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Fundamentals of FINANCIAL ACCOUNTING

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Fundamentals of FINANCIAL ACCOUNTING

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FUNDAMENTALS OF FINANCIAL ACCOUNTING

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GETTING THE MOST FROM THIS BOOK

We're tired of people saying that accounting is deadly boring. So we wrote this textbook to show just how interesting it can be. Here are a few tips to help you get the most from this book and this course.

- **Read the book.** Seriously.
- **Get the point.** Even though you're going to read all the assigned chapters (right?), you'll want to know what's important and likely to be on your test. The learning objectives tell you. Find them in the first exhibit in each chapter.
- **Consult the coach.** Each coach in Coach's Corner will walk you through tough problems and give you advice on improving your game.
- **Keep on track.** The self-study quizzes gauge whether you've been thinking hard enough as you read. There's no point in blasting through the chapter just to finish. Cover the self-study quiz answers with your thumb and give the questions a try.
- **Practice, practice, practice.** We can't say it enough. You can't just read about accounting, you have to do it. So be sure to do all the questions that you've been assigned. If you're assigned the Group A problems, you can do the Group B problems for extra practice and use the coached problems when reviewing for tests and exams.
- **Get extra help.** The DVD and Online Learning Center are full of digital tools that will help you pull it all together.

One last tip. Enjoy yourself. Do the crossword puzzles in the book while you wait for class to start. Ask questions. Share the cartoons with friends who aren't even taking this course. Discover for yourself that accounting isn't boring.

Fred Phillips Bob Libby Pat Libby

ABOUT THE AUTHORS

Fred Phillips

Fred Phillips is a Professor and the George C. Baxter Chartered Accountants of Saskatchewan Scholar at the University of Saskatchewan, where he teaches introductory financial accounting. He also has taught introductory accounting at the University of Texas at Austin and the University of Manitoba. Fred has an undergraduate accounting degree, a professional accounting designation, and a PhD from the University of Texas at Austin. He previously worked as an audit manager at KPMG.

Fred's main interest is accounting education. He has won eight teaching awards, including two national case-writing competitions. He has published instructional cases and numerous articles in journals such as *Issues in Accounting Education*, *Journal of Accounting Research*, and *Organizational Behavior and Human Decision Processes*. Fred currently serves as an associate editor of *Issues in Accounting Education*, and he is a member of the Teaching & Curriculum and Two-Year College sections of the American Accounting Association. In his spare time, he likes to work out, play video games, and drink iced cappuccino.

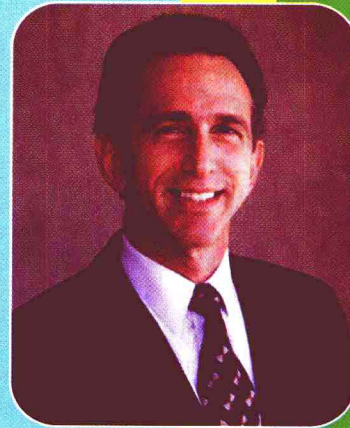


Robert Libby

Robert Libby is the David A. Thomas Professor of Management at the Johnson Graduate School of Management at Cornell University, where he teaches the introductory financial accounting course. He previously taught at the University of Illinois, Pennsylvania State University, the University of Texas at Austin, the University of Chicago, and the University of Michigan. He received his BS from Pennsylvania State University and his MAS and PhD from the University of Illinois; he is also a CPA.

Bob is a widely published author specializing in behavioral accounting. He was selected as the AAA Outstanding Educator in 2000. One of his

prior texts, *Accounting and Human Information Processing* (Prentice Hall, 1981), was awarded the AICPA/AAA Notable Contributions to the Accounting Literature Award. He received this award again in 1996 for a paper. He has published numerous articles in the *Journals of Accounting Research*; *Accounting, Organizations, and Society*; and other accounting journals. He is Vice President-Publications of the American Accounting Association and is a member of the American Institute of CPAs and the editorial boards of *Accounting, Organizations, and Society*; *Journal of Accounting Literature*; and *Journal of Behavioral Decision Making*.



Patricia A. Libby

Patricia Libby is Associate Professor of Accounting and Coordinator of the MBA in Professional Accountancy Program at Ithaca College, where she teaches the undergraduate financial accounting course. She previously taught graduate and undergraduate financial accounting at Eastern Michigan University and the University of Texas at Austin. Before entering academe, she was an auditor with Price Waterhouse (now PricewaterhouseCoopers) and a financial administrator at the University of Chicago. She received her BS from Pennsylvania State

University, her MBA from DePaul University, and her PhD from the University of Michigan; she is also a CPA.

Pat conducts research on using cases in the introductory course and other parts of the accounting curriculum. She has published articles in *The Accounting Review*, *Issues in Accounting Education*, and *The Michigan CPA*. She has also conducted seminars nationwide on active learning strategies, including cooperative learning methods.



