PORTER & NORTON

Using Financial Accounting Information

The Alternative to Debits & Credits

NINTH EDITION

Ethics and Accounting: A Decision-Making Model

IDENTIFICATION

1. Recognize an ethical dilemma.

- Conflicting accounting rules.
- No GAAP to follow.
- Fraud or other questionable actions have occurred.

ANALYSIS

2. Analyze the key elements in the situation.

- Who benefits?
- Who is harmed?
- What are their rights and claims?
- What are the conflicting interests?
- What are the accountant's responsibilities?

3. List alternatives and evaluate the impact on each of those affected.

- Most useful and timely information for decisions?
- Most complete, relevant and a faithful representation for decision makers?
- Most accurate information?
- Is the information free from bias?
- Most likely impact on those affected?

RESOLUTION

4. Select the best alternative.

- Which alternative is most relevant, most complete, most neutral, and most free from error?

Making Business Decisions

RATIO ANALYSIS MODEL

1. Formulate the Question.
2. Gather the Information from the Financial Statements.
3. Calculate the Ratio.
4. Compare the Ratio with Other Ratios.
5. Interpret the Ratios.

BUSINESS DECISION MODEL

1. Formulate the Question.
2. Gather the Information from the Financial Statements and Other Sources.
3. Analyze the Information Gathered.
4. Make the Decision.
5. Monitor Your Decision.

SUMMARY OF SELECTED FINANCIAL RATIOS

RATIO NAME	FORMULA	PAGE REFERENCE*
Liquidity Analysis		
Working capital	Current Assets − Current Liabilities	65, 658
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	65, **74–75**, 659
Acid-test ratio (quick ratio)	$\frac{\text{Cash + Marketable Securities + Current Receivables}}{\text{Current Liabilities}}$	660
Cash flow from operations to current liabilities ratio	$\frac{\text{Net Cash Provided by Operating Activities}}{\text{Average Current Liablities}}$	660
Accounts receivable turnover ratio	$\frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$	328, **328–330**, 661
Number of days' sales in receivables	$\frac{\text{Number of Days in the Period}}{\text{Accounts Receivable Turnover}}$	662
Inventory turnover ratio	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	**243–245**, 662
Number of days' sales in inventory	$\frac{\text{Number of Days in the Period}}{\text{Inventory Turnover}}$	663
Cash-to-cash operating cycle	Number of Days' Sales in Inventory + Number of Days' Sales in Receivables	663
Solvency Analysis		
Debt-to-equity ratio	$\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}$	**491–493**, 664
Times interest earned ratio	$\frac{\text{Net Income + Interest Expense + Income Tax Expense}}{\text{Interest Expense}}$	**491–493**, 664
Debt service coverage ratio	$\frac{\text{Cash Flow from Operations before Interest and Tax Payments}}{\text{Interest and Principal Payments}}$	665
Cash flow from operations to capital expenditures ratio	$\frac{\text{Cash Flow from Operations − Total Dividends Paid}}{\text{Cash Paid for Acquisitions}}$	666
Profitability Analysis		
Gross profit ratio	$\frac{\text{Gross Profit}}{\text{Net Sales}}$	226, **226–227**, 657
Profit margin ratio	$\frac{\text{Net Income}}{\text{Net Sales}}$	**75–77**, 657
Return on assets ratio	$\frac{\text{Net Income + Interest Expense, Net of Tax}}{\text{Average Total Assets}}$	667
Return on sales ratio	$\frac{\text{Net Income + Interest Expense, Net of Tax}}{\text{Net Sales}}$	667
Asset turnover ratio	$\frac{\text{Net Sales}}{\text{Average Total Assets}}$	386, **387–389**, 668
Return on common stockholders' equity ratio	$\frac{\text{Net Income − Preferred Dividends}}{\text{Average Common Stockholders' Equity}}$	668
Earnings per share	$\frac{\text{Net Income − Preferred Dividends}}{\text{Weighted Average Number of Common Shares Outstanding}}$	670
Price/earnings ratio	$\frac{\text{Current Market Price}}{\text{Earnings per Share}}$	670
Dividend payout ratio	$\frac{\text{Common Dividends per Share}}{\text{Earnings per Share}}$	531, 671
Dividend yield ratio	$\frac{\text{Common Dividends per Share}}{\text{Market Price per Share}}$	672
Cash flow adequacy	$\frac{\text{Cash Flow from Operating Activities − Capital Expenditures}}{\text{Average Amount of Debt Maturing over Next Five Years}}$	**607–609**

*boldface = Ratio Analysis Model

CENGAGE Learning

Using Financial Accounting Information: The Alternative to Debits and Credits, 9th edition

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Brief Contents

Contents

Each chapter contains some or all of the following end-of-chapter material:
• Key Points Review • Ratio Review • Accounts Highlighted • Key Terms Quiz • Alternate Terms • Warmup Exercises & Solutions • Review Problem & Solution • Appendix Review Problem & Solution • Questions • Brief Exercises • Exercises • Multi-Concept Exercises • Problems • Multi-Concept Problems • Alternate Problems • Alternate Multi-Concept Problems • Decision Cases: Reading and Interpreting Financial Statements; Making Financial Decisions; Ethical Decision Making • Solutions to Key Terms Quiz

To those who really "count"
Melissa
Kathy, Amy, Andrew

In honor of editor extraordinaire
Craig Avery

Preface

Business Success Means Understanding Accounting

A Framework for Success

Student success in accounting goes beyond knowing how to complete procedures—it means ensuring that students have an understanding of what the numbers mean and how they can use accounting information in the real world to make better business decisions. Like learning anything, however, it's important to provide students with models to follow as they learn how to interpret real data to make good decisions.

