

# ACCOUNTING



TOOLS FOR BUSINESS DECISION MAKING

8TH EDITION

kimmel  
weygandt  
mitchell

WILEY

# Paul Kimmel's

## Accounting Course Design with WileyPLUS

Paul Kimmel, author of several Wiley courses, teaches at The University of Wisconsin—Madison and uses WileyPLUS in a flipped classroom format.



### Ignite student potential with WileyPLUS

See how Paul uses four key elements to focus his course on developing his students' success.



#### Guided Learning

##### EXAMPLE:

Paul sets up his learning path to highlight and structure pre-assignments, post-assignments and discussions, adaptive assignments, exam practice, and quizzing.

A **guided learning path** enables you to control what your students see, when they see it, and in what order. This makes it very clear for students to understand what they're supposed to complete. This is especially vital for online classes. **Having a clear path to learning reduces the risk of "losing" students, keeping them engaged and on track in your course.**



#### Information Retention

##### EXAMPLE:

Paul assigns Interactive Tutorial Assignments ahead of pre-lecture activities so students come to class ready to actively participate.

**Interactive Tutorial Assignments** provide students with self-paced lecture walkthroughs of each chapter. Broken into smaller chunks with Knowledge Check questions and Do It!s, students must watch the videos and respond to associated questions correctly or exhaust attempts before moving on, enhancing the retention of information. **Trying to solve a problem before being taught the solution is frustrating but improves retention.**



#### Personalized Practice

##### EXAMPLE:

Paul uses Adaptive Assignments as a capstone activity at the end of each week to improve retention.

**Adaptive Assignments** effectively close knowledge gaps through personalized adaptive experiences that provide just-in-time instruction, immediate feedback, and remediation to previous learning objectives. **To improve learning, employ dynamic (adaptive) testing rather than static testing. Without feedback, students often overestimate their competence and don't see a need to try to improve.**



#### Just-in-Time Homework Help

##### EXAMPLE:

Paul assigns post-assignment problems supported by Solution Walkthrough Videos.

**Solution Walkthrough Videos** provide students with 24/7 just-in-time homework support and enable you to assign more difficult homework questions. **Longer, multi-learning objective problems with video support help students consolidate their understanding.**

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## Accounting Course Design with WileyPLUS



### Course Design Suggestions from *Make It Stick*\*

- ✓ Trying to solve a problem before being taught the solution improves retention.
- ✓ Testing (active retrieval) doesn't just measure learning, it strengthens memory.
- ✓ Spaced "testing" results in greater retention.
- ✓ Providing feedback strengthens learning more than testing alone.

\**Make It Stick*; Brown, Roediger, and McDaniel, 2014.

### Considerations for a Flipped Classroom

Based on Paul Kimmel's course with two in-person lectures per week.

#### EXAMPLE WEEKLY SCHEDULE

SUNDAY	Online	Complete first pre-assignment. Due Monday before class.
MONDAY	In Class	Students do at least two exercises in class on blank sheet (i.e., conditions faced in a test).
TUESDAY	Online	Complete second pre-assignment. Due Wednesday before class.
WEDNESDAY	In Class	Students do at least two exercises in class on blank sheet.
THURSDAY/FRIDAY	Online	Complete post-assignment. Due Friday night.
FRIDAY/SATURDAY	Online	Complete adaptive assignment. Due Saturday night.

Want to learn more about Paul Kimmel's course?



Scan this QR code to sign up for a WileyPLUS demo

WILEY

# Accounting

Tools for Business Decision Making

**Eighth Edition**

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Our spouses, Enid, Merlynn, and Sean,  
for their love, support, and encouragement.

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Cases for Management Decision Making

Dear Student,

**Why This Course?** Remember your biology course in high school? Did you have one of those “invisible man” models (or maybe something more high-tech than that) that gave you the opportunity to look “inside” the human body? This accounting course offers something similar. To understand a business, you have to understand the financial insides of a business organization. An accounting course will help you understand the essential financial components of businesses. Whether you are looking at a large multinational company like **Apple** or **Starbucks** or a single-owner software consulting business or coffee shop, knowing the fundamentals of accounting will help you understand what is happening. As an employee, a manager, an investor, a business owner, or a director of your own personal finances—any of which roles you will have at some point in your life—you will make better decisions for having taken this course.

**Why This Text?** Your instructor has chosen this text for you because of its trusted reputation. We have worked hard to provide instructional material that is engaging, timely, and accurate.

**How to Succeed?** We’ve asked many students and many instructors whether there is a secret for success in this course. The nearly unanimous answer turns out to be not much of a secret: “Do the homework.” This is one course where doing is learning. The more time you spend on the homework assignments—using the various tools that this text provides—the more likely you are to learn the essential concepts, techniques, and methods of accounting.

Good luck in this course. We hope you enjoy the experience and that you put to good use throughout a lifetime of success the knowledge you obtain in this course. We are sure you will not be disappointed.

“Whether you are looking at a large multinational company like **Apple** or **Starbucks** or a single-owner software consulting business or coffee shop, knowing the fundamentals of accounting will help you understand what is happening.”

