

NINTH EDITION

# Financial Accounting

Robert Libby

Cornell University

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Ithaca College

Frank Hodge

University of Washington

Mc  
Graw  
Hill  
Education

To: Herman and Doris Hargenrater  
Oscar and Selma Libby  
Laura Libby and Brian Plummer  
Abby, Grace, and Claire Hodge

For more than 30 years, Dan Short has been an exceptional teacher, administrator, and textbook author. We have worked with Dan on *Financial Accounting* for more than 20 years. Over that period, he has been our mentor, trusted advisor, and coauthor. In fact, without Dan, we would never have completed our first edition. Dan is a truly gifted writer, has a great sense of humor, and we are proud to call him our friend. We wish Dan a well-earned and joyous retirement.



## FINANCIAL ACCOUNTING, NINTH EDITION

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# ABOUT THE AUTHORS

## ROBERT LIBBY



Robert Libby is the David A. Thomas Professor of Accounting and Accounting Area Coordinator at Cornell University, where he teaches the introductory financial accounting course. He previously taught at the University of Illinois, Pennsylvania State University, the University

of Texas at Austin, the University of Chicago, and the University of Michigan. He received his BS from Pennsylvania State University and his MAS and PhD from the University of Illinois; he also successfully completed the CPA exam (Illinois).

Bob was selected as the AAA Outstanding Educator in 2000 and received the AAA Outstanding Service Award in 2006 and the AAA Notable Contributions to the Literature Award in 1985 and 1996. He has received the Core Faculty Teaching Award multiple times at Cornell. Bob is a widely published author and researcher specializing in behavioral accounting. He has published numerous articles in *The Accounting Review*; *Journal of Accounting Research*; *Accounting, Organizations, and Society*; and other accounting journals. He has held a variety of offices, including vice president, in the American Accounting Association, and he is a member of the American Institute of CPAs and the editorial boards of *The Accounting Review* and *Accounting, Organizations, and Society*.

## PATRICIA A. LIBBY



Patricia Libby is associate professor of accounting at Ithaca College, where she teaches the undergraduate financial accounting course. She previously taught graduate and undergraduate financial accounting at Eastern Michigan University and the University of Texas. Before entering academia, she was an auditor with Price Waterhouse

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administrator at the University of Chicago. She is also faculty advisor to Beta Alpha Psi and Ithaca College Accounting Association. She received her BS from Pennsylvania State University, her MBA from DePaul University, and her PhD from the University of Michigan; she also successfully completed the CPA exam (Illinois).

Pat conducts research on using cases in the introductory course and other parts of the accounting curriculum. She has published articles in *The Accounting Review*, *Issues in Accounting Education*, and *The Michigan CPA*.

## FRANK HODGE



Frank Hodge is the chair of the Accounting Department and the Harrington Family Endowed Professor at the University of Washington's Foster School of Business. Frank also serves in the President's Office as the University of Washington's Faculty Athletics Representative to the PAC-

12 Conference and the National Collegiate Athletic Association.

Frank joined the faculty at the University of Washington in 2000. He earned his MBA and PhD degrees from Indiana University. Frank teaches financial accounting and financial statement analysis to undergraduate students, full-time MBA students, executive MBA students, and intercollegiate athletic administrators. Frank's research focuses on how individuals use accounting information to make investment decisions and how technology influences their information choices. Frank was one of six members of the Financial Accounting Standards Research Initiative team and has presented his research at the Securities and Exchange Commission. Frank is on the editorial boards of *The Accounting Review*; *Contemporary Accounting Research*; and *Accounting, Behavior and Organizations*. He also has published articles in *The Accounting Review*; *Contemporary Accounting Research*; *Accounting, Organizations, and Society*; *Accounting Horizons*; and several other journals. Frank lives in Seattle with his wife and two daughters.

# A TRUSTED LEADER FOR

New author Frank Hodge joins the award-winning author team of Bob Libby and Pat Libby to continue *Financial Accounting's* best-selling tradition of helping the instructor and student become partners in learning. Libby/Libby/Hodge uses a remarkable learning approach that keeps students engaged and involved in the material from the first day of class.

Libby/Libby/Hodge's *Financial Accounting* maintains its leadership by focusing on three key attributes:

## THE PIONEERING FOCUS COMPANY APPROACH

The Libby/Libby/Hodge authors' trademark focus company approach is the best method for helping students understand financial statements and the real-world implications of financial accounting for future managers. **This approach shows that accounting is relevant and motivates students by explaining accounting in a real-world context.** Throughout each chapter, the material is integrated around a familiar focus company, its decisions, and its financial statements. This provides the perfect setting for discussing the importance of accounting and how businesses use accounting information.

## A BUILDING-BLOCK APPROACH TO TEACHING TRANSACTION ANALYSIS

Faculty agree the accounting cycle is the most critical concept to learn and master for students studying financial accounting. Libby/Libby/Hodge believes students struggle with the accounting cycle when transaction analysis is covered in one chapter. If students are exposed to the accounting equation, journal entries, and T-accounts for both balance sheet and income statement accounts in a single chapter, many are left behind and are unable to grasp material in the next chapter, which typically covers adjustments and financial statement preparation.

*"The book does an excellent job of using real-world examples to highlight the importance of understanding financial accounting to students who may or may not be interested in pursuing accounting careers. I think this book will hold students' attention, without sacrificing the technical information that provides the foundation for further accounting coursework. **Exceptionally well-written and nicely organized.**"*

*—Paul Hribar, University of Iowa*

The market-leading Libby/Libby/Hodge approach spreads transaction analysis coverage over two chapters so that students have the time to master the material. In Chapter 2 of *Financial Accounting*, students are exposed to the accounting equation and transaction analysis for investing and financing transactions that affect only balance sheet accounts. This

# STUDENTS AND INSTRUCTORS

provides students with the opportunity to learn the basic structure and tools used in accounting in a simpler setting. In Chapter 3, students are exposed to more complex operating transactions that also affect income statement accounts. **By slowing down the introduction of transactions and giving students time to practice and gain mastery, this building-block approach leads to greater student success in their study of later topics in financial accounting such as adjusting entries.**

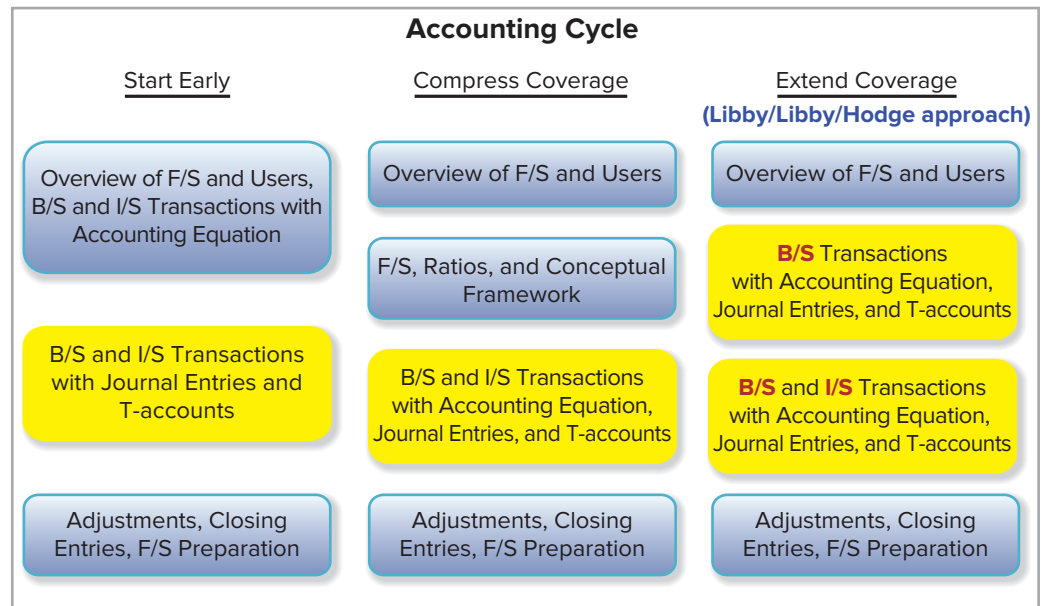
After the students have developed an understanding of the complete accounting cycle and the resulting statements, Chapter 5 takes students through the corporate reporting and analysis process.

This graphic shows a detailed comparison of the Libby/Libby/Hodge approach to the accounting cycle chapters compared to the approach taken by other financial accounting texts.

The authors' approach to introducing the accounting cycle has been tested in peer-reviewed, published research studies. One of these award-winning studies has shown that the accounting cycle approach used in this textbook yields learning gains that outpace approaches used in other textbooks by a significant margin.

## POWERFUL TECHNOLOGY FOR TEACHING AND STUDY

Students have different learning styles and conflicting time commitments, so they want technology tools that will help them study more efficiently and effectively. The ninth edition includes the best technology available with Connect's latest features—SmartBook, Connect Insight, and new study, practice, and assessment materials.