In the previous editions of *Using Financial Accounting Information: The Alternative to Debits and Credits*, Gary Porter and Curt Norton focused on making the material more relevant and engaging to students. For this edition, to make the text more approachable and student-friendly, language has been streamlined and important points have been called out. In addition, a hallmark of this text has always been the use of financial statements and other data for real-world companies, from chapter openers to end-of-chapter material, giving students the opportunity to use that data to apply what they're learning. The hallmark real-world company focus is continued and amplified through its application within key learning models.

This edition features three key models that provide students with a more structured approach to understanding financial data and how it is used to make sound business decisions. The **Transaction Model** helps students see the effects an economic event has on the accounting equation and financial statements, the **Financial Decision Framework** focuses on ratio analysis and business decisions, and the **Ethical Decision Model** helps students employ ethical judgment when applying accounting principles. The first two models are now available in CengageNOW to provide an accompanying multimedia learning tool—more deeply engaging the students in utilizing these models.

CENGAGENOW™

Using Financial Accounting Information: The Alternative to Debits and Credits, 9th edition will help your students learn and understand complex accounting rules and will also give them a framework through which they can apply their knowledge to make effective business decisions.

Transaction Model Each transaction in the text and the solutions manual is notated using a two-part element that focuses on the relationships between accounts, their increases and decreases, and the resulting articulation of the financial statements. This style provides instructors with maximum flexibility in teaching these key concepts.

① **"Identify and Analyze"** This element shows how each transaction affects the income statement and the balance sheet, with key additional information in an active-learning format. Students learn to **Identify and Analyze**:

- The type of business **activity**—operating, investing, or financing.
- The **accounts** affected by the transaction.
- The **financial statement(s)** affected by the transaction—balance sheet, income statement, or both.

② **Transaction-Effects Equation** This element shows how each transaction affects the accounting equation, the balance sheet, the income statement, and stockholders' equity.

①

Identify and Analyze

ACTIVITY: **Operating**
ACCOUNTS: **Depreciation Expense** Increase
Accumulated Depreciation Increase
STATEMENT(S): **Balance Sheet and Income Statement**

②

Balance Sheet					Income Statement				
ASSETS	=	LIABILITIES	+	STOCKHOLDERS' EQUITY	REVENUES	–	EXPENSES	=	NET INCOME
Accumulated Depreciation* (2,160)				(2,160)			Depreciation Expense 2,160		(2,160)

*The Accumulated Depreciation account has increased. It is shown as a decrease in the equation above because it is a contra account and causes total assets to decrease.

In the transaction-effects equation format, there is a separate column for expenses and an arrow that leads from net income to stockholders' equity. When an expense increases, it is shown as an increase in the Expense column. The effect on net income is also shown, along with the effect on stockholders' equity (via the arrow).

This form of notation has benefits for both students and instructors:

- It provides the clearest view of how transactions affect the balance sheet.
- Its **separation of balance sheet and income statement sides** differentiates these two equations and clearly shows how the income statement elements are affected.
- Its **arrow format** communicates the relationship between net income and stockholders' equity.
- This format **explains the difficult concept of contra accounts**.

Financial Decision Framework gives students a structured framework to guide them through the **Making Business Decisions** feature in selected chapters. Students will identify relevant financial information, analyze that information, and make better business decisions based on what they uncover.

The two-part Financial Decision Framework includes a **Ratio Analysis Model** (Part A) that guides students through formulating a question about a real company, and then calculating, comparing, and interpreting ratios.

RATIO ANALYSIS
BUSINESS DECISION MAKING

A. The Ratio Analysis Model

1. Formulate the Question

How liquid is Columbia Sportswear?

2. Gather the Information from the Financial Statements

The **current ratio** measures liquidity. To calculate a company's current ratio, it is essential to know its current assets and current liabilities. Current assets are the most liquid of all assets. Current liabilities are the debts that will be paid the soonest.

Current assets: From the balance sheet
Current liabilities: From the balance sheet

3. Calculate the Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Columbia Sportswear
Partial Balance Sheet (in thousands of dollars)
For the Year Ended December 31, 2011

Assets	
Total current assets	\$ 1,049,528
Liabilities and Stockholders' Equity	
Total current liabilities	\$ 287,002

$$\text{Current Ratio} = \frac{\$\,1{,}049{,}528}{\$\,287{,}002} = 3.93 \text{ to } 1$$

4. Compare the Ratio with Other Ratios

Ratios are of no use in a vacuum. It is necessary to compare them with prior years and with competitors.

CURRENT RATIO			
Columbia Sportswear		Under Armour	
12/31/11	**12/31/10**	**12/31/11**	**12/31/10**
3.93 to 1	3.94 to 1	3.78 to 1	3.73 to 1

5. Interpret the Ratios

In general, the higher the current ratio, the more liquid the company. Columbia Sportswear's ratio is virtually unchanged from the end of 2010 to the end of 2011. Also, the company's current ratio is very similar to that for its competitor, Under Armour. Columbia Sportswear's current ratio of 3.93 at the end of 2011 indicates a relative high degree of liquidity.