**Paul D. Kimmel**  
**Jerry J. Weygandt**  
**Jill E. Mitchell**



# Author Commitment



**PAUL D. KIMMEL, PhD, CPA**, received his bachelor's degree from the University of Minnesota and his doctorate in accounting from the University of Wisconsin. He was an Associate Professor at the University of Wisconsin—Milwaukee for more than 25 years and is now a Senior Lecturer at the University of Wisconsin—Madison. He has public accounting experience with Deloitte & Touche (Minneapolis). He was the recipient of the UWM School of Business Advisory Council Teaching Award and the Reggie Taite Excellence in Teaching Award, and a three-time winner of the Outstanding Teaching Assistant Award at the University of Wisconsin. He is also a recipient of the Elijah Watts Sells Award for Honorary Distinction for his results on the CPA exam. He is a member of the American Accounting Association and the Institute of Management Accountants and has published articles in *Accounting Review*, *Accounting Horizons*, *Advances in Management Accounting*, *Managerial Finance*, *Issues in Accounting Education*, and *Journal of Accounting Education*, as well as other journals. His research interests include accounting for financial instruments and innovation in accounting education.



**JERRY J. WEYGANDT, PhD, CPA**, is Arthur Andersen Alumni Emeritus Professor of Accounting at the University of Wisconsin—Madison. He holds a Ph.D. in accounting from the University of Illinois. Articles by Professor Weygandt have appeared in *The Accounting Review*, *Journal of Accounting Research*, *Accounting Horizons*, *Journal of Accountancy*, and other academic and professional journals. These articles have examined such financial reporting issues as accounting for price-level adjustments, pensions, convertible securities, stock option contracts, and interim reports. Professor Weygandt is author of other accounting and financial reporting texts and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Wisconsin Society of Certified Public Accountants. He has served on numerous committees of the American Accounting Association and as a member of the editorial board of the *Accounting Review*; he also has served as President and Secretary-Treasurer of the American Accounting Association. In addition, he has been actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee (AcSEC) of that organization. He has served on the FASB task force that examined the reporting issues related to accounting for income taxes and served as a trustee of the Financial Accounting Foundation. Professor Weygandt has received the Chancellor's Award for Excellence in Teaching and the Beta Gamma Sigma Dean's Teaching Award. He is on the board of directors of M & I Bank of Southern Wisconsin. He is the recipient of the Wisconsin Institute of CPA's Outstanding Educator's Award and the Lifetime Achievement Award. In 2001 he received the American Accounting Association's Outstanding Educator Award.



**JILL E. MITCHELL, MS, Med, CIA**, is a Professor of Accounting at Northern Virginia Community College (NOVA), where she has taught face-to-face, hybrid, and online courses since 2008. Since 2009, she has been an adjunct instructor at George Mason University (GMU). She is a past president of the Washington, D.C. Chapter of the Accounting and Financial Women's Alliance (AFWA), and she served on the board of directors of the Virginia Society of CPAs (VSCPA). She is a member of the American Accounting Association (AAA) and the Institute of Internal Auditors. Jill serves on the AAA Education Committee and is the co-chair for the Conference on Teaching and Learning in Accounting (CTLA). Prior to joining the faculty at NOVA, Jill was a senior auditor with Ernst & Young's Business Risk Services practice in Miami, Florida. She is a certified internal auditor and earned an MS in Accountancy from the University of Virginia and a BBA in Management Information Systems from the University of Georgia honors program. Recently, she earned an MED in Instructional Design Technology from GMU. Jill is a recipient of the Outstanding Faculty Award, the Commonwealth's highest honor for faculty of Virginia's universities and colleges presented by the State Council of Higher Education for Virginia; the Virginia Community College System Chancellor's Award for Teaching Excellence; the AFWA's Women Who Count Award; the AAA Two-Year College Educator of the Year Award; and the AAA/J. Michael and Mary Anne Cook/Deloitte Foundation Prize, the foremost recognition of an individual who consistently demonstrates the attributes of a superior teacher in the discipline of accounting.

# New to This Edition: Data Analytics

The authors carefully considered how to thoughtfully and meaningfully integrate data analytics into the accounting course, and are pleased to provide the following data analytics resources.

## Data Analytics and Decision-Making

The text provides numerous discussions on how decision-makers are increasingly relying on data analytics to make decisions using accounting information.

Accounting software systems collect vast amounts of data about a company's economic events as well as its suppliers and customers. Business decision-makers take advantage of this wealth of data by using data analytics to gain insights and therefore make more informed business decisions.

- **Data analytics** involves analyzing data, often employing both software and statistics, to draw inferences.
- As both data access and analytical software improve, the use of data analytics to support decisions is becoming increasingly common at virtually all types of companies.

## Data Analytics in the Real World

Real-world examples that illustrate engaging situations in companies are provided throughout the text.

### Data Analytics Insight Netflix



Bogdan Glisik/  
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#### Using Data Science to Create Art

Technology provides decision-makers and problem-solvers with access to a large volume of information called “big data.” And **Netflix**, the world's leading subscription streaming entertainment service, is tapping into this big data as part of its efforts to ramp up its original content production.

In a recent year, Netflix planned to spend \$8 billion on content creation. Producing content involves a blend of creativity, technology, and business decisions, all of which result in costs. And by analyzing the large amounts of data from past productions, such as filming locations and production

schedules, Netflix can more precisely estimate costs for future productions. Further, consider that the production of a TV show or film involves hundreds of tasks. Here again, Netflix uses data science, in this case to visualize where bottlenecks might occur or where opportunities might exist to increase the efficiency of the production process.

**Source:** Ritwik Kumar et. al., “Data Science and the Art of Producing Entertainment at Netflix,” *The Netflix Tech Blog* (March 26, 2018).