***"[Libby, Libby, Hodge] does a great job explaining financial accounting concepts to college students on an introductory level."***

*—Peggy O'Kelly, Northeastern University*

***"The text has some of the best discussions that I have seen in introductory texts of statement of cash flows and financial statement analysis topics."***

*—Marilyn Misch, Pepperdine University*

# MARKET-LEADING PEDAGOGY

*Financial Accounting, 9e*, offers a host of pedagogical tools that complement the different ways you like to teach and the ways your students like to learn. Some offer information and tips that help you present a complex subject; others highlight issues relevant to what your students read online or see on television. Either way, *Financial Accounting's* pedagogical support will make a real difference in your course and in your students' learning.



**FINANCIAL ANALYSIS BOXES**—These features tie important chapter concepts to real-world decision-making examples. They also highlight alternative viewpoints and add to the critical-thinking and decision-making focus of the text.

**A QUESTION OF ETHICS BOXES**—These boxes appear throughout the text, conveying the importance and the consequences of acting responsibly in business practice.

*“Excellent book with **very good and clear writing, coverage, illustrations** and overall very student friendly.”*

—Kashi Balachandran, New York University

# AND CONTENT

**FOCUS ON CASH FLOWS BOXES**—Each of the first eleven chapters includes a discussion and analysis of changes in the cash flows of the focus company and explores the decisions that caused those changes.

**KEY RATIO ANALYSIS BOXES**—Each box presents ratio analysis for the focus company in the chapter as well as for comparative companies. Cautions are also provided to help students understand the limitations of certain ratios.

**INTERNATIONAL PERSPECTIVE BOXES**—These boxes highlight the emergence of global accounting standards (IFRS) at a level appropriate for the introductory student.

Cash Flows from Operations, Net Income, and the Quality of Earnings



FOCUS ON  
CASH FLOWS

As presented in the previous chapters, the statement of cash flows explains the difference between the ending and beginning balances in the Cash account on the balance sheet during the accounting period. Put simply, the cash flow statement is a categorized list of all transactions of the period that affected the Cash account. The three categories are operating, investing, and financing activities. **Since no adjustments made in this chapter affected cash, the cash flow categories identified on the Cash T-account at the end of Chapter 3 remain the same.**

Many standard financial analysis texts warn analysts to look for unusual deferrals and accruals when they attempt to predict future periods' earnings. They often suggest that wide disparities between net income and cash flow from operations are a useful warning sign. For example, Subramanyan suggests the following:

Accounting accruals determining net income rely on estimates, deferrals, allocations, and valuations. These considerations sometimes allow more subjectivity than do the factors determining cash flows. For this reason we often relate cash flows from operations to net income in assessing its quality.

*“The textbook focuses on the key accounting concepts and is **written clearly so that it is easy for students to understand.**”*

*—Rada Brooks, University of California Berkeley, Haas School of Business*

*“The **real-life examples are an excellent way to draw in the student and I thought that the ethics components and IFRS components were an excellent addition.**”*

*—Tammy Metzke, Milwaukee Area Technical College*

# PRACTICE IS KEY TO SUCCESS

PAUSE FOR FEEDBACK



Inventory should include all items owned that are held for resale. Costs flow into inventory when goods are purchased or manufactured. They flow out (as an expense) when they are sold or disposed of. The cost of goods sold equation describes these flows.

## SELF-STUDY QUIZ

1. Assume the following facts for **Harley-Davidson's** Motorclothes leather baseball jacket product line for the year 2016.

Beginning inventory: 400 units at unit cost of \$75.  
 Purchases: 600 units at unit cost of \$75.  
 Sales: 700 units at a sales price of \$100 (cost per unit \$75).

Using the cost of goods sold equation, compute the dollar amount of **goods available for sale**, **ending inventory**, and **cost of goods sold** of leather baseball jackets for the period.

Beginning inventory
+ Purchases of merchandise during the year
Goods available for sale
- Ending inventory
Cost of goods sold

2. Assume the following facts for **Harley-Davidson's** Motorclothes leather baseball jacket product line for the year 2017.

Beginning inventory: 300 units at unit cost of \$75.  
 Ending inventory: 600 units at unit cost of \$75.  
 Sales: 1,300 units at a sales price of \$100 (cost per unit \$75).

Using the cost of goods sold equation, compute the dollar amount of **purchases** of leather baseball jackets for the period. Remember that if three of these four values are known, the cost of goods sold equation can be used to solve for the fourth value.

Beginning inventory
+ Purchases of merchandise during the year
- Ending inventory
Cost of goods sold

After you have completed your answers, check them below.

### GUIDED HELP 7-1

For additional step-by-step video instruction on using the cost of goods sold equation to compute relevant income statement amounts, go to [www.mhhe.com/libby9e\\_glb7a](http://www.mhhe.com/libby9e_glb7a).

Solutions to  
SELF-STUDY QUIZ

1. Beginning inventory (400 × \$75)	\$30,000
+ Purchases of merchandise during the year (600 × \$75)	45,000
Goods available for sale (1,000 × \$75)	75,000
- Ending inventory (300 × \$75)	22,500
Cost of goods sold (700 × \$75)	\$52,500
2. BI = 300 × \$75 = \$22,500	BI + P - EI = CGS
EI = 600 × \$75 = \$45,000	22,500 + P - 45,000 = 82,500
CGS = 1,300 × \$75 = \$82,500	P = 105,000

## PAUSE FOR FEEDBACK AND SELF-STUDY QUIZ

Research shows that students learn best when they are actively engaged in the learning process. This active learning feature engages the student, provides interactivity, and promotes efficient learning. These quizzes ask students to pause at strategic points throughout each chapter to ensure they understand key points before moving ahead.

*“The Pause for Feedback and Self-Study Quizzes give the student the opportunity to test their understanding of the material before moving forward and also assist in breaking up the chapter into manageable sections.”*

—Betty P. David, Francis Marion University

## GUIDED HELP

Today's students have a wide variety of time commitments. And research shows that when they have difficulty understanding a key concept, they benefit most when help is available immediately. **Our unique Guided Help feature provides a narrated, animated, step-by-step walk-through of select topics covered in the Self-Study Quiz that students can view at any time through their mobile device or online. It also saves office hour time!**

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a. Received \$30,000 cash and an office building valued at \$220,000 in exchange for 5,000 shares of \$1.00 par value common stock to each of three architects (investors).

**Requirement 1**

	Received	Given	
a. Cash (+A)	\$ 30,000	Common stock (+SE)	\$ 15,000
Building (+A)	220,000	Additional paid-in capital (+SE)	235,000

**Requirement 2**

	Debit	Credit
a. Cash (+A)	30,000	
Building (+A)	220,000	
Common Stock (+SE)		15,000
Additional Paid-in Capital (+SE)		235,000

**Requirement 3**

Assets		=	Liabilities		+	Stockholders' Equity	
+ Cash -						- Common Stock +	
a.	30,000					15,000	a.
	+ Building -						
a.	220,000						

...\$15,000 on the credit side of the Common Stock account, and \$235,000 on the credit side of the Additional Paid-in Capital account.



# IN FINANCIAL ACCOUNTING

## CHAPTER TAKE-AWAYS

End-of-chapter summaries complement the learning objectives outlined at the beginning of the chapter.

CHAPTER TAKE-AWAYS	
<p><b>7-1. Apply the cost principle to identify the amounts that should be included in inventory and the expense matching principle to determine cost of goods sold for typical retailers, wholesalers, and manufacturers. p. 335</b></p> <p>Inventory should include all items owned that are held for resale. Costs flow into inventory when goods are purchased or manufactured. They flow out (as an expense) when they are sold or disposed of. In conformity with the expense matching principle, the total cost of the goods sold during the period must be matched with the sales revenue earned during the period. A company can keep track of the ending inventory and cost of goods sold for the period using (1) the perpetual inventory system, which is based on the maintenance of detailed and continuous inventory records, and (2) the periodic inventory system, which is based on a physical count of ending inventory and use of the cost of goods sold equation to determine cost of goods sold.</p>	<p><b>7-2. Report inventory and cost of goods sold using the four inventory costing methods. p. 340</b></p> <p>The chapter discussed four different inventory costing methods used to allocate costs between the units remaining in inventory and the units sold and their applications in different economic circumstances. The methods discussed were specific identification, FIFO, LIFO, and average cost. Each of the inventory costing methods conforms to GAAP. Public companies using LIFO must provide note disclosures that allow conversion of inventory and cost of goods sold to FIFO amounts. Remember that the cost flow assumption need not match the physical flow of inventory.</p>

## COMPREHENSIVE PROBLEMS

Selected chapters include problems that cover topics from earlier chapters to refresh, reinforce, and build an integrative understanding of the course material.

