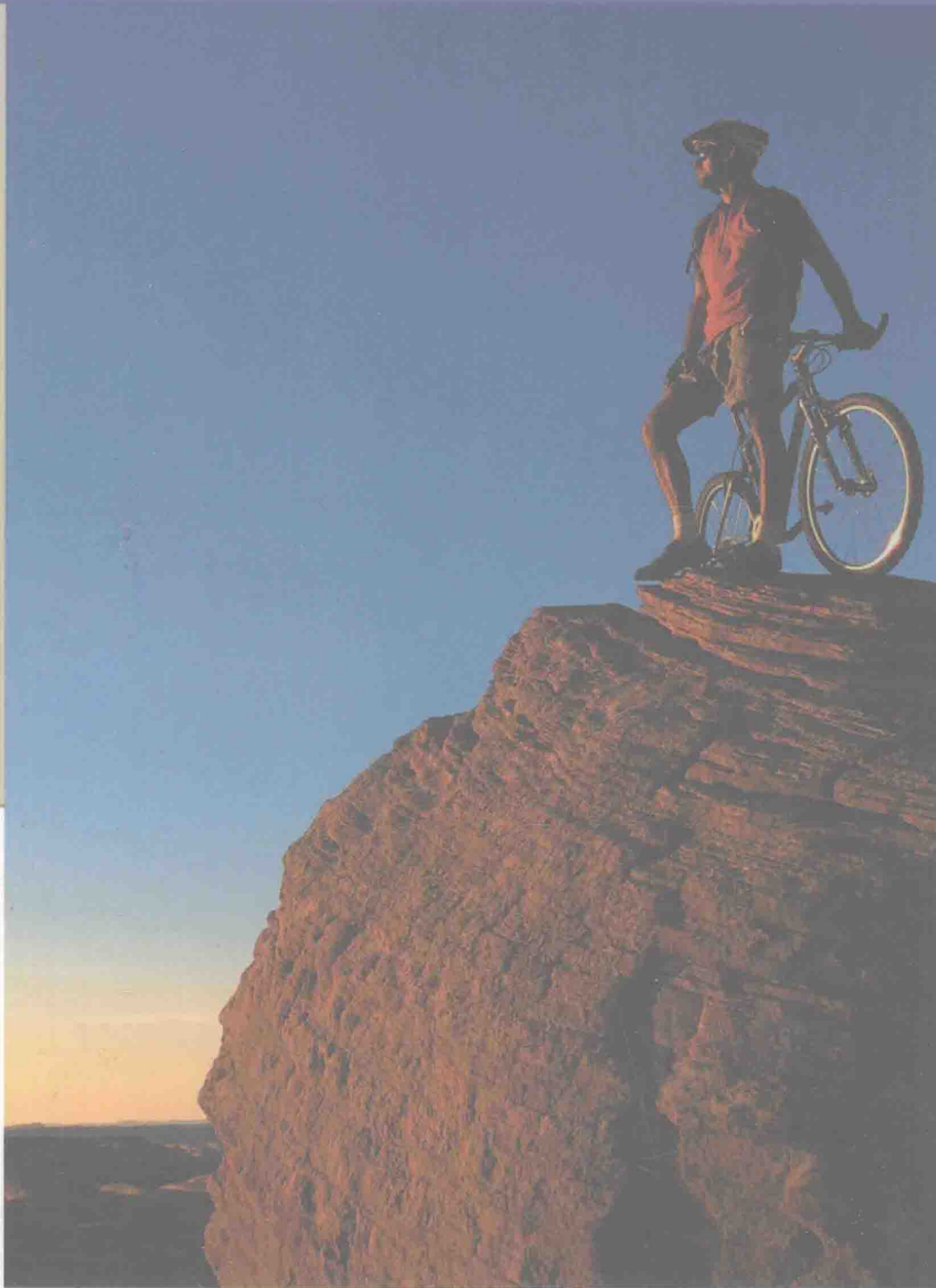


Volume II: Chapters 13-22



SPICELAND
SEPE
TOMASSINI

Intermediate Accounting

THIRD EDITION

Volume II

Intermediate Accounting

THIRD EDITION

J. David Spiceland

University of Memphis

James F. Sepe

Santa Clara University

Lawrence A. Tomassini

The Ohio State University



Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis
Bangkok Bogotá Caracas Kuala Lumpur Lisbon London Madrid Mexico City
Milan Montreal New Delhi Santiago Seoul Singapore Sydney Taipei Toronto

McGraw-Hill Higher Education

A Division of The McGraw-Hill Companies

INTERMEDIATE ACCOUNTING

Published by McGraw-Hill/Irwin, a business unit of The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY, 10020. Copyright © 2004, 2001, 1998 by The McGraw-Hill Companies, Inc. All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

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

This book is printed on acid-free paper.

domestic 1 2 3 4 5 6 7 8 9 0 VNH/VNH 0 9 8 7 6 5 4 3 2
international 1 2 3 4 5 6 7 8 9 0 VNH/VNH 0 9 8 7 6 5 4 3 2

ISBN 0-07-246613-8 (combined edition)

ISBN 0-07-250409-9 (volume I)

ISBN 0-07-250415-3 (volume II)

Photo credits for chapter opening photos: Chapter 1: Anthony Wood/Stock Boston; Chapter 2: David Young Wolff/PhotoEdit; Chapter 4: Bob Mahoney/The Image Works; Chapter 5: Cindy Charles/PhotoEdit; Chapter 6: Nancy Richmond/The Image Works; Chapter 7: Syracuse Newspaper/The Image Works; Chapter 8: Tom Pretymann/PhotoEdit; Chapter 9: Dennis Nett/Syracuse Newspapers/The Image Works; Chapter 10: John Neubauer/PhotoEdit; Chapter 11: Bob Daemmrich/The Image Works; Chapter 12: Dennis Budd Gray/Stock Boston; Chapter 13: Gale Zucker/Stock Boston; Chapter 14: Mark Richards/PhotoEdit; Chapter 15: Spencer Grant/PhotoEdit; Chapter 16: David Young Wolff/PhotoEdit; Chapter 17: © Frozen Images/The Image Works; Chapter 18: Tony Freeman/PhotoEdit; Chapter 19: David Young Wolff/PhotoEdit; Chapter 21: Sandy Huffaker/Getty Images; Chapter 22: Michael J. Doolittle/The Image Works.

Publisher: *Brent Gordon*

Executive editor: *Stewart Mattson*

Development editor I: *Heather Sabo*

Marketing manager: *Richard Kolasa*

Senior producer, Media technology: *Ed Przyzycki*

Senior project manager: *Pat Frederickson*

Manager, new book production: *Melanie Salvati*

Director of design BR: *Keith J. McPherson*

Photo research coordinator: *Judy Kausal*

Photo researcher: *Connie Gardner*

Senior supplement producer: *Carol Loreth*

Senior digital content specialist: *Brian Nacik*

Cover designer: *Maureen McCutcheon*

Interior designer: *Maureen McCutcheon*

Cover and section image: *Corbis Images*

Typeface: *10.5/12 Times Roman*

Compositor: *GAC/Indianapolis*

Printer: *Von Hoffman Press, Inc.*

Library of Congress Cataloging-in-Publication Data

Spiceland, J. David, 1949

Intermediate accounting / J. David Spiceland, James F. Sepe, Lawrence A. Tomassini —
3rd ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-07-246613-8 (alk. paper)

I. Accounting. I. Sepe, James F. II. Tomassini, Lawrence A. III. Title.

HF5635 .S7838 2004

657.044—dc21

INTERNATIONAL EDITION ISBN 0-07-121513-1

Copyright © 2004. Exclusive rights by The McGraw-Hill Companies, Inc. for manufacture and export. This book cannot be re-exported from the country to which it is sold by McGraw-Hill.