**How can “big data” improve decision-making? (Answer is available at the end of the chapter.)**

## Data Analytics in Action

*Data Analytics in Action* problems provide students with the opportunity to see how to use data analytics to help solve realistic business problems. Excel templates for each *Data Analytics in Action* problem provide students a framework for solving the problem. *Data Analytics in Excel* videos provide students with step-by-step guidance to perform the Excel skills they need to solve these problems.

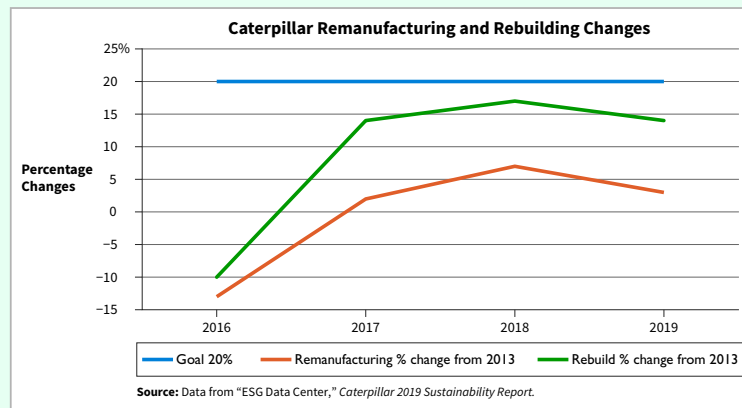
### Using Data Visualization to Analyze Changes over Time

**DA6.1** Data visualization can be used to analyze company changes over time.

**Example:** Recall the Feature Story “Where Is That Spare Bulldozer Blade?” presented in the chapter. **Caterpillar** continues to enhance its inventory management by improving its product sustainability in two ways. First, it is rebuilding used parts to like-new condition. Second, the company is remanufacturing usable inventory parts when customers trade-in or dispose of their used equipment. These actions not only reduce inventory costs but also enable Caterpillar to participate in the circular economy, where manufacturers take responsibility for their products at the end of the product lives. As noted in its 2019 sustainability report, Caterpillar has a goal of 20% growth in both rebuilding and remanufacturing.



Has Caterpillar reached this goal? A line chart can help you visualize the company’s progress over time. What information can you obtain by examining the following chart?



The chart indicates that while Caterpillar’s goal has remained at 20%, the remanufacturing and rebuilding businesses are growing. The biggest increase in the growth of rebuilding occurred from 2016 to 2017. There was a decline from 2018 to 2019 in these initiatives as Caterpillar may have reached a peak that is leveling off due to new production that is more sustainable.

For this case, you will look more closely at specific Caterpillar data regarding its end-of-life returned materials and the percentage usable for recycling. You will create and analyze a combination column and line chart to determine how Caterpillar can increase its gross profit as it relates to these end-of-life materials.

Go to [Wiley Course Resources](#) for complete case details and instructions.

### Using Data Analytics to Compare Companies’ Inventory Turnover

**DA6.2** Inventory turnover shows the number of times during the period a firm sells the entire dollar amount of its inventory. It is advantageous to turn over inventory more quickly to reduce the risk of obsolescence and spoilage. As such, companies often have a goal of increasing inventory turnover. For this case, you will use inventory turnover data for **Costco**, **Walmart**, **Target**, and **Amazon** to create and analyze scatter plots, as well as to calculate days’ sales in inventory, to determine which company is managing its inventory levels most effectively.



Go to [Wiley Course Resources](#) for complete case details and instructions.

## Data Visualization Homework Assignments

**PowerBI and Tableau visualizations** accompanied by assignable questions are available with most chapters. PowerBI and Tableau visualizations allow students to interpret visualizations and think critically about data.

## Data Analytics Module

An **accounting-specific data analytics module** with interactive lessons, case studies, and videos is part of the Wiley online course. The module has been prepared using industry-validated content to help students develop the professional competencies needed for the changing workforce.

# New to This Edition: Chapter-by-Chapter Changes

## **Chapter 1: Introduction to Financial Statements**

- NEW discussions of hybrid forms of organization and critical audit matters.
- NEW section on overview of data analytics, including Data Analytics Insight box on how **Netflix** relies on data science to streamline production costs on content creation.
- NEW DO IT!s on using financial information and components of annual reports.
- NEW chapter appendix on career opportunities in accounting.
- ADDED Questions, Do It's, Exercises, and Ethics Case to end-of-chapter (EOC) problem material.

## **Chapter 2: A Further Look at Financial Statements**

- MOVED discussion of free cash flow/using a statement of cash flows to Chapter 12.
- NEW discussion of why receivables are considered more liquid than inventory.
- DELETED partial balance sheet illustrations showing classifications for more streamlined presentation.
- NEW Investor Insight box, on reliability of investor bulletin board postings.
- UPDATED definitions of materiality and the full disclosure principle per recent FASB actions.
- NEW illustrations on (1) world view of the standard-setting environment, (2) enhancing qualities of accounting information, and (3) summary of the conceptual framework.
- ADDED Exercises to EOC problem material.

## **Chapter 3: The Accounting Information System**

- NEW discussion of recent technologies used, such as cloud-based storage and data automation tools.
- NEW DO IT! on accounts, debits, and credits.
- ADDED Practice Brief Exercise, DO IT!, Exercises, and Ethics Case to EOC problem material.

## **Chapter 4: Accrual Accounting Concepts**

- NEW discussion of recent technologies used, such as the use of robotic process automation (RPA) in the closing process.
- NEW illustration of a post-closing trial balance.
- ADDED Exercises and Problem to EOC problem material.