COMPREHENSIVE PROBLEM (CHAPTERS 6-8)			
<b>COMP8-1 Complete the requirements for each of the following independent cases:</b>			
<p>Case A. <b>Dr Pepper Snapple Group, Inc.</b>, is a leading integrated brand owner, bottler, and distributor of nonalcoholic beverages in the United States, Canada, and Mexico. Key brands include Dr. Pepper, Snapple, 7-UP, Mott's juices, A&amp;W root beer, Canada Dry ginger ale, Schweppes ginger ale, and Hawaiian Punch, among others.</p> <p>The following represents selected data from recent financial statements of Dr Pepper Snapple Group (dollars in millions):</p>			
<b>DR PEPPER SNAPPLE GROUP, INC.</b>			
<b>Consolidated Balance Sheets (partial)</b>			
(in millions)	December 31, 2014	December 31, 2013	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$237	\$153	
Accounts receivable (net of allowances of \$2 and \$3, respectively)	61	58	
<b>Consolidated Statements of Income (partial)</b>			
	<b>For the Year Ended December 31</b>		
(in millions)	2014	2013	2012
Net sales	\$6,121	\$5,997	\$5,995
...			
Net income	\$ 703	\$ 624	\$ 629

## Annual Report Cases

CP1-1 Finding Financial Information  
LO1-1

Refer to the financial statements of **American Eagle Outfitters** in Appendix B at the end of this book.

**Required:**

Skim the annual report. Look at the income statement, balance sheet, and cash flow statement closely and attempt to infer what kinds of information they report. Then answer the following questions based on the report.

1. What types of products does American Eagle Outfitters sell?
2. On what date does American Eagle Outfitters's most recent reporting year end?
3. For how many years does it present complete
  - a. Balance sheets?
  - b. Income statements?
  - c. Cash flow statements?
4. Are its financial statements audited by independent CPAs? How do you know?
5. Did its total assets increase or decrease over the last year?
6. How much inventory (in dollars) did the company have as of January 31, 2015 (accountants would call this the ending balance)?
7. Write out the basic accounting (balance sheet) equation and provide the values in dollars reported by the company as of January 31, 2015.

CP1-2 Finding Financial Information  
LO1-1

Refer to the financial statements of **Urban Outfitters** in Appendix C at the end of this book.

## CASES AND PROJECTS

This section includes annual report cases, financial reporting and analysis cases, critical thinking cases, and financial reporting and analysis team projects. The real-world company analysis theme is continued in this section, giving students practice comparing American Eagle and Urban Outfitters among other relevant companies. **New** for the ninth edition: several of these Cases and Projects are now in Connect as auto-graded assignment option.

## CON1-1 Financial Statements for a New Business Plan

Penny Cassidy is considering forming her own pool service and supply company, Penny's Pool Service & Supply, Inc. (PPSS). She has decided to incorporate the business to limit her legal liability. She expects to invest \$20,000 of her own savings and receive 1,000 shares of common stock. Her plan for the first year of operations forecasts the following amounts at December 31, the end of the current year: Cash in bank, \$2,900; amounts due from customers for services rendered, \$2,300; pool supplies inventory, \$4,600; equipment, \$28,000; amounts owed to **Pool Corporation, Inc.**, a pool supply wholesaler, \$3,500; note payable to the bank, \$5,000. Penny forecasts first-year sales of \$60,000, wages of \$24,000, cost of supplies used of \$8,200, other administrative expenses of \$4,500, and income tax expense of \$4,000. She expects to pay herself a \$10,000 dividend as the sole stockholder of the company.

**Required:**

If Penny's estimates are correct, what would the following first-year financial statements look like for Penny's Pool Service & Supply (use Exhibits 1.2, 1.3, and 1.4 as models)?

1. Income statement
2. Statement of stockholders' equity
3. Balance sheet

## CONTINUING PROBLEM

The continuing case revolves around Penny's Pool Service & Supply, Inc., and its largest supplier, Pool Corporation, Inc. In the first five chapters, the continuing case follows the establishment, operations, and financial reporting for Penny's. In Chapter 5, Pool Corporation, a real publicly traded corporation, is also introduced in more detail. The Pool Corporation example is then extended to encompass each new topic in the remaining chapters.

*"This is an excellent book that can be used for both an introductory course as well as an MBA class. The book has a simple, conversational and easy-to-understand writing style. The book is also very well organized and has a lot of end-of-chapter material. **This is one of the best financial accounting books that I have come across.** It is a must for a financial accounting course."*

—Syed Hasan, George Mason University

# WHAT'S NEW IN THE 9th EDITION?

In response to feedback and guidance from numerous financial accounting faculty, the authors have made many important changes to the ninth edition of *Financial Accounting*, including the following:

- Integrated **new focus companies** including **Amazon**, the world's largest Internet retailer; **Whole Foods Market**, a supermarket chain specializing in organic food; and **Graham Holdings Company**, a company that expands primarily through investing in other companies, including **Kaplan, Inc.**
- **Detailed edit of Chapters 9, 10, and 11** to use consistent terminology throughout each chapter and more closely link content to other chapters.
- **Expanded the number of Guided Help features** in the text to provide more of these narrated, animated, step-by-step examinations of select topics in the Self-Study Quizzes in each chapter.
- Reviewed, updated, and introduced new end-of-chapter material in each chapter to support new topics and learning objectives. In addition, other **new McGraw-Hill Connect® problem formats** include **General Ledger Problems** that auto-post from journal entries to T-accounts to trial balances, **Excel Simulations**, and **Interactive Presentations**.
- Added **new Annual Report Cases that can be auto-graded in Connect**. In addition, the **Cases and Projects** content from the book is also now available in Connect as either auto-graded or manually graded questions.

## Chapter 1

### Focus Company: **Le-Nature's Inc.**

- Chapter 1 is written around a recent accounting fraud that is exciting, yet simple. Students are introduced to the structure, content, and use of the four basic financial statements through the story of two brothers who founded **Le-Nature's Inc.**, a natural beverage company. Le-Nature's financial statements are used to support increases in borrowing for expansion. When actual sales do not live up to expectations, the brothers turn to financial statement fraud to cover up their failure, which emphasizes the importance of controls, responsible ethical conduct, and accurate financial reporting.
- **GUIDED HELP** feature provides all users of the text with free access to step-by-step video instruction on preparing a simple balance sheet, income statement, and statement of stockholders' equity for **LaCrosse Footwear**, a leading outdoor footwear company.
- More algorithmic exercises included in Connect®.

- **New CONTINUING PROBLEM** added to the end-of-chapter problems based on the activities of Penny's Pool Service & Supply and its supplier, **Pool Corporation**. These companies provide a consistent context for summarizing the key points emphasized in each chapter. In Chapter 1, students prepare a basic income statement, statement of stockholders' equity, and balance sheet based on Penny's estimates for the first year.
- **New Annual Report Case** that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.

## Chapter 2

### Focus Company: **Chipotle Mexican Grill**

- Chapter 2 introduces the accounting cycle for **Chipotle Mexican Grill**, a trendy, yet relatively simple company. The chapter integrates financial information for investing and financing activities for the first quarter of 2015, resulting in the company's actual quarterly balance

sheet (with a few simplifications). This fast-casual restaurant does not utilize franchising, thus reducing the complexities found with most other competitors and allowing focused emphasis on transaction analysis, journal entries, T-accounts, and the structure of the balance sheet.

- Focus and contrast company data updated.
- Update of the conceptual framework to reflect the new definitions from the FASB.
- Simplified account titles that relate more closely to end-of-chapter material.
- T-accounts now follow each transaction to illustrate posting the effects, while marginal notes have been deleted for a cleaner visual approach.
- **New** additional **GUIDED HELP** feature provides free access to step-by-step video instruction applying transaction analysis to identify accounts and effects on the accounting equation. This is in addition to the existing Guided Help for recording, posting, and classifying accounts for financing and investing activities.

- **New CONTINUING PROBLEM** added to the end-of-chapter problems based on the activities of Penny's Pool Service & Supply and its supplier, **Pool Corporation**. These companies provide a consistent context for summarizing the key points emphasized in each chapter. In Chapter 2, students prepare journal entries, post to T-accounts, prepare a trial balance and classified balance sheet, identify investing and financing activities affecting cash flows, and compute and interpret the current ratio based on the balance sheet for Penny's Pool Service & Supply.
- **New and updated real companies**, as well as additional exercises on key concepts, in end-of-chapter exercises, problems, and cases.
- **New** Annual Report Case that can be graded through Connect.

### Chapter 3

#### Focus Company: **Chipotle Mexican Grill**

- Chapter 3 builds on Chapter 2 by explaining and illustrating transaction analysis for operating activities for the first quarter of 2015 for **Chipotle Mexican Grill**. Students apply their knowledge of accounting concepts by preparing journal entries and posting to T-accounts using Chapter 2 transactions involving revenues and expenses.
- Focus and contrast company data updated.
- **New** concepts based on the FASB's Accounting Standards Updates for revenue recognition and expense recognition are incorporated in the chapter and end-of-chapter material.
- **New** additional **GUIDED HELP** feature provides free access to step-by-step video instruction applying transaction analysis to identify accounts and effects on the accounting equation. This is in addition to the existing Guided Help for identifying revenue and expense account titles and amounts for a given period.