The International Edition is not available in North America.

Dear Colleagues,

As we finalize the preface to the third edition of our *Intermediate Accounting* textbook, we would like to thank each of you who adopted the second edition and the updated second edition. As fellow intermediate accounting instructors, we appreciate the importance of selecting the right book for your students. That's why we were honored that over 300 of you entrusted your intermediate accounting course to our text and its accompanying learning system. With your help, McGraw-Hill/Irwin selected the second edition for the Outstanding Revision of the Year award for 2001.

For the third edition, our goal for the revision has been to listen to our colleagues to ensure that our book continues to meet the changing needs of your students. In pursuit of that goal, we received feedback from our intermediate accounting colleagues in a variety of ways. Over 150 intermediate instructors provided us input through surveys, another 50 attended one of five focus groups held around the country in 2001, and 30 instructors participated in two reviewer panels. We thank you who participated for your generosity with your time and for your insight and many excellent suggestions.

We continue our commitment to provide you and your students with the most readable, accurate, and up-to-date intermediate text available. We also pledge to continue to write ourselves the major ancillary materials that accompany the text, including the website materials. Last, we will continue to listen to you, our colleagues, in developing our text to help prepare your students for the challenges of the 21st century.

Sincerely,

The image shows three handwritten signatures in black ink. From left to right: J. David Spiceland, James F. Sepe, and Lawrence A. Tomassini. The signatures are fluid and cursive.

J. David Spiceland

James F. Sepe

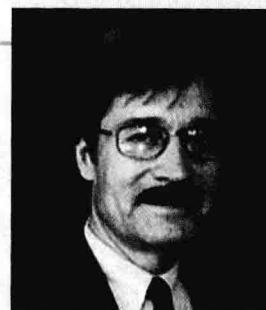
Lawrence A. Tomassini

About the Authors

David Spiceland

David Spiceland is Professor of Accounting at the University of Memphis, where he teaches intermediate accounting and other financial accounting courses at the undergraduate, masters, and doctoral levels. He received his BS degree in finance from the University of Tennessee, his MBA from Southern Illinois University, and his PhD in accounting from the University of Arkansas.

Professor Spiceland's primary research interests are in earnings management and educational research. He has published articles in a variety of journals including *The Accounting Review*, *Accounting and Business Research*, *Journal of Financial Research*, and *Journal of Accounting Education*. David has received university and college awards and recognition for his teaching, research, and technological innovations in the classroom.

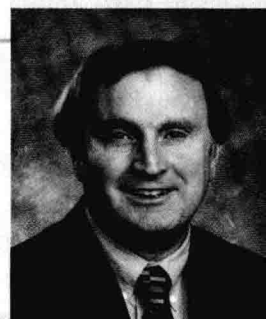


Jim Sepe

Jim Sepe is an Associate Professor of Accounting at Santa Clara University where he teaches primarily intermediate accounting in both the undergraduate and graduate programs. He previously taught at California Poly State University-San Luis Obispo and the University of Washington, and has visited at Stanford University and the Rome campus of Loyola University of Chicago.

Professor Sepe received his BS from Santa Clara University, MBA from the University of California-Berkeley, and PhD from the University of Washington. His research interests concern financial reporting issues and the use of financial information by capital markets. He has published in *The Accounting Review*, the *Journal of Business Finance and Accounting*, *Financial Management*, the *Journal of Forensic Accounting*, and the *Journal of Accounting Education*. He is a past recipient of the American Accounting Association's Competitive Manuscript Award and has served as a member of the editorial board of *The Accounting Review*.

Jim has received numerous awards for his teaching excellence and innovations in the classroom, including Santa Clara University's Brutocao Award for Excellence in Curriculum Innovation.



Lawrence Tomassini

Larry Tomassini is Professor of Accounting & MIS at The Ohio State University. He has held several endowed chair positions during his academic career, including the Ernst & Young Distinguished Professor at the University of Illinois and the Peat Marwick Mitchell Centennial Professorship in Accounting at the University of Texas.

His research has been widely published in scholarly journals, including *The Accounting Review*, *Accounting Horizons*, *Journal of Accounting Research*, and *Contemporary Accounting Research*. Dr. Tomassini is a reviewer for the *Journal of Financial Statement Analysis* and *Issues in Accounting Education*.

He teaches financial accounting courses at the undergraduate and master's levels. Recently, he has been Director of the Ohio State Master of Accounting Program and Vice President for Publications of the American Accounting Association.

Larry has been a pioneer in the use of Internet technology to support the teaching of accounting courses. He has been listed in *Who's Who in America* and *Who's Who in Finance and Industry*.



"The most important strength is the clarity of the writing. Several times I felt I was not reading, but rather being talked to. I enjoyed the conversational nature of the narrative. I think students would enjoy it also."

—Patsy Lee, University of Texas at Arlington

Your *Vehicle* to Success

It often is said that intermediate accounting is a difficult course—for some students, even insurmountable. But just as a mountain biker can reach the mountaintop with the right equipment and training, any student with the proper textbook and the right learning tools can successfully understand intermediate accounting.

Intermediate Accounting by Spiceland, Sepe and Tomassini is the vehicle that can carry your students to success. The text and accompanying learning tools together provide students with a unique learning system consisting of (1) a real-world focus and decision-makers' perspective on accounting's financial reporting function, (2) end-of-chapter resources designed to reinforce concepts and to develop the problem-solving skills essential for the new CPA exam, and (3) additional integrated tools to help students master the material regardless of their preferred learning style.

"Very well written and quite enjoyable for an Intermediate book. It's the best reading book I've seen."

—Jeff Jones, Auburn University

in *Intermediate Accounting*

Intermediate Accounting's learning system features:

Clarity: Reviewers, instructors, and student users of Spiceland have enthusiastically embraced the readability of the text and its ability to clearly explain not just the simple topics, but more importantly the complex ones. The authors achieve this by using a relaxed, conversational writing style that engages students and helps to boost their confidence.

A Decision Making Perspective:

Recent events have focused public attention on the role of accounting in providing information useful to decision makers. The CPA Exam, too, is redirecting its focus to emphasize the skills needed to critically evaluate accounting method alternatives. This text provides a decision maker's perspective to emphasize the professional judgment and critical thinking skills required of accountants today.

Flexibility: Not all students learn the same way, so *Intermediate Accounting* provides a toolset suitable for a variety of learning needs. The Coach CD, which is integrated with the text, provides students with an interactive multimedia environment in which to learn critical concepts. Accounting's preeminent textbook website combined with the other supplements noted in this preface provide your students with a flexible selection of tools to succeed.

Consistent Quality: Quite often, a text's ancillary materials are written by persons other than the textbook authors. This leads to inconsistency in terminology, content, and style and consequently confuses both students and instructors. An important feature of our learning system is that the authors themselves created each major component of the system with quality and consistency in mind. The Coach CD, end-of-chapter materials, solutions manual, study guide, instructor's resource manual, test bank, and website tools all were written by the text authors.

Intermediate Accounting, 3/e, has the quality, flexibility, and attention to detail your students need to master a challenging range of topics. In short, it's their vehicle to success.