## **Chapter 5: Merchandising Operations and the Multiple-Step Income Statement**

- EXPANDED discussion of FOB shipping/destination for improved student understanding.
- ADDED discussion of new technology, such as use of artificial intelligence and algorithms, to Data Analytics and Credit Sales section.
- UPDATED People, Planet, and Profit Insight box to focus on **REI**, for greater continuity throughout chapter.
- MOVED discussion of the comprehensive income statement to Chapter 13.
- ADDED Exercises, Ethics Case, and Data Analytics in Action to EOC problem material.

## **Chapter 6: Reporting and Analyzing Inventory**

- ADDED separate DO IT's after each cost flow method discussion.
- NEW illustration on the impact on cost flow assumptions when costs change.
- NEW discussion of how companies can use data analytics when determining NRV of products.
- NEW Data Analytics Insight box on value of dashboards.
- ADDED Exercises, Critical Thinking Case, and Data Analytics in Action to EOC problem material.

## **Chapter 7: Fraud, Internal Control, and Cash**

- UPDATED discussion and illustrations of cash receipts controls, to reflect current practices and technology.
- NEW section on electronic banking.
- NEW illustration on how to determine outstanding checks in a bank reconciliation.
- ADDED Real-World Focus Case and Data Analytics in Action to EOC problem material.

## **Chapter 8: Reporting and Analyzing Receivables**

- NEW Data Analytics Insight box on how companies are making increasingly more sophisticated credit decisions using data analytics.
- NEW illustration on the use of Tableau dashboards to provide tracking and analysis of a company's receivables.
- ADDED Exercises Data Analytics in Action to EOC problem material.

**Chapter 9: Reporting and Analyzing Long-Lived Assets**

- UPDATED People, Planet, and Profit Insight box to now focus on **Nike**'s sustainability report.
- ADDED Exercises, Critical Thinking Case, and Data Analytics in Action to EOC problem material.

**Chapter 10: Reporting and Analyzing Liabilities**

- NEW Investor Insight box on how **Ford** issued bonds to raise cash for operations and new products.
- ADDED **Tesla** as comparative company in analyzing the liquidity and solvency of **General Motors**.
- ADDED Critical Thinking Case to EOC problem material.

**Chapter 11: Reporting and Analyzing Stockholders' Equity**

- UPDATED People, Planet, and Profit Insight box to highlight latest information on corporate social responsibility proposals.
- ADDED new discussion of liquidating dividends.
- NEW Investor Insight box on stock dividends.
- ADDED Exercises, Critical Thinking Case, and Data Analytics in Action to EOC problem material.

**Chapter 12: Statement of Cash Flows**

- ADDED Data Analytics in Action to EOC problem material.

**Chapter 13: Financial Analysis: The Big Picture**

- NEW presentation of discontinued operations on the income statement (previously on the statement of comprehensive income) as well as discussion and format of the statement of comprehensive income.
- ADDED Critical Thinking Case to EOC problem material.

**Chapter 14: Managerial Accounting**

- NEW section on the value of data analytics in helping managers understand the relationship between CVP variables and business trends.
- NEW Data Analytics Insight box on how **Disney** uses its MagicBands as a source of data to analyze the behavior of its customers.
- EXPANDED discussion within "Manufacturing Costs" section to ensure student understanding of raw materials versus direct materials as well as what is considered to be manufacturing overhead. Also updated Illustration 1.4 (assignment of costs to cost categories) to include an explanation for each cost classification, again to ensure student understanding.
- MOVED UP discussion of balance sheet (before income statement) in "Manufacturing Costs in Financial Statements" section for more logical presentation of topics.
- UPDATED each "Managerial Accounting Today" section subtopic for the latest information on service industries, lean manufacturing, balanced scorecard, ethics, and social responsibility.
- NEW Data Analytics in Action problems allow students to perform basic data analytics and data visualization.

**Chapter 15: Job Order Costing**

- NEW Data Analytics Insight box on how **Autodesk** uses data analytics to improve its software and profitability.

- ADDED discussion on assigning raw materials costs and assigning factory labor costs, to improve student understanding.
- UPDATED time ticket discussion for more recent process involving scanning of employee identification codes.
- NEW Data Analytics in Action problems allow students to perform basic data analytics and data visualization.

**Chapter 16: Process Costing**

- UPDATED production cost report so that the "Cost Reconciliation Schedule" section now includes costs to be accounted for, not just costs accounted for.
- EDITED discussion throughout to ensure complete student understanding. For example, in the "Transfer to Next Department" section, have added explanation of what department transfers entail.

**Chapter 17: Activity-Based Costing**

- NEW data analytics discussion added to section of identifying cost drivers.
- NEW Data Analytics Insight box on how companies such as **GE** and **UPS** use data analytics to help reduce non-value-added activities.
- NEW section ("Assigning Nonmanufacturing Overhead Costs") and income statement presentations, to help highlight differences between traditional costing and activity-based costing.

**Chapter 18: Cost-Volume-Profit**

- NEW discussion on CVP and the use of data analytics, using **DHL Express** as an example.
- NEW expanded highlighted equations, to show more detailed calculations for improved understanding.
- NEW expanded explanation of what CVP analysis is.
- NEW illustration and discussion on how a GAAP income statement differs from a CVP income statement.
- NEW discussion on the variable cost ratio.
- UPDATED Service Company Insight box to feature more recent information on the business of music promotion (and using Drake as an example instead of the Rolling Stones) and computing the break-even point.
- ENHANCED EOC assignments by offering students more opportunities to prepare CVP income statements, as well as a new problem on regression analysis.
- NEW Data Analytics in Action problems allow students to perform basic data analytics and data visualization.

