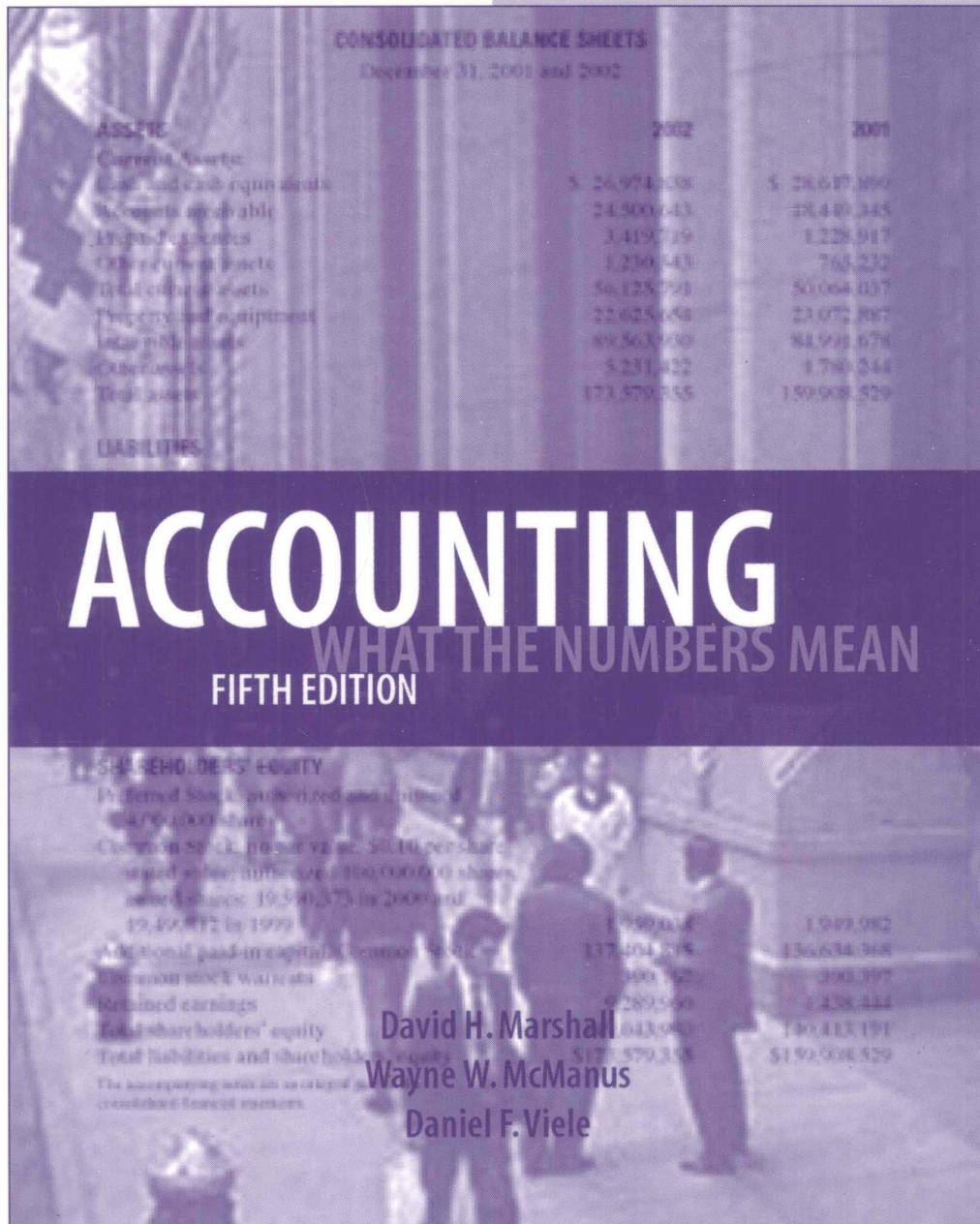


# Student Study Resource:

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- Ready Notes

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**CONSOLIDATED BALANCE SHEETS**  
December 31, 2001 and 2002

ASSETS	2002	2001
Current Assets		
Cash and cash equivalents	\$ 26,974,038	\$ 28,647,499
Accounts receivable	24,900,643	28,449,345
Prepaid expenses	3,419,719	1,228,917
Other current assets	1,230,543	762,232
Total current assets	56,524,943	59,088,093
Property and equipment	22,628,658	23,072,887
Intangible assets	89,563,959	84,998,678
Other assets	5,231,422	1,780,344
Total assets	173,948,982	169,940,002