"Decision Makers' Perspective adds realism and relevance to the role of the accountant in the organization."

—Myrtle W. Clark,
University of Kentucky

"The three most significant strengths of this text over my current text are a focus on the theory underlying the accounting for the transactions, the attempt to couch the discussion in terms of how firms actually operate, and the careful use of well-constructed examples to illustrate the accounting."

—Marlene Plumlee,
University of Utah

What makes *Intermediate Accounting* such a *powerful* learning tool?

DECISION MAKERS' PERSPECTIVE

These boxes appear throughout the text to illustrate how accounting information is put to work in today's firms. With the CPA exam placing greater focus on application of skills in realistic work settings, these boxes help your students gain an edge that will remain with them as they enter the workplace.

EARNINGS QUALITY/ EARNINGS MANAGEMENT COVERAGE

Earnings Quality/Earnings Management is covered early in the text in Chapter 4 and integrated where appropriate.

AUTHOR-WRITTEN SUPPLEMENTS

In contrast to other author teams, Spiceland, Sepe, and Tomassini write all of *Intermediate Accounting's* primary supplements themselves. This ensures a perfect fit between text and supplement, cutting down on student confusion and making their study time more productive. For more on *Intermediate Accounting's* supplements package, see pages (xviii-xix).

DECISION MAKERS' PERSPECTIVE—Financial Statement Impact

As indicated in the Decision Makers' Perspective at the beginning of the chapter, leasing can allow a firm to conserve assets, to avoid some risks of owning assets, and to obtain favorable tax benefits. These advantages are desirable. It also was pointed out earlier that some firms try to obscure the realities of their financial position through off-balance-sheet financing or by avoiding violating terms of contracts that limit the amount of debt a company can have. Accounting guidelines are designed to limit the ability of firms to hide financial realities. Nevertheless, investors and creditors should be alert to the impact leases can have on a company's financial position and on its risk.

BALANCE SHEET AND INCOME STATEMENT

Lease transactions identified as nonoperating impact several of a firm's financial ratios. Because we record liabilities for capital leases, the debt-equity ratio (liabilities divided by shareholders' equity) is immediately impacted. Because we also record leased assets, the immediate impact on the rate of return on assets (net income divided by assets) is negative, but the lasting effect depends on how leased assets are utilized to enhance future net income. As illustrated in this chapter, the financial statement impact of a capital lease is no different from that of an installment purchase.

Even operating leases, though, can significantly affect risk. Operating leases represent long-term commitments that can become a problem if business declines and cash inflows drop off. For example, long-term lease commitments became a big problem for Businessland in the early 1990s. The company's revenues declined but it was saddled with lease commitments for numerous facilities the company no longer occupied. Its stock's market price declined from \$11.88 to \$5.88 in one year.

Whether leases are capitalized or treated as operating leases affects the income statement as well as the balance sheet. However, the impact generally is not significant. Over the life of a lease, total expenses are equal regardless of the accounting treatment of a lease. If the lease is capitalized, total expenses comprise interest and depreciation. The total of these equals the total amount of rental payments, which would constitute rent expense if not capitalized. There is, however, a timing difference between lease capitalization and operating lease treatment, but the timing difference usually isn't great.

The more significant difference between capital leases and operating leases is the impact on the balance sheet. As mentioned above, a capital lease, on the balance sheet, operating leases do not. External financial statement users adjust their analyses between capital and operating leases? All noncancelable lease commitments, including financial analysts, in fact, do this on their own.

To illustrate, refer to Graphic 15-16, which closed by Wal-Mart Stores. If these lease arrangements would be capitalized (reported as liabilities), making some reasonable assumptions, we can estimate to be made on existing operating leases. Wal-Mart to discount rental payments on capital lease at an approximate average rate of 10%, and make the debt equivalent of the operating lease commitments.

If capitalized, these operating lease commitments would increase liabilities and approximately \$4,210 to the equity.

¹¹If these operating leases were capitalized, both assets and liabilities would increase. However, in later years, the leased asset account is reduced by depreciation and the lease liability is reduced by interest method.

CHAPTER 15 Leases 747

Leasing sometimes is used as a means of off-balance-sheet financing.

Lease liabilities are the debt-equity ratio on assets.

Do operating leases create long-term commitments equivalent?

The net income difference between capitalizing a lease and treating it as an operating lease generally is not significant.

"This pedagogical framework was one of the reasons we selected this textbook."

—Gary K. Taylor,
University of Alabama

GRAPHIC 15-17 Estimating the Debt Equivalent of Operating Lease Commitments

Capitalized Lease Commitments
Fiscal Year
2003
2004
2005
2006
2007
There
Total

*This is the PV of the lease payments.

would have financial statement impact on income.

The debt-equity ratio considering both total year-end to year-end impact on income.

4

The Income Statement and Statement of Cash Flows

CHAPTER

OVERVIEW

The purpose of the income statement is to summarize the profit-generating activities that occurred during a particular reporting period. The purpose of the statement of cash flows is to provide information about the cash receipts and cash disbursements of an enterprise that occurred during the period.

This chapter has a twofold purpose: (1) to consider important issues dealing with income statement content, presentation, and disclosure and (2) to provide an overview of the statement of cash flows, which is covered in depth in Chapter 22.

"I love the stuff on earnings quality/ earnings management. This is a very nice differentiator; while other books mention the topic, they do little else."

—Edward Ketzel, Penn State

Describe the appropriate income statement presentation for these transactions.

LO 1 Define extraordinary items and describe the appropriate presentation for these items.

Before we investigate separately reported items, let's take a look at the relationship of both operating and nonoperating income and their relationship to earnings quality.

Earnings Quality

Financial analysts are concerned with more than just the bottom line of the income statement—net income. The presentation of the components of net income and the related supplemental disclosures provide clues to the user of the statement in an assessment of earnings quality. Earnings quality is used as a framework for more in-depth discussions of operating and nonoperating income.

The term earnings quality refers to the ability of reported earnings (income) to predict a company's future earnings. After all, an income statement simply reports on events that already have occurred. The relevance of any historical-based financial statement hinges on its predictive value. To enhance predictive value, analysts try to separate a company's *transitory earnings* effects from its *permanent earnings*. Transitory earnings effects result from transactions or events that are not likely to occur again in the foreseeable future, or that are likely to have a different impact on earnings in the future. Later in the chapter we address three items that, because of their transitory nature, are required to be reported separately in

Earnings quality refers to the ability of reported earnings (income) to predict a company's future earnings.

Intermediate Accounting is full of pedagogy designed to make studying productive and hassle free. On the following pages, you will see the engaging, helpful pedagogical features that enable your students, regardless of academic major or preferred learning style, to master the fundamentals of intermediate accounting.

Debt Equivalent of Wal-Mart's Operating Leases

Operating Leases	PV Factor 10%	Present Value
\$ 623	.909	\$ 566
602	.826	497
586	.751	440
565	.683	386
547	.621	340
5,131	.386*	1,981
rentals		\$4,210

0%, $n = 10$, which treats payments after 2007 as occurring in 2012, an assumption due to next public payments after 2007.

company's debt to equity ratio and its return on assets ratio using selected information taken from Wal-Mart's annual report for the fiscal year ended below:

	(\$ in millions)
total assets	\$83,451
total liabilities	48,349
total shareholders' equity	35,102
net income	6,671

and return on assets ratios are calculated in Graphic 15-18 without utilization of operating leases and then again after adding \$4,210 million of total liabilities. In the calculation of return on assets, we use only the other than the average total assets for the year. Also, we assume no im-

FINANCIAL REPORTING CASE



Halliburton

in my introductory accounting course," says Ben. "How about restructuring costs? And how about restructuring costs? And why is there a negative \$47 million last item in the income statement cumulative? You agree to try to help."

