

Winnebago Industries • Gateway • General Mills • McDonald's Corp. • Gap • Circuit City Store

FOURTH EDITION

• PepsiCo • AOL Time Warner • JCPenney Company • The Coca-Cola Company • Delta Air Line

FINANCIAL ACCOUNTING

International Business Machines Corp. • Wm. Wrigley Jr. Company • Monaco Coach Cor

Winnebago Industries • Gateway • JCPenney Company • Gap • Circuit City Store

**THE IMPACT
ON DECISION
MAKERS**

47 7/8

59 3/8

64 1/2

84 3/8

87 3/4

84 1/4

50 5/8

+0 5/8

+1 5/8

-0 1/8

+1 5/8

+1 3/8

+1 5/8

+0.8

-0.2

-1.9

+0.4

-0.3

+1.3

+2.8

-0.2

+2.0

+1.5

+2.0

76

54

51

106

40

48

59

65

84

88

84

50

Winnebago Industries • Gateway • General Mills • McDonald's Corp. • Gap • Circuit City Store

GARY A. PORTER

• PepsiCo • AOL Time Warner • JCPenney Company • The Coca-Cola Company • Delta Air Line

CURTIS L. NORTON

FINANCIAL ACCOUNTING

**THE IMPACT
ON DECISION
MAKERS**

GARY A. PORTER

University of St. Thomas ~ Minnesota

CURTIS L. NORTON

Northern Illinois University

THOMSON
—*—
SOUTH-WESTERN

Australia • Canada • Mexico • Singapore • Spain • United Kingdom • United States

Financial Accounting: The Impact on Decision Makers, 4e

Gary A. Porter and Curtis L. Norton

Editor-in-Chief:

Jack W. Calhoun

Vice President/Team Director:

Melissa S. Acuña

Acquisitions Editor:

Julie Lindsay

Senior Developmental Editor:

Sara E. Wilson

Marketing Manager:

Mignon Tucker

Production Editor:

Robert Dreas

Manufacturing Coordinator:

Doug Wilke

Compositor:

GGs Information Services, Inc.

Production House:

Litten Editing and Production, Inc.

Printer:

Quebecor World
Versailles, Kentucky

Senior Design Project Manager:

Michelle Kunkler

Internal Designer:

Liz Harasymczuk Design

Internal Illustrations:

Allan Moon Illustration & Design
Milton, Ontario

Cover Designer:

Liz Harasymczuk Design

Cover Image:

© PictureQuest

Photography Manager:

Deanna Ettinger

Photo Researcher:

Terri Miller/e-visual communications

Media Developmental Editor:

Sally Nieman

Media Production Editor:

Robin K. Browning

COPYRIGHT © 2004
by South-Western, a division of
Thomson Learning. Thomson
Learning™ is a trademark used
herein under license.

Printed in the United States of America
1 2 3 4 5 05 04 03 02

For more information
contact South-Western,
5191 Natorp Boulevard,
Mason, Ohio 45040.
Or you can visit our Internet site at:
<http://www.swcollege.com>

ALL RIGHTS RESERVED.
No part of this work covered by the
copyright hereon may be reproduced
or used in any form or by any
means—graphic, electronic, or
mechanical, including photocopying,
recording, taping, Web distribution or
information storage and retrieval
systems—without the written permis-
sion of the publisher.

For permission to use material from
this text or product, contact us by
Tel (800) 730-2214
Fax (800) 730-2215
<http://www.thomsonrights.com>

Library of Congress
Control Number: 2002111176

ISBN: 0-324-18568-5

Winnebago Industries' logo, icon, and annual report printed with permission by Winnebago Industries, Inc. The Winnebago logo is a trademark of Winnebago Industries, Inc.

Monaco Coach logo, icon, and annual report printed with permission by Monaco Coach Corporation. The Monaco logo is a trademark of Monaco Coach Corporation.

Gateway logo, financial statements and screen shot printed with permission by Gateway, Inc. The Gateway logo is a trademark of Gateway, Inc.

Preface

■ WELCOME ABOARD THE FOURTH EDITION!

Follow our Roadmap to Success! As you and your students take the “trip” through our text, you will experience a “journey” that will reveal the primary information needed for understanding the business environment and the important role of financial accounting in that environment. You will venture through the process of transforming the information from transactions to financial reports, deciphering the important information contained in those reports, and then analyzing it to make financial decisions.

Follow Our Well-Developed, Balanced Road

Throughout the development of our first three editions, we found that most instructors want the best of both worlds: a *decision-making focus* featuring streamlined topics and special elements to capture student interest along with rock-solid coverage and materials for teaching the *preparation of financial statements from transactions*. By striking the *right balance* with the best combination of topical coverage and pedagogical features for both of these valid approaches, we have led the way for successfully teaching financial accounting with this balanced approach. The present edition builds upon the success of its predecessors to provide the best of both.

We continue to provide *many choices* for coverage in order to meet the needs of your course and your students. As reflected in the table of contents, there are several appendices that provide additional procedural and decision-focused coverage. Any one of these can be included or excluded as desired. In addition, there is a large selection of pedagogical elements and assignments to allow *flexibility* and *variety*.