**LIABILITIES**

**SHAREHOLDERS' EQUITY**

Preferred Stock, authorized and issued (\$4.75 per share)		
Common Stock, \$0.01 par value, 20,000,000 shares stated value; authorized 100,000,000 shares issued shares: 19,540,373 in 2002 and 19,450,972 in 1999	1,954,037	1,945,982
Additional paid-in capital (Common Stock)	137,404,798	136,634,368
Treasury stock warrants	993,187	993,187
Retained earnings	9,289,560	1,458,444
Total shareholders' equity	149,631,582	140,413,191
Total liabilities and shareholders' equity	\$173,948,982	\$169,940,002

The accompanying notes are an integral part of these consolidated financial statements.

**David H. Marshall**  
**Wayne W. McManus**  
**Daniel F. Viele**

# Student Study Resource:

## Study Outlines, Solutions to Odd-Numbered Problems and Ready Notes

for use with

# Accounting:

## What the Numbers Mean

Fifth Edition

David H. Marshall  
*Millikin University - Emeritus*

Wayne W. McManus  
*International College of the Cayman Islands*

Daniel F. Viele  
*Webster University*

*Ready Notes Prepared by*  
Martha Pointer  
*East Tennessee State University*



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for use with**

**ACCOUNTING: WHAT THE NUMBERS MEAN**

**David H. Marshall, Wayne W. McManus and Daniel F. Viele**

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## NOTE TO STUDENT:

Your textbook is the principal resource that will contribute to your success in the course for which it was purchased. Other resources include your instructor, your classmates, your study efforts, and the supplements that accompany the text. These supplements are:

- **Student Study Resource: Study Outlines, Solutions to Odd-Numbered Problems, and Ready Notes.** This volume is designed to accelerate your learning and to improve your performance in the course. The *Study Outlines* emphasize the key ideas, key points, key relationships, and key terminology that we believe are critical to your learning and retention. The *Study Outlines* eliminate the need to copy information from transparencies or PowerPoint presentations, and provide space for you to take class notes. You may find it worthwhile to review the information contained in these outlines even if your instructor does not use them in class on a regular basis. The *Solutions to Odd-Numbered Problems* provide full solutions (not just check figures) for all odd-numbered exercises and problems in the text. Even-numbered problems are usually similar to the preceding odd-numbered problem. Having the full solution to the preceding exercise or problem available as a model provides additional examples beyond those in the text, reinforces learning, minimizes frustration, and facilitates your study efforts. The *Ready Notes* are reduced-sized copies of the Ready Shows (PowerPoint® slides) that some instructors may use when making classroom presentations; as with the *Study Outlines*, space is provided for your note taking.
- **Study Guide and Working Papers.** The *Study Guide* contains chapter outlines, review questions (matching, true-false, and multiple choice) with explanatory answers, and short exercises with solutions. *Working Papers* are set up for each problem in the text to facilitate your approach to the correct solution and to eliminate “busy work.” Student reviews of this supplement from the first four editions of the text have been highly favorable and quite encouraging. You can order a copy of the *Study Guide and Working Papers* volume through your bookstore, or by calling McGraw-Hill at 1-800-338-3987. When placing your order, ask for ISBN 0-07-247523-4.

The appendix of the text is a copy of Intel Corporation’s 1999 Annual Report. For investor information, including annual reports, 10-K and 10-Q reports, or other financial literature (all of which is provided without cost), contact Intel’s agent and registrar:

Harris Trust & Savings Bank

311 West Monroe, P.O. Box A3504, Chicago IL 60690-3504 USA

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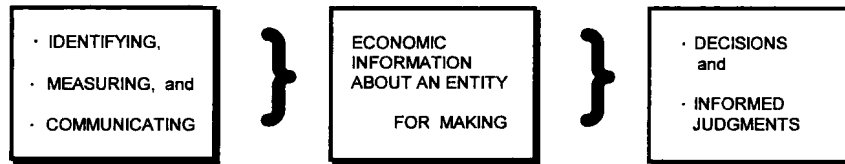
You are encouraged to visit Intel’s World Wide Web site at: <http://www.intel.com>. Specific information of interest to investors can be found at: <http://www.intc.com>. The website for this textbook, <http://www.mhhe.com/business/accounting/marshall5e> also provides links to Intel and other real-world examples used in the problem materials.