Moving a step beyond ratios, the Financial Decision Framework then guides students through the **Business Decision Model** (Part B), which leads them through asking a question as a user of financial information, gathering and analyzing the necessary information, making a decision, and then monitoring that decision. This framework, integrated throughout the text, provides students with models for honing their analysis and decision-making skills using real company information in a relevant, applicable context.

B. The Business Decision Model

1. Formulate the Question
If you were a banker, would you be willing to loan money to Columbia Sportswear?

2. Gather Information from the Financial Statements and Other Sources
This information will come from a variety of sources, not limited to but including:

- The balance sheet, which provides information about liquidity, the income statement regarding profitability, and the statement of cash flows on inflows and outflows of cash.
- The outlook for the sports apparel and footwear industry (consumer demand, labor issues, foreign competition, etc.).
- The outlook for the economy during the time the loan would be outstanding. Is inflation projected to increase or decrease during this time?
- Projections for interest rates for similar loans during the term of the loan.
- Alternative uses for the bank's money.

3. Analyze the Information Gathered

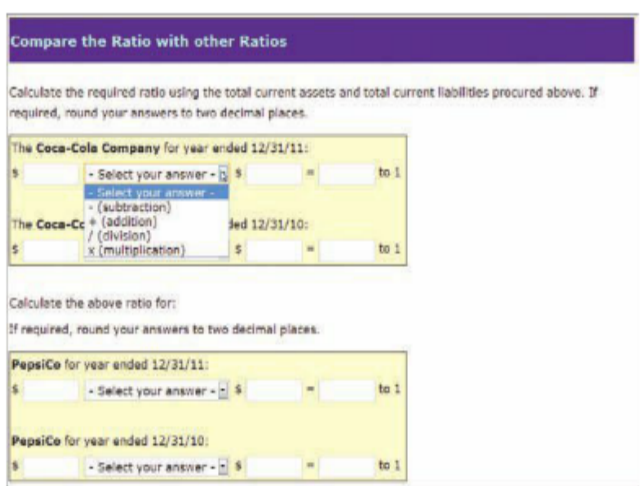
- Compare Columbia Sportswear's current ratio computed in A. above with Under Armour's as well as with industry averages.
- Look at trends over time in the current ratios.
- Review projections for economic outlook and interest rates.

4. Make the Decision
Taking into account all of the various sources of information, decide either to

- Loan money to Columbia Sportswear or
- Find an alternative use for the money

5. Monitor Your Decision
If you decide to make the loan, you will need to monitor the loan periodically. During the time the loan is outstanding, you will want to assess the company's continuing liquidity as well as other factors you considered before making the loan.

The models are extended into the end-of-chapter material so students not only learn these models for making financial decisions, but they also have a chance to apply them in practice. Additionally, the Ratio Analysis Model is available in CengageNOW, allowing students to complete the assignments on their own time. In CengageNOW, student submissions will be auto-graded and provide immediate feedback; so, students can learn from their mistakes.



Ethical Decision Model (introduced in Chapter 1) follows the stepped method to reach ethical decisions through identification, analysis, and resolution. Ethical issues are introduced within selected chapters, and end-of-chapter cases ask students to apply

Key Concept Highlights. More than ever before, the ninth edition highlights key concepts in the text using color, boldface, bulleting, and other design elements to help students zero in on key concepts they will need to know for homework and tests.

LO7 Determine which expenditures should be capitalized as asset costs and which should be treated as expenses

Capital expenditure
A cost that improves the asset and is added to the asset account
Alternate term: Item treated as asset

Revenue expenditure
A cost that keeps an asset in its normal operating condition and is treated as an expense
Alternate term: Item treated as an expense of the period

Capital versus Revenue Expenditures

Accountants often must decide whether certain expenditures related to operating assets should be treated as an addition to the cost of the asset or as an expense. One of the most common examples involving this decision concerns repairs to an asset. Should the repairs constitute capital expenditures or revenue expenditures?

- A **capital expenditure** is a cost that is added to the acquisition cost of an asset.
- A **revenue expenditure** is not treated as part of the cost of the asset, but as an expense on the income statement.

Thus, the company must decide whether to treat an item as an asset (balance sheet) and depreciate its cost over its life or to treat it as an expense (income statement) of a single period.

The distinction between capital and revenue expenditures is a matter of judgment. Generally, the following guidelines should be followed:

- When an expenditure *increases the life of the asset or its productivity*, it should be treated as a capital expenditure and added to the asset account.
- When an expenditure *simply maintains an asset in its normal operating condition*, however, it should be treated as an expense.

The *materiality* of the expenditure must also be considered. Most companies establish a policy of treating an expenditure that is smaller than a specified amount as a revenue expenditure (an expense on the income statement).

Examples Teach Key Concepts and Skills. Students refer to examples in the text with the goal of solving the homework. Thus, Exercises and Brief Exercises at the back of every chapter refer to the many numbered, step-by-step examples in each chapter. Numbered examples of key procedures, activities, or processes will help students focus on learning the important skills they will need for completing the homework.