■ TRAVEL ON A FIRM FOUNDATION

For the fourth edition, we remain committed to four principles that have been instrumental to the success of the earlier editions:

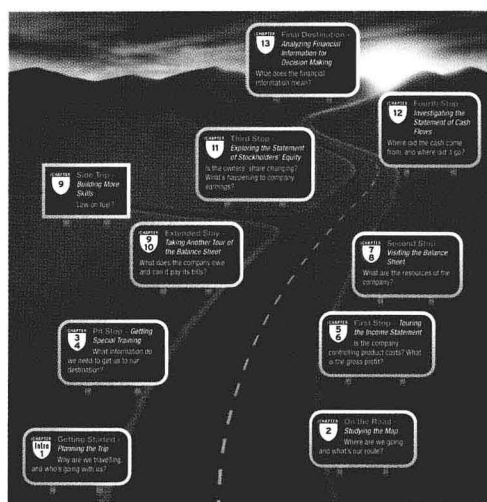
- An emphasis on *pedagogy* and *student appeal that accommodates most learning styles*.
- A focus on *financial statements*.
- A focus on *actual public companies*.
- A *decision-making* emphasis.

Our adherence to these principles has meant that thousands of business majors and accounting majors alike are prepared for future business success. We have continued and further enhanced and expanded those elements that have proven to be most effective.

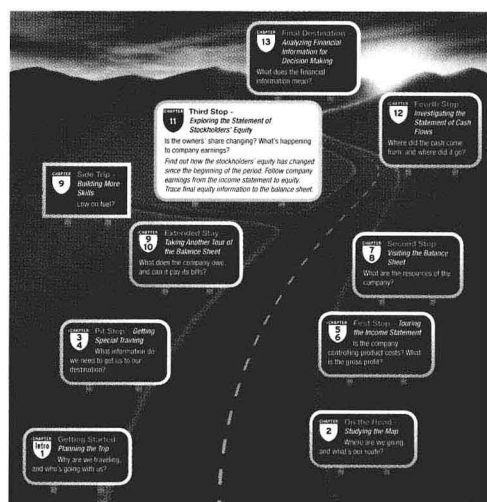
Rely on the Text's Solid Infrastructure

Supporting the balance within the text is a basic internal structure, developed around the balance sheet. Assisting in tying that structure together is the flagship company, to which students return many times as they develop their understanding of financial information. A roadmap provides a recurring visual to assist students in understanding where they are in their journey through the text.

NEW! Our **Roadmap to Success** guides students as they move through the text. The master roadmap appears at the beginning of the text, across from the title page, and provides an overview of the text. Each signpost displays one or more key questions for each chapter.



The roadmap reappears at the beginning of each chapter, where its sign expands to include a statement of the core focus of the chapter and serves as a continuing reminder of the text's direction and decision-making coverage.



NEW! Information about **Winnebago Industries**, the new flagship company, is interwoven through every chapter in the text. Students are introduced to the company in the Introduction section and Chapter 1. In subsequent chapters, the flagship company is revisited many times with the coverage identified by a feature icon. The entire Winnebago Industries 2001 annual report is reproduced in Appendix A at the end of the text. Subsequent annual reports will be linked to the text's Web site (<http://porter.swlearning.com>) or may be accessed directly through the company site (<http://www.winnebagoind.com>).

Part Openers. Each part is introduced by **A Word to Students**, which provides an overview of the coverage to come, the title of the chapters and appendices contained within the part, and a photo introducing the featured companies.

Part I

The Accounting Model

A Word to Students About This Course

Knowing accounting is just plain smart for everyone in today's job market. This book is therefore not just for accounting majors—it's for anyone who wants to learn how to read and understand financial information. You'll work with numbers in this course. But at every turn, this book and its study aids—not to mention your instructor—will walk you through the details. You'll write some memoranda backing up your calculations, pitting your analytical skills against real financial statements and problems. And you'll have the chance to put yourself in different business roles.

In fact, this book will help you think, talk, and write skillfully about accounting information.

Introduction

Getting Started in Business

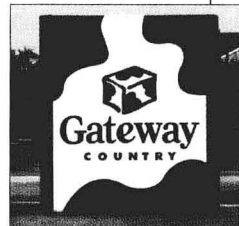
Chapter 1

Accounting as a Form of Communication



Chapter 2

Financial Statements and the Annual Report



Chapter 3

Processing Accounting Information

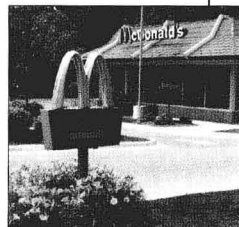


Chapter 4

Income Measurement and Accrual Accounting

Appendix

Accounting Tools: Work Sheets



- **Part I—The Accounting Model**—begins with **Getting Started in Business**. This introduction is designed to help students orient themselves to the business world so that all members of the class will have basic information about the structure of businesses, the importance of financial accounting, and the decision makers in the business environment. The story of Winnebago Industries begins its path through the text in this introduction. From there, students move through Chapters 1–4. These chapters describe the four main financial statements and supporting information found in annual reports, GAAP, accrual accounting, and the basic processing of transactions through the accounting cycle.
- **Part II—Accounting for Assets**—and **Part III—Accounting for Liabilities and Owners' Equity**—“tour” the balance sheet, going from assets through liabilities to equity. We present the essential explanations of the statement’s core content and clearly tie the balance sheet accounts to the other financial statements and disclosures.
- **Part IV—Additional Topics in Financial Accounting**—provides an in-depth explanation of the statement of cash flows with descriptions of both the direct and indirect methods. This section also brings together and expands on all of the analysis coverage presented earlier in the text.