**Chapter 19: Cost-Volume-Profit Analysis: Additional Issues**

- NEW Data Analytics Insight box on how **Caesars Entertainment** uses data analytics to determine how to maximize profits from its customers.
- NEW Data Analytics in Action problems allow students to perform basic data analytics and data visualization.

**Chapter 20: Incremental Analysis**

- HIGHLIGHTED the decision rules, as well as additional factors to consider, for incremental analysis decisions.

**Chapter 21: Pricing**

- NEW Data Analytics Insight box on how **Big Data Pricing** helps customers use data analytics to improve dynamic pricing practices.
- NEW Data Analytics in Action problem allows students to perform basic data analytics and data visualization.

**Chapter 22: Budgetary Planning**

- NEW Data Analytics Insight box on how **Dickey's Barbecue Pit** uses data analytics to improve restaurant sales performance.
- NEW Data Analytics in Action problem allows students to perform basic data analytics and data visualization.

**Chapter 23: Budgetary Control and Responsibility Accounting**

- NEW Data Analytics Insight boxes on rolling forecasts and zero-based budgeting.
- UPDATED section on “Judgmental Factors in ROI” with “Alternative Measures of ROI Inputs” for more precise discussion and improved student understanding.
- NEW Data Analytics in Action problems allow students to perform basic data analytics and data visualization.

**Chapter 24: Standard Costs and Balanced Scorecard**

- NEW Data Analytics Insight box on how manufacturing companies are using technology such as 5G cellular to improve the amount and speed of data collection to improve operations.

- NEW highlighted applications of determining standard costs in “A Case Study” section, for improved student understanding.
- NEW Data Analytics in Action problem allows students to perform basic data analytics and data visualization.

**Chapter 25: Planning for Capital Investments**

- NEW Data Analytics Insight box on how **Electronic Arts** uses data from its current online video games to help it develop future products.
- IMPROVED illustration showing computation of cash payback period by including detailed steps and computations.
- NEW Management Insight box on 5G and how it presents a risky investment to telecom companies.
- NEW Data Analytics in Action problems allow students to perform basic data analytics and data visualization.

**Appendix F: Time Value of Money (previously Appendix G)**

- NEW discussion of using Excel function to solve time value of money problems.

**Appendix G: Reporting and Analyzing Investments (previously Appendix H)**

- NEW DO IT!s added to appendix discussion as well as EOC problem material.
- NEW Review and Practice section includes multiple-choice questions followed by annotated solutions, practice brief exercises with solutions, practice exercises with solutions, and a practice problem with solution.

**New to This Edition in Your Wiley Course****Lecture Videos**

Lecture Videos, narrated by an accounting instructor for every section in the text, talk through the PowerPoint slides, including embedded application videos where applicable, providing support for online courses, flipped classrooms, and student study and review.

**Interactive Tutorial Assignments**

Interactive Tutorial Assignments provide students a guided walkthrough and review of the chapter content and topics, including Chapter Overview Videos, Lecture Videos for each learning objective, and selected Real World Videos. Interactive Knowledge Check and Do It! questions in the assignments check student understanding and knowledge acquisition. In applicable questions, values change algorithmically, to support student practice and integrity. The Interactive Tutorial Assignments are available to students as practice, and may be separately customized and assigned by instructors.

**Animations**

Short, animated videos engage students and simplify major concepts in the text, making the concepts easier to understand. They offer an alternative approach to understanding the written material.

**Brief Exercise Solution Walkthrough Videos**

Additional Solution Walkthrough Videos developed for this edition, now also including selected Brief Exercises, continue to build scaffolding for student understanding and 24/7 problem-solving support.

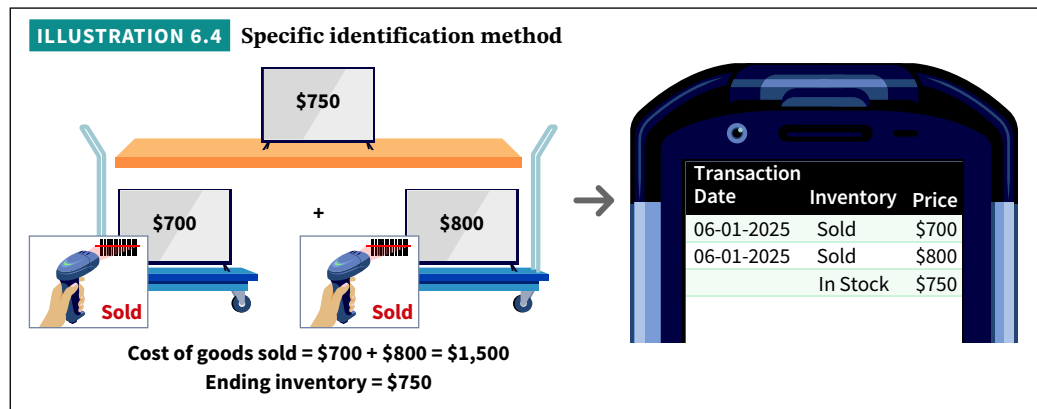
# Proven Pedagogical Features

When you think of accounting, you probably don't think of athletics. So why do we have a photo of bicycles on our cover? It's because this image represents active learning that's best accomplished through full engagement, commitment, and practice.

**In this new edition, all content has been carefully reviewed and revised to ensure maximum student understanding.** At the same time, the time-tested features that have proven to be of most help to students have been retained, such as the following.