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## ACCOUNTING IS THE PROCESS OF:



## USERS OF ACCOUNTING INFORMATION

- MANAGEMENT
- INVESTORS
- CREDITORS
- EMPLOYEES
- GOVERNMENTAL AGENCIES

## **CLASSIFICATIONS OF ACCOUNTING**

- FINANCIAL ACCOUNTING
- MANAGERIAL ACCOUNTING / COST ACCOUNTING
- AUDITING - PUBLIC / INTERNAL
- GOVERNMENTAL ACCOUNTING
- INCOME TAX ACCOUNTING

## **PROFESSIONAL CERTIFICATIONS**

- CPA - CERTIFIED PUBLIC ACCOUNTANT
- CMA - CERTIFIED MANAGEMENT ACCOUNTANT
- CIA - CERTIFIED INTERNAL AUDITOR

## **FINANCIAL ACCOUNTING STANDARD SETTING**

### **FASB (FINANCIAL ACCOUNTING STANDARDS BOARD)**

- STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS  
OVER 140 ISSUED. DEAL WITH SPECIFIC ACCOUNTING  
AND FINANCIAL REPORTING ISSUES.
- STATEMENTS OF FINANCIAL ACCOUNTING CONCEPTS  
7 ISSUED. AN ATTEMPT TO PROVIDE A COMMON  
FOUNDATION TO SUPPORT FINANCIAL ACCOUNTING  
STANDARDS.
- **KEY OBJECTIVES OF FINANCIAL REPORTING (SFAC #1)**
  - RELATE TO EXTERNAL FINANCIAL REPORTING.
  - TO SUPPORT BUSINESS AND ECONOMIC DECISIONS.
  - TO PROVIDE INFORMATION ABOUT CASH FLOWS.
  - PRIMARY FOCUS IS ON EARNINGS BASED ON  
ACCRUAL ACCOUNTING.
  - NOT TO MEASURE DIRECTLY THE VALUE OF A  
BUSINESS ENTERPRISE.
  - INFORMATION REPORTED SUBJECT TO EVALUATION  
BY INDIVIDUAL FINANCIAL STATEMENT USERS.
  - ACCOUNTING STANDARDS ARE STILL EVOLVING.



## **INTERNATIONAL ACCOUNTING STANDARDS**

- IASC (INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE).
- STANDARDS DIFFER SIGNIFICANTLY AMONG COUNTRIES.
- INDIVIDUAL COUNTRY STANDARDS REFLECT LOCAL MARKET NEEDS AND COUNTRY REGULATION AND TAXATION PRACTICES.

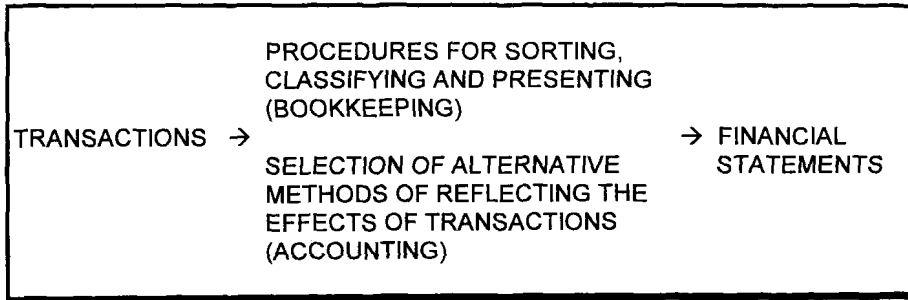
## **ETHICS AND THE ACCOUNTING PROFESSION**

- AICPA CODE OF PROFESSIONAL CONDUCT
- IMA STANDARDS OF ETHICAL CONDUCT FOR MANAGEMENT ACCOUNTANTS

## **KEY ELEMENTS OF ETHICAL BEHAVIOR**

- INTEGRITY
- OBJECTIVITY
- INDEPENDENCE
- COMPETENCE

## TRANSACTIONS TO FINANCIAL STATEMENTS



### TRANSACTIONS

ECONOMIC INTERCHANGES BETWEEN ENTITIES.