Tools. Supporting several chapters are appendices that contain special “tools” for students. These include coverage of *work sheets* (Ch. 4 appendix), *internal controls* (Ch. 5 appendix), *perpetual inventory costing method* (Ch. 6 appendix), *payroll accounting* (Ch. 9 appendix A), *using Excel for interest calculations* (Ch. 9 appendix B), and *statement of cash flows preparation using a work-sheet approach* (Ch. 12 appendix).

Integrative Problem. We have strategically placed a comprehensive problem at the end of each part. Each assignment challenges the student to think through a multi-faceted problem that requires knowledge learned throughout that section of the text.

Complete Glossary. For quick reference, a comprehensive glossary of key terms is located at the end of the text. Also included is the page number where each term was originally defined.

Company and Subject Indexes. Because we provide many examples and references to actual companies and other entities throughout the text, we have provided a separate company index for your convenience. This is followed by a complete subject index for quick referencing.

Navigate Our New Features

In addition to our new roadmap and new flagship company, we have further enriched our text features to assist students with understanding financial accounting.

NEW! Comparing Two Companies in the Same Industry: Winnebago Industries and Monaco Coach Corporation. Each chapter contains a new comparative case. By completing these cases, students gain a greater understanding of two competitors in the same industry. They discover differences in approaches to reporting financial information and analyze the annual reports to get a better understanding of how financial information is used by decision makers. Appendix B, at the end of the text, contains the complete Monaco Coach Corporation 2001 Annual Report. Subsequent annual reports will be linked to the text’s Web site (<http://porter.swlearning.com>) or may be accessed directly through the company site (<http://monacocoach.com>)

Cases

<http://www.winnebagoind.com>
<http://www.monacocoach.com>

Reading and Interpreting Financial Statements

Case 4-1 Comparing Two Companies in the Same Industry: Winnebago Industries and Monaco Coach Corporation LO 3, 4, 5

Refer to the financial information for Winnebago Industries and Monaco Coach Corporation in Appendices A and B at the end of the book.

Required

1. Neither company reports on its balance sheet an account titled “Accounts Receivable.” Identify the account or accounts on each company’s balance sheet that is equivalent to Accounts Receivable.
2. What dollar amount does each company report in Prepaid Expenses on its balance sheet at the end of 2001? When the benefits from this asset expire in the future this account will be credited and an expense account will be debited. For each company, identify the account or accounts on its income statement that you would expect to be debited.

NEW! Updates for the Latest Pronouncements. Chapters 8 and 10 have been revised to reflect the impact of FASB Statements 141, 142, and 145. As new pronouncements arise that impact on text coverage, additional updates will be posted on our Web site (<http://porter.swlearning.com>).

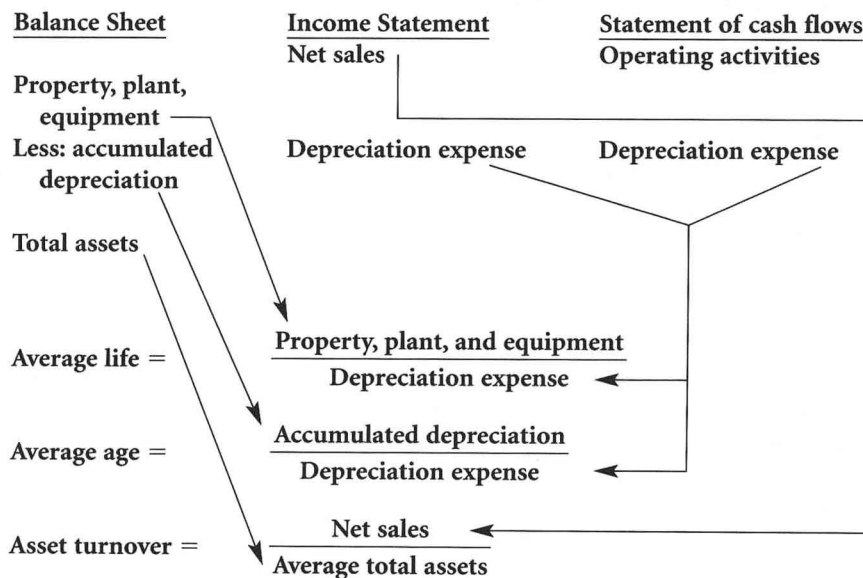
- Chapter 8 includes discussion of the impact of the new rules for amortizing intangibles with finite lives and the impairment rules for intangible, such as goodwill. Care is taken throughout to focus attention on how these changes affect the financial statements rather than on the specifics of the authoritative standards, something better left to an intermediate accounting course.
- Chapter 10 reflects the recent change in the classification of any gain or loss on the early retirement of bonds. The new financial accounting standard reverses an earlier pronouncement, which required extraordinary treatment for these gains and losses.

NEW! Ratios for Decision Making. The purpose of this presentation, which appears in chapters where ratios and other key calculations are introduced, is to briefly review the core reason for use of the ratio(s) for decision making. The ratios are restated along with their formulas. In addition, the financial statement or note source of each ratio component is identified. This consolidated review of the chapters ratios provide students with a quick reference and reinforcement.

