, regulators, lawyers, brokers, and the press. External users have limited access to an organization's information. Yet their business decisions depend on information that is reliable, relevant, and comparable. **Financial accounting** is the area of accounting aimed at serving external users by providing them with *general-purpose financial statements*. The term

Point: Technology is only as useful as the accounting data available, and users' decisions are only as good as their understanding of accounting. The best software and recordkeeping cannot make up for lack of accounting knowledge.

C2

Identify users and uses of, and opportunities in, accounting.

External users



- Lenders
- Shareholders
- Governments
- Consumer groups
- External auditors
- Customers

Internal users



- Officers
- Managers
- Internal auditors
- Sales staff
- Budget officers
- Controllers

EXHIBIT 1.2
Users of Accounting Information

Infographics reinforce key concepts through visual learning

general-purpose refers to the broad range of purposes for which external users rely on these statements. Following is a partial list of external users and some decisions they make with accounting information.

- *Lenders* (creditors) loan money or other resources to an organization. Banks, savings and loans, co-ops, and mortgage and finance companies are lenders. Lenders look for information to help them assess whether an organization is likely to repay its loans with interest.
- *Shareholders* (*investors*) are the owners of a corporation. They use accounting reports in deciding whether to buy, hold, or sell stock.
- *Directors* are typically elected to a *board of directors* to oversee their interests in an organization. Since directors are responsible to shareholders, their information needs are similar.
- *External* (independent) *auditors* examine financial statements to verify that they are prepared according to generally accepted accounting principles.
- *Nonexecutive employees* and *labor unions* use financial statements to judge the fairness of wages, assess job prospects, and bargain for better wages.
- *Regulators* often have legal authority over certain activities of organizations. For example, the Internal Revenue Service (IRS) and other tax authorities require organizations to file accounting reports in computing taxes. Other regulators include utility boards that use accounting information to set utility rates and securities regulators that require reports for companies that sell their stock to the public.
- *Voters, legislators, and government officials* use accounting information to monitor and evaluate government receipts and expenses.
- *Contributors* to nonprofit organizations use accounting information to evaluate the use and impact of their donations.
- *Suppliers* use accounting information to judge the soundness of a customer before making sales on credit.
- *Customers* use financial reports to assess the staying power of potential suppliers.

Internal Information Users **Internal users** of accounting information are those directly involved in managing and operating an organization such as the chief executive officer (CEO), chief financial officer (CFO), chief audit executive (CAE), treasurer, and other executive and managerial-level employees. They use the information to help improve the efficiency and effectiveness of an organization. **Managerial accounting** is the area of accounting that serves the decision-making needs of internal users. Internal reports are not subject to the same rules as external reports and instead are designed with the special needs of internal users in mind. Following is a partial list of internal users and some decisions they make with accounting information.

- *Research and development managers* need information about projected costs and revenues of any proposed changes in products and services.
- *Purchasing managers* need to know what, when, and how much to purchase.

- *Human resource managers* need information about employees’ payroll, benefits, performance, and compensation.
- *Production managers* depend on information to monitor costs and ensure quality.
- *Distribution managers* need reports for timely, accurate, and efficient delivery of products and services.
- *Marketing managers* use reports about sales and costs to target consumers, set prices, and monitor consumer needs, tastes, and price concerns.
- *Service managers* require information on the costs and benefits of looking after products and services.

Opportunities in Accounting

Accounting information is in all aspects of our lives. When we earn money, pay taxes, invest savings, budget earnings, and plan for the future, we use accounting. Accounting has four broad areas of opportunities: financial, managerial, taxation, and accounting-related. Exhibit 1.3 lists selected opportunities in each area.