EXAMPLES:

### FINANCIAL STATEMENTS

- **BALANCE SHEET**  
FINANCIAL POSITION AT A POINT IN TIME.
- **INCOME STATEMENT**  
EARNINGS FOR A PERIOD OF TIME.
- **STATEMENT OF CASH FLOWS**  
SUMMARY OF CASH FLOWS FOR A PERIOD OF TIME.
- **STATEMENT OF CHANGES IN OWNERS' EQUITY**  
INVESTMENTS BY OWNERS, EARNINGS OF THE FIRM,  
AND DISTRIBUTIONS TO OWNERS FOR A PERIOD OF TIME.

# FINANCIAL STATEMENTS

## BALANCE SHEET (AT A POINT IN TIME)

EXHIBIT 2-1 Balance Sheet

MAIN STREET STORE, INC. Balance Sheet August 31, 2002	
Assets	Liabilities and Owners' Equity
Current assets:	Current liabilities:
Cash..... \$ 34,000	Short-term debt..... \$ 20,000
Accounts receivable..... 80,000	Accounts payable..... 35,000
Merchandise inventory..... 170,000	Other accrued liabilities..... 12,000
Total current assets..... \$284,000	Total current liabilities..... \$ 67,000
Plant and equipment:	Long-term debt..... 50,000
Equipment..... 40,000	Total liabilities..... \$117,000
Less: Accumulated depreciation..... (4,000)	Owners' equity..... 203,000
Total assets..... \$320,000	Total liabilities and owners' equity..... \$320,000

### KEY RELATIONSHIP

**ASSETS = LIABILITIES + OWNERS' EQUITY**

### KEY TERMINOLOGY

- ASSETS
- CURRENT ASSETS
- ACCUMULATED DEPRECIATION
- LIABILITIES
- CURRENT LIABILITIES
- OWNERS' EQUITY

# FINANCIAL STATEMENTS

## INCOME STATEMENT (FOR A PERIOD OF TIME)

**EXHIBIT 2-2** Income Statement

MAIN STREET STORE, INC. Income Statement For the Year Ended August 31, 2002	
Net sales	\$1,200,000
Cost of goods sold	850,000
Gross profit	\$ 350,000
Selling, general, and administrative expenses	311,000
Income from operations	\$ 39,000
Interest expense	9,000
Income before taxes	\$ 30,000
Income taxes	12,000
Net income	\$ 18,000
Net income per share of common stock outstanding	\$ 1.80

### KEY RELATIONSHIP

**REVENUES - EXPENSES = NET INCOME**

### KEY TERMINOLOGY

- REVENUES (SALES)
- GROSS PROFIT
- EARNINGS BEFORE TAXES
- NET INCOME PER SHARE OF COMMON STOCK
- COST OF GOODS SOLD
- OPERATING INCOME
- NET INCOME

# FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN OWNERS' EQUITY (FOR A PERIOD OF TIME)

EXHIBIT 2-3 Statement of Changes in Owners' Equity

MAIN STREET STORE, INC.	
Statement of Changes in Owners' Equity	
For the Year Ended August 31, 2002	
<b>Paid-In Capital:</b>	
Beginning balance	\$ 0
Common stock, par value: \$10; 50,000 shares authorized; 10,000 shares issued and outstanding	100,000
Additional paid-in capital	90,000
Balance, August 31, 2002	<u>\$190,000</u>
<b>Retained Earnings:</b>	
Beginning balance	\$ 0
Net income for the year	18,000
Less: Cash dividends of \$3.00 per share	(5,000)
Balance, August 31, 2002	<u>\$ 13,000</u>
Total owners' equity	<u>\$203,000</u>

### TWO PRINCIPAL COMPONENTS

- PAID-IN CAPITAL CHANGES
- RETAINED EARNINGS CHANGES

### KEY RELATIONSHIP

$$\begin{aligned} & \text{RETAINED EARNINGS BEGINNING BALANCE} \\ & + \text{NET INCOME FOR THE PERIOD} \\ & - \text{DIVIDENDS} \\ & \hline & = \text{RETAINED EARNINGS ENDING BALANCE} \end{aligned}$$