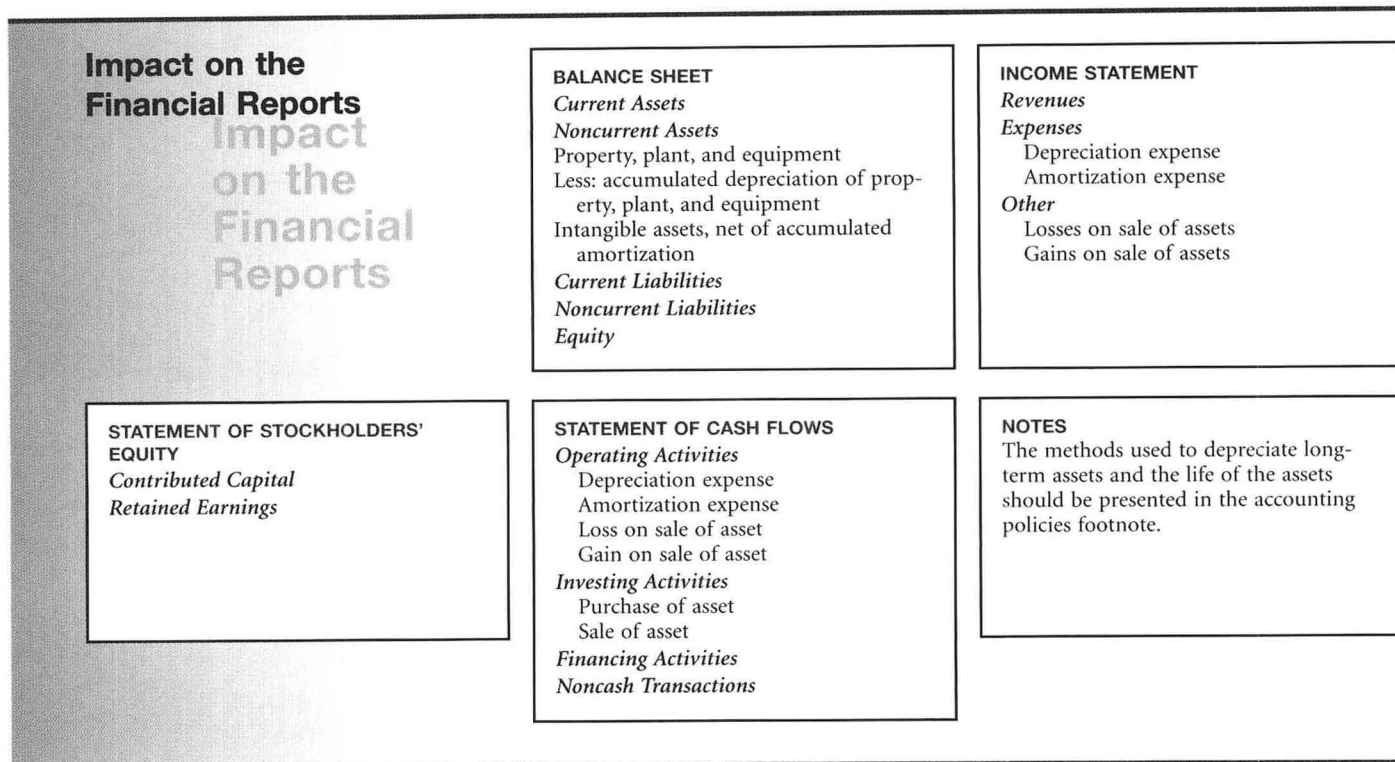


Ratios for Decision Making

Long-term assets are used to produce the products and services that allow a company to operate profitably. Therefore, it is important for investors and creditors to analyze whether the long-term assets are sufficient to support the company's activities. Investors and creditors should analyze the average life of the assets, the average age of the assets, and the asset turnover. The asset turnover is a measure of how many dollars of assets are necessary to generate a dollar of sales. The following ratios can be used to calculate the life, age, and turnover of the long-term assets (assuming the company is using the straight-line method of depreciation):



NEW! Impact on the Financial Reports. The purpose of this presentation is to show, in one place, the impact of the chapter's topical coverage on one or more of the four financial statements and the notes. This also reinforces how interconnected these reports are and where decision makers should expect to see impact and disclosure.

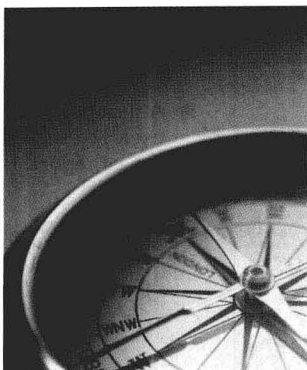


NEW! Assistance with Calculations. As instructors, we realize the varied approaches used to teach students time value of money concepts. In Chapter 9, as either an alternative or an addition to the use of tables to perform future and present value calculations, students are introduced to the use of financial calculators to aid the process. One of the most popular of these, a Texas Instrument model, is illustrated in the examples in the chapter. The use of a financial calculator is also reinforced in Chapter 10.

NEW! Excel as a Tool. A new appendix to Chapter 9, "Accounting Tools: Using Excel for Problems Involving Interest Calculations," illustrates for the student how one of the most widely used spreadsheets can serve as a tool in solving time value of money problems.

NEW! Expanded Coverage of Income Statement Items. It is not unusual to find an income statement that include the impact of a discontinued segment, an extraordinary item, or cumulative effect of a change in an accounting principle. To better prepare students for understanding these disclosures, we have added coverage of these topics in a new Chapter 13 appendix, "Reporting and Analyzing Other Income Statement Items."

NEW! Which Way to Go? In accounting, there are many decisions that must be made regarding how a transaction should be handled and what its effect will be on reported financial information. We have added this feature to allow you and your students to discuss some of those choices and their impact. Suggested solutions are provided in the Instructor's Resource Manual.