THE CLOSER YOU LOOK,

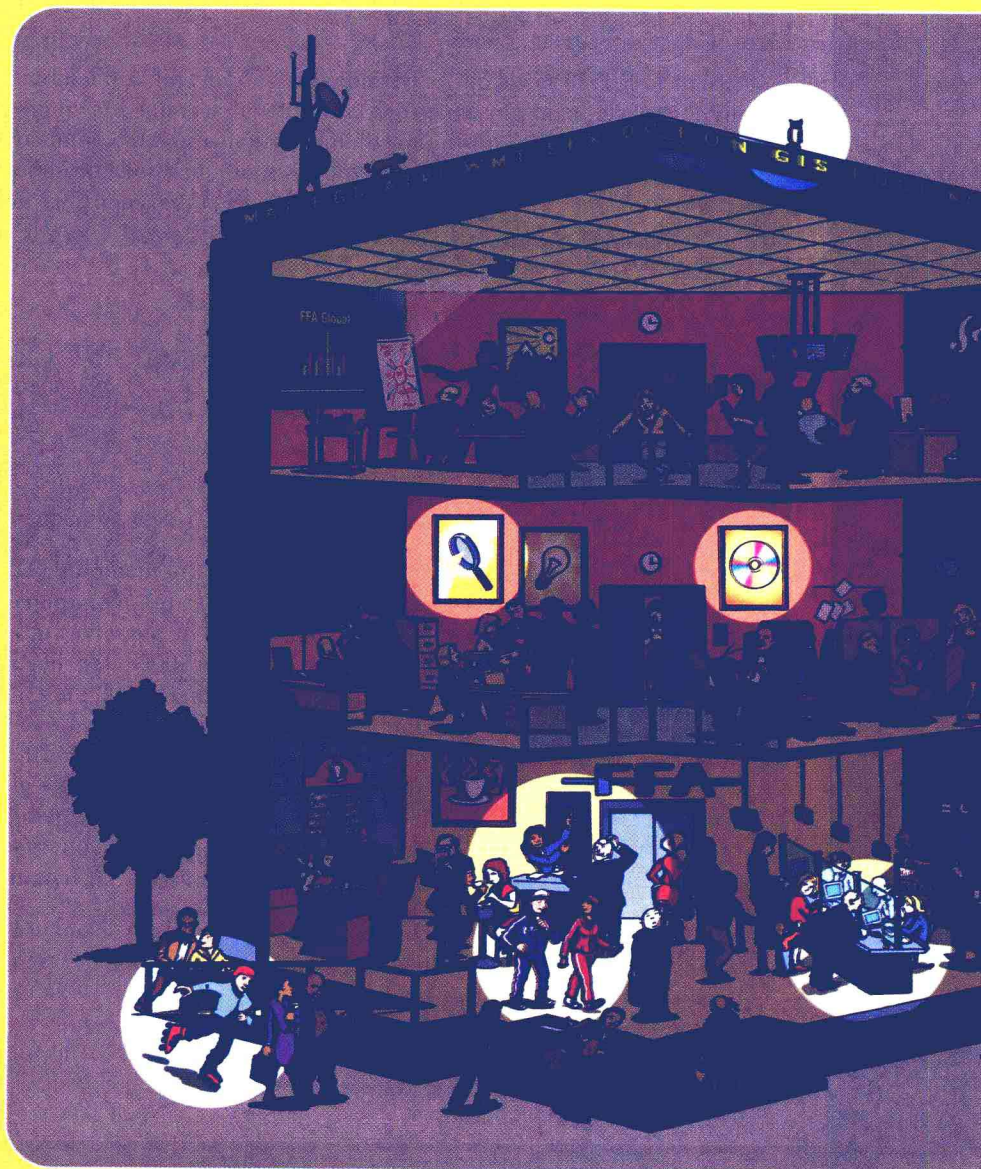
Phillips, Libby & Libby's

If you could peel away the exterior of a large company, what would you see? As our cover illustrates, at first glance it might seem just short of chaos—a hive of hectic activity that seems to defy comprehension. Look closer, however, and order begins to emerge: people at different levels of the organization are working with one another. Business activities occurring on the ground floor are analyzed and their financial effects are captured by accounting personnel on the second floor, who report these results to decision-makers on the top floor. Financial accounting is the thread that unites these various roles—on our cover and throughout the business world.

Like a complex picture whose details can be appreciated only through close inspection, the subtle messages conveyed by financial information become useful after examination with a trained and careful eye. Put another way, **the closer you look at financial accounting data, the more you understand.**

Fundamentals of Financial Accounting gives students the ability to make sense of business activities, to prepare and interpret financial information in an accurate and relevant way, and it does so like no other book on the market.

Fundamentals of FINANCIAL ACCOUNTING



THE MORE YOU UNDERSTAND

How does *Fundamentals of Financial Accounting* differ from the competition? It all boils down to one quality:

Phillips/Libby/Libby is the most student-friendly financial book on the market. The following pages are filled with examples and highlights of Phillips' innovative student-centered approach. Four of the most compelling examples include:

Writing that students can read. What does it mean to say that a book is “readable”? In the case of *FFA*, it simply means the most enjoyable accounting textbook your students have ever read. Through a mix of conversational wording, humor, and everyday examples, *FFA* achieves a relaxed style that maintains rigor while never sacrificing student engagement. Open *FFA* to almost any page at random, read a few paragraphs and see for yourself: *Fundamentals of Financial Accounting* offers **the most engaging read** of any financial text.

I LOVE the authors' writing style. I think more and more of our students either don't read, or have difficulty reading, accounting textbooks. . . . I think [this book] will be more readable to our students and they may even enjoy reading it.

— Antoinette Clegg, Palm Beach Community College

Focus companies. In an approach pioneered by co-authors Robert Libby and Patricia Libby, each chapter of *Fundamentals of Financial Accounting* makes financial accounting come alive by using **a real world focus company** to teach fundamental accounting concepts. Your students learn why accounting is important and how businesses use accounting information to make decisions. All of the companies featured in *FFA* are **real companies whose products and services are popular with**

students, including Skechers (shoes), Activision (video games), and Oakley (sunglasses). (See page VIII for more on the focus companies.)