### KEY TERMINOLOGY

- PAID-IN CAPITAL
- DIVIDENDS

# FINANCIAL STATEMENTS

## STATEMENT OF CASH FLOWS (FOR A PERIOD OF TIME)

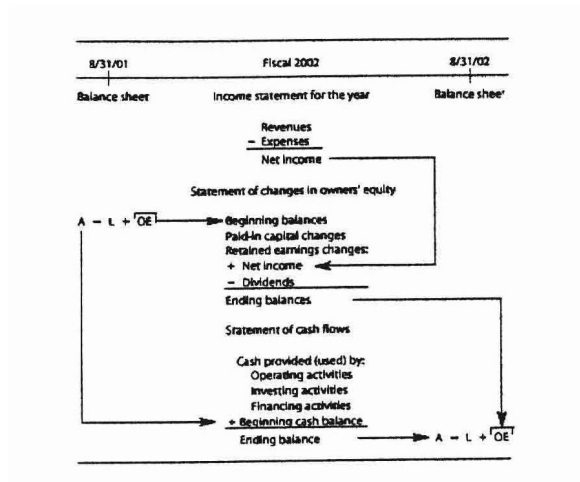
EXHIBIT 2-4 Statement of Cash Flows

MAIN STREET STORE, INC. Statement of Cash Flows For the Year Ended August 31, 2002	
<b>Cash Flows from Operating Activities:</b>	
Net income .....	\$ 18,000
Add (deduct) items not affecting cash:	
Depreciation expense .....	4,000
Increase in accounts receivable .....	(80,000)
Increase in merchandise inventory .....	(170,000)
Increase in current liabilities .....	67,000
Net cash used by operating activities .....	<u>\$ (161,000)</u>
<b>Cash Flows from Investing Activities:</b>	
Cash paid for equipment .....	\$ (40,000)
<b>Cash Flows from Financing Activities:</b>	
Cash received from issue of long-term debt .....	\$ 50,000
Cash received from sale of common stock .....	190,000
Payment of cash dividend on common stock .....	(5,000)
Net cash provided by financing activities .....	<u>\$ 235,000</u>
Net increase in cash for the year .....	<u>\$ 34,000</u>

### KEY TERMINOLOGY

- CASH FLOWS FROM OPERATING ACTIVITIES
- CASH FLOWS FROM INVESTING ACTIVITIES
- CASH FLOWS FROM FINANCING ACTIVITIES
- CHANGE IN CASH FOR THE YEAR

# FINANCIAL STATEMENT RELATIONSHIPS

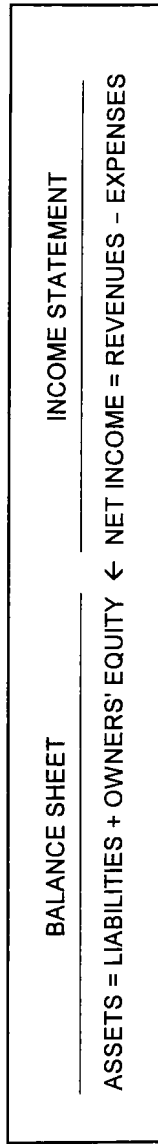


## KEY IDEAS

- TRANSACTIONS AFFECTING THE INCOME STATEMENT ALSO AFFECT THE BALANCE SHEET.
- FOR THE BALANCE SHEET TO BALANCE, INCOME STATEMENT TRANSACTIONS MUST BE REFLECTED IN THE RETAINED EARNINGS PART OF OWNERS' EQUITY.
- THE STATEMENT OF CASH FLOWS EXPLAINS WHY THE CASH AMOUNT CHANGED DURING THE PERIOD.



## A MODEL OF THE RELATIONSHIP BETWEEN THE BALANCE SHEET AND INCOME STATEMENT



### KEY IDEAS

- THE ARROW FROM NET INCOME IN THE INCOME STATEMENT TO OWNERS' EQUITY IN THE BALANCE SHEET INDICATES THAT NET INCOME AFFECTS RETAINED EARNINGS, WHICH IS PART OF OWNERS' EQUITY.
- THE EFFECT OF TRANSACTIONS ON THE FINANCIAL STATEMENTS CAN BE ILLUSTRATED BY ENTERING THE TRANSACTION AMOUNTS IN THE APPROPRIATE COLUMNS.
- THE BALANCE SHEET MUST BE IN BALANCE ( $A = L + OE$ ) AFTER EVERY TRANSACTION.