- **New CONTINUING PROBLEM** added to the end-of-chapter problems based on the activities of Penny's Pool Service & Supply and its supplier, **Pool Corporation**. These companies provide a consistent context for summarizing the key points emphasized in each chapter. In Chapter 3, students prepare journal entries, create a classified income statement, and calculate and analyze the net profit margin for Penny's Pool Service & Supply.
- **New and updated real companies**, as well as additional exercises on key concepts, in end-of-chapter exercises, problems, and cases.
- **New** Annual Report Case that can be graded through Connect.

### Chapter 4

#### Focus Company: **Chipotle Mexican Grill**

- Chapter 4 builds on Chapters 2 and 3 by explaining and illustrating end-of-period adjustments, financial statements, and closing the records for the first quarter of 2015 for **Chipotle Mexican Grill**.
- Focus and contrast company data updated.
- The process for identifying and recording an adjustment at the end of the period has been modified to provide a logical progression—with the journal entry followed by the effects on the accounting equation, followed by posting the effects in the T-accounts—with less marginal clutter.
- **New** additional **GUIDED HELP** feature provides free access to step-by-step video instruction on recording a closing entry. This is in addition to the existing Guided Help for recording adjusting entries.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems based on the activities of Penny's Pool Service & Supply and its supplier, **Pool Corporation**. These companies provide a consistent context for summarizing the key

points emphasized in each chapter. In Chapter 4, students prepare adjusting journal entries for Penny's Pool Service & Supply.

- **New and updated real companies**, as well as additional exercises on key concepts, in end-of-chapter exercises, problems, and cases.
- **New** Annual Report Case that can be graded through Connect.

### Chapter 5

#### Focus Company: **Apple Inc.**

- Chapter 5 has been rewritten around the most recent financial statements and corporate governance and disclosure processes of **Apple Inc.**, students' favorite technology company.
- Focus and contrast company data updated.
- Focus of the chapter has been narrowed to three topics: details of the corporate governance and disclosure process; financial statement formats and important subtotals, totals, and additional disclosures; and the analysis of financial statements through gross profit, net profit, total asset turnover, and return on assets analysis.
- Fraud triangle provides the basis for the corporate governance discussion.
- **New** section on the effects of transactions on key ratios added to tie in the chapter to material in Chapters 2, 3, and 4.
- **GUIDED HELP** feature provides free access to step-by-step video instruction on preparing a detailed classified income statement and balance sheet from a trial balance for **Amazon.com**, the world's largest online retailer.
- More algorithmic exercises included in Connect.
- **Two new CONTINUING PROBLEMS** added to the end-of-chapter problems. The first asks students to evaluate the effects of key transactions on important statement subtotals and financial ratios

for Penny's Pool Service & Supply. The second introduces Penny's supplier, **Pool Corporation**, a public company, and asks students to prepare a detailed classified income statement and balance sheet and compute the gross profit percentage and return on assets ratios.

- **New** Annual Report Case that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.

## Chapter 6

### Focus Company: **Deckers Brands**

- Focus and contrast company data updated.
- Content narrowed to three related topics: determinants of net sales, receivables valuation, and control of cash.
- Exhibits reorganized to better reflect the chapter flow.
- Coverage of bad debt recoveries increased.
- Coverage of electronic banking increased.
- **Two New GUIDED HELP** features provide free access to step-by-step video instruction on (1) preparing entries related to bad debts and determining their financial statement effects and (2) using aging to estimate bad debt expense.
- More algorithmic exercises included in Connect.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Students are asked to make summary entries for bad debts and compute the amount to be reported as net sales for **Pool Corporation**, a public company.
- **New** Annual Report Case that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.

## Chapter 7

### Focus Company: **Harley-Davidson, Inc.**

- Focus and contrast company data updated.
- Coverage of perpetual versus periodic inventory systems moved to section on cost of goods sold near the beginning of the chapter.
- **New** rules for applying lower-of-cost-or-market to inventories covered at an appropriate level for the introductory course.
- **Two New GUIDED HELP** features provide free access to step-by-step video instruction on (1) computation of goods available for sale and cost of goods sold and (2) computing cost of goods sold and ending inventory under FIFO and LIFO costing methods.
- Exhibits 7.4 and 7.5 revised to make it easier to see the effects of FIFO, LIFO, and average costing methods on the financial statements.
- **Supplement B** added to demonstrate the effects of determining FIFO and LIFO cost of goods sold under periodic versus perpetual inventory systems.
- More algorithmic exercises included in Connect.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Students are asked to compute the effects of the LIFO/FIFO choice for inventory items with increasing and decreasing costs for **Pool Corporation**, a public company.
- **New** Annual Report Case that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.

## Chapter 8

### Focus Company: **Southwest Airlines**

- Chapter 8 illustrates the acquisition, use, repair and improvement, and disposal of property, plant, and equipment, followed by an illustration of accounting and reporting for intangible assets and

natural resources, at several companies including **Cisco Systems**, **Walt Disney Company**, **Papa John's International**, and **International Paper**, among others.

- Focus and contrast company data updated.
- **New** additional **GUIDED HELP** feature provides free access to step-by-step video instruction on recording a disposal of an asset. This is in addition to the existing Guided Help for determining cost and creating depreciation schedules under straight-line, units-of-production, and declining-balance methods.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Based on the activities of **Pool Corporation**, students are asked to determine cost; create depreciation schedules under straight-line, units-of-production, and declining-balance methods; and dispose of an asset.
- **New and updated real companies**, as well as additional exercises on key concepts, in end-of-chapter exercises, problems, and cases.
- **New** Annual Report Case that can be graded through Connect.

## Chapter 9

### Focus Company: **Starbucks**

- Focus company data updated. New contrast companies added.
- Complete revision of chapter content to more closely link content to other chapters and to use consistent terminology throughout the chapter.
- Updated present value discussion and graphics for both single amounts and annuities. Chapter now includes descriptions of how to calculate present values using tables, calculators, and Excel.
- **New GUIDED HELP** features teach students the steps required to compute present values using two popular calculator models (HP 10BII+ and HP 12C) and Excel.
- **New Supplement A** uses vivid graphics to display the steps required to compute

present values using two popular calculator models (HP 10BII+ and HP 12C) and Excel.

- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Students are asked to record transactions that affect the liabilities section of the balance sheet for **Pool Corporation**, a public company.
- **New** Annual Report Case that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.
- End-of-chapter material completely updated to seamlessly match the content of the chapter.

## Chapter 10

### Focus Company: **Amazon**

- **New** focus company and new contrast companies.
- Complete revision of chapter content to more closely link content to other chapters and to use consistent terminology throughout the chapter.
- **New** graphics that visually help students understand the timing of bond payments and the accounting for bonds.
- **New FINANCIAL ANALYSIS** feature describes bond ratings and bond rating agencies.
- Revised structure allows instructors to seamlessly assign accounting for bonds with or without the use of discount and premium accounts.
- **New GUIDED HELP** features walk students through (1) how to calculate the present value of a bond issued at a premium and (2) how to account for the bond over its life.
- **New** discussion of accounting for bond issuance costs.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Students are asked to record bond transactions for **Pool Corporation**, a public company.

- **New** Annual Report Case that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.
- End-of-chapter material completely updated to seamlessly match the content of the chapter.

## Chapter 11

### Focus Company: **Whole Foods Market**

- **New** focus company and new contrast companies.
- Complete revision of chapter content to more closely link content to other chapters and to use consistent terminology throughout the chapter.
- **New** discussion of stock splits effected in the form of a stock dividend.
- **New FINANCIAL ANALYSIS** feature on preferred stock.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Students are asked to record transactions that affect the equity section of the balance sheet for **Pool Corporation**, a public company.
- **New** Annual Report Case that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.
- End-of-chapter material completely updated to seamlessly match the content of the chapter.

## Chapter 12

### Focus Company: **National Beverage Corporation**

- Focus and contrast company data updated.
- **Two New GUIDED HELP** features provide free access to step-by-step video instruction on (1) preparing the operating section of the statement of cash flows using the indirect method and (2) preparing the investing and financing sections of the statement of cash flows.

- **Supplement C** and related problem material illustrate preparation of the complete statement of cash flows using the T-account approach.
- More algorithmic exercises included in Connect.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Students are asked to prepare a complete statement of cash flows for **Pool Corporation**, a public company.
- **New** Annual Report Case that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.