A CD-ROM made with students in mind. Topic Tackler Plus takes advantage of the latest multimedia technology to provide **truly helpful audiovisual reinforcement** to your students. In particular, the Flash tutorials combine animation with audio narration to make reviewing each chapter's key concepts a snap. (See page XVI for more on Topic Tackler Plus.)

A framework you can USE. The **USER** framework uses the cover illustration as a roadmap to each chapter, delineating how accounting works at all levels of a company. Students learn to **Understand** the business decisions that managers make on the ground floor, **Study** the accounting methods used on the second floor, **Evaluate** the reported results from the viewpoint of financial statement users on the top floor, and **Reconsider** how the accounting methods affect the evaluation of results, which indicate the quality of business decisions that managers have made (uniting the whole building). This framework ensures students will develop the ability to make sense of business activities, be able to prepare financial statements, and know how to interpret financial information in an accurate and relevant way.

By taking the most thorough student-oriented approach on the market, *Fundamentals of Financial Accounting* shows students that the more they look at financial accounting data, the more they'll understand of it. Read the following pages for further proof that *FFA* combines student-friendliness and academic rigor better than any other financial book on the market.

KEEP YOUR CLASS FOCUSED ON THE REAL WORLD

chapter nine

Reporting and Interpreting Long-Lived Tangible and Intangible Assets

The best way to learn to prepare and use financial statements is to study accounting in real business contexts. This is the key idea behind *FFA's* focus company approach, which is introduced in the first chapter and which integrates each chapter's material around a focus company, its decisions, and its financial statements.

The one thing that consistently amazes me and makes me VERY happy is the choice of companies that the authors use to demonstrate chapter concepts. The use of Cedar Fair . . . an amusement park!!!! Everyone can relate to an amusement park and see that the needs of this business (for LT assets) are completely different from other businesses. Then there was Mattel, Supercuts, etc. The companies grab the interest of the reader and make them want to know more. As a "reader," I was drawn into the discussion because it interests me!!!

Cheryl Bartlett
Albuquerque TVI Community College

If you're an average American, you gobble about three pounds of peanut butter a year, which equals 1,500 peanut butter sandwiches eaten before your high school graduation.¹ That makes you an expert at knowing how much peanut butter to spread on sandwiches. It also prepares you for learning how to report depreciation on long-lived assets. Really. Reporting depreciation is a lot like spreading peanut butter on sandwiches. The amount of peanut butter to spread on each sandwich is just like the amount of depreciation to spread over each accounting period. It depends on three factors: (1) the amount that you begin with in the jar (or the cost you begin with in the account), (2) the amount you want to leave in the jar (or account), and (3) the number of sandwiches (or accounting periods) that you'll be spreading it over. Just like peanut butter on a sandwich, there'll be a little depreciation if it's spread over many years or lots if it's spread over fewer years.

For the rest of this chapter, we're going to focus on the amusement park business. **CEDAR FAIR.** We're not leaving peanuts completely behind, because just as Mickey Mouse, Disney's mascot and Bugs Bunny gives character to Six Flags, Snoopy and the whole Charlie Brown gang from the PEANUTS[®] comic strip are featured at Cedar Fair. With seven amusement parks and six waterparks throughout the United States, Cedar Fair is one of the biggest and best amusement park businesses in the world.² As of December 2003, its rides, hotels, and other long-lived assets accounted for over 96 percent of its total assets, so it's the perfect setting for you to learn how these assets are reported and the analyses you can conduct to determine how well they're managed.

¹Retrieved May 3, 2004, from www.peanutbutter.com/funfacts.asp.

²Cedar Fair, L.P.'s Flagship Park, Cedar Point, again Voted Best Amusement Park in the World," company press release, August 26, 2003.



One of Cedar Fair's rides reaches 1

We consulted extensively with students in choosing FFA's focus companies, taking care that our companies' products and services are used by students and so will appeal to their curiosity. We further heighten student engagement by injecting our discussions with issues and questions that actually matter in the real world. *How can a slight improvement in gross profit percentage translate into over half a billion dollars of profit for Wal-Mart? What decisions does Cedar Fair make when investing in and reporting its roller coasters and other long-lived assets? How does Nautilus Group monitor and manage its fluctuating cash flows during the pre- and post-holiday seasons?* These are but a few of the companies and issues discussed over the course of this book.

A Warm Welcome in Every Chapter

Students often feel they lack the real-world experience needed to understand accounting, a subject they believe has little impact on their daily lives. FFA's chapter openers provide entertaining analogies that illustrate how accounting principles can inform even the most seemingly mundane things, from making peanut-butter sandwiches to catching a roommate stealing snacks. There's no better way to help students feel comfortable with accounting topics and to trigger an interest that invites them into the chapter. (To see how peanut-butter sandwiches relate to depreciation, take a look at Chapter 9.)

I think the authors have written some difficult ideas in simple terms and that is good. I like the choice of theme parks as the underlying business because I believe this will interest students.

Gail Wright
Bryant College

I hope students will enjoy learning about accounting for tangible and intangible assets in the context of our amusement parks. After reading this chapter students will truly understand the important business decisions that relate to tangible and intangible assets, and how the results of these decisions are reported to financial statement users.

Bruce A. Jackson
Corporate Vice President and Chief Financial Officer
Cedar Fair, L.P.

INSIDE
LOOKING
OUT

GETTING
IN

Just four seconds.