Example 5-2 Calculating Cost of Goods Sold

The amounts shown below are taken from the Cost of Goods Sold section of Daisy's income statement as shown in Exhibit 5-4

Description	Item	Amount
Merchandise on hand to start the period	Beginning inventory	$15,000
Acquisitions of merchandise during the period	+ Cost of goods purchased	83,000
Pool of merchandise available for sale during the period	= Cost of goods available for sale	$78,000
Merchandise on hand at end of period	− Ending inventory	(18,000)
Expense recognized on the income statement	= Cost of goods sold	$80,000

A $3,000 excess of ending inventory over beginning inventory means that the company bought $3,000 more than it sold ($83,000 bought versus $80,000 sold)

Notice that ending inventory exceeds beginning inventory by $3,000 That means that the cost of goods purchased exceeds cost of goods sold by that same amount Indeed, a key point for stockholders, bankers, and other users is whether inventory is building up, that is, whether a company is not selling as much inventory during the period as it is buying A buildup may indicate that the company's products are becoming less desirable or that prices are becoming uncompetitive

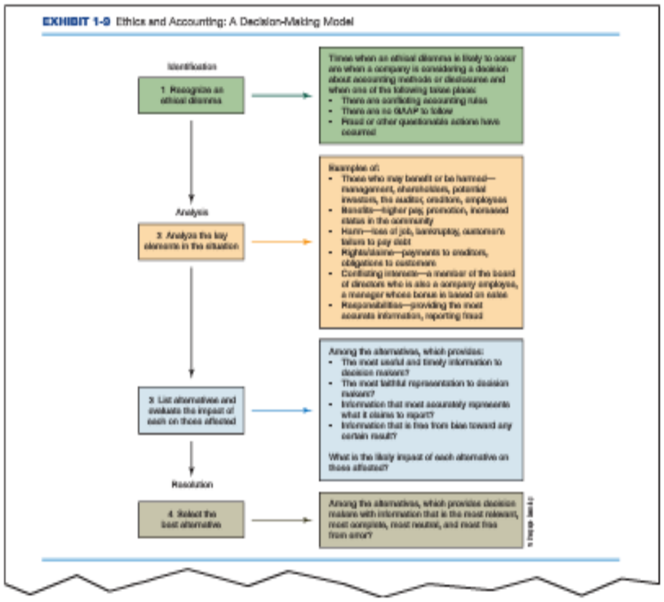
NEW: Key Points Review in the end-of-chapter section highlights the key concepts covered in the chapter.

KEY POINTS REVIEW

LO1 Explain the difference between external and internal events.

- Both of these different types of events affect an entity and are usually recorded in the accounting system as a transaction.
  - External events are interactions between an entity and its environment.
  - Internal events are interactions entirely within an entity.

the model in order to evaluate the situation and learn how to make ethical decisions. Cases that ask students to use the Ethical Decision Model are noted with a special icon.



Hallmark Features to Help Students Learn Accounting

Chapter openers focus on the importance of accounting and the value of the topics covered in the chapter.

MAKING BUSINESS DECISIONS
CARNIVAL CORPORATION & PLC

In these difficult economic times, all companies face challenges in generating revenues. This is certainly true of those that rely on consumer discretionary spending. The vacation and cruise business is a prime example. How do companies convince families to take cruises and spend money on board and, at the same time, hold down their own costs in this tough economy?

As the largest cruise company and one of the largest vacation companies in the world, **Carnival Corporation & PLC** (hereinafter referred to as "Carnival") presides over a vast fleet of ships operating under a number of recognizable brand names. Carnival Cruise Lines™, Princess™, Costa™, Holland America Line™, and Cunard™ are among the names on the company's fleet of 100 ships sailing around the world. As shown on the accompanying comparative income statements, revenues rose by over $1.3 billion in 2011 to $15.793 billion in total. Passenger tickets made up the vast majority of this revenue, increasing by nearly 10% in 2011 from the prior year.

As you know by now in your study of accounting, revenues are only one side of the equation in determining a company's profitability. Profit, or net income, is the result of deducting expenses from revenues. What do you suppose are some of the major expenses in running a cruise company? As the income statement reports, the largest of these is "Commissions, transportation and other," which includes commissions paid to travel agents and other transportation-related costs. This expense increased by about 8%. With 91,300 employees worldwide, you can imagine that the company's payroll is one of its largest expenses, amounting to over $1.7 billion in 2011. However, Carnival was able to limit the increase in this critical cost to about 7% in 2011.

Another major cost in running a cruise business is the fuel needed to power a fleet of ships. Note the nearly $3.2 billion spent on fuel in 2011, a 38% increase from the prior year! Even with the $871 million increase in the cost of fuel, Carnival was able to report a bottom line of over $1.9 billion, a modest 2% decrease from the prior year. The company's ability to remain profitable in the future will certainly be impacted by the amount it has to pay for fuel.

In our study of accounting, we have not yet given any thought to how the numbers on an income statement (or on any of the other statements) got where they did. After all, before the information on the statements can be used for decision making, someone must decide how to record the various transactions that underlie the amounts reported. As a user of financial information, you will need to answer the following questions:

- What source documents are used as the necessary evidence to record transactions? (See p. 108.)
- What is the double-entry system of accounting? What is its role in the recording process? (See pp. 112–116.)
- What are some of the tools that accountants use to effectively and efficiently process the information that appears on financial statements? (See pp. 117–121.)

SPOTLIGHT interviews with business leaders in 9 of the 13 chapters show how actual managers, executives, accounting professionals, and analysts use accounting to get ahead in their careers. **Spotlights** profile real business professionals and their techniques, skills, business insights, and decisions to show how vital accounting is to their success.