## Chapter 13

### Focus Company: **The Home Depot**

- Focus company data updated.
- Complete revision of chapter content to more closely link content to other chapters and to use consistent terminology throughout the chapter.
- **New** discussion of DuPont analysis.
- Ratio formulas in chapter updated to be consistent with formulas provided in previous chapters.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Students are asked to download the latest financial statements for **Pool Corporation**, a public company, and compute various ratios discussed in the chapter.
- **New** Annual Report Case that can be graded through Connect.
- **New and updated real companies** in end-of-chapter exercises, problems, and cases.
- End-of-chapter material completely updated to seamlessly match the content of the chapter.

## Appendix A

### Focus Company: **Graham Holdings Company**

- **New focus company**, **Graham Holdings Company**, a company that expands

primarily through investing in other companies, including **Kaplan, Inc.** (top admissions test preparation organization). Accounting and reporting are discussed and illustrated for: (1) debt securities held to maturity, (2) passive investments using the fair value method, (3) investments involving significant influence using the equity method, and (4) investments in controlling interests.

- Focus and contrast company data updated.
- **GUIDED HELP** feature provides free access to step-by-step video instruction on accounting for and reporting available-for-sale securities as investments at fair value.
- **New CONTINUING PROBLEM** added to the end-of-chapter problems. Using the activities of **Pool Corporation**, students

are asked to record passive investments as trading securities and as available-for-sale securities over a three-year period.

- **New and updated real companies**, as well as additional exercises on key concepts, in end-of-chapter exercises, problems, and cases.
- **New** Annual Report Case that can be graded through Connect.



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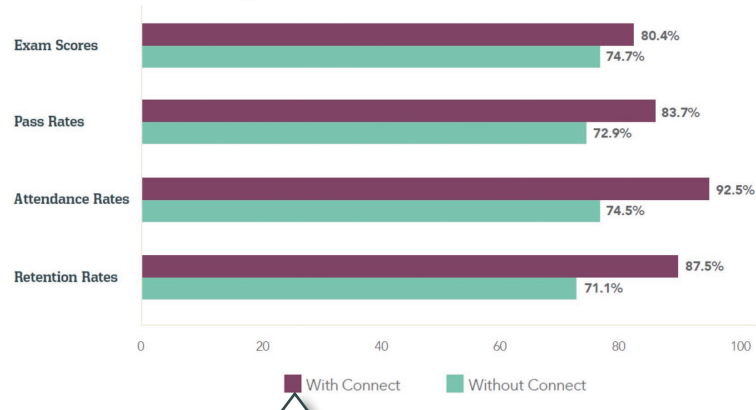
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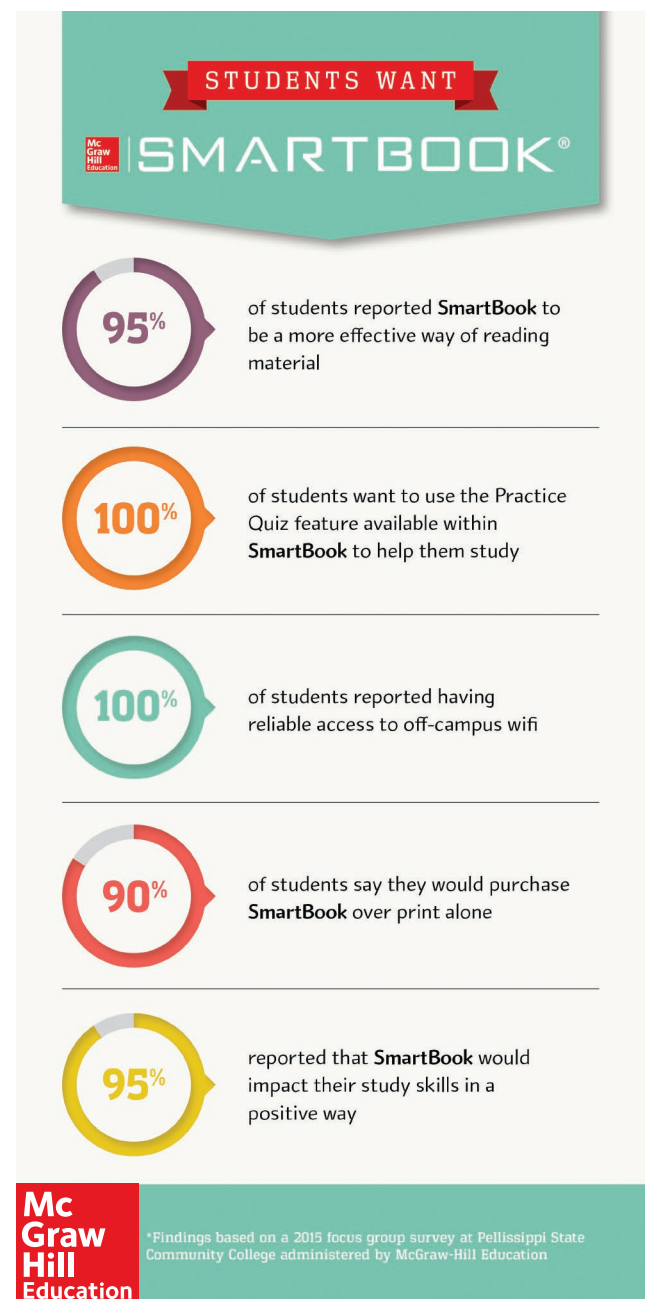
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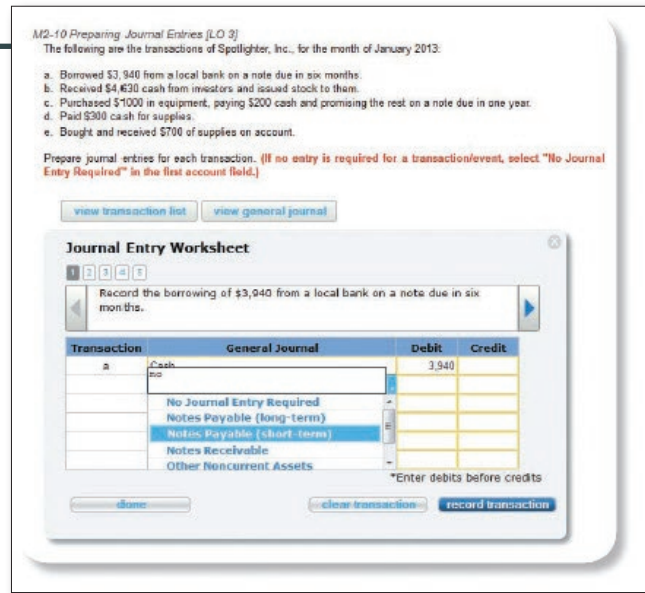


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Connect helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. Connect grades homework automatically and gives immediate feedback on any questions students may have missed. The extensive assignable, gradable end-of-chapter content includes a general journal application that looks and feels more like what you would find in a general ledger software package. Also, select questions have been redesigned to test students' knowledge more fully. They now include tables for students to work through rather than requiring that all calculations be done offline.

End-of-chapter questions in Connect include:

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- Comprehensive Problems
- Continuing Problems
- **NEW!** Cases and Projects



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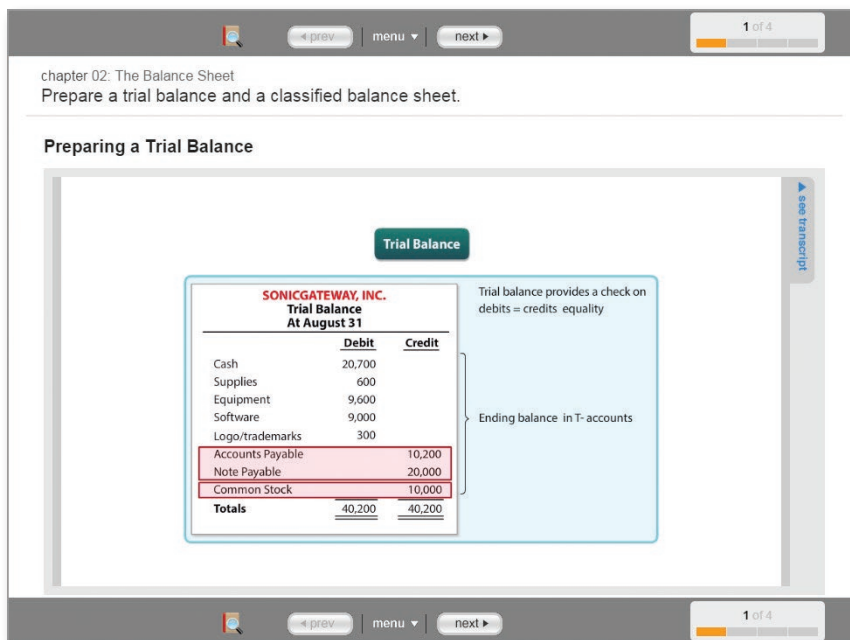
—Professor Lisa McKinney, M.T.A., CPA, University of Alabama

## NEW! General Ledger Problems

New **General Ledger Problems** provide a much-improved student experience when working with accounting cycle questions, offering improved navigation and less scrolling. Students can audit their mistakes by easily linking back to their original entries and can see how the numbers flow through the various financial statements. Many General Ledger Problems include an analysis tab that allows students to demonstrate their critical thinking skills and a deeper understanding of accounting concepts.