AN FFA READER IS NEVER ALONE

The cover of *Fundamentals of Financial Accounting* illustrates the maxim that underpins the book: the closer you look, the more you understand. More than that, it serves to introduce the characters and tools that accompany your students as they read the book. Many of the text's most innovative and student-friendly pedagogical features are marked with an element of the cover illustration—a visual shorthand that makes it a breeze to find additional help or insight while reading.

COACH'S CORNER

Loss in inventory value is typically combined into selling expenses or cost of goods sold for purposes of external reporting.



Coach's Corner.

Virtually every student has been inspired by a great coach at some point, and *FFA* features not one but two Coaches who appear

throughout the text to offer tips, advice, and good ideas about how to learn. *FFA* is unique in that its in-text “coaches” appear in the end-of-chapter material as well, giving students additional encouragement as they work to reinforce the material they've learned.

COACH'S CORNER

If you want the DDB worksheet function in Microsoft Excel to match the formula presented here, set the “salvage” factor to 0.



YOU SHOULD KNOW



Declining-balance is a method that allocates the cost of an asset over its useful life based on a multiple of the straight-line rate (often two times).

You Should Know.

Look to the owl for wisdom, knowledge—and a quick recap of an important text point.

Points of Interest.

It always helps to take a little break now and then, and Points of Interest provide attention-grabbing topical diversions for students as they read. From the surprising origins of Nike to the bogus investment opportunity created by the SEC, Points of Interest illuminate the topic at hand with amusing and unusual facts that introduce a breath of fresh air into students' reading.

POINT OF INTEREST

Not every press release is trustworthy. A 23-year-old student was sentenced to 44 months in federal prison for sending out his own phony press release about Emulex Corporation, which allegedly defrauded investors of \$241,814.

I really like the Coach's Corner in the text and at the end-of-chapter materials. They are well written and will help the students focus on important points.

— Margaret Houston, Wright State University

A BOOK WITH ITS OWN

Fundamentals of Financial Accounting is loaded with so many innovative pedagogical features, you'd swear we shrinkwrapped a TA with the book. From quick review tools to head-scratching ethical dilemmas, *FFA's* pedagogy gives students every opportunity to reinforce and expand on what they're learning.

COACHED PROBLEMS

L02 **CPI-1 Preparing an Income Statement and Balance Sheet**
Assume that you are the president of Nuclear Company. At the end of the year (December 31, 2006), the following financial data for the company are available:

- Cash
- Accounts receivable from customers
- Inventories
- Equipment owned
- Accounts payable to suppliers
- Notes payable
- Total sales revenue
- Expenses, including the cost of goods sold (excluding income taxes)
- Income tax expense
- Contributed capital, 7,000 shares outstanding
- No dividends were declared or paid during 2006.


GROUP A PROBLEMS Available with McGraw-Hill's Homework Manager

L02 **PA1-1 Preparing an Income Statement and Balance Sheet**
Assume that you are the president of McLaren Corporation. At the end of the first year of operations (June 30, 2007), the following financial data for the company are available:

Cash	\$13,150
Accounts receivable from customers	9,500
Inventories	57,000

COACH'S CORNER

- Begin by classifying each account as asset, liability, stockholders' equity, revenue, or expense. Then use the formats shown in this chapter for presenting an income statement and balance sheet. You'll need the net income of the current year to calculate the retained earnings at the end of the year, so do the income statement first.
- Because this is the first year of operations and there were no dividends, the balance in retained earnings will include only the current year's income.



Problems With (and Without) the Coach's Help

Instructors tell us how important decision-making skills are for students entering the accounting profession, and *FFA* recognizes this through an innovative approach to problem-solving. Every chapter includes three problem sets: Coached Problems, Group A, and Group B problems. The Coached Problems go beyond the traditional check figures to advise students on the *process* of solving a problem rather than just its outcome. This feature will save students the inefficient and frustrating experience of having to work backwards from solutions to develop their

own (possibly erroneous) problem-solving rules. When students can solve the coached problems, they'll be ready to tackle the Group A or Group B problems, which echo the content without the advice offered by the Coached Problems.

HOW'S IT GOING? A Self-Study Quiz

The following transactions are typical monthly operating activities for your Supercuts Super Salon. Indicate the amount of revenue, if any, that should be reported in September's income statements.

Operating Activity	Amount of Revenue in September (if any)
(a) Provided haircut services in September to customers for \$15,000 cash.	
(b) Sold \$300 of gift certificates at the beginning of September.	
(c) Customers used \$100 of gift certificates to pay for haircuts in the third week of September.	
(d) Provided \$500 of hair styling services to employees of a local TV station, which is billed every month.	
(e) The TV station paid \$300 on its account.	

After you're done, check your answers with the solutions in the margin.

"How's It Going?"

Nothing helps like a quiz for mastering tricky subjects, so *FFA* provides plenty of these innovative review boxes throughout each

chapter. "How's It Going?" boxes pose a review question about the recent material and provide the answer right there on the page, printed sideways so that students don't accidentally read it before answering the question.

ETHICS AND CRITICAL THINKING CASES

L01-L04 **ETHICAL** **ISSUE** **C&DS-4 Ethical Decision Making: A Real-Life Example**

On February 18, 2002, the board of directors of Aurora Foods Inc.—the maker of Datsun and Mrs. Butterworth® products—issued a press release announcing that a special committee had been formed to conduct an investigation into the company's accounting practices. During the financial statement audit for the year ended December 31, 1999, Aurora's auditors had discovered documents that raised questions about how the company accounted for marketing costs incurred to entice grocery stores to promote Aurora's products. The company's stock price fell by \$8 per share in the week following this announcement.