HALLIBURTON
Year

Revenues	
Operating costs and expenses:	
Cost of services	
Cost of sales	
General and administrative	
Restructuring costs	
Total operating costs and expenses	
Operating income	
Other income (expense):	
Interest expense	
Interest income	
Gain on sale of vessels	
Other	
Income before taxes	
Provision for income taxes	
Income (loss) from continuing operations	
Discontinued operations, net of tax	
Cumulative effect of a change in accounting principle	
Net income (loss)	

FINANCIAL REPORTING CASE

Q2, p. 167

GAAP require that certain transactions be reported separately in the income statement, below income from continuing operations.

The information in the income statement is useful if it can help users predict the future. Toward this end, users should be made aware of events reported in the income statement that are not likely to occur again in the foreseeable future.

There are three types of events that, if they have a material effect²¹ on the income statement, require separate reporting and disclosure: (1) discontinued operations, (2) extraordinary items, and (3) the cumulative effect of a change in accounting principle.²² In fact, these are the only three events that are allowed to be reported below continuing operations. Although a company has considerable flexibility in reporting income from continuing operations, the presentation order of these three is mandated as follows:²³

	\$xxx
Income from continuing operations	xx
Discontinued operations, net of \$xx in taxes	xx
Extraordinary items, net of \$xx in taxes ²⁴	xx
Cumulative effect of a change in accounting principle, net of \$xx in taxes	xx
Net income	\$xxx

The objective is to separately report all of the income effects of these items. Therefore, their income tax effects also are included in the separate presentation rather than as part of the amount reported as income tax expense. The process of associating income tax effects with the income statement components that create those effects is referred to as *intraperiod tax allocation*. We address this process before defining the separately reported items more precisely.

1999	1998	1997
374	401	170
(14)	(134)	
Cash and cash equivalents, January 1		130,000
Cash and cash equivalents, December 31		\$304,000

FINANCIAL REPORTING CASE SOLUTION

- How would you explain restructuring costs to Becky? Are they necessarily a negative? What is the likely explanation for the negative expense in 1999? (p. 177) Restructuring costs include employee severance and termination benefits plus other costs associated with the shutdown or relocation of facilities or downsizing of operations. It's not necessarily bad. In fact, the objective is to make operations more efficient. The costs are incurred now in hopes of better earnings later. When a company restructures its operations, it estimates the future costs associated with the restructuring and expenses the costs in the period in which the decision to restructure is made. An offsetting liability is recorded. Later expenditures are charged against this liability as they occur. In 1999, Halliburton lowered its estimate of the total costs associated with the 1998 restructuring and recorded an adjustment that increased

On the other hand, if the effective interest each period is more than the cash paid, the underpayment of interest adds to the amount owed.

ADDITIONAL CONSIDERATION

The preceding illustrations describe bonds sold at a discount and at a premium. The same concepts apply to bonds sold at face amount. But some of the procedures would be unnecessary. For instance, calculating the present value of the interest and the principal always will give us the face amount when the effective rate and the stated rate are the same:

Calculation of the Price of the Bonds

		Present Values
Interest	$\$42,000 \times 4.91732^*$	= \$206,528
Principal	$\$700,000 \times 0.70496^*$	= 493,472
Present value (price) of the bonds		\$700,000

*Present value of an ordinary annuity of \$1: $n = 6$, $i = 6\%$.
*Present value of \$1: $n = 6$, $i = 6\%$.

WHEN FINANCIAL STATEMENTS ARE PREPARED

INTEREST DATES

ETHICAL DILEMMA

The Precision Parts Corporation manufactures automobile parts. The company has reported a profit every year since the company's inception in 1977. Management prides itself on this accomplishment and believes one important contributing factor is the company's incentive plan that rewards top management a bonus equal to a percentage of operating income *if the operating income goal for the year is achieved*. However, 2003 has been a tough year, and prospects for attaining the income goal for the year are bleak.

Tony Smith, the company's chief financial officer, has determined a way to increase December sales by an amount sufficient to boost operating income over the goal for the year and earn bonuses for all top management. A reputable customer ordered \$120,000 of parts to be shipped on January 15, 2004. Tony told the rest of top management "I know we can get that order ready by December 31 even though it will require some production line overtime. We can then just leave the order on the loading dock until shipment. I see nothing wrong with recognizing the sale in 2003, since the parts will have been manufactured and we do have a firm order from a reputable customer." The company's normal procedure is to ship goods f.o.b. destination and to recognize sales revenue when the customer receives the parts.

We now turn our attention to the question of whether the sale of parts to the customer is more obviously not part of a company's permanent earnings and, appropriately, are excluded from continuing operations.

Separately Reported Items

ADDITIONAL CONSIDERATION BOXES

These boxes clarify "on the spot" considerations of important, but incidental or infrequent aspects of primary topics covered in the text. The boxes serve as parenthetical references that help to maintain the appropriate rigor of the surrounding text material.

ETHICAL DILEMMAS

Ethical dilemmas are incorporated within the narrative with the intent being to raise students' consciousness to the ethical ramifications and provide a source for classroom discussion.

"I think that the cases provide students with a decision context for the understanding of the issues discussed in the chapter."

—Nandini Chandar,
Rutgers University

"They add a real-world flavor and should be of interest to students."

—Jerry G. Kreuze, Western
Michigan University

What makes *Intermediate Accounting* such a *powerful* learning tool?

"These cases contain extensive real-world information. The cases can be easily assigned in small groups, lending themselves to the benefits of team learning. The real-world context of the statements should be of great interest to students."

—Linda Nichols,
Texas Tech University

BROADEN YOUR PERSPECTIVE CASES

An integral part of each chapter, these cases prepare students for the CPA exam by helping them develop these four critical skills: research, analysis, judgment, and communication.

"I like the variety of cases in SST and I would assign some cases, especially ethics and Internet cases."

—John A. Rude,
Bloomsburg University

"I think the SST's end of the chapter material is excellent."

—Suzanne Busch,
California State-Hayward

Interim periods include payments of \$400,000 through various media throughout the year. The income tax rate for the firm's level of operations for the first quarter is 30%, but management estimates the effective rate for the entire year will be 36%.

Required:
Prepare the income statement to be included in Branson's first quarter interim report.

BROADEN YOUR PERSPECTIVE

Real World Case 5-1
Chainsaw AI; Revenue recognition and earnings management

Apply your critical-thinking ability to the knowledge you've gained. These cases will provide you an opportunity to develop your research, analysis, judgment, and communication skills. You also will work with other students, integrate what you've learned, apply it in real world situations, and consider its global and ethical ramifications. This practice will broaden your knowledge and further develop your decision-making abilities.

In May 2001, the Securities and Exchange Commission sued the former top executives at Sunbeam, charging the group with financial reporting fraud that allegedly cost investors billions in losses. Sunbeam Corporation is a recognized designer, manufacturer, and marketer of household and leisure products, including Coleman, Eastpak, Firo Alert, Grillmaster, Mixmaster, Mr. Coffee, Oster, Powermate, and Campingaz. In the mid-1990s, Sunbeam needed help: its profits had declined by over 80% percent, and in 1996, its stock price was down over 50% from its high. To the rescue: Albert Dunlap, also known as "Chainsaw AI" based on his reputation as a ruthless executive known for his ability to restructure and turn around troubled companies, largely by eliminating jobs.