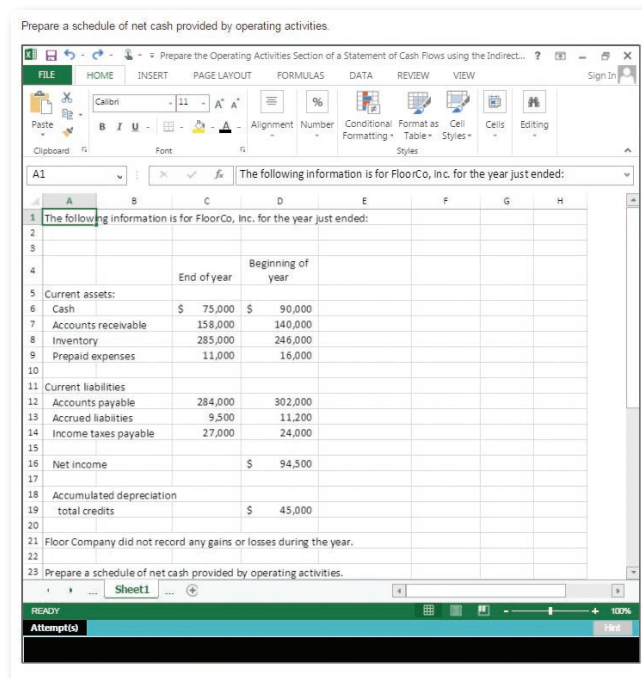
## NEW! Interactive Presentations

The **Interactive Presentations** provide engaging narratives of all chapter learning objectives in an assignable and interactive online format. They follow the structure of the text and are organized to match the specific learning objectives within each chapter of *Financial Accounting*. The interactive presentations provide additional explanation and enhancement of material from the text chapter, allowing students to learn, study, and practice with instant feedback, at their own pace.



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



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

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—Jennah Epstein Kraus, Student, Bunker Hill Community College

# ACKNOWLEDGMENTS

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**Robert Libby**  
**Patricia A. Libby**  
**Frank Hodge**

## CONTENTS IN BRIEF

### Chapter 1

#### **Financial Statements and Business Decisions** 2

*Focus Company:* Le-Nature's Inc.

### Chapter 2

#### **Investing and Financing Decisions and the Accounting System** 42

*Focus Company:* Chipotle Mexican Grill

### Chapter 3

#### **Operating Decisions and the Accounting System** 102

*Focus Company:* Chipotle Mexican Grill

### Chapter 4

#### **Adjustments, Financial Statements, and the Quality of Earnings** 164

*Focus Company:* Chipotle Mexican Grill

### Chapter 5

#### **Communicating and Interpreting Accounting Information** 230

*Focus Company:* Apple Inc.

### Chapter 6

#### **Reporting and Interpreting Sales Revenue, Receivables, and Cash** 282

*Focus Company:* Deckers Brands

### Chapter 7

#### **Reporting and Interpreting Cost of Goods Sold and Inventory** 332

*Focus Company:* Harley-Davidson, Inc.

### Chapter 8

#### **Reporting and Interpreting Property, Plant, and Equipment; Intangibles; and Natural Resources** 388

*Focus Company:* Southwest Airlines

### Chapter 9

#### **Reporting and Interpreting Liabilities** 458

*Focus Company:* Starbucks

### Chapter 10

#### **Reporting and Interpreting Bond Securities** 506

*Focus Company:* Amazon

### Chapter 11

#### **Reporting and Interpreting Stockholders' Equity** 554

*Focus Company:* Whole Foods Market

### Chapter 12

#### **Statement of Cash Flows** 600

*Focus Company:* National Beverage Corp.

### Chapter 13

#### **Analyzing Financial Statements** 658

*Focus Company:* The Home Depot

### Appendix A

#### **Reporting and Interpreting Investments in Other Corporations** A-0

*Focus Company:* Graham Holdings Company

### Appendix B

#### **American Eagle Outfitters, Inc., Form 10-K Annual Report** B-1

### Appendix C

#### **Urban Outfitters, Inc., Form 10-K Annual Report** C-1

### Appendix D

#### **Industry Ratio Report** D-0

### Appendix E

#### **Present and Future Value Tables** E-1

### Glossary

G-1

### Company Index

IND-1

### Subject Index

IND-5

**MBA Companion** (*Available in McGraw-Hill Education's Create*)

#### **Leases, Income Taxes, and Retirement Obligations**

*Focus Company:* Under Armour

**Preface** iv**Chapter 1****Financial Statements and Business Decisions** 2

Le-Nature's Inc. 3

Understanding the Business 3

The Accounting System 3

Why Study Financial Accounting? 4

Your Goals for Chapter 1 5

The Four Basic Financial Statements: An Overview 6

The Balance Sheet 6

FINANCIAL ANALYSIS:

Interpreting Assets, Liabilities, and Stockholders' Equity on the Balance Sheet 8

- [Pause for Feedback and Self-Study Quiz](#) 8

The Income Statement 9

FINANCIAL ANALYSIS:

Analyzing the Income Statement: Beyond the Bottom Line 10

- [Pause for Feedback and Self-Study Quiz](#) 11

Statement of Stockholders' Equity 11

FINANCIAL ANALYSIS:

Interpreting Retained Earnings 12

- [Pause for Feedback and Self-Study Quiz](#) 13

Statement of Cash Flows 13

FINANCIAL ANALYSIS:

Interpreting the Cash Flow Statement 14

- [Pause for Feedback and Self-Study Quiz](#) 14

Relationships Among the Statements 15

Notes and Financial Statement Formats 15

Summary of the Four Basic Financial Statements 16

Responsibilities for the Accounting Communication Process 16

Generally Accepted Accounting Principles 16

INTERNATIONAL PERSPECTIVE:

The International Accounting Standards Board and Global Convergence of Accounting Standards 18

Ensuring the Accuracy of Financial Statements 18

Demonstration Case 21

CHAPTER SUPPLEMENT A: TYPES OF BUSINESS ENTITIES 22

CHAPTER SUPPLEMENT B: EMPLOYMENT IN THE ACCOUNTING PROFESSION TODAY 23

End-of-Chapter Material 24

**Chapter 2****Investing and Financing Decisions and the Accounting System** 42

Chipotle Mexican Grill 43

Understanding the Business 44

Overview of Accounting Concepts 45

Concepts Emphasized in Chapter 2 45

- [Pause for Feedback and Self-Study Quiz](#) 49

FINANCIAL ANALYSIS:

Unrecorded but Valuable Assets and Liabilities 49

What Business Activities Cause Changes in Financial Statement Amounts? 49

Nature of Business Transactions 49

Accounts 50

How Do Transactions Affect Accounts? 51

Principles of Transaction Analysis 51

Analyzing Chipotle's Transactions 53

- [Pause for Feedback and Self-Study Quiz](#) 55

How Do Companies Keep Track of Account Balances? 56

The Direction of Transaction Effects 57

- [Pause for Feedback and Self-Study Quiz](#) 58

Analytical Tools 59

FINANCIAL ANALYSIS:

Inferring Business Activities from T-Accounts 61

Transaction Analysis Illustrated 62

- [Pause for Feedback and Self-Study Quiz](#) 65

How Is the Balance Sheet Prepared and Analyzed? 66

Classified Balance Sheet 67

INTERNATIONAL PERSPECTIVE:

Understanding Foreign Financial Statements 68

Ratio Analysis in Decision Making 68

## KEY RATIO ANALYSIS:

Current Ratio 69

- [Pause for Feedback and Self-Study Quiz](#) 70

## FOCUS ON CASH FLOWS:

Investing and Financing Activities 70

- [Pause for Feedback and Self-Study Quiz](#) 71

Demonstration Case 71

End-of-Chapter Material 74

**Chapter 3****Operating Decisions and the Accounting System** 102

Chipotle Mexican Grill 103

Understanding the Business 104

How Do Business Activities Affect the Income Statement? 104

The Operating Cycle 104

Elements of the Income Statement 106

## INTERNATIONAL PERSPECTIVE:

Income Statement Differences 109

How are Operating Activities Recognized and Measured? 109

Accrual Accounting 110

## FINANCIAL ANALYSIS:

Revenue Recognition for More Complex Customer Contracts 111

- [Pause for Feedback and Self-Study Quiz](#) 112
- [Pause for Feedback and Self-Study Quiz](#) 114