SPOTLIGHT

Income Measurement, Accrual Accounting, and Ethics

In the construction industry, income measurement and accrual accounting are very important to the success of a company. Showing an accurate account balance and managing cash flow is critical when applying for credit, which is necessary within this very competitive industry. **James H. Kennedy**, CPA, specializes in providing accounting services to construction companies. A classically trained chef, he made a career change at 34 to return to accounting and become a CPA.

According to James, it is critical to get a balance between receivables and payables in this ever-changing industry. With the recent changes in the economy, construction customers are slower paying, with the average receivables taking close to 50 days to be paid. At the same time, payables are due within 30 days. Taking longer than 30 days to pay can negatively affect a company's ability to receive orders. Because of this, many companies are forced to make difficult decisions regarding pricing and payables.

When applying for a loan, James recommends that construction firms make sure that all receivables are classified as current or noncurrent assets and not understated; that current portions of long-term debt are properly recorded; and that accrued expenses are not overstated. These are all very important because they can greatly affect the ratios that many banks review before they lend money. He says that applying for a loan is like a first date. You only have one opportunity to make a good first impression.

While there can be pressure to adjust the financials to reflect a "better" picture, James makes clear that an accountant must accurately reflect a firm's income. Protect your integrity and your CPA license at all times, he says. James is a third-generation CPA, and his grandfather told him, "All you ever really have is your reputation. You only get one CPA license and it's how you feed your family. It makes all the difference in the world."

"Learn to communicate well. . . . Develop an excellent style of writing. It will differentiate you from your colleagues immediately. . . . Know your debits and credits cold, automatically, by heart, inside out, upside down, day or night."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Name: James H. Kennedy, CPA
Education: B.S., Business Administration, Rowan University
College Major: Accounting
Occupation: CPA
Age: 53
Position: Founding partner of peer reviewed CPA firm that works closely with construction firms
Company Name: Kennedy & Associates, LLC CPA Services
See James Kennedy's interview clip in CNOW.

Additionally, **Spotlight interview videos** are featured in CengageNOW's Study Tools for *Using Financial Accounting Information* and also on the student companion web site.

LOOKING AHEAD features help prepare students for accounting changes to come. Whether changes are on the horizon for International Financial Reporting Standards, for new and challenging financial statement formats, or due to the global economic crisis, students need to be aware of how the future of business is affected. **Looking Ahead** features in selected chapters are a preview of trends and upcoming issues that will affect business and accounting.

LOOKING AHEAD


Tetra Images/Getty Images

Whether LIFO survives in the United States is not only a matter of convergence with international standards. Because the method allows companies with rising inventory costs to report lower income, the White House and its supporters in Congress see the repeal of LIFO as one avenue for raising tax revenues and thus cutting into the ever-increasing federal deficit. Naturally, companies currently using the method are adamantly opposed to its elimination and are lobbying for its continuation. In addition to the budgetary implications, those in Congress who would like to see LIFO eliminated point to its prohibition under IFRS. This issue is a prime example of how accounting choices affect much more than a company's bottom line and can sometimes be at the center of national policy debates. Stay tuned.

NEW "FLAGSHIP" COMPANIES: Financial Statements and Notes from Under Armour, Inc., and Columbia Sportswear Company bring the role of accounting and decision making in business into focus. Financial report excerpts from these competing companies encourage students' critical thinking and financial decision making skills.

EXHIBIT 1-8 Under Armour's Income Statement

Under Armour, Inc. and Subsidiaries
Consolidated Statements of Income
(In thousands, except per share amounts)

		Year Ended December 31,	
	2011	**2010**	**2009**
Net revenues	$1,472,684	$1,063,927	$856,411
Cost of goods sold	759,848	533,420	446,286
Gross profit	712,836	530,507	410,125
Selling, general and administrative expenses	550,069	418,152	324,852
Income from operations	162,767	112,355	85,273
Interest expense, net	(3,841)	(2,258)	(2,344)
Other expense, net	(2,064)	(1,178)	(511)
Income before income taxes	156,862	108,919	82,418
Provision for income taxes	59,943	40,442	35,633
Net income	$ 96,919	$ 68,477	$ 46,785
Net income available per common share			
Basic	$ 1.88	$ 1.35	$ 0.94
Diluted	$ 1.85	$ 1.34	$ 0.92
Weighted average common shares outstanding			
Basic	51,570	50,798	49,848
Diluted	52,526	51,282	50,850

See accompanying notes

Net revenues reached about $1,473 million.

Costs of products sold were about $760 million.

Net income for the year was nearly $97 million.

Source: Under Armour Inc's Form 10-K for the Fiscal Year Ended December 31, 2011

EXHIBIT 2-1 Comparative Balance Sheets for Columbia Sportswear Company

Columbia Sportswear Company
Consolidated Balance Sheets
(In thousands)

	December 31,	
	2011	**2010**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 241,034	$ 234,257
Short-term investments	2,878	68,812
Accounts receivable, net (Note 4)	351,538	300,181
Inventories, net (Note 5)	365,199	314,298
Deferred income taxes (Note 10)	52,485	45,091
Prepaid expenses and other current assets	30,380	28,241
[illegible]rrent assets	1,043,536	990,880

UPDATED: Real-World Financial Information.