## Infographic Learning

Over half of the text is visual, providing students alternative ways of learning about accounting.



## Real-World Decision-Making

Real-world examples, which illustrate engaging situations in companies, are provided throughout the text. Answers to the critical thinking questions posed to readers within the real-world examples are now available at the end of each chapter.

### People, Planet, and Profit Insight



njgphoto/Getty Images

#### Got Junk?

Do you have an old computer or two in your garage? How about an old TV that needs replacing? Many people do. Approximately 163,000 computers and televisions become obsolete **each day**. Yet, in a recent year, only 11% of computers were recycled.

It is estimated that 75% of all computers ever sold are sitting in storage somewhere, waiting

to be disposed of. Each of these old TVs and computers is loaded with lead, cadmium, mercury, and other toxic chemicals. If you have one of these electronic gadgets, you have a responsibility, and a probable cost, for disposing of it. Companies have the same problem, but their discarded materials may include lead paint, asbestos, and other toxic chemicals.

**What accounting issue might this cause for companies? (Answer is available at the end of the chapter.)**

## DO IT! Exercises

DO IT! Exercises in the body of the text prompt students to stop and review key concepts. They outline the Action Plan necessary to complete the exercise as well as show a detailed solution.

### ACTION PLAN

- Understand the periodic inventory system.
- Allocate costs between goods sold and goods on hand (ending inventory) for the FIFO method.
- Compute cost of goods sold for the FIFO method.

### DO IT! 2a | Cost Flow Methods—FIFO Method

The accounting records of Shumway Ag Implements show the following data.

Beginning inventory	4,000 units at \$3
Purchases	6,000 units at \$4
Sales	7,000 units at \$12

Determine the cost of goods sold during the period under a periodic inventory system using the FIFO method.

#### Solution

$$\text{Cost of goods available for sale} = (4,000 \times \$3) + (6,000 \times \$4) = \$36,000$$

$$\text{Ending inventory} = 10,000 - 7,000 = 3,000 \text{ units}$$

$$\text{Cost of goods sold FIFO} = \$36,000 - (3,000 \times \$4) = \$24,000$$

**Related exercise material:** BE6.3, BE6.4, BE6.5, BE6.6, DO IT! 6.2, E6.5, E.6.6, E6.7, and E6.8.

## Decision Tools

Accounting concepts that are useful for management decision-making are highlighted throughout the text. A summary of Decision Tools is included in each chapter as well as a practice exercise and solution called Using the Decision Tools.

### USING THE DECISION TOOLS | Eastman Chemical

**Eastman Chemical** is a global specialty materials company that produces a broad range of products found in items people use every day. Eastman employs approximately 14,500 people around the world and serves customers in more than 100 countries. The company is headquartered in Kingsport, Tennessee. Here is the inventory note taken from recent financial statements.

#### Eastman Chemical Company Notes to the Financial Statements

**Inventories:** The components of inventories are summarized as follows:

(in millions)

Inventories—gross:	
Raw materials	\$ 576
Work in process	220
Finished goods	1,114
Total inventories—at FIFO or average cost	1,910
Less: LIFO reserve	248
Inventories—net (as reported on balance sheet)	<u>\$1,662</u>

Eastman determines the cost of most raw materials, work in process, and finished goods inventories in the United States and Switzerland by the LIFO method. The cost of all other inventories is determined by the average-cost method, which approximates the FIFO method.

Additional facts (amounts in millions):

Current liabilities	\$1,789
Current assets (as reported)	3,321
Cost of goods sold	7,039
Beginning inventory	1,583

#### Instructions

Answer the following questions.

- Why does the company report its inventory in three components?
- Why might the company use three methods (LIFO, FIFO and average-cost) to account for its inventory?
- Perform each of the following.
  - Calculate the inventory turnover and days in inventory using the LIFO inventory.
  - Calculate the current ratio using LIFO and the current ratio using FIFO. Discuss the difference.

#### Solution

- Eastern Chemical is a manufacturer, so it purchases raw materials and makes them into finished products. At the end of each period, it has some goods that have been started but are not yet complete (work in process).

By reporting all three components of inventory, a company reveals important information about its inventory position. For example, if amounts of raw materials have increased significantly compared to the previous year, we might assume the company is planning to step up production. On the other hand, if levels of finished goods have increased relative to last year and raw materials have declined, we might conclude that sales are slowing down—that the company has too much inventory on hand and is cutting back production.

- Companies are free to choose different cost flow assumptions for different types of inventory. A company might choose to use FIFO for a product that is expected to decrease in price over time. One common reason for choosing a method other than LIFO is that many foreign countries do not allow LIFO; thus, the company cannot use LIFO for its foreign operations.

$$\text{c. 1. Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}} = \frac{\$7,039}{(\$1,583 + \$1,662) \div 2} = 4.3 \text{ times}$$

$$\text{Days in inventory} = \frac{365}{\text{Inventory turnover}} = \frac{365}{4.3} = 84.9 \text{ days}$$

- Current ratio

	LIFO	FIFO
Current assets	$\frac{\$3,321}{\$1,789} = 1.86:1$	$\frac{\$3,321 + \$248}{\$1,789} = 1.99:1$

This represents a 7% increase in the current ratio [(1.99 – 1.86) ÷ 1.86].



## Review and Practice

Each chapter concludes with a Review and Practice section which includes a review of learning objectives, Decision Tools review, key terms glossary, practice multiple-choice questions with annotated solutions, practice brief exercises with solutions, practice exercises with solutions, and a practice problem with a solution.