Which Way To Go?

R&D Expense or Long-Term Asset?

For the past six months, Taz Industries has been struggling with a problem in its production line. The number of units produced each day has been steadily dropping. The company believes worn-out equipment is partly the cause. Three months ago, the plant manager put an engineer and the senior machinist to work, full time, to solve the problem. They created a

new, electronic tool that, when used in the assembly process, significantly improves production. It is expected that this tool will be useful for at least the next five years.

The total cost of the salaries for the engineer and machinist for three months, plus the cost of materials used in the development process, is \$35,000. This includes the cost of time and materials for creating early models that did not solve the problem.

Even though the company plans to use the new tool only for internal production and has no intention of selling it, management believes obtaining a patent is a good idea. The various fees involved in obtaining the patent are expected to total \$10,000.

How should the company record the costs? Why should they be recorded in this manner?

Explore the Real World

Coverage of well-known companies greatly enhances student interest. We have *fully updated* all of the financial and other relevant information related to the large number of publicly traded companies that we feature.

Focus on Financial Results. As each chapter opens, students are introduced to its focus company. This feature provides up-to-date background and key financial data that create an interest-generating, real-world setting for the reader. This company and its pertinent financial information thread throughout the chapter. All companies are well-known and publicly traded. In addition to Winnebago Industries, examples of chapter-focus companies are Gateway, PepsiCo, and McDonald's.

You're in the Driver's Seat. This chapter-opening section contains questions relating to the focus company. Directives assist the reader in thinking about how the chapter's coverage provide answers to decision makers.

From Concept to Practice. Throughout the text, these elements invite students to apply what they have learned to answer questions related to Winnebago Industries and other featured companies.



From Concept to Practice 8.1

What amount did Winnebago Industries report as depreciation in fiscal year 2001? Where is it disclosed? What depreciation method was used?

- Chapter-opening introduction illustrates a key financial issue related to the chapter.

What groups of people care about the financial performance of Winnebago Industries, one of the leading manufacturers of motor homes and recreational vehicles (RVs) in the United States? Since its founding over 40 years ago, the company's managers, investors, employees, dealers, and suppliers have all had a vested interest in the financial health of the company whose name is synonymous with RVs.

To communicate its financial performance, Winnebago Industries uses the language of accounting. The *selected financial data* that follow here summarize key measures including revenues, income, and assets. This information shows that *beginning with September 1, 1997*, both revenues and net income rose in the *next three* fiscal years, 1998, 1999, and 2000, although the company experienced a decline in both of these

measures in fiscal year 2001. As explained in the annual report, the drop in revenues corresponds to a decline in consumer confidence levels and a slowdown in the economy. Beginning in fiscal year 1997 the company refocused on its core motor home business and is encouraged by what it sees: an increase in market share of 10 percent calendar year-to-date through September 2001 versus one year earlier.

One year cannot be the future of Winnebago Industries? In its 2001 message to its shareholders, Winnebago Industries sounded quite optimistic about its future. This optimism likely contributed to the company's decision to continue to pay the \$0.20 per share dividend to shareholders that it had paid each of the previous four years. A series of graphs¹ show that the company leads the RV industry in return on shareholders' equity, return on assets, operating margin, and net profit margin. This standing among its competitors, along with six consecutive quality awards from its dealers association, does indeed give Winnebago Industries and its shareholders reason to be optimistic about the future.

<http://www.winnebagoind.com>

- A financial statement or excerpt from the company's annual report.

- Thought-provoking questions relate the company back to the chapter.

Company net
income rose in
fiscal years 1998,
1999, and 2000

Selected Financial Data

Company revenues
rose in fiscal years
1998, 1999, and 2000

(dollars in thousands, except per share data)

	Aug. 29, 2001(a)	Aug. 28, 2000	Aug. 27, 1999	Aug. 28, 1998	Aug. 29, 1997
Total revenues (b)	\$681,834	\$753,482	\$677,011	\$515,885	\$410,621
Operating income	\$68,238	\$73,992	\$66,355	\$49,376	\$33,811
Percent profit of total income	10.0%	9.8%	9.8%	9.6%	8.2%
Operating expenses	\$613,596	\$679,490	\$610,656	\$466,509	\$376,810
Income tax rate	28.7%	24.6%	24.0%	32.3%	33.9%
Nonrecurring items	\$1,320	\$1,310	\$1,310	\$7,500	\$1,310
Items not subject to tax	\$1,320	\$1,310	\$1,310	\$7,500	\$1,310

Net income

	\$ 42,764	\$ 86,999	\$ 44,260	\$ 24,904	\$ 23,689
Continuing operations:					
Revenues	\$ 2,206	\$ 2,275	\$ 1,999	\$ 1,900	\$ 200
Expenses	(2,163)	(2,188)	(1,960)	(1,800)	(176)

Discontinued operations:

	\$ 42,764	\$ 86,999	\$ 44,260	\$ 24,904	\$ 23,689
Revenues					
Expenses					

Net income per share:

	\$ 2.06	\$ 2.23	\$ 1.99	\$ 1.00	\$.91
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730	21,040	22,280	24,306	25,453
Outstanding (in thousands)					
Revenues					
Expenses					

Weighted average common shares

	20,730</
--	----------

If you were considering a marketing job with Winnebago Industries, how would your decision be affected by the company's decision to refocus its attention on its core business? Have the company's sales continued to rise? If so, have they risen at a slower or faster pace than in the previous five years? Use this chapter and the succeeding ones to help you better understand the financial performance of Winnebago Industries.