## A QUESTION OF ETHICS:

Management's Incentives to Violate Accounting Rules 115

The Expanded Transaction Analysis Model 115

Transaction Analysis Rules 115

Analyzing Chipotle's Transactions 117

- [Pause for Feedback and Self-Study Quiz](#) 123

How Is the Income Statement Prepared and Analyzed? 125

Classified Income Statement 126

## KEY RATIO ANALYSIS:

Net Profit Margin 126

## FOCUS ON CASH FLOWS:

Operating Activities 127

- [Pause for Feedback and Self-Study Quiz](#) 128

Demonstration Case 129

End-of-Chapter Material 133

**Chapter 4****Adjustments, Financial Statements, and the Quality of Earnings** 164

Chipotle Mexican Grill 165

Understanding the Business 165

Adjusting Revenues and Expenses 166

Accounting Cycle 166

Purpose of Adjustments 166

Types of Adjustments 167

Adjustment Process 168

- [Pause for Feedback and Self-Study Quiz](#) 177

## A QUESTION OF ETHICS:

Adjustments and Incentives 179

Preparing Financial Statements 179

Income Statement 182

Statement of Stockholders' Equity 183

Balance Sheet 183

## FOCUS ON CASH FLOWS:

Cash Flows from Operations, Net Income, and the Quality of Earnings 183

## KEY RATIO ANALYSIS:

Total Asset Turnover Ratio 185

Closing the Books 185

End of the Accounting Cycle 185

- [Pause for Feedback and Self-Study Quiz](#) 187

Post-Closing Trial Balance 188

Demonstration Case 188

End-of-Chapter Material 193

Comprehensive Problems (Chapters 1–4) 219

**Chapter 5****Communicating and Interpreting Accounting Information** 230

Apple Inc. 231

Understanding the Business 231

## A QUESTION OF ETHICS:

The Fraud Triangle 232

Players in the Accounting Communication Process 233

Regulators (SEC, FASB, PCAOB, Stock Exchanges) 233

Managers (CEO, CFO, and Accounting Staff) 233

Board of Directors (Audit Committee) 234

Auditors 234



Information Intermediaries: Information Services and Financial Analysts 235

FINANCIAL ANALYSIS:

Information Services and Your Job Search 237

Users: Institutional and Private Investors, Creditors, and Others 237

- [Pause for Feedback and Self-Study Quiz](#) 238

The Disclosure Process 238

Press Releases 238

FINANCIAL ANALYSIS:

How Does the Stock Market React to Earnings Announcements? 239

Annual Reports and Form 10-K 239

Quarterly Reports and Form 10-Q 240

Other SEC Reports 240

A Closer Look at Financial Statement Formats and Notes 240

Classified Balance Sheet 241

Classified Income Statement 242

FINANCIAL ANALYSIS:

Statement of Comprehensive Income 243

- [Pause for Feedback and Self-Study Quiz](#) 244

KEY RATIO ANALYSIS:

Gross Profit Percentage 244

Statement of Stockholders' Equity 245

Statement of Cash Flows 246

Notes to Financial Statements 247

Voluntary Disclosures 249

INTERNATIONAL PERSPECTIVE:

Differences in Accounting Methods Acceptable under IFRS and U.S. GAAP 249

Return on Assets Analysis: A Framework for Evaluating Company Performance 250

KEY RATIO ANALYSIS:

Return on Assets (ROA) 250

ROA Profit Driver Analysis and Business Strategy 251

How Transactions Affect Ratios 252

- [Pause for Feedback and Self-Study Quiz](#) 254

Demonstration Case 255

End-of-Chapter Material 257

## Chapter 6

### Reporting and Interpreting Sales Revenue, Receivables, and Cash 282

Understanding the Business 282

Deckers Brands 283

Accounting for Net Sales Revenue 284

Motivating Sales and Collections 285

Credit Card Sales to Consumers 285

Sales Discounts to Businesses 285

FINANCIAL ANALYSIS:

To Take or Not to Take the Discount, That Is the Question 286

Sales Returns and Allowances 287

Reporting Net Sales 287

- [Pause for Feedback and Self-Study Quiz](#) 288

Measuring and Reporting Receivables 289

Classifying Receivables 289

INTERNATIONAL PERSPECTIVE:

Foreign Currency Receivables 289

Accounting for Bad Debts 289

FINANCIAL ANALYSIS:

Bad Debt Recoveries 291

Reporting Accounts Receivable and Bad Debts 292

- [Pause for Feedback and Self-Study Quiz](#) 293

Estimating Bad Debts 293

Control over Accounts Receivable 295

KEY RATIO ANALYSIS:

Receivables Turnover Ratio 296

FOCUS ON CASH FLOWS:

Accounts Receivable 297

- [Pause for Feedback and Self-Study Quiz](#) 298

Reporting and Safeguarding Cash 299

Cash and Cash Equivalents Defined 299

Cash Management 299

Internal Control of Cash 299

A QUESTION OF ETHICS:

Ethics and the Need for Internal Control 300

Reconciliation of the Cash Accounts and the Bank Statements 300

- [Pause for Feedback and Self-Study Quiz](#) 304

Epilogue 305

Demonstration Case A 305

Demonstration Case B 306

CHAPTER SUPPLEMENT: RECORDING DISCOUNTS AND RETURNS 307

End-of-Chapter Material 308

## Chapter 7

### Reporting and Interpreting Cost of Goods Sold and Inventory 332

Harley-Davidson, Inc. 333

Understanding the Business 333

Nature of Inventory and Cost of Goods Sold	335
Items Included in Inventory	335
Costs Included in Inventory Purchases	336
FINANCIAL ANALYSIS:	
Applying the Materiality Constraint in Practice	336
Flow of Inventory Costs	336
Cost of Goods Sold Equation	337
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	339
Perpetual and Periodic Inventory Systems	340
Inventory Costing Methods	340
Specific Identification Method	341
Cost Flow Assumptions	341
INTERNATIONAL PERSPECTIVE:	
LIFO and International Comparisons	344
Financial Statement Effects of Inventory Methods	344
Managers' Choice of Inventory Methods	345
A QUESTION OF ETHICS:	
LIFO and Conflicts between Managers' and Owners' Interests	346
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	347
Valuation at Lower of Cost or Market (Net Realizable Value)	348
Evaluating Inventory Management	349
Measuring Efficiency in Inventory Management	349
KEY RATIO ANALYSIS:	
Inventory Turnover	349
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	350
Inventory Methods and Financial Statement Analysis	350
FINANCIAL ANALYSIS:	
LIFO and Inventory Turnover Ratio	352
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	353
Control of Inventory	353
Internal Control of Inventory	353
Errors in Measuring Ending Inventory	353
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	354
Inventory and Cash Flows	355
FOCUS ON CASH FLOWS:	
Inventory	355
Demonstration Case	356
CHAPTER SUPPLEMENT A: LIFO LIQUIDATIONS	358
CHAPTER SUPPLEMENT B: FIFO AND LIFO COST OF GOODS SOLD UNDER PERIODIC VERSUS PERPETUAL INVENTORY SYSTEMS	359
CHAPTER SUPPLEMENT C: ADDITIONAL ISSUES IN MEASURING PURCHASES	360
End-of-Chapter Material	362

## Chapter 8

### Reporting and Interpreting Property, Plant, and Equipment; Intangibles; and Natural Resources 388

---

Southwest Airlines	389
Understanding the Business	389
Acquisition and Maintenance of Plant and Equipment	391
Classifying Long-Lived Assets	391
Measuring and Recording Acquisition Cost	391
KEY RATIO ANALYSIS:	
Fixed Asset Turnover	392
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	395
Repairs, Maintenance, and Improvements	396
FINANCIAL ANALYSIS:	
WorldCom: Hiding Billions in Expenses through Capitalization	398
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	398
Use, Impairment, and Disposal of Plant and Equipment	398
Depreciation Concepts	398
FINANCIAL ANALYSIS:	
Book Value as an Approximation of Remaining Life	400
FINANCIAL ANALYSIS:	
Differences in Estimated Lives within a Single Industry	401
Alternative Depreciation Methods	401
FINANCIAL ANALYSIS:	
Impact of Alternative Depreciation Methods	406
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	406
FINANCIAL ANALYSIS:	
Increased Profitability Due to an Accounting Adjustment? Reading the Notes	407
INTERNATIONAL PERSPECTIVE:	
Component Allocation	407
How Managers Choose	407
A QUESTION OF ETHICS:	
Two Sets of Books	408
Measuring Asset Impairment	409
Disposal of Property, Plant, and Equipment	410
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	411
Intangible Assets and Natural Resources	412
Acquisition and Amortization of Intangible Assets	412
FINANCIAL ANALYSIS:	
Research and Development Costs: Not an Intangible Asset under U.S. GAAP	415