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## Review and Practice

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### Practice Brief Exercises

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*Determine ending inventory amount.*

**1. (LO 1)** Fylus Company took a physical inventory on December 31 and determined that goods costing \$180,000 were on hand. Not included in the physical count were \$18,000 of goods purchased from Rake Corporation, FOB destination, and \$27,000 of goods sold to Shovel Company for \$40,000, FOB destination. Both the Rake purchase and the Shovel sale were in transit year-end. What amount should Fylus report as its December 31 inventory?

#### Solution

1. Physical inventory	\$180,000
Add: Goods sold to Shovel	<u>27,000</u>
Fylus ending inventory	<u><u>\$207,000</u></u>

The \$18,000 of goods purchased from Rake are excluded from ending inventory because the terms are FOB destination which means Fylus takes title at the time the goods are received. Goods sold to Shovel FOB destination means that the goods are still Fylus's until delivered.

# Engaging Digital Tools

Digital study tools in Wiley's online course include the following.

## Lecture Videos

Lecture Videos, narrated by an accounting instructor for every section in the text, talk through the PowerPoint slides, including embedded application videos where applicable, providing support for online courses, flipped classrooms, and student study and review.

The screenshot displays a WileyPLUS interface for a course section. At the top, a red box highlights the **Learning Objective**: 6.1 Discuss how to classify and determine inventory. Below this, a blue header indicates the current section: **6.1 Classifying and Determining Inventory: Classifying Inventory – Lecture Video (2 min)**. A **Lecture Video** section follows, with instructions to watch the video and answer questions. The video player shows a slide titled **Reporting Inventory** with the text: "Two steps at the end of the accounting period" and a list: "1. Classify complete" and "2. Determin".

Below the video player is a **Knowledge Check** section. It asks the user to answer three questions. The questions are:

1. Work in process is a type of inventory for  companies.
2. Companies using a  inventory system take a physical inventory to determine the cost of goods sold for the period.
3. Companies take a physical inventory at the  of the accounting period.

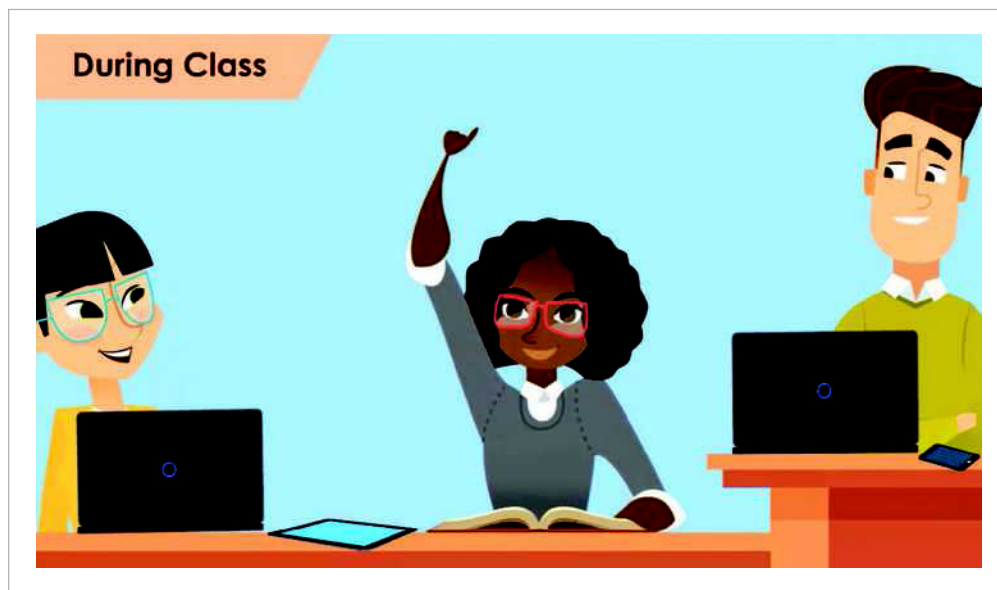
The interface includes a **Save for Later** button, a **Attempts: 0 of 2 used** indicator, and a **Submit Answer** button. The questions are displayed in a grid format with dropdown menus for each blank space.

## Interactive Tutorial Assignments

Interactive Tutorial Assignments provide students with guided instruction of the chapter content and topics, including Chapter Overview Videos, Lecture Videos for each learning objective, and selected Real World Videos. Knowledge Check questions in the assignments check student understanding and knowledge acquisition. The Interactive Tutorial Assignments are available to students as practice, and may be separately customized and assigned by instructors.

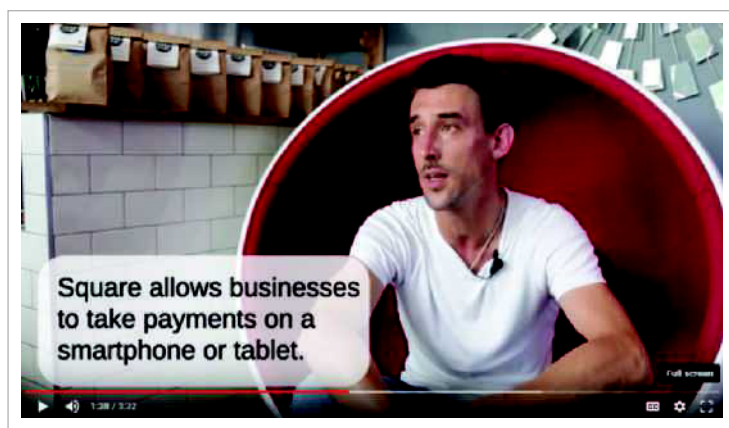
## Animations

Short, animated videos engage students and simplify major concepts in the text, making the concepts easier to understand. They offer an alternative approach to understanding the written material.