The text's **balance sheet organization** uses well-known companies such as Under Armour, Inc., Columbia Sportswear, Carnival Corporation & PLC, Nordstrom Inc., Gap Inc., Sears Holdings, Apple, Nike, Starbucks, Coca-Cola, Southwest Airlines, Walgreen, and lululemon athletica to help apply accounting to the real world. Every chapter features a single company, complete with financial data and business strategy, along with assignments that ask students to dig deeper into the company's financials to develop their analytical skills.

UPDATED: Hot Topics boxes

in all chapters dive deeper into the latest issues and challenges of the chapter-opening company.

HOT TOPICS
Keeping a Watchful Eye on Sales

© Bill Reddin

All companies must pay close attention to their sales figures. Still, it is hard to imagine any segment of the economy more revenue conscious than retailers. Nordstrom is no exception. Like its competition, the company reports monthly to the financial press, as it did recently in announcing its December 2012 sales. Retailers report both total sales as well as what they call "same-store sales," numbers that only include stores that operated in both the current and prior reporting periods. Analysts can more easily discern trends when sales at new stores are excluded.

Nordstom's investors should be encouraged by the recent announcement. Same-store sales for the five-week period ending December 29, 2012, increased by 8.6% over the comparable period in 2011. The company also tracks sales for its "full line stores" as compared to its discount "rack stores." Both types of stores reported increases in same-store sales for the month of December of over 8% from the prior year. This is just the sort of information that is crucial in planning for the future as Nordstrom decides where to invest its valuable resources.

Source: Nordstrom news release, January 3, 2013; http://www.nordstrom.com

Alternative Terms. In the study of accounting, as in the world of business, terms and terminology are very important. The text presents **Alternate Terms** at the end of each chapter that illustrate variations in financial accounting terminology that students may encounter.

Personalized Study Plan. Students can master key concepts and prepare for exams with CengageNOW's Personalized Study Plan—a diagnostic tool plus study plan—preloaded with an Integrated eBook and other multimedia resources to make learning more engaging. The Pre-Test can be used to determine what students already know. Based on the results of the Pre-Test, the personalized study plan will automatically generate resources to help students focus on the areas where they need the most help. Finally, with the Post-Test, students can assess what they actually learned.

Assessment Tools

Homework Shows Cross-References to Key Examples beside the Exercises and Brief Exercises to help students review the related example material before completing the homework items.

LO2 • 3 **Exercise 5-21 Income Statement for a Merchandiser**
EXAMPLE 5-2

Fill in the missing amounts in the following income statement for Carpenters Department Store Inc.

Sales revenue		$125,800	
Less: Sales returns and allowances		(a)	
Net sales			$122,040
Cost of goods sold:			
Beginning inventory		$ 23,400	
Purchases	$ (b)		
Less: Purchase discounts	1,300		
Net purchases	$ (c)		
Add: Transportation-in	6,550		
Cost of goods purchased		81,150	
Cost of goods available for sale		$104,550	
Less: Ending inventory		(e)	
Cost of goods sold			(d)
Gross profit			$ 38,800
Operating expenses			(f)
Income before tax			$ 28,300
Income tax expense			10,300
Net income			$ (g)

Brief Exercises, tied to a single learning outcome, allow students to confirm what they have learned and develop the skills and confidence needed to effectively work more complex exercises and problems.

LO5 **Brief Exercise 2-5 Multiple- versus Single-Step Income Statement**
EXAMPLE 2-6, 2-7

A retailer is considering whether to prepare a multiple- or single-step income statement. Provide three lines that appear on a multiple-step statement that do not appear on a single-step statement.

LO6 **Brief Exercise 2-6 Profit Margin**
EXAMPLE 2-8

A company reported sales of $100,000; cost of goods sold of $60,000; selling, general, and administrative expenses of $15,000; and income tax expense of $10,000. Compute the company's profit margin.

LO7 **Brief Exercise 2-7 Retained Earnings**
EXAMPLE 2-9

A company started the year with retained earnings of $200,000. During the year, it reported net income of $80,000 and paid dividends of $50,000. Compute the company's ending retained earnings.

Brief Exercise walk-through videos are now available to assist students completing their homework in CengageNOW. These videos, designed for the visual-learner, provide step-by-step guidance on how to complete the exercise. Students can then translate this knowledge back to the textbook examples to complete the cycle of learning.

Working-backward exercises generally give students a "result"—either journal entries, account balances, balance sheet or income statement presentations/amounts, or ratios. With this information, they are then asked to work backward to solve for the missing information in the exercise. **This type of problem solving is a test of their ability to think critically about key accounting concepts**.

Exercise 4-9 Working Backward: Depreciation — LO5 EXAMPLE 4-5

Polk Corp. purchased new store fixtures for $55,000 on January 31, 2012. Polk depreciates assets using the straight-line method and estimated a salvage value for the machine of $5,000. On its December 31, 2014, balance sheet, Polk reported the following:

Property, plant, and equipment:		
Store fixtures	$55,000	
Less: Accumulated depreciation	15,000	$40,000

Required

1. What is the yearly amount of depreciation expense for the store fixtures?
2. What is the estimated useful life in years for the store fixtures? Explain your answer.

Blueprint Problems and Connections in CengageNOW are assignable teaching problems that require students to think through the problem solving process.