EXHIBIT 1.3

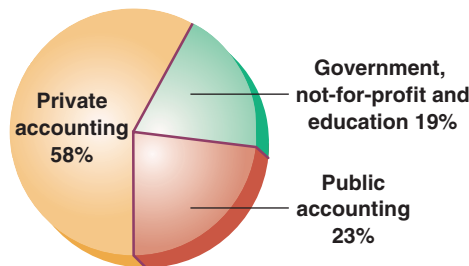
Accounting Opportunities



Exhibit 1.4 shows that the majority of opportunities are in *private accounting*, which are employees working for businesses. *Public accounting* offers the next largest number of opportunities, which involve services such as auditing and tax advice. Still other opportunities exist in government and not-for-profit agencies, including business regulation and investigation of law violations.

EXHIBIT 1.4

Accounting Jobs by Area



Point: The largest accounting firms are EY, KPMG, PwC, and Deloitte.

Margin notes further enhance textual material

Point: Census Bureau (2011) reports that for workers 25 and over, higher education yields higher average pay:

Advanced degree	\$81,568
Bachelor's degree	57,326
High school degree	36,876
No high school degree	26,124

Accounting specialists are highly regarded and their professional standing is often denoted by a certificate. Certified public accountants (CPAs) must meet education and experience requirements, pass an examination, and exhibit ethical character. Many accounting specialists hold certificates in addition to or instead of the CPA.

Two of the most common are the certificate in management accounting (CMA) and the certified internal auditor (CIA). Employers also look for specialists with designations such as certified bookkeeper (CB), certified payroll professional (CPP), personal financial specialist (PFS), certified fraud examiner (CFE), and certified forensic accountant (CrFA).

Demand for accounting specialists is strong. Exhibit 1.5 reports average annual salaries for several accounting positions. Salary variation depends on location, company size, professional designation, experience, and other factors. For example, salaries for chief financial officers (CFOs) range from under \$100,000 to more than \$1 million per year. Likewise, salaries for bookkeepers range from under \$30,000 to more than \$80,000.

Field	Title (experience)	2014 Salary	2019 Estimate*
Public Accounting	Partner	\$239,000	\$264,000
	Manager (6–8 years)	107,500	118,500
	Senior (3–5 years)	84,000	92,500
	Junior (0–2 years)	59,500	65,500
Private Accounting	CFO	282,000	311,500
	Controller/Treasurer	177,500	196,000
	Manager (6–8 years)	95,500	105,500
	Senior (3–5 years)	79,500	88,000
Recordkeeping	Junior (0–2 years)	57,000	63,000
	Full-charge bookkeeper	59,500	65,500
	Accounts manager	57,000	63,000
	Payroll manager	58,500	64,500
	Accounting clerk (0–2 years)	38,500	42,500

* Estimates assume a 2% compounded annual increase over current levels (rounded to nearest \$500).

EXHIBIT 1.5

Accounting Salaries for Selected Fields

Point: U.S. Bureau of Labor (June 2011) reports higher education is linked to a lower unemployment rate:
 Bachelor's degree or more . . . 4.4%
 High school degree 10.0%
 No high school degree 14.3%

Point: For updated salary info: Abbott-Langer.com
www.AICPA.org
Kforce.com

NEED-TO-KNOWs highlight key procedures and concepts in learning accounting

Identify the following users of accounting information as either an (a) external or (b) internal user.

- | | | |
|--------------------|---------------------------|------------------------------|
| 1. ___ Regulator | 4. ___ Controller | 7. ___ Production manager |
| 2. ___ CEO | 5. ___ Executive employee | 8. ___ Nonexecutive employee |
| 3. ___ Shareholder | 6. ___ External auditor | |

Solution

1. a 2. b 3. a 4. b 5. b 6. a 7. b 8. a

NEED-TO-KNOW 1-1

Accounting Users

C1 C2

Do More: QS 1-1, QS 1-2, E 1-1, E 1-2, E 1-3

QC1

QC icon indicates Quick Check self-review questions available in the eBook

FUNDAMENTALS OF ACCOUNTING

Accounting is guided by principles, standards, concepts, and assumptions. This section describes several of these key fundamentals of accounting.

Ethics—A Key Concept

The goal of accounting is to provide useful information for decisions. For information to be useful, it must be trusted. This demands ethics in accounting. **Ethics** are beliefs that distinguish right from wrong. They are accepted standards of good and bad behavior.