After nearly a year of investigation, Aurora filed several quarterly reports with the SEC, showing that the company had not acted adequately by liabilities and expenses that had been incurred during the third and fourth quarter of 1998 and during the first three quarters of 1999. Key financial figures for those quarters are initially reported and in later restated are shown below.

(in millions of U.S. dollars)	1998 Q3 (September 30)		1998 Q4 (December 31)		1999 Q1 (March 31)		1999 Q2 (June 30)		1999 Q3 (September 30)	
	Initial Report	Restated Report	Initial Report	Restated Report	Initial Report	Restated Report	Initial Report	Restated Report	Initial Report	Restated Report
Assets	\$1,457	\$1,456	\$1,439	\$1,446	\$1,474	\$1,463	\$1,568	\$1,521	\$1,614	\$1,563
Liabilities	882	879	928	906	922	902	931	944	962	932
Revenues	220	219	260	277	261	254	222	214	236	233
Net income (loss)	1	(12)	16	5	0	0	8	(4)	11	4

The SEC also investigated and filed a legal claim alleging that Aurora's 36-year-old chief financial officer (CFO) had violated federal securities laws by instructing accounting staff to make false journal entries and prepare two sets of records—one for the company's internal use and another to be provided to the auditors. The SEC alleged that her actions allowed Aurora to meet the net income targets set by Wall Street analysts and the expectations of Aurora executives, and

Ethics Cases

The last five years have seen controversies that brought the ethics of the accounting profession to the forefront of public debate. Young people entering the business world, whether as accountants or other business majors, simply must have a strong ethical grounding, so *FFA* includes **two ethics cases in every chapter.**

TEACHING ASSISTANT INCLUDED

Transaction Analysis Revisited

Now that you've been introduced to debits, credits, journal entries, and T-accounts, you are ready to revisit the five-step DECIDE approach used earlier to analyze transactions. To include these new concepts in the accounting process, we need to add two more steps, as highlighted in Exhibit 2.8.

exhibit 2.8 Transaction Analysis: The DECIDES Approach

1. **D**oes a transaction exist?
2. **E**xamine it for accounts affected.
3. **C**lassify each account affected.
4. **I**dentify direction and amount.
5. **D**ebit and credit the accounts affected.
6. **E**nsure the equation still balances and debits = credits.
7. **S**ummarize the transaction effects in T-accounts.

In the remainder of this section, we will work with you to use this transaction analysis approach to record the monthly transactions that were presented earlier in this chapter for your Supercut Super Salon. Because we have completed steps 1–4 of the transaction analysis for these events already, we will not show them below, but you should understand that these steps *would* be performed had we not analyzed them earlier. The analysis below focuses on the results of steps 5–7, which involve the new concepts of debits, credits, journal entries, and T-accounts.

A Good Accountant DECIDES

The DECIDES decision model provides students the structure they need to tackle challenging topics. This model helps students to decide on the accounting effects of transactions by thinking through the following steps:

1. **D**oes a transaction exist? Go to step 2 only if your answer is “yes.”
2. **E**xamine it for the accounts affected. Put a name on what is given and received.
3. **C**lassify each account as asset (A), liability (L), or stockholders' equity (SE).
4. **I**dentify the direction and amount of the effects. By how much does each asset, liability, and stockholders' equity account increase or decrease?
5. **E**nsure the basic accounting equation still balances and that debits = credits.
6. **S**ummarize the transaction effects in T-accounts.

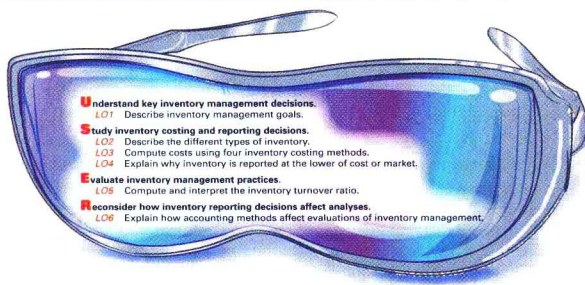
The DECIDES model is introduced in Chapter 2, expanded in Chapter 3, and reinforced throughout the remaining chapters.

DECIDE is an excellent learning tool which should help the students understand the process of transaction analysis.

Patsy Lee
University of Texas at Arlington

Do you know what managers worry about when making inventory decisions, how the results of their decisions are reported, and how you can use the reported results to evaluate the quality of their inventory decisions? If any of your answers are no, then you're doing exactly what you should be doing—reading this chapter. In it, we address these questions, which cover the specific learning objectives shown in Exhibit 8.1.

exhibit 8.1 Your Learning Objectives



The USER Framework

The USER framework uses the cover illustration as a “roadmap” to each chapter, delineating how accounting functions work at all levels of the firm. Students learn to **Understand** the business decisions that managers make (ground floor), **Study** the accounting methods used (second floor), **Evaluate** the reported results from the viewpoint of financial statement users (top floor), and **Reconsider** how the accounting methods affect the evaluation of results, which indicate the quality of managers' decisions (the whole building).

THE FINEST END-OF-CHAPTER MATERIAL TO BE FOUND.

FINANCIAL REPORTING AND ANALYSIS CASES

C&DSS-1 Finding Financial Information

Refer to the financial statements of Landry's Restaurants in Appendix A at the end of this book, or download the annual report from the Cases section of the text's Web site at www.mhhe.com/phillips.