The strategy appeared to work. In 1997, Sunbeam's revenues had risen by 18 percent. However, in April 1998, the brokerage firm of Paine Webber downgraded Sunbeam's stock recommendation. Why the downgrade? Paine Webber had noticed unusually high accounts receivable, massive increases in sales of electric blankets in the third quarter 1997, which usually sell best in the fourth quarter, as well as unusually high sales of barbecue grills for the fourth quarter. Soon after, Sunbeam announced a first quarter loss of \$44.6 million, and Sunbeam's stock price fell 25 percent.

It eventually came to light that Dunlap and Sunbeam had been using a "bill and hold" strategy with retail buyers. This involved selling products at large discounts to retailers before they normally would buy and then holding the products in third-party warehouses, with delivery at a later date.

Many felt Sunbeam had deceived shareholders by artificially inflating earnings and the company's stock price. A class-action lawsuit followed, alleging that Sunbeam and Dunlap violated federal securities laws, suggesting the motivation to inflate the earnings and stock price was to allow Sunbeam to complete hundreds of millions of dollars of debt financing in order to complete some ongoing mergers. Shareholders alleged damages when Sunbeam's subsequent earnings decline caused a huge drop in the stock price.

Financial statements: Should these interim periods be viewed as separate periods or integral parts of the annual period?

EXERCISES

E 5-1
Installment sales method

The Charter Corporation, which began business in 2003, appropriately uses the installment sales method of accounting for its installment sales. The following data were obtained for sales made during 2003 and 2004:

	2003	2004
Installment sales	\$360,000	\$350,000
Cost of installment sales	216,000	245,000
Cash collections on installment sales during:		
2003	150,000	100,000
2004	—	120,000

Required:

- How much gross profit should Charter recognize in 2003 and 2004 from installment sales?
- What should be the balance in the deferred gross profit account at the end of 2003 and 2004?

[This is a variation of the previous exercise focusing on journal entries.]

E 5-2
Installment sales method; journal entries

The Charter Corporation, which began business in 2003, appropriately uses the installment sales method of accounting for its installment sales. The following data were obtained for sales during 2003 and 2004:

	2003	2004
Installment sales	\$360,000	\$350,000
Cost of installment sales	216,000	245,000
Cash collections on installment sales during:		
2003	150,000	100,000
2004	—	120,000

Required:

Prepare summary journal entries for 2003 and 2004 to account for the installment sales and cash collections. The company uses the periodic installment method.

To measure liquidity, solvency, and profitability, analysts use ratios. In this exercise, you will use industry standards, profitability, turnover ratios, and risk management activities, to name a few.

THE BOTTOM LINE

- Liabilities are present obligations to sacrifice assets in the future because of something that already has occurred. Current liabilities are expected to require current assets for the creation of other current liabilities and usually are payable within one year.
- Short-term bank loans usually are arranged under an existing line of credit with a bank or group of banks. When interest is discounted from the face amount of a note (a so-called noninterest-bearing note), the effective interest rate is higher than the stated discount rate. Large, highly rated firms sometimes sell commercial paper directly to the buyer (lender) to borrow funds at a lower rate than through a bank loan.
- Accrued liabilities are recorded by adjusting entries for expenses already incurred, but for which cash has yet to be paid (accrued expenses). Familiar examples are salaries and wages payable, income taxes payable, and interest payable.

Intermediate accounting is a difficult, challenging topic. To help students learn the material covered and be able to use it in practice, the authors focus their efforts in helping students build problem-solving skills.

Since the beginning of the 20th century, the changing nature of the retail industry has led to the lower-of-cost-or-market rule being applied to retail ("similar") categories of inventory.

CONCEPT REVIEW EXERCISE

Dollar-Value LIFO Retail Method

On January 1, 2003, the Nicholson Department Store adopted the dollar-value LIFO retail inventory method. Inventory transactions at both cost and retail and cost indexes for 2003 and 2004 are as follows:

	2003		2004	
	Cost	Retail	Cost	Retail
January 1, 2003	\$16,000	\$24,000		
Net purchases	42,000	58,500	45,000	58,700
Net markups		3,000		2,400
Net markdowns		1,500		1,100
Net sales		56,000		57,000
Price index:				
January 1, 2003		1.00		
December 31, 2003		1.08		
December 31, 2004		1.15		

Required:
Estimate the 2003 and 2004 ending inventory and cost of goods sold using the dollar-value LIFO retail inventory method.

	2003		2004	
	Cost	Retail	Cost	Retail
Beginning inventory	\$16,000	\$24,000	\$17,456	\$28,000
Plus: Net purchases	42,000	58,500	45,000	58,700
Net markups		3,000		2,400
Less: Net markdowns		(1,500)		(1,100)
Goods available for sale (excluding beg. inv.)	42,000	60,000	45,000	60,000
Goods available for sale (including beg. inv.)	58,000	84,000	62,456	88,000
Base layer	\$16,000	\$24,000		
Cost-to-retail percentage:	\$16,000	\$24,000		
		66.67%		
2003	\$42,000	\$60,000		
Cost-to-retail percentage:	\$42,000	\$60,000		
		70%		
2004	\$45,000	\$60,000		
Cost-to-retail percentage:	\$45,000	\$60,000		
		75%		
Less: Net sales				
Estimated ending inv. at retail				
Less: Estimated ending inv. at cost				
Estimated cost of goods sold				

SOLUTION

	2003			
	Ending Inventory at Year-End Retail Prices	Step 1 Ending Inventory at Base Year Retail Prices	Step 2 Inventory Layers at Base Year Retail Prices	Step 3 Inventory Layers Converted to Cost
	\$28,000 (above)	\$28,000	\$24,000 (base) × 1.00 × 66.67% = 1,926 (2003) × 1.08 × 70.00% = 1,456	\$16,000 1,456
Total ending inventory at dollar-value LIFO retail cost				\$17,456
	2004			
	Ending Inventory at Year-End Retail Prices	Step 1 Ending Inventory at Base Year Retail Prices	Step 2 Inventory Layers at Base Year Retail Prices	Step 3 Inventory Layers Converted to Cost
	\$31,000 (above)	\$31,000	\$24,000 (base) × 1.00 × 66.67% = 1,926 (2003) × 1.08 × 70.00% = 1,456 1,021 (2004) × 1.15 × 75.00% = 889	\$16,000 1,456 889
				\$18,345

P 5-4
Percentage-of-completion method

E_x

In 2003, the Westgate Construction Company entered into a contract to construct a road for Santa Clara County for \$10,000,000. The road was completed in 2005. Information related to the contract is as follows:

	2003	2004	2005
Costs incurred during the year	\$2,400,000	\$3,600,000	\$2,200,000
Estimated costs to complete as of year-end	5,600,000	2,000,000	0
Billings during the year	2,000,000	4,000,000	4,000,000
Cash collections during the year	1,800,000	3,600,000	4,600,000

Westgate uses the percentage-of-completion method of accounting for long-term construction contracts.