¹The complete Winnebago Industries 2001 Annual Report is provided in the Appendix at the end of the text. The series of graphs appear on page 1 of that report.

Business Strategy. The current business environment can be very challenging to companies as many of them try to turn around declining positions and grow their businesses. What is the company doing to maintain a strong competitive edge in the marketplace? What are the management strategies? Where is the company placing most of its effort? Often including a global perspective, the information in these boxes answers these and other questions and brings to life the strategic viewpoint of each chapter's focus company. Students find this information to be very interesting and to add an in-depth understanding of the role of financial accounting in the business environment.

What should a company's strategy be when it has recently reported a decline in net revenues of nearly 10 percent from the prior year and over 10 percent in net income? Winnebago Industries explained in its 2001 annual report that the decrease in revenues was a reflection of the decline in consumer confidence levels and a slowdown in the economy. However, at the same time, the RV manufacturer feels that, in the long term, demographics are in its favor. Supporting this positive outlook is the anticipated increase over the next 30 years of the number of people 50 years and older, which is a key target market for Winnebago Industries.

So what was Winnebago Industries' reaction to what could be construed as conflicting signals: a decline in revenues but some favorable demographics regarding its market? On April 1, 2002, the company left little doubt in the minds of its stockholders about its optimism for the future. On this day, it announced plans to build a new manufacturing facility, an expansion that would be the company's largest to date. Once the new plant in Charles City, Iowa, is operating at full capacity, it will increase Winnebago Industries' motor home production by about 30 percent. The company expects production at the new plant to begin in early 2003.

Other Featured Companies. *Financial Accounting: The Impact on Decision Makers, 4e*, is rich with recent financial information about other public companies. Some of these are direct competitors of the chapter's focus company, such as AMR Corp. in Chapter 11 where Delta Air Lines, Inc., is the featured company, and some are from other industries, such as Nike, Inc., in Chapter 6 where Circuit City Stores, Inc., is the chapter focus company.

Identifying the Components of the Stockholders' Equity Section of the Balance Sheet

The liabilities and stockholders' equity portion of the balance sheet of AMR Corporation (American Airlines) is provided in Exhibit 11-3. We will focus on the Stockholders' (Shareholders') Equity category of the balance sheet. All corporations, including AMR, begin the Stockholders' Equity category with a list of the firm's contributed capital. In some cases, there are two categories of stock: common stock and preferred stock (the latter is discussed later in this chapter). Common stock normally carries voting rights. The common stockholders elect the officers of the corporation and establish its by-laws and governing rules. It is not unusual for corporations to have more than one type of common stock, each with different rights or terms. For example, Continental Airlines, Inc., one of AMR's competitors, has two classes of common stock listed on its 2001 balance sheet.

<http://www.amrcorp.com>

<http://www.continental.com>

Information from many public companies is included in assignments, as well. Throughout the text, the URL of each company is provided for easy access to its Web site.

Reading and Interpreting Financial Statements. These cases require students to study the financial statement information of publicly traded companies, analyze that information, and prepare their responses. At least one of the cases in each chapter involves financial information for the text's flagship company, Winnebago Industries or a close competitor.

Internet Research Case. Each case ties to the chapter's focus company and requires students to research additional, up-to-date information using resources available on the Internet.

Which Way to Go: Make Decisions

In addition to the many decision-making challenges involving real company information, *Financial Accounting: The Impact on Decision Makers, 4e*, provides students with the opportunity to place themselves in an important business role and apply reasoning to determine their responses.

Accounting for Your Decisions. Students assume the positions of user of financial information, decision maker, and business person, and are asked to respond to questions about realistic situations they may encounter in the future. Answers are offered to provide guidance to the students.



Accounting for Your Decisions

You Are the Sole Owner

Your accountant has presented you with three sets of financial statements—each with a different depreciation method—and asks you which depreciation method you prefer. You answer that other than for tax purposes, you don't really care. Should you?

ANS: For tax purposes you would prefer to use the accelerated depreciation method, which minimizes your net income so that you can pay the minimum allowable taxes. For financial statement purposes you may use a different method. As a sole owner, you may believe that the depreciation method chosen does not matter because you are more concerned with the cash flow of the firm and depreciation is a noncash item. However, the depreciation method is important if you are going to show your statements to external parties—for example, if you must present your statements to a banker in order to get a loan.

Making Financial Decisions. These cases feature financial information that students must analyze and use to make decisions. Students draw from the chapter content but must also think beyond it to determine their responses.

Accounting and Ethics Cases. As is very obvious in the current business environment, everyone engaged in the financial reporting and decision making must maintain a high level of ethical standards. Thus, it is essential for students throughout their academic studies to practice the process of reasoning through challenging ethical questions.

Learn from Dynamic Guides

On any new adventure, it is very helpful to have experienced guides. When the guide is one that provides dynamic ways to learn, the trip is more successful. Students will find many pedagogical elements in each chapter that create interest, challenge thinking, and strengthen understanding.

Learning Objectives. Students can concentrate on the important information by reviewing the learning objectives, which provide measurable goals. These objectives, which contain the page numbers where the relevant coverage begins, are repeated in the margins at the beginning of that coverage and are indicated by number next to reinforcing assignments.