- Blueprint Problems cover primary learning objectives and help students understand the fundamental accounting concepts and their associated building blocks—not just memorizing formulas or journal entries required for a single concept.
- Blueprint Connections build upon concepts covered and introduced within the Blueprint Problems. These are scenario-based exercises that help students strengthen their analytical skills.
- Both can be used in class as part of the lecture, as a group activity, as a homework assignment, or for study and review.
- Both Blueprint Problems and Connections include feedback and explanations to enhance the learning experience.

CengageNOW, a powerful course management and online homework tool that provides robust instructor control and customization to optimize the student learning experience and meet desired outcomes, is available with the 9th edition *of Using Financial Accounting Information*. CengageNOW includes:

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- **Smart Entry** helps eliminate common data entry errors and prevents students from guessing their way through homework.
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Chapter-by-Chapter Changes

Chapter 1

- Introduced one of two new flagship companies, Under Armour, Inc., as the focus company for Chapter 1.
- Revised Exhibits 1-1, 1-7, and 1-8 to reflect new flagship company, Under Armour, Inc.
- Revised Hot Topics feature to describe sale of stock by the founder of Under Armour, Inc.
- Updated end-of-chapter material: E1-9, E1-16, P1-8, P1-9, P1-8A, P1-9A, DC1-2, and DC1-3.
- Revised DC1-1 and DC1-2 to reflect new flagship company, Under Armour, Inc.
- Revised DC1-3 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Revised DC1-6 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Chapter 2

- Introduced one of two new flagship companies, Columbia Sportswear Company, as the focus company for Chapter 2.
- Revised Exhibits 2-1, 2-2, and 2-3 to reflect new flagship company, Columbia Sportswear Company.
- Revised the Hot Topics feature to highlight Columbia Sportswear Company's dividend decision.
- Replaced Ratio Decision Model for the Current Ratio with new two-part Business Decision Model, consisting of Ratio Analysis and Business Decision portions.
- Replaced Ratio Decision Model for the Profit Margin with new two-part Business Decision Model, consisting of Ratio Analysis and Business Decision portions.
- Updated Looking Ahead feature for status of the FASB/IASB joint project on the format and presentation of financial statements.
- Revised P2-10 and P2-10A to integrate the new two-part Business Decision Model.
- Revised DC2-1 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Revised DC2-2 to reflect new flagship company, Columbia Sportswear Company.
- Revised DC2-6 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Chapter 3

- Updated the chapter opener with the most current information available and replaced the financial statements from Carnival Corporation as the focus company for Chapter 3.
- Revised Hot Topics feature to highlight Holland America Line's selection on world's most ethical companies list.
- Revised DC3-1 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Revised DC3-2 to reflect new flagship company, Under Armour, Inc.
- Updated end-of-chapter material: DC3-3.
- Revised DC3-7 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Chapter 4

- Updated the chapter opener with the most current information available and replaced the financial statements from Nordstrom as the focus company for Chapter 4.

- Updated the Hot Topics feature to highlight Nordstrom's same store sales reporting.
- Updated end-of-chapter material: E4-31, DC4-2, and DC4-3.
- Revised DC4-1 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Revised DC4-6 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Chapter 5

- Updated the chapter opener with the most current information available and replaced the financial statements from Gap as the focus company for Chapter 5.
- Updated the Hot Topics feature on Gap's international expansion.
- Updated Example 5-15 for Winnebago Industries' LIFO reserve.
- Revised Exhibit 5-11, substituting a partial statement of cash flows for Under Armour, Inc.
- Replaced Ratio Decision Model for the Gross Profit Ratio with new two-part Business Decision Model, consisting of Ratio Analysis and Business Decision portions.
- Replaced Ratio Decision Model for the Inventory Turnover Ratio with new two-part Business Decision Model, consisting of Ratio Analysis and Business Decision portions.
- Revised P5-2, P5-5, P5-2A, and P5-5A to integrate the new two-part Business Decision Model.
- Updated end-of-chapter material: E5-16, P5-8, P5-14, P5-8A, P5-14A, DC5-2, and DC5-3.
- Revised DC5-1 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Revised DC5-9 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Chapter 6

- Updated the chapter opener with the most current information available and replaced the financial statements from Sears Holdings as the focus company for Chapter 6.
- Updated the Hot Topics feature to highlight Sears Holdings' strategy to finance operating cash needs.
- Updated Exhibits 6-1, 6-4, and 6-5 for new Sears Holdings' statements and reports.
- Revised DC6-1 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Updated end-of-chapter material: DC6-2.
- Revised DC6-4 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Chapter 7

- Updated the chapter opener with the most current information available and replaced the financial statements from Apple Inc. as the focus company for Chapter 7.
- Updated the Hot Topics feature on Apple's quarterly report filed with the SEC.
- Updated Looking Ahead feature for status of possible changes in the statement of cash flows under the joint FASB/IASB project.
- Replaced Ratio Decision Model for the Accounts Receivable Turnover Ratio with new two-part Business Decision Model, consisting of Ratio Analysis and Business Decision portions.
- Updated end-of-chapter material: E7-5 and DC7-2.
- Revised P7-3 and P7-3A to integrate the new two-part Business Decision Model.

- Revised DC7-1, substituting amounts for 3M Company.
- Revised DC7-3 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Revised DC7-5 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Chapter 8

- Updated the chapter opener with the most current information available and replaced the financial statements from Nike as the focus company for Chapter 8.
- Updated the Hot Topics feature to highlight Nike's intangible branding.
- Replaced Ratio Decision Model with new two-part Business Decision Model, consisting of Ratio Analysis and Business Decision portions.
- Updated end-of-chapter material DC8-1 features Columbia Sportswear Company and DC8-2 reflects Under Armour, Inc., and Columbia Sportswear Company; uses Ratio Analysis Model and Business Decision Model; DC8-5 uses the Ethical Decision Model.