- Required:
- Calculate the amount of gross profit to be recognized in each of the three years.
 - Prepare all necessary journal entries for each of the years (credit various accounts for construction costs incurred).
 - Prepare a partial balance sheet for 2003 and 2004 showing any items related to the contract.
 - Calculate the amount of gross profit to be recognized in each of the three years assuming the following costs incurred and costs to complete information:

	2003	2004	2005
Costs incurred during the year	\$2,400,000	\$3,000,000	\$3,200,000
Estimated costs to complete as of year-end	5,600,000	3,100,000	0

- Calculate the amount of gross profit to be recognized in each of the three years assuming the following costs incurred and costs to complete information:

	2003	2004	2005
Costs incurred during the year	\$2,400,000	\$3,000,000	\$3,000,000

Research Case 5-8
Locate and extract relevant information and authoritative support for a financial reporting issue; revenue recognition; right of return

Many companies sell products allowing their customers the right to return merchandise if they are not satisfied. Because the return of merchandise can retroactively negate the benefits of having made a sale, the seller must meet certain criteria before revenue is recognized in situations when the right of return exists. SFAS No. 48, "Revenue Recognition When Right of Return Exists," lists the criteria, the most critical of which is that the seller must be able to make reliable estimates of future returns.

- Required:
- Obtain the original SFAS No. 48. You might gain access through FARS, the FASB Financial Accounting Research System, from your school library, or some other source.
 - What factors does the standard discuss that may impair the ability to make a reasonable estimate of returns?
 - List all six criteria that must be met before revenue can be recognized when the right of return exists.
 - Using Edgarscan (edgarscan.pwgcglobal.com) access the 10-K reports for the most recent fiscal year for Hewlett-Packard Company and for Advanced Micro Devices, Inc. Search for the revenue recognition policy to determine when these two companies recognize revenue for product sales allowing customers the right of return.
 - Using your answers in requirements 2 and 3, speculate as to why the two revenue recognition policies differ.

"I find the concept reviews presented in SST particularly useful to students and something of that nature is not well developed in my current text."

—Nandini Chandar,
Rutgers University

CONCEPT REVIEW EXERCISES

Included within each chapter for each core issue discussed, the Concept Review Exercises with solutions allow students to reinforce their understanding and practice applying the procedures learned in the chapter before attempting homework assignments.

"The problem material is also very good. There is a wide variety in terms of topic and level of difficulty. The problems are also correlated well with the text."

—Richard Elmendorf,
Metropolitan State-Denver

"The authors did a good job in the development of assignment materials. A good variety and quantity of materials are included in the text."

—Thomas R. Weirich,
Central Michigan University

What's *new* about the *Third Edition*?

Chapter 1

The political process section has been updated to include a discussion of the recent debate that occurred on the issue of accounting for business combinations.

Chapter 2

Revised material

Chapters 3, 4, and 5

The order of these three chapters has been changed. The new sequence is as follows:

- Chapter 3 The balance sheet and financial disclosures
- Chapter 4 The income statement and statement of cash flows
- Chapter 5 Income measurement and profitability analysis

The reasons for this revision include:

The basic financial statements are now presented contiguously in chapters 3 and 4.

The balance sheet is now covered before presenting the material on the balance sheet treatment of long-term contract accounting (in the chapter on income measurement).

As with the second edition, the topic of revenue recognition (Chapter 5) again follows immediately after the income statement coverage (Chapter 4).

Chapter 3

Revised material

Chapter 4

Part A of this chapter, the income statement, has been restructured by framing the discussion of income statement presentation within the context of earnings quality/earnings management. The restructure provides an appropriate and interesting way to walk students through the income statement. In most chapters that follow, the issue of earnings quality/earnings management is revisited, in most cases within the context of Decision Makers' Perspectives.

The discontinued operations section has been revised to reflect the impact of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," on accounting for discontinued operations, and the section on restructuring costs has been updated to reflect SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal."

Chapter 5

The two main headings within Part A are now:

1. Revenue Recognition at a Point in Time
2. Revenue Recognition over Time

We believe this is a much more logical way to present the information to students. Any specific revenue recognition issue falls nicely into one of these two logical categories.

The revised chapter includes a discussion of the SEC's *Staff Accounting Bulletin No. 101*, "Revenue Recognition in Financial Statements," and the impact this pronouncement has had on company revenue recognition policies.

Chapter 6

The chapter has been updated to include a discussion of SFAC No. 7, "Using Cash Flow Information and Present Value in Accounting Measurements."

Chapter 7

The entire section on financing with receivables has been revised and updated to incorporate SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." We believe this revision provides a better flow to the material. In addition, we have added some real world examples to increase the relevance of the material.

A Decision Makers' Perspective section on cash management has been added.

Chapter 8

A Decision Makers' Perspective section on inventory management has been added.

Chapter 9

The introduction to Part A, The Lower of Cost or Market, has been revised to provide increased real-world relevance to the topic.

Chapters 10 and 11

These two chapters cover accounting for operational assets. We have changed the title of Chapter 10 to "Acquisition and Disposition" and Chapter 11 to "Utilization and Impairment." A new Part B has been added to Chapter 10 entitled "Dispositions and Exchanges." The small section on disposition through sale or abandonment has been moved from Chapter 11 to this part of Chapter 10 along with all of the material on exchanges.

These chapters have been updated to include the following new pronouncements:

SFAS No. 141, "Business Combinations"

SFAS No. 142, "Goodwill and Other Intangible Assets"

SFAS No. 143, "Accounting for Asset Retirement Obligations"

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"

Chapter 12

Part A: Graphic 12-1 was added to provide an overview of the six approaches to accounting for investments.

Accounting for held-to-maturity securities has been expanded.

We revisit our discussion of investments in debt securities to be held to maturity in Chapter 14, "Bonds and Long-Term Notes" in order to more readily see that accounting by the company that issues bonds and by the company that invests in those bonds is opposite but parallel. However, an illustration was added to the discussion in this chapter to help students understand what it means to report these securities at amortized cost in the balance sheet and to contrast that with accounting for available-for-sale and trading securities at fair value. When we resume our discussion of bond investments in Chapter 14, we continue the same numerical illustration we began in this chapter.

A T-account analysis to reinforce the effect of the accounting treatment on the accounts affected was added.

We added numerical demonstrations of the effects on the balance sheet, income statement, and SCF.

An expanded discussion of comprehensive income is added, particularly as it relates to available-for-sale securities.

Part B: We modified our discussion, illustrations, and end-of-chapter materials pertaining to the equity method to conform with the new FASB standards eliminating the amortization of goodwill and thus the effects of that elimination on previously required adjustments in the equity method.

Introduction to financial instruments and investment derivatives has been moved to follow the Decision Makers' Perspective.

Chapter 13

In Chapter 6, we described a framework for taking into account any uncertainty concerning the amounts and timing of the cash flows. We added a demonstration of that approach in this chapter as it relates to measuring a warranty obligation and compare it with the traditional way of measuring a warranty obligation.

We expanded the Decision Makers' Perspective section to consider the possibility of management efforts to manipulate the ratios that measure liquidity, including timing strategies that manipulate the timing of revenue and expense recognition in order to "smooth" income over time.

Chapter 14

We reorganized the topics in this chapter to create a more logical flow and to provide instructors greater flexibility in the choice of topics to be covered. One result is apportioning the material into three parts rather than the two parts in the second edition.

Part A: Bonds

Part B: Notes

Part C: Debt Retired Early, Convertible into Stock, or Providing an Option to Buy Stock

We moved the primary Derivatives coverage from this chapter to an Addendum to the text, complete with typical end of chapter material. The topic is introduced in Chapter 12.