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>LO 1 Identify the primary users of accounting information and their needs. (p. 14)</p> <p>LO 2 Explain the purpose of each of the financial statements and the relationships among them, and prepare a set of simple statements. (p. 16)</p> | <p>LO 3 Identify and explain the primary assumptions made in preparing financial statements. (p. 22)</p> <p>LO 4 Describe the various roles of accountants in organizations. (p. 24)</p> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Straight-line method A method by which the same dollar amount of depreciation is recorded in each year of asset use.

Study Tip

When interest rates increase, present values decrease. This is called an *inverse relationship*.

Marginal Glossaries. The definitions of key terms appear in the margin near their initial use in the text. (Student knowledge of these terms and their definitions is tested in the Key Terms Quiz at the end of the chapter.)

Study Tips. As students move through a chapter, these tips appear in the margin to help students focus on important concepts and provide a useful study tool when reviewing the chapter.

Two-Minute Review. How well do the students understand what they just read? This quick review helps them answer that question. Each chapter contains one or more reviews with the answers provided at the end of the chapter, just before the Warmup Exercises.

Two-Minute Review

1. What items should be included when calculating the acquisition cost of an asset?
2. Which will be higher in the early years of an asset's life—straight-line depreciation or accelerated depreciation? Which will be higher in the later years? Which will be higher in total over the entire life of the asset?

Answers—p. 408

Answers to the Two-Minute Reviews

Two-Minute Review on Page 393

1. The general rule for calculating the acquisition cost of an asset is to include all of the costs that were necessary to acquire the asset and prepare it for use. Normally, that would include the purchase price but would also include costs such as freight costs, taxes, and installation costs if they were necessary to prepare the asset for use.
2. Accelerated depreciation will be higher in the early years of the asset, and straight-line will be higher in the later years. Over the life of the asset, the total amount of depreciation will be the same under all of the methods, assuming that the same amount of salvage value is estimated for each of the methods.

Warmup Exercises with Suggested Solutions. These simple exercises preview the assignments to come and help students move from reading the text to doing the end-of-chapter assignments. Suggested solutions are provided as a self-check learning tool.

Warmup Exercises

Warmup Exercise 10-1

A bond due in 10 years, with face value of \$1,000 and face rate of interest of 8%, is issued when the market rate of interest is 6%.

Required

1. What is the issue price of the bond?
2. What is the amount of premium or discount on the bond at the time of issuance?
3. What amount of interest expense will be shown on the income statement for the first year of the bond?

Solutions to Warmup Exercises

Warmup Exercise 10-1

1. The issue price of the bond would be calculated at the present value:

$$\begin{array}{rcl} \$80 (7.360) & = & \$ 588.80 \quad \text{using Table 9-4, where } i = 6\% \text{ and } n = 10 \\ \$1,000 (0.558) & = & \underline{558.00} \quad \text{using Table 9-2, where } i = 6\% \text{ and } n = 10 \\ \text{Issue price} & & \$1,146.80 \end{array}$$

You should perform the following steps when using a calculator to determine the present value:

ENTER	DISPLAY
10 N	N = 10
6 I/Y	I/Y = 8
80 PMT	PMT = 80
1000 FV	FV = 1000
CPT PV	PV = 1,147*
*(rounded)	

2. The amount of the premium is the difference between the issue price and the face value:

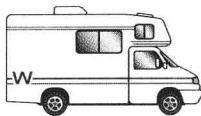
$$\begin{array}{rcl} \text{Premium} & = & \$1,146.80 - \$1,000 \\ & = & \$146.80 \end{array}$$

Review Problem with Suggested Solution. Located at the end of every chapter, this problem and suggested solution tests student understanding of some of the major ideas in the chapter. These problems also serve as a walk-through demonstration with audio explanation in WebTutor Advantage.

A Large Number of EOC Choices. Assignments in the end-of-chapter section are numerous. These include:

- *Key Terms Quiz*—to test vocabulary knowledge (solutions are provided at the very end of the assignment material); an Alternate Terms list further enriches knowledge.
- *Questions*—to stimulate thinking and class discussion; these can be used for writing assignments to assist students in the practice of expressing and supporting their ideas.
- *Exercises*—to provide reinforcement of chapter content and prepare students for the challenge of the problem and case assignments; the first set of exercises is focused on a single learning objective, followed by a section of “multi-concept exercises;” exercises are primarily focused on application.
- *Problems*—to provide reinforcement of chapter content and focus on analysis and decision making; the first set of problems is tied to single learning objectives, followed by a section of “multi-concept problems;” a set of “alternate problems” provides additional assignment opportunities.
- *Cases*—to further reinforce analysis, decision making, professionalism, and research skills.

Icons for Quick Identification. Icons are like signposts that help you and your students identify key places along the way. For the fourth edition, we provide the following icons for the specific purposes indicated



DECISION MAKING



GENERAL LEDGER



SPREADSHEET



INTERNET

Winnebago Industries—After Chapter 1, this image will identify those places where key information relating to our flagship company appears.

Global—Most corporations operate in an international environment and, therefore, have global accounting and strategic concerns. This icon serves as an indicator of where global coverage is provided.

Decision Making—Many assignments involve decision-making opportunities. These are identified by this image.

General Ledger—Those assignments that may be solved using the general ledger software have this icon in the margin next to them.

Spreadsheet—Assignments that are included in the Excel spreadsheet templates or that can easily be answered using spreadsheet software are identified by this image.

Internet—This image indicates assignments for which the resources of the Internet are recommended.

Personal Trainer—Assignments identified by $\frac{P}{T}$, after their learning objective numbers, may be completed using the Personal Trainer® homework tutor described below.