Chapter 9

- Updated the chapter opener with the most current information available and replaced the financial statements from Starbucks as the focus company for Chapter 9.
- Updated the Hot Topics feature to highlight Starbucks' liability for products.
- Added sentences about calculating the balance of warranty liability.
- Updated end-of-chapter material P9-2, P9-3, P9-2A, P9-3A, DC9-2, DC9-3, and DC9-4.
- Changed DC9-1 to Columbia Sportswear Company and Under Armour, Inc.

Chapter 10

- Updated the chapter opener with the most current information available and replaced the financial statements from Coca-Cola and Pepsi as the focus companies for Chapter 10.
- Replaced Ratio Decision Model with new two-part Business Decision Model, consisting of Ratio Analysis and Business Decision portions.
- Updated end-of-chapter material: P10-9, P10-9A, and DC10-3
- DC10-1 features Columbia Sportswear Company and DC10-2 reflects Columbia Sportswear Company and Under Armour, Inc. DC10-2 uses Ratio Analysis Model and Business Decision Model. DC10-6 uses the Ethical Decision Model.

Chapter 11

- Updated the chapter opener with the most current information available and replaced the financial statements from Southwest Airlines as the focus company for Chapter 11.
- Updated end-of-chapter material: P11-7, P11-7A, and DC11-3
- DC11-1 features Columbia Sportswear Company and Under Armour, Inc., and DC11-2 highlights Columbia Sportswear Company. DC11-5 uses the Ethical Decision Model.

Chapter 12

- Introduced Walgreen Company as the new focus company for Chapter 12.
- Revised Exhibit 12-1 to illustrate cash flow and net income differences.
- Revised the Hot Topics feature to illustrate Walgreen Company's strategy for returning cash to stockholders.

- Updated Looking Ahead feature for status of possible changes in the statement of cash flows under a joint FASB/IASB project.
- Replaced Ratio Decision Model for the Cash Flow Adequacy Ratio with new two-part Business Decision Model, consisting of Ratio Analysis and Business Decision portions.
- Updated end-of-chapter material: E12-4.
- Revised DC12-1 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Revised DC12-2 to integrate the new two-part Business Decision Model.
- Revised DC12-3 to substitute Walgreen Company.
- Revised DC12-6 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Chapter 13

- Introduced lululemon athletica, inc., as the new focus company for Chapter 13.
- Revised Exhibit 13-1, substituting financial information for lululemon athletica, inc.
- Revised the Hot Topics feature to highlight lululemon athletica, inc.'s quarterly disclosures.
- Updated Looking Ahead feature for status of joint FASB/IASB project on the format and presentation of financial statements.
- Revised Review Problem for new focus company.
- Updated end-of-chapter material: E13-7.
- Revised E13-5, E13-6, E13-8, and E13-11 for new companies.
- Revised DC13-1 and DC13-2 to reflect new flagship company, Under Armour, Inc.
- Revised DC13-3 to reflect new flagship companies, Under Armour, Inc., and Columbia Sportswear Company.
- Revised DC13-4 to reflect new flagship company, Columbia Sportswear Company.
- Revised DC13-7 to integrate the concept of ethics in accounting with the practice of modeling ethical decision making.

Additional Instructor and Student Supplements

Instructor's Manual

The Instructor's Manual, by Sandra Augustine (Hilbert College), contains detailed lecture outlines, lecture topics, and suggestions for classroom activities. The chapter activities in the Instructor's Manual have been analyzed and assigned the same set of outcomes that are used in the Solutions Manual and the Test Bank (available on the Instructor Companion web site).

Solutions Manual

The Solutions Manual, by the text authors, consists of solutions to all the end-of-chapter material keyed to learning outcomes and using the same Identify and Analyze and Transaction-Effects Equation form of notation found in the text. (Available in print, ISBN-13: 978-1-285-18327-5. Also available on the Instructor Companion web site.)

Test Bank

The Test Bank, by LuAnn Bean (Florida Institute of Technology), contains a comprehensive set of test items to meet every assessment need from brief exercises to problems and decision cases. The Test Bank will now be offered in Cognero.

Cengage Learning Testing Powered by Cognero is a flexible, online system that allows instructors to:

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Excel® Templates

Selected problems in each chapter may be solved on a Microsoft Excel spreadsheet to increase awareness of basic software applications. Just download the Excel spreadsheets for homework items that are identified by icons in the text. (Excel templates are available on the Student Resources page of the product web site. Password-protected Instructor solutions are available on the Instructor Companion web site.)

PowerPoint® Slides

Student PowerPoint Slides, a smaller version of the Instructor PowerPoint Lectures, allow students to get ready for upcoming lectures, quizzes, homework, and exams with core material needed for chapter study. (Student PowerPoint Slides are available on the Student Resources page of the product web site. More detailed, password-protected Instructor PowerPoint Slides are available on the Instructor Companion web site.)

Student Web Resources

Chapter-by-chapter quizzes, topical discussions, updates on IFRS integration, and more are available. These items help reinforce and shed light on text topics. Discover more by logging into the text web site. Visit www.cengagebrain.com.

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