In the aftermath of Enron and other financial losses that have grabbed headlines in recent years, we expanded the Decision Makers'

Perspective section to consider risks associated with off balance sheet financing and other commitments that don't show up on the face of financial statements but nevertheless expose a company to risk, along with attempts to actively manage the risk associated with these and other obligations.

Chapter 15

We reorganized the topics in this chapter to create a more logical flow and to provide instructors greater flexibility in the choice of topics to be covered. One result is apportioning the material into four parts rather than the two parts in the second edition.

Part A: Accounting by the Lessor and Lessee

Part B: Residual Value and Bargain Purchase Options

Part C: Other Lease Accounting Issues

Part D: Special Leasing Arrangements

We clarified and expanded our discussion of the cash flow impact of each type of lease.

Chapter 16

Based on reviewer input, we eliminated our coverage of the tax effects of accounting changes and error correction and the Appendix "Investment Revenue from Equity Method Investees."

Chapter 17

We expanded the Decision Makers' Perspective section to consider the implications for earnings quality assessment of amounts reported in pension disclosures.

Chapter 18

We reorganized the topics in this chapter to create a more logical flow and to provide instructors greater flexibility in the choice of topics to be covered. One result is apportioning the material into three parts rather than the two parts in the second edition.

Part A: Postretirement Benefits Other than Pensions

Part B: Stock-Based Compensation Plans

Part C: Other Compensation Prior to Retirement

Employee Stock Ownership Plans has been moved to an appendix.

We expanded two Decision Makers' Perspective sections to consider:

1. The effect on ratio computations (such as the debt to equity ratio or return on assets) of the postretirement benefit obligation not being part of the balance sheet and how investment analysts can modify their analysis.
2. The stock-based compensation plans we discuss in this chapter as another motive managers sometimes have to manipulate income.

Chapter 19

An expanded discussion of comprehensive income is added. The discussion and illustrations focus on (a) comprehensive income created during the reporting period as part of the statement of shareholders' equity and (b) comprehensive income accumulated over the current and prior periods reported as a separate component of shareholders' equity.

Chapter 20

We expanded the Decision Makers' Perspective section to consider the recent and controversial practice of companies reporting pro forma earnings per share and the possibility that companies judiciously use share buybacks to enhance the appearance of EPS numbers.

Chapter 21

We expanded the section on accounting errors using Enron's error correction experience as the backdrop for the discussion.

Chapters 22

We reorganized the topics in this chapter into three parts:

Part A: The Content and Value of the Statement of Cash Flows

Part B: The Direct Method of Reporting Cash Flows from Operating Activities

Part C: The Indirect Method of Reporting Cash Flows from Operating Activities

A key advantage of this division is to provide instructors greater flexibility in the choice of topics to be covered, particularly in the relative focus on the direct and indirect methods of reporting operating activities.

Can *technology* really help *students* and *professors* in the learning process?



PageOut



POWERWEB

Today, nearly 200,000 college instructors use the Internet in their respective courses. Some are just getting started, while others are ready to embrace the very latest advances in educational content delivery and course management.

That's why we at McGraw-Hill/Irwin offer you a complete range of digital solutions. Your students can use Intermediate Accounting's complete Online Learning Center, NetTutor, and PowerWeb on their own, or we can help you create your own course Website using McGraw-Hill's PageOut.

In addition to Web-based assets, *Intermediate Accounting* boasts Coach, a CD-ROM that offers special chapter-by-chapter assistance for the most demanding intermediate accounting topics. Coach breaks down each chapter or theme into four simple components: The Big Picture, Ask the Expert, Coaching Illustrations, and Show the Coach What You Know.

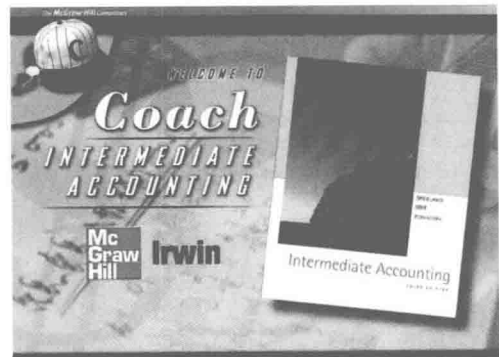
McGraw-Hill is a leader in bringing helpful technology into the classroom. And with *Intermediate Accounting*, your class gets all the benefits of the digital age.

"Based on my experience with giving computerized exams in our MBA program, I suggest that you don't want the first time your students take an exam on a computer to be the new uniform CPA exam. There is clearly a learning curve that can be mastered in a less risky environment that will serve your students well."

—Jan Williams, University of Tennessee—Knoxville

How can *students that are visual learners* find help?

Coach is an exciting, multimedia vehicle designed to be used in concert with the textbook to enhance the intermediate accounting learning experience. Students access the multimedia content from either of two perspectives. A Chapter Enhancement perspective provides access chapter by chapter. Alternatively, the Accounting Theme perspective brings together topics from diverse chapters that share relationships within four themes: (1) Standard Setting and the Politics of Accounting, (2) Earnings Management and Accounting Choices, (3) Financial Statement Relationships, and (4) Accounting Disclosures and Decision Making. Either way—chapter-by-chapter or by theme—multimedia content is available through four menus: The Big Picture, Ask the Expert, Coaching Illustrations, and Show the Coach What You Know.



- The Big Picture provides a summary of each accounting theme or chapter enhancement.
- Ask the Expert presents accounting questions that are answered by leading experts in industry and academia via video clips or articles on the Internet.
- Coaching Illustrations are illustrations and examples from the text brought to life with multimedia animation to walk students through important concepts.
- Show the Coach What You Know allows students to test themselves with (a) interactive questions in the Coach's Challenge component and (b) with real-world, real time electronic cases in the Web Cases component.
- Other Features: The Coach CD also has a Quick Jump feature that allows students to access a coaching illustration by simply typing in the page number from the text. An Overview feature orients the student to the navigation and context found on the CD. Also, the CD has a Bookmark feature so that when students exit the program, the next time they use the CD they will be brought back to that place on the CD.

How can I *easily integrate Web resources* into my course?

How can my *students* use their *study time* more effectively?

ONLINE LEARNING CENTER (OLC)

OLC

More and more students are studying online. That's why we offer an Online Learning Center (OLC) that follows *Intermediate Accounting* chapter by chapter. It doesn't require any building or maintenance on your part. It's ready to go the moment you and your students type in the URL.



www.mhhe.com/spiceland3e

As your students study, they can refer to the OLC Website for such benefits as:

- E-learning sessions
- Self-grading quizzes
- Electronic flash cards
- Communication tools
- PowerPoint tutorial
- Articles
- Real-world electronic cases
- Online tutoring (NetTutor)
- Class activities and projects
- Alternate exercises and problems
- Check figures
- Career opportunities
- Practice exams
- Ethics Issues
- Handy tools
- FASB pronouncements
- Accounting and financial information
- International accounting resources
- FASB updates

A secured Instructor Resource Center stores your essential course materials to save you prep time before class. The Instructor's Manual, Solutions, PowerPoint, and sample syllabi are now just a couple of clicks away. You will also find useful packaging information and transition notes.

The OLC Website also serves as a doorway to other technology solutions like PageOut, which is free to Intermediate Accounting adopters.

HOMEWORK MANAGER



Homework Manager is an exciting new web-based supplement available with Intermediate Accounting by Spiceland, Sepe, and Tomassini.