Required:

1. Calculate the debt-to-assets ratio for 2003 and 2002. Based on these calculations, has Landry's financing become more or less risky in 2003 than in 2002?
2. Calculate the asset turnover ratio for 2003 and 2002. (Total assets at December 31, 2001 were \$690,171,196.) Based on these calculations, has Landry's used its assets more or less efficiently in 2003 than in 2002?
3. Calculate the net profit margin ratio for 2003 and 2002. Based on these calculations, has Landry's generated more or less profit per dollar of sales in 2003 than in 2002?

C&DSS-2 Comparing Financial Information

Refer to the financial statements of Dave & Buster's in Appendix B at the end of this book, or download the annual report from the Cases section of the text's Web site at www.mhhe.com/phillips. Note that Dave & Buster's ends its fiscal year on February 1, 2004, which doesn't perfectly match Landry's year ended December 31, 2003. In the questions that follow, assume Dave & Buster's financial statements for the year ended February 1, 2004, present the results for 2003. (This is a reasonable assumption given that Dave and Buster's fiscal year simply replaces January 2003 with January 2004.)

L01-L04



L01-L04



Annual Report Cases

There's no substitute for working on real-world data, so *FFA* comes complete with an annual report for Landry's Restaurants bundled free with every new copy. The end-of-chapter cases make extensive use of these data, showing students how to draw information from an annual report and providing them with a valuable perspective on how financial accounting information is used in decision making.

Team Cases

Every chapter also includes a team case that directs groups to search the Internet for companies to analyze, using the tools covered in that chapter. Students not only learn useful research skills but gain valuable practice solving accounting problems in group settings.

L01-L03

C&DSS-3 Internet-Based Team Research: Examining an Annual Report



TEAM CASE

As a team, select an industry to analyze. Reuters provides lists of industries and their makeup at www.investor.reuters.com/industries.aspx. Each group member should acquire the annual report (or Form 10-K filed with the SEC) for one publicly traded company in the industry, with each member selecting a different company. (In addition to the company's own Web site, a great source is the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) service. This free source is available by going to the "Filings & Forms" section of wwwsec.gov and clicking on "Search for Company Filings" and then "Companies & Other Filers." Another great site that pulls information from EDGAR is edgarscan.pwglobal.com.)

Required:

1. On an individual basis, each team member should write a short report that lists the following information:
 - a. What type of business organization is it?
 - b. What types of products or services does it sell?
 - c. On what day of the year does its fiscal year end?
 - d. For how many years does it present complete balance sheets? Income statements? Cash flow statements?
 - e. Are its financial statements audited by independent CPAs? If so, by whom?
 - f. Did its total assets increase or decrease over the last year?
 - g. Did its net income increase or decrease over the last year?
2. Then, as a team, write a short report comparing and contrasting your companies using these attributes. Discuss any patterns across the companies that you as a team observe. Provide potential explanations for any differences discovered.

MINI-EXERCISES

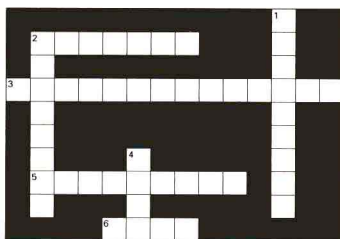


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L02-L05

M10-1 Identifying Important Accounting Terms

Complete the following crossword puzzle, using the clues provided to the right.



Across

2. Arises when a bond is issued with a stated interest rate greater than the market interest rate.
3. A loan condition that gives the creditor an option to accept the borrower's stock as payment for the outstanding loan.
5. The ability to pay current liabilities; typically evaluated using the current ratio.
6. The _____ value is reported on a bond certificate.

Down

1. A loan condition that ensures certain debt is paid before other ("subordinated") debt.
2. The word describing the level of likelihood at which a contingent liability is recorded.
4. The abbreviation for Medicare and Social Security payroll taxes.

Crossword Puzzles

Yet another example of what makes *FFA* so much fun for students. Rather than memorize definitions through rote learning, students practice learning the language of business in a format that they'll want to complete even if it's not assigned. (If you don't believe us, try it for yourself. Point out the crossword puzzles to students, but don't assign them. We bet you'll find they do them anyway!)

The end-of-chapter material is traditionally where students go from reading to doing: answering review questions, solving problems, and wrestling with issues that help them to assimilate the material and apply it in a realistic context. While *FFA* doesn't see reading as a passive process — our pedagogy does more to maintain student interest and engagement than any competing book — the end-of-chapter material offers a wealth of opportunities for students to connect to the material, and for you to enliven your class with a variety of assignments and discussion questions.

Simplify with Spreadsheets

Why do the same calculations over and over again when you can enter them once, and then just copy and paste? Every chapter includes at least one spreadsheet problem that allows students to skip the tedium of repetitious number-crunching and focus instead on “what if” analyses and interpretations. And don't worry if your students haven't had formal training with spreadsheets: each problem includes relaxed, student-friendly advice on the steps needed to perform basic spreadsheet calculations.

SIMPLIFY WITH SPREADSHEETS

SS2-1 Analyzing Transactions and Preparing a Balance Sheet

L02

Students successfully prepare a T-account, debit and credit journal entries, and a balance sheet. Elizabeth, Ashton, and Hannah are a local business and record a list of purchases for one month, primarily from the Blue State line of resources. The following table summarizes accounts and dollar balances for the month reported. Elizabeth, Ashton, and Hannah prepared a balance sheet.