## Real-World Company Videos

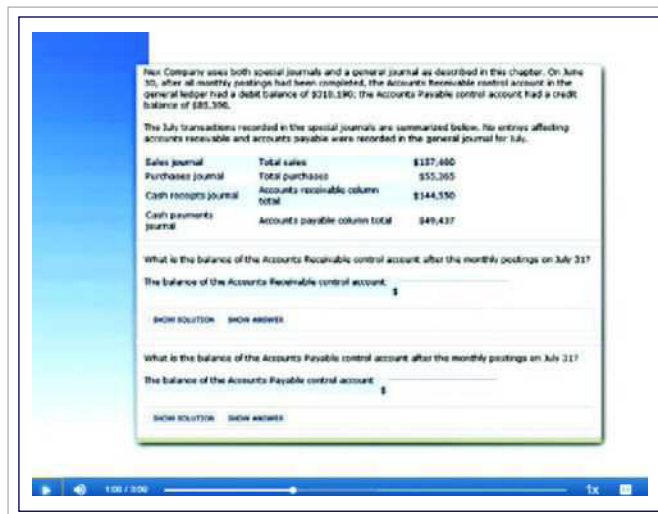
Real-world company videos feature both small businesses and larger companies to help students apply content and see how business owners apply concepts from the text in the real world. Many of the videos have associated questions available to be assigned.



Source: YouTube.

## Solution Walkthrough Videos

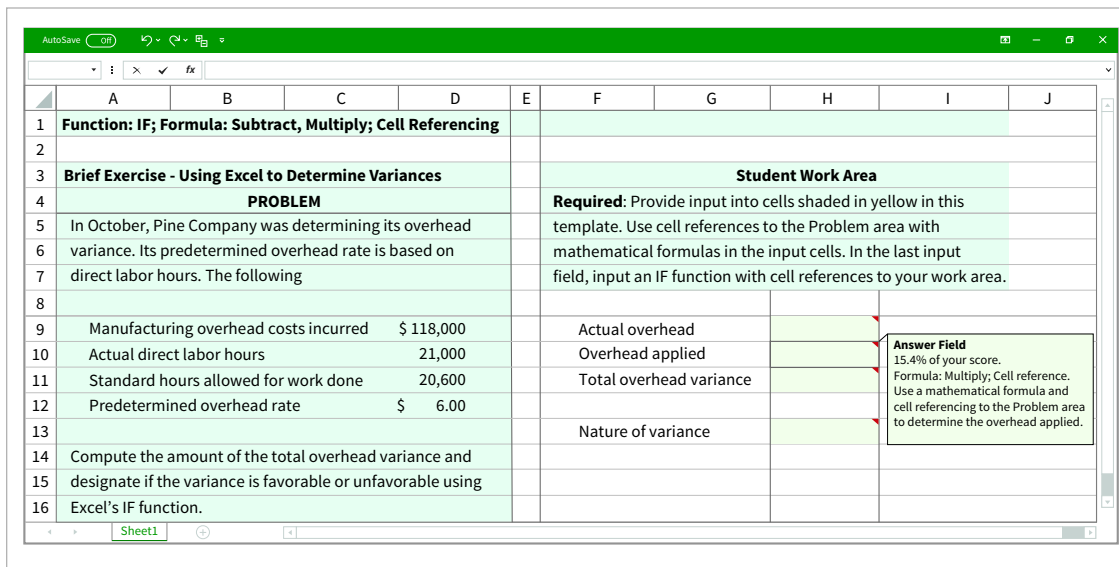
Solution Walkthrough Videos are available as question assistance and to help students develop problem-solving techniques. These videos walk students through solutions step-by-step and are based on the most regularly assigned exercises and problems in the text.



Source: YouTube.

## Gradable Excel Questions

Gradable Excel questions for each chapter provide students an opportunity to practice Excel skills in the context of solving accounting problems.



## Data Visualization Homework Assignments

**PowerBI and Tableau visualizations** accompanied by questions are available with most chapters. PowerBI and Tableau visualizations allow students to interpret visualizations and think critically about data.

## Other Learning Opportunities

Other learning opportunities in Wiley's online course include the following.

- **Accounting-Specific Data Analytics Module** offers interactive lessons, case studies, and videos. The module has been prepared using industry-validated content to help students develop the professional competencies needed for the changing workforce.
- **Cookie Creations** is a continuing case that spans across the financial accounting chapters and offers students the opportunity to see how a small business might use financial accounting to operate effectively.
- **Waterways Corporation** is a continuing case that spans across the managerial accounting chapters and offers students the opportunity to see how a small business might use managerial accounting to operate effectively.
- **Wiley Accounting Updates** ([wileyaccountingupdates.com](http://wileyaccountingupdates.com)) provide faculty and students with weekly curated news articles and suggested discussion questions.
- **Flashcards and Crossword Puzzles** help students study and master basic vocabulary and concepts.
- **Student Practice** quickly and effectively assesses student understanding of the material they have just covered.
- **Adaptive Assignments** encourage students to persist so that they can succeed in this course and beyond. By continuously adapting to each student's needs and providing achievable goals with just-in-time instruction, Adaptive Assignments close knowledge gaps to accelerate learning.

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### Cases for Management Decision Making

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