Identifying the ethical path is sometimes difficult. The preferred path is a course of action that avoids casting doubt on one's decisions. For example, accounting users are less likely to trust an auditor's report if the auditor's pay depends on the client's success. To avoid such concerns, ethics rules are often set. For example, auditors are banned from direct investment in their client and cannot accept pay that depends on figures in the client's reports. Exhibit 1.6 gives a three-step process for making ethical decisions.

C3

Explain why ethics are crucial to accounting.

Point: Sarbanes-Oxley Act requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior officers and the contents of that code.

1. Identify ethical concerns



Use personal ethics to recognize an ethical concern.

2. Analyze options



Consider all good and bad consequences.

3. Make ethical decision



Choose best option after weighing all consequences.

EXHIBIT 1.6

Guidelines for Ethical Decision Making

Point: The American Institute of Certified Public Accountants' Code of Professional Conduct is available at www.AICPA.org.

Accountants face many ethical choices as they prepare financial reports. These choices can affect the price a buyer pays and the wages paid to workers. They can even affect the success of products and services. Misleading information can lead to a wrongful closing of a division that harms workers, customers, and suppliers. There is an old saying: *Good ethics are good business.*

Fraud Triangle

The fraud triangle is a model created by a criminologist that asserts the following *three* factors must exist for a person to commit fraud: opportunity, pressure, and rationalization.



- **Opportunity.** A person must envision a way to commit fraud with a low perceived risk of getting caught. Employers can directly reduce this risk. An example of some control on opportunity is a pre-employment background check.
- **Pressure,** or incentive. A person must have some pressure to commit fraud. Examples are unpaid bills and addictions.
- **Rationalization,** or attitude. A person who rationalizes fails to see the criminal nature of the fraud or justifies the action.

It is important to recognize that all three factors of the fraud triangle must usually exist for fraud to occur. The absence of one or more factors suggests fraud is unlikely. The key to dealing with fraud is to focus on prevention. It is less expensive and more effective to prevent fraud from happening than it is to try to detect the crime. By the time the fraud is discovered, the money is gone and chances are slim that it will be recovered. Additionally, it is costly and time-consuming to investigate a fraud.

Both internal and external users rely on internal controls to reduce the likelihood of fraud. *Internal controls* are procedures set up to protect company property and equipment, ensure reliable accounting reports, promote efficiency, and encourage adherence to company policies. Examples are good records, physical controls (locks, passwords, guards), and independent reviews.

Decision Insight

Decision Insight boxes highlight relevant items from practice

Cooking the Books Our economic and social welfare depends on reliable accounting. Some individuals forgot that and are now paying their dues. They include Tsuyoshi Kikukawa of **Olympus**, guilty of hiding \$1.7 billion in losses; Bernard Madoff of **Madoff Investment Securities**, convicted of falsifying securities records; Bernard Ebbers of **WorldCom**, convicted of an \$11 billion accounting scandal; Andrew Fastow of **Enron**, guilty of hiding debt and inflating income; and Ramalinga Raju of **Satyam Computers**, accused of overstating assets by \$1.5 billion. ■



Comstock/Stockbyte/Getty Images

Generally Accepted Accounting Principles

Financial accounting is governed by concepts and rules known as **generally accepted accounting principles (GAAP)**. We must understand these principles to best use accounting data. GAAP aims to make information *relevant*, *reliable*, and *comparable*. Relevant information affects decisions of users. Reliable information is trusted by users. Comparable information is helpful in contrasting organizations.

In the United States, the **Securities and Exchange Commission (SEC)**, a government agency, has the legal authority to set GAAP. The SEC also oversees proper use of GAAP by companies that raise money from the public through issuances of their stock and debt. Those companies that issue their stock on U.S. exchanges include both *U.S. SEC registrants* (companies incorporated in the United States) and *non-U.S. SEC registrants* (companies incorporated under non-U.S. laws). The SEC has largely delegated the task of setting U.S. GAAP to the **Financial Accounting Standards Board (FASB)**, which is a private-sector group that sets both broad and specific principles.