Account	Debit	Credit	Balance
Accounts Receivable	200,000		175,000
Inventory	100,000		75,000
Other Current Assets	50,000		50,000
Property and Equipment	80,000		100,000
Other Noncurrent Assets	100,000		100,000
		Accounts Payable	50,000

Exercises for the balance sheet at Elizabeth, Ashton, and Hannah are the complete version of the following transactions presented in the end-of-chapter problem.

- EXERCISE 1: Prepare an adjusted journal entry for the purchase of a new piece of equipment that becomes available in the next month.
- EXERCISE 2: The owner takes a vacation for the first time.
- EXERCISE 3: Prepare adjusted entries for the following.
- EXERCISE 4: Prepare adjusted entries for the following.

Required

The owner Elizabeth, Ashton, and Hannah are asked to prepare a spreadsheet that includes a debit and credit balance sheet at the end of the month. Elizabeth, Ashton, and Hannah are asked to prepare a spreadsheet that includes a debit and credit balance sheet at the end of the month. Elizabeth, Ashton, and Hannah are asked to prepare a spreadsheet that includes a debit and credit balance sheet at the end of the month.

From: Billy The Tutor@yahoo.com
To: MarZee@hotmail.com
CC: MarZee@hotmail.com
Subject: Excel Help

Wow! I am so happy you gave up that great part! I am glad that you are able to answer me on your own!

1. My thinking is that you're having trouble with the spreadsheet because you're not sure how to link the data from the T-accounts to the spreadsheet. The data from the T-accounts is already entered in the spreadsheet, so you just need to make sure the formulas are correct. For the balance sheet, you need to make sure the debits equal the credits. If you're having trouble with the formulas, you can try using the "Paste Special" option in the spreadsheet to paste the data from the T-accounts into the spreadsheet. This will ensure that the data is entered correctly and that the formulas are working properly.

2. I think you're having trouble with the spreadsheet because you're not sure how to link the data from the T-accounts to the spreadsheet. The data from the T-accounts is already entered in the spreadsheet, so you just need to make sure the formulas are correct. For the balance sheet, you need to make sure the debits equal the credits. If you're having trouble with the formulas, you can try using the "Paste Special" option in the spreadsheet to paste the data from the T-accounts into the spreadsheet. This will ensure that the data is entered correctly and that the formulas are working properly.

3. I think you're having trouble with the spreadsheet because you're not sure how to link the data from the T-accounts to the spreadsheet. The data from the T-accounts is already entered in the spreadsheet, so you just need to make sure the formulas are correct. For the balance sheet, you need to make sure the debits equal the credits. If you're having trouble with the formulas, you can try using the "Paste Special" option in the spreadsheet to paste the data from the T-accounts into the spreadsheet. This will ensure that the data is entered correctly and that the formulas are working properly.

COACH'S CORNER

Excel 2010 has a lot of new features that make it easier to use. One of the most useful features is the "Paste Special" option. This option allows you to paste data from one spreadsheet into another without bringing in the formulas. This is useful when you want to copy data from one spreadsheet to another but don't want to bring in the formulas. To use the "Paste Special" option, you need to select the data you want to copy, then right-click and choose "Paste Special". This will open a dialog box where you can choose the options you want to use. For example, you can choose to paste only the values, or you can choose to paste the formulas as well. This is a very useful feature that can save you a lot of time and frustration.

MULTIPLE CHOICE

- Mountain Gear, Inc. buys bikes, tents, and a landing supplies from Rugged Rock Corporation for sale to consumers. What type of company is Mountain Gear, Inc.?
 - Service
 - Retail merchandise
 - Wholesale merchandiser
 - Manufacturer
- Which of the following does not enhance internal control?
 - Ensuring transactions are authorized and properly recorded.
 - Ensuring adequate records are maintained.
 - Hiring good employees.
 - None of the above—all enhance internal control.
- Upon review of your bank statement, you discover that you recently deposited a check from a customer that was rejected by your bank as NSF. Which of the following describes the actions to be taken when preparing your bank reconciliation?

Balance per Bank	Balance per Books
a. Decrease	No change
b. Increase	Decrease
c. No change	Increase
d. Decrease	Increase



Multiple-Choice Questions

Students are likely to see these kinds of questions on tests and exams, so give them some practice with these quick checks of basic concepts

Peachtree® Designated Exercises and Problems

Students entering the accounting profession can never have too much practice working on Peachtree, so *FFA*'s end-of-chapter material includes specially designated problems to be solved with the educational version of Peachtree Complete (see page XVIII). These problems are marked with an icon and make ideal homework assignments.

The authors, as they have done throughout the book, have done a very good job on all of the end of chapter material.

Philip Fink
University of Toledo

PA3-2 Recording and Interpreting the Disposal of Long-Lived Assets

L05

During 2006, Kwik Company disposed of two different assets. On January 1, 2006, prior to their disposal, the accounts reflected the following:

Asset	Original Cost	Residual Value	Estimated Life	Accumulated Depreciation (straight-line)
Machine A	\$24,000	\$2,000	5 years	\$17,000 (14 years)
Machine B	50,000	3,000	14 years	48,000 (12 years)

The machines were disposed of in the following ways:

- Machine A sold on January 1, 2006, for \$5,750 cash.
- Machine B. On January 1, 2006, this machine suffered irreparable damage from an accident and was removed immediately by a salvage company at no cost.

Required:

- Give the journal entries related to the disposal of each machine at the beginning of 2006.
- Explain the accounting rationale for the way that was recorded each disposal.