■ ADD POWER TO YOUR COURSE

With its many, quality options for you and your students, *Financial Accounting: The Impact on Decision Makers, 4e*, provides extra power to help pave the way to financial accounting excellence!

At the beginning of each chapter's assignment section, there is the following box that serves as a reminder to students to look at the technology information in this preface. In addition, students may want to refer to the inside front cover where resource information is also presented.

<http://porter.swlearning.com>

Technology and other resources for your success

If you need additional help, visit the text's Web site. Also, see pages xv–xvii in this text's preface for a description of available technology and other resources. If your instructor is using **PERSONAL Trainer** in this course, you may complete, on line, the assignments identified by $\frac{P}{T}$.

Ahead of the Curve: Our Top-of-the-Line Technology

Personal Trainer®. This *Homework Tutor* is an Internet-based assistant designed specifically for students taking the introductory course in financial accounting. With the help of warm-ups and hints, students can complete assigned homework or practice by completing unassigned homework on-line. Instructors receive the results, which can be automatically entered into a grade book for the assigned homework, and can view the efforts of the unassigned work completed by students. Unlike any other tutorial on the market, students receive the pedagogical benefits of the completion of homework assignments and instructors have more time to devote to other classroom activities.

WebTutor® Advantage with Personal Trainer. Available in either WebCT™ or Blackboard® platforms, this rich course management product is a specially designed extension of the classroom experience that enlivens the course by leveraging the power of the Internet with comprehensive educational content. WebTutor Advantage on WebCT™ or Blackboard® includes Personal Trainer to provide both students and instructors an unprecedented real-time, guided, self-correcting study outside the classroom. Instructors or students can use these resources along with those on the Product Web site to supplement the classroom experience. Use this effective resource as an integrated solution for your distance learning or web-enhanced course! This powerful, turnkey solution provides the following content customized for this edition:

- **E-Lectures**—PowerPoint® slides of the key topical coverage accompanied by audio explanations provide additional learning support.
- **Interactive Quizzes**—Multiple choice, true/false, matching, and sentence completion questions, which test the knowledge of the chapter content, provide immediate feedback on the accuracy of the response. These quizzes help students pinpoint areas needing more study.
- **Problem Demonstrations**—The chapter review problem is presented, and an audio step-by-step explanation of the solution is provided to guide student understanding.
- **Videos**—Short, high-interest segments focus on chapter-related topics.
- **Reviews of Key Concepts**—Tied to each learning objective, these chapter reviews reinforce important concepts from each chapter.
- **Flashcards**—A terminology quiz helps students gain a complete understanding of the key terms from the chapter.
- **Spanish Dictionary**—To aid Spanish-speaking students, a Spanish dictionary of key financial accounting terms is provided.
- **Crossword Puzzles**—These interactive puzzles provide an alternative tool for students to test their understanding of terminology.
- **Quiz Bowl Game**—Students can review chapter content using this on-line game, which is similar to Jeopardy!®.
- **Personal Trainer**—This Internet-based homework tutor, described fully in the preceding section, is a rich tool for students and instructors.

Xtreme! With Personal Trainer. This hybrid CD-ROM and Internet-based product provides the same content as WebTutor Advantage but without the platform. You can leverage technology to take your students to the outer limits of mastering the introductory financial accounting course! Features include:

- Learning Objectives that summarize key concepts from each chapter
- Quizzing that reinforces concepts and helps your students better focus their study efforts
- Quiz Bowl Game, an innovative and fun way for students to review concepts
- Crossword puzzles to test student knowledge of the glossary and make learning “the language of business” more fun
- E-Lectures that provide a PowerPoint® lecture-style with audio voiceovers to help students review chapter content or work on difficult topics
- Problem demonstrations to guide students through the review problems and save you time
- Video clips that provide real-world examples of applications so students can make the connection between the accounting concept and its use in the business world
- Personal Trainer, an on-line self-grading homework tutorial with a gradebook for monitoring student progress and reporting the details to help you better target your teaching efforts!

Xtra! for Financial Accounting. This CD-ROM provides lecture replacement resources and access to games and interactive quizzes so that students can test their understanding of the content of the fourth edition. *Free when bundled with a new text*, students receive an access code so that they can receive Xtra! reinforcement in financial accounting.

General Ledger & Spreadsheet CD-ROM. Developed for the learning market, this resource helps students understand the use of general ledger software and spreadsheet templates in an accounting environment. Selected assignments, identified by icons in the text, may be completed using the general ledger software or the spreadsheet templates provided.

Text Web Site. (<http://porter.swlearning.com>) The Web site for the fourth edition has expanded to offer you and your student even more resources for teaching and learning than the third edition.

Among the many elements available to *Students* are:

- *Quizzes with feedback*
- *Hotlinks* to many resources on the Web, including all of the Web sites listed in the text; this provides a quick connection to key information
- *PowerPoint® presentation slides* for review of chapter coverage
- *Excel templates* for selected assignments in the text
- *Crossword puzzles* for fun testing of vocabulary knowledge
- *Check figures* to selected assignments
- *Learning objectives* from the chapter provided as a study aid to keep clear focus on the core goals
- *Updates* for the latest information about changes in GAAP and any new, important information related to the text

For Instructors, in addition to full access to the student resources listed above, a password-protected section of the Web site contains a number of resource files, including:

- *Solutions Manual*
- *Instructor’s Manual*
- *Solutions to Excel templates*