Homework Manager will help your students learn intermediate accounting by allowing them to work through selected problem structures pulled from the text and powered by algorithms. Providing a wealth of these textbook-quality questions enables students to work on fresh problems with the same problem structure until they master the topics covered. Each student also receives immediate scoring and feedback from the program to guide their studies.

The problem structures available in Homework Manager can be easily identified in the text by the Homework Manager icon found in the margin.

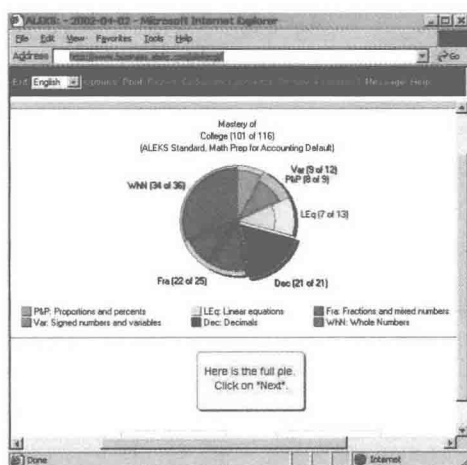
Homework Manager to accompany Intermediate Accounting also includes problem material that will require your students to build the research, analysis, judgment, communication, and spreadsheet skills that will be required on the new Uniform CPA Exam. This provides faculty with an easy solution for ensuring that your students are prepared to sit the new exam.

Homework Manager may be used in practice, homework, or exam mode, as well as a variety of other standard assignment modes. In the practice mode, students receive feedback and work as many iterations of each problem as they like without entering a record in the class grade book. In the homework mode, students receive a customized level of feedback, and their grades and individual responses are recorded in the class grade book. In the exam mode, faculty can create an online exam. Homework Manager will then record all the individual responses, grade the exams, and record the grades in the online grade book. So, you not only know how your class performed on the exam, but also, which topics or learning objectives your students struggled with.

Homework Manager is powered by Brownstone Learning.

What's the best way for my students to *brush up* their *Financial Accounting skills*?

ALEKS®



ALEKS (Assessment and LEarning in Knowledge Spaces) is an artificial intelligence-based system for individualized learning, available from McGraw-Hill over the World Wide Web.

ALEKS delivers precise, qualitative diagnostic assessments of students' knowledge, guides them in the selection of appropriate new study material, and records their progress toward mastery of curricular goals in a robust classroom management system.

ALEKS interacts with the student much as a skilled human tutor would, moving between explanation and practice as needed, correcting and analyzing errors, defining terms, and changing topics on request. By sophisticated modeling of a student's knowledge state for a given subject, ALEKS can focus clearly on what the student is most ready to learn next. When students focus on exactly what they are ready to learn, they build confidence and a learning momentum that fuels success.

ALEKS has two products for accounting students. The first is Math Prep for Accounting that provides students with business math skills. The other is ALEKS for Financial Accounting (available Spring 2003). ALEKS for Financial Accounting applies the ALEKS model to financial accounting. Visit the ALEKS website at <http://www.business.aleks.com> for more information.

ALEKS® Math Prep for Accounting
ISBN 0072846011

ALEKS® for Financial Accounting
(COMING SPRING 2003) ISBN 0072841966

What *help* can I rely on from McGraw-Hill for setting up my *online course*?

Eduprise

A CollegisEduprise Company

Developed with the help of our partner, Eduprise, the McGraw-Hill Knowledge Gateway is an all-purpose service and resource

center for instructors teaching online. While training programs from WebCT and Blackboard will help teach you their software, only McGraw-Hill has services to help you actually manage and teach your online course, as well as run and maintain the software. Knowledge Gateway offers an online library full of articles and insights that focus on how online learning differs from a traditional class environment.

To see how these platforms can assist your online course, visit www.mhhe.com/solutions.

PAGEOUT & SERVICE

PageOut is McGraw-Hill/Irwin's custom Website service. Now you can put your course online without knowing a word of HTML, selecting from a variety of prebuilt Website templates. And if none of our ideas suit you, we'll be happy to work with your ideas.

If you want a custom site but don't have time to build it yourself, we offer a team of product specialists ready to help. Just call 1-800-634-3963, press 0, and ask to speak with a PageOut specialist. You will be asked to send in your course materials and then participate in a brief telephone consultation. Once we have your information, we build your Website for you, from scratch.

INSTRUCTOR ADVANTAGE AND INSTRUCTOR ADVANTAGE PLUS

Instructor Advantage is a special level of service McGraw-Hill offers in conjunction with WebCT and Blackboard. A team of platform specialists is always available, either by toll-free phone or e-mail, to ensure everything runs smoothly through the life of your adoption. Instructor Advantage is available free to all McGraw-Hill customers.

Instructor Advantage Plus is available to qualifying McGraw-Hill adopters (see your representative for details). IA Plus guarantees you a full day of on-site training by a Blackboard or WebCT specialist, for yourself and up to nine colleagues. Thereafter, you will enjoy the benefits of unlimited telephone and e-mail support throughout the life of your adoption. IA Plus users also have the opportunity to access the McGraw-Hill Knowledge Gateway (see above).

How can I *easily create an online course*?

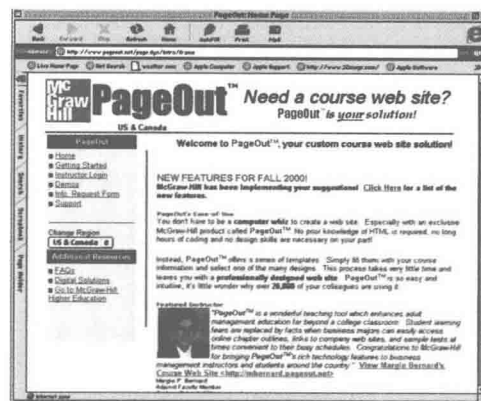


PAGEOUT—McGraw-Hill's COURSE MANAGEMENT SYSTEM

For the instructor needing to educate students online, we offer Intermediate Accounting content for complete online courses. To make this possible, we have joined forces with the most popular delivery platforms currently available. These platforms are designed for instructors who want complete control over course content and how it is presented to students. You can customize the Intermediate Accounting Online Learning Center content and author your own course materials. It's entirely up to you.

Products like WebCT, Blackboard, eCollege, and TopClass (a product of WBT) all expand the reach of your course. Online discussion and message boards will now complement your office hours. Thanks to a sophisticated tracking system, you will know which students need more attention—even if they don't ask for help. That's because online testing scores are recorded and automatically placed in your grade book, and if a student is struggling with coursework, a special alert message lets you know.

Remember, *Intermediate Accounting's* content is flexible enough to use with any platform currently available. If your department or school is already using a platform, we can help. For information on McGraw-Hill/Irwin's course management supplements, including Instructor Advantage and Knowledge Gateway, see "Knowledge Gateway" on the previous page.



PageOut is the easiest way to create a Website for your accounting course.

There's no need for HTML coding, graphic design, or a thick how-to book. Just fill in a series of boxes with simple English and click on one of our professional designs. In no time, your course is online with a Website that contains your syllabus!

Should you need assistance in preparing your Website, we can help. Our team of product specialists is ready to take your course materials and build a custom Website to your specifications. You simply need to call a McGraw-Hill/Irwin PageOut specialist to start the process. (For information on how to do this, see "PageOut & Service" on the previous page.) Best of all, PageOut is free when you adopt *Intermediate Accounting*! To learn more, please visit www.pageout.net.