PA3-3 Determining Financial Statement Effects of Activities Related to Intangible Assets

L06

Norton Pharmaceuticals entered into the following transactions that potentially affect intangible assets:

- On January 1, 2005, the company spent \$18,000 cash to buy a patent that expires in 15 years.
- During 2005, the company spent \$25,000 on a new drug that will be submitted for FDA testing in 2006.
- Norton Pharmaceuticals purchased another business in 2005 for a cash lump-sum payment of \$600,000. Included in the purchase price was Goodwill, \$75,000.

FFA'S STUDENT-CENTRIC APPROACH



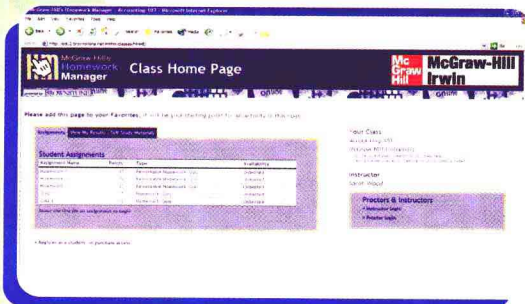
OnePass

It can be a challenge remembering all the different passwords and access codes for the many online assets available with *Fundamentals of Financial Accounting*. To make life easier for your students, McGraw-Hill is pleased to introduce OnePass. With McGraw-Hill's OnePass, just one code gets your students total access to McGraw-Hill's Homework Manager, Topic Tackler Plus, NetTutor, and the online version of the textbook. Moreover, the OnePass card fits in your students' wallets for safekeeping.

McGraw-Hill's Homework Manager

is a Web-based supplement that duplicates problem structures directly from the end-of-chapter material in your textbook, using algorithms to provide a limitless supply of online self-graded practice for students, or assignments and tests with unique versions of every problem. Say goodbye to cheating in your classroom; say hello to the power and flexibility you've been waiting for in creating assignments.

The enhanced version of McGraw-Hill's Homework Manager integrates all of FFA's online and multimedia assets to allow your students to brush up on a topic before doing their homework. You now have the option to give your students pre-populated hints and feedback. The test bank has been added to Homework Manager so you can create online quizzes and exams and have them autograded and recorded in the same gradebook as your homework assignments. Lastly, the enhanced version provides you with the option of incorporating the complete online version of the textbook, so your students can easily reference the chapter material as they do their homework assignment, even when their textbook is far away.

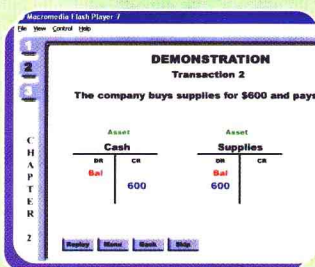


McGraw-Hill's Homework Manager is also a useful grading tool. All assignments can be delivered over the Web and are graded automatically, with the results stored in your private grade book. Detailed results let you see at a glance how each student does on an assignment or an individual problem—you can even see how many tries it took them to solve it.

Students receive full access to McGraw-Hill's Homework Manager when they purchase OnePass, or you can have Homework Manager pass codes shrinkwrapped with the textbook. Students can also purchase access to Homework Manager directly from their class homepage.

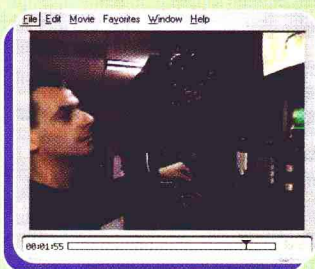
Topic Tackler Plus, the FFA student CD-ROM, is designed to accompany your students from the first day of class to the last, with text-specific study aids and helpful additional content that can make a real difference on overall student performance. It's one more reason why *Fundamentals of Financial Accounting* is the most student-friendly book of its kind.

DOESN'T STOP AT THE TEXTBOOK.



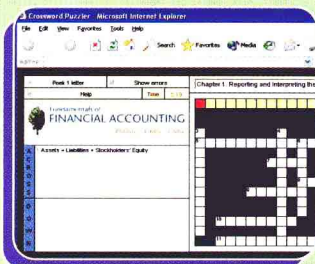
Animated Flash Tutorials

The toughest and most important topics of each chapter are reviewed in animated, audio-narrated tutorials powered by Flash technology. These tutorials take the main points of the textbook and put them in motion, with step-by-step instructions that can eliminate the need for holding midterm and end-of-term review sessions.



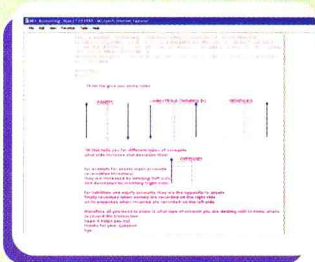
Video Segments

Combining original location footage, interviews, eye-catching graphics, and spoken narration, these vignettes explain how the concepts covered in each chapter make a difference in the world of business.



Animated Crossword Puzzles

These puzzles provide countless variations on the highly popular format for learning key terms.



Net Tutor

Many students work or have other commitments outside of class, making it difficult for them to get help with their questions during regular hours. NetTutor is a breakthrough program that connects your students with qualified tutors online, so they can get help at their convenience. Students can communicate with tutors through the Live Tutor Center, where students can view tutor-created spreadsheets, T-accounts, and instant responses to their questions, or through the Q&A Center, which allows students to submit questions anytime and receive answers within 48 hours.

With OnePass, students receive unlimited access to NetTutor for the length of the course.