INTERNATIONAL PERSPECTIVE:	
Differences in Accounting for Tangible and Intangible Assets	416
Acquisition and Depletion of Natural Resources	417
FOCUS ON CASH FLOWS:	
Productive Assets and Depreciation	418
FINANCIAL ANALYSIS:	
A Misinterpretation	419
Demonstration Case A	420
Demonstration Case B	422
CHAPTER SUPPLEMENT: CHANGES IN DEPRECIATION ESTIMATES	423
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	424
End-of-Chapter Material	425
Comprehensive Problem (Chapters 6–8)	450

## Chapter 9

### Reporting and Interpreting Liabilities 458

---

Understanding the Business	458
Starbucks	459
Liabilities Defined and Classified	460
Current Liabilities	461
Accounts Payable	461
KEY RATIO ANALYSIS:	
Accounts Payable Turnover	462
Accrued Liabilities	462
Deferred Revenues	465
Notes Payable	466
Current Portion of Long-Term Debt	467
FINANCIAL ANALYSIS:	
Refinancing Debt: Current or Long-Term Liability?	467
Contingent Liabilities Reported on the Balance Sheet	468
Contingent Liabilities Reported in the Footnotes	468
INTERNATIONAL PERSPECTIVE:	
It's a Matter of Degree	469
Working Capital Management	470
FOCUS ON CASH FLOWS:	
Working Capital and Cash Flows	470
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	470
Long-Term Liabilities	471
Long-Term Notes Payable and Bonds	471
INTERNATIONAL PERSPECTIVE:	
Borrowing in Foreign Currencies	471

Lease Liabilities	472
Computing Present Values	473
Present Value of a Single Amount	474
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	475
Present Value of an Annuity	475
A QUESTION OF ETHICS:	
Truth in Advertising	477
Accounting Applications of Present Values	477
Demonstration Case	481
CHAPTER SUPPLEMENT A: PRESENT VALUE COMPUTATIONS USING A CALCULATOR OR EXCEL	482
CHAPTER SUPPLEMENT B: DEFERRED TAXES	485
End-of-Chapter Material	486

## Chapter 10

### Reporting and Interpreting Bond Securities 506

---

Amazon	507
Understanding the Business	507
Characteristics of Bond Securities	508
Why Issue Bonds?	508
Bond Terminology	509
Bond Issuance Process	510
FINANCIAL ANALYSIS:	
Bond Rating Agencies and Their Assessments of Default Risk	511
Reporting Bond Transactions	512
FINANCIAL ANALYSIS:	
Bond Information from the Business Press	513
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	513
Bonds Issued at Par	514
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	515
KEY RATIO ANALYSIS:	
Times Interest Earned	516
Bonds Issued at a Discount	517
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	521
Bonds Issued at a Premium	521
• <a href="#">Pause for Feedback and Self-Study Quiz</a>	524
The Book Value of a Bond over Time	524
FINANCIAL ANALYSIS:	
Zero Coupon Bonds	525
KEY RATIO ANALYSIS:	
Debt-to-Equity	526

## Early Retirement of Bonds 527

## FOCUS ON CASH FLOWS:

Bonds Payable 528

Demonstration Case 529

CHAPTER SUPPLEMENT: ACCOUNTING FOR BONDS WITHOUT  
A DISCOUNT ACCOUNT OR PREMIUM ACCOUNT 529

- [Pause for Feedback and Self-Study Quiz](#) 531

## Bonds Issued at a Premium 532

- [Pause for Feedback and Self-Study Quiz](#) 534

End-of-Chapter Material 535

**Chapter 11****Reporting and Interpreting Stockholders' Equity 554**

Understanding the Business 554

Whole Foods Market 555

Ownership of a Corporation 557

Benefits of Stock Ownership 557

Authorized, Issued, and Outstanding Shares 558

## KEY RATIO ANALYSIS:

Earnings per Share (EPS) 559

Common Stock Transactions 559

Initial Sale of Stock 560

Sale of Stock in Secondary Markets 560

Stock Issued for Employee Compensation 561

Repurchase of Stock 561

- [Pause for Feedback and Self-Study Quiz](#) 562

Dividends on Common Stock 563

## KEY RATIO ANALYSIS:

Dividend Yield 563

Key Dividend Dates 564

## FINANCIAL ANALYSIS:

Impact of Dividends on Stock Price 565

- [Pause for Feedback and Self-Study Quiz](#) 565

Stock Dividends and Stock Splits 566

Stock Dividends 566

Stock Splits 567

- [Pause for Feedback and Self-Study Quiz](#) 568

Statement of Stockholders' Equity 569

Preferred Stock Transactions 570

## INTERNATIONAL PERSPECTIVE:

What's in a Name? 571

Dividends on Preferred Stock 571

## FINANCIAL ANALYSIS:

Preferred Stock and Limited Voting Rights 572

## FOCUS ON CASH FLOWS:

Financing Activities 572

Demonstration Case 573

CHAPTER SUPPLEMENT: ACCOUNTING FOR OWNERS'  
EQUITY FOR SOLE PROPRIETORSHIPS AND  
PARTNERSHIPS 574

End-of-Chapter Material 578

Comprehensive Problem (Chapters 9–11) 596

**Chapter 12****Statement of Cash Flows 600**

Understanding the Business 600

National Beverage Corporation 601

Classifications of the Statement of Cash Flows 602

Cash Flows from Operating Activities 603

Cash Flows from Investing Activities 604

Cash Flows from Financing Activities 605

Net Increase (Decrease) in Cash 605

- [Pause for Feedback and Self-Study Quiz](#) 605

Relationships to the Balance Sheet and Income Statement 606

Preliminary Steps in Preparing the Cash Flow Statement 607

Reporting and Interpreting Cash Flows from Operating  
Activities 609Reporting Cash Flows from Operating Activities—Indirect  
Method 609

## INTERNATIONAL PERSPECTIVE:

Classification of Interest on the Cash Flow Statement 613

- [Pause for Feedback and Self-Study Quiz](#) 614

Interpreting Cash Flows from Operating Activities 614

## KEY RATIO ANALYSIS:

Quality of Income Ratio 615

## A QUESTION OF ETHICS:

Fraud and Cash Flows from Operations 616

Reporting and Interpreting Cash Flows from  
Investing Activities 616

Reporting Cash Flows from Investing Activities 617

Interpreting Cash Flows from Investing Activities 617

## KEY RATIO ANALYSIS:

Capital Acquisitions Ratio 618

## FINANCIAL ANALYSIS:

Free Cash Flow 618

Reporting and Interpreting Cash Flows  
from Financing Activities 619

Reporting Cash Flows from Financing Activities 619

Interpreting Cash Flows from Financing Activities 620

- [Pause for Feedback and Self-Study Quiz](#) 621

Completing the Statement and Additional Disclosures 621

Statement Structure 621

Supplemental Cash Flow Information 622

Epilogue 623

Demonstration Case 623

CHAPTER SUPPLEMENT A: REPORTING CASH FLOWS FROM OPERATING ACTIVITIES—DIRECT METHOD 625

- [Pause for Feedback and Self-Study Quiz](#) 628

CHAPTER SUPPLEMENT B: ADJUSTMENT FOR GAINS AND LOSSES ON SALE OF LONG-TERM ASSETS—INDIRECT METHOD 628

CHAPTER SUPPLEMENT C: T-ACCOUNT APPROACH (INDIRECT METHOD) 629

End-of-Chapter Material 631

## Chapter 13

### Analyzing Financial Statements 658

---

The Home Depot 659

Understanding the Business 659

The Investment Decision 663

Understanding a Company's Strategy 664

Financial Statement Analysis 666

Component Percentages and Ratio Analysis 667

Component Percentages 667

Ratio Analysis 668

Profitability Ratios 669

- [Pause for Feedback and Self-Study Quiz](#) 673

Asset Turnover Ratios 673

FINANCIAL ANALYSIS:

The DuPont Model 677

Liquidity Ratios 677

- [Pause for Feedback and Self-Study Quiz](#) 679

Solvency Ratios 679

Market Ratios 680

- [Pause for Feedback and Self-Study Quiz](#) 681

Interpreting Ratios and Other Analytical

Considerations 682

Other Financial Information 682

A QUESTION OF ETHICS:

Insider Information 683

End-of-Chapter Material 683

## Appendix A

### Reporting and Interpreting Investments in Other Corporations A-0

---

Graham Holdings Company A-1

## Appendix B

### American Eagle Outfitters, Inc., Form 10-K Annual Report B-1

---

## Appendix C

### Urban Outfitters, Inc., Form 10-K Annual Report C-1

---

## Appendix D

### Industry Ratio Report D-0

---

## Appendix E

### Present and Future Value Tables E-1

---

## Glossary G-1

## Company Index IND-1

## Subject Index IND-5

**MBA Companion** (Available in McGraw-Hill Education's Create)

### Leases, Income Taxes, and Retirement Obligations

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Under Armour

Lease Overview

Income Taxes Overview

Pensions and Other Postretirement Benefits Overview





# Financial Accounting