C4

Explain generally accepted accounting principles and define and apply several accounting principles.

Point: State ethics codes require CPAs who audit financial statements to disclose areas where those statements fail to comply with GAAP. If CPAs fail to report noncompliance, they can lose their licenses and be subject to criminal and civil actions and fines.

International Standards

In today's global economy, there is increased demand by external users for comparability in accounting reports. This demand often arises when companies wish to raise money from lenders and investors in different countries. To that end, the **International Accounting Standards Board (IASB)**, an independent group (consisting of individuals from many countries), issues **International Financial Reporting Standards (IFRS)** that identify preferred accounting practices.

If standards are harmonized, one company can potentially use a single set of financial statements in all financial markets. Differences between U.S. GAAP and IFRS are decreasing as the FASB and IASB pursue a *convergence* process aimed to achieve a single set of accounting standards for global use. More than 115 countries now require or permit companies to prepare financial reports following IFRS. Further, non-U.S. SEC registrants can use IFRS in financial reports filed with the SEC (with no reconciliation to U.S. GAAP). This means there are *two* sets of accepted accounting principles in the United States: (1) U.S. GAAP for U.S. SEC registrants and (2) either IFRS or U.S. GAAP for non-U.S. SEC registrants.

The SEC is encouraging the FASB to change U.S. GAAP over a period of several years by endorsing, and thereby incorporating, individual IFRS standards into U.S. GAAP. This *endorsement process* would still allow the FASB to modify IFRS when necessary. The SEC would:

- Maintain its statutory oversight of the FASB, including authority to prescribe accounting principles and standards for U.S. issuers.
- Contribute to oversight and governance of the IASB through its involvement on the IFRS Foundation Monitoring Board.

The FASB would continue, but its role would be to provide input and support to the IASB in crafting high-quality, global standards. The FASB is to develop a transition plan to effect these changes over the next five years or so. For updates on this roadmap, we can check with the AICPA (IFRS.com), FASB (FASB.org), and IASB (ifrs.org).

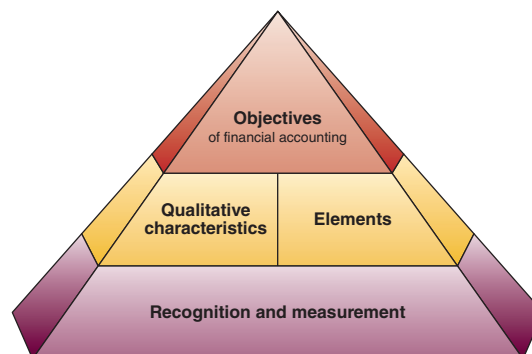
IFRS

Like the FASB, the IASB uses a conceptual framework to aid in revising or drafting new standards. However, unlike the FASB, the IASB's conceptual framework is used as a reference when specific guidance is lacking. The IASB also requires that transactions be accounted for according to their substance (not only their legal form), and that financial statements give a fair presentation, whereas the FASB narrows that scope to fair presentation *in accordance with U.S. GAAP*. ■

Conceptual Framework and Convergence

The FASB and IASB are attempting to converge and enhance the **conceptual framework** that guides standard setting. The FASB framework consists broadly of the following:

- **Objectives**—to provide information useful to investors, creditors, and others.
- **Qualitative Characteristics**—to require information that is *relevant*, *reliable*, and *comparable*.
- **Elements**—to define items that financial statements can contain.
- **Recognition and Measurement**—to set criteria that an item must meet for it to be recognized as an element; and how to measure that element.



For updates on this joint FASB and IASB conceptual framework convergence we can check the FASB.org or ifrs.org websites. We must remember that U.S. GAAP and IFRS are two similar, but not identical, systems. However, their similarities greatly outweigh any differences. The remainder of this section describes key principles and assumptions of accounting.