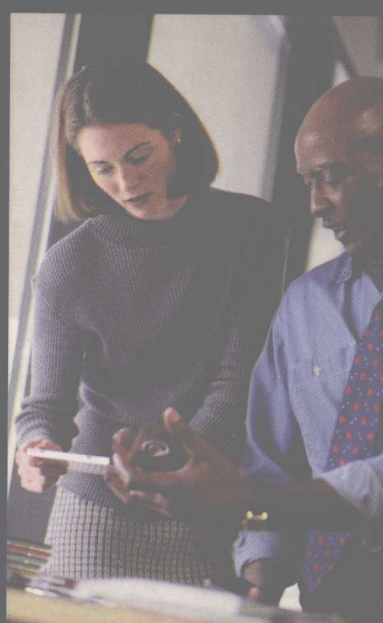


FINANCIAL ACCOUNTING

Information for Decisions



John J. Wild

Financial Accounting: Information for Decisions

John J. Wild

University of Wisconsin at Madison



**Irwin
McGraw-Hill**

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

To the Instructor

Changes in practice call for revisions in how we educate the current generation of accounting information preparers and users. This book responds to these changes. It focuses on decisions—decisions in preparing, analyzing, and using accounting information. It emphasizes relevance—relevance to the lives of readers. It highlights entrepreneurs, and the importance of accounting to them. The book fits different teaching styles and allows for additional outside readings and projects—thereby increasing its scope and breadth as desired. It is supported by a wide array of additional teaching supplements, technology options, and cases. This makes it the book of choice for the introductory course. For more on this unique book, see the preface and its “To the Instructor” comments.

To the Student

Accounting is one of the most valuable subjects you will study. Understanding accounting—the language of business—is essential for business success. This book gives you these essentials. Its content, features, and business insights make learning accounting enjoyable and relevant. Please see the preface and its “To the Student” comments to learn more about this book and how it can help you achieve success. There are many student supplements described in the preface that also can help you succeed.

To my wife **Gail** and children, **Kimberly, Jonathan, Stephanie, and Trevor.**

FINANCIAL ACCOUNTING

Copyright © 2000 by The McGraw-Hill Companies, Inc. All rights reserved. Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of the publisher.

This book is printed on acid-free paper.

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

ISBN 0-07-234665-5

Vice president/Editor-in-chief: *Michael W. Junior*

Publisher: *Jeffrey J. Shelstad*

Developmental editors: *Tracey Klein Douglas/Jackie Scruggs*

Senior marketing manager: *Rhonda Seelinger*

Senior project manager: *Denise Santor-Mitzit*

Senior production supervisor: *Lori Koetters*

Senior designer: *Michael Warrell*

Cover designer: *Z Graphics*

Cover photos: *Courtesy of PhotoDisc*

Senior photo research coordinator: *Keri Johnson*

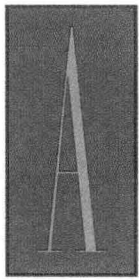
Supplement coordinator: *Betty Hadala*

Compositor: *York Graphic Services, Inc.*

Typeface: *10.5/12 Times Roman*

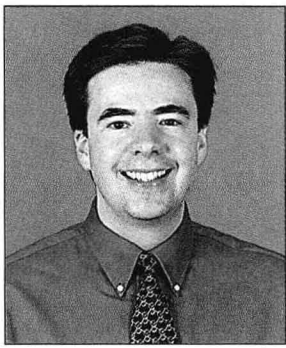
Printer: *Von Hoffmann Press, Inc.*

Financial Accounting: Information for Decisions



about the Author

The author brings a blend of skills uniquely suited to writing an introductory accounting textbook. He combines award-winning teaching and research with a broad view of accounting and business gained through years of practical and teaching experiences to make accounting relevant, understandable, and enjoyable to today's reader.



John J. Wild

John J. Wild is a professor of accounting and the Vilas Research Scholar at the University of Wisconsin at Madison. He has previously held appointments at Michigan State University and the University of Manchester in England. He received his BBA, MS, and PhD from the University of Wisconsin.

Professor Wild teaches courses at both the undergraduate and graduate levels. He has received the Mable W. Chipman Excellence-in-Teaching Award and the departmental Excellence-in-Teaching Award at the University of Wisconsin. He also received the Beta Alpha Psi and Roland F. Salmonson Excellence-in-Teaching Award from Michigan State University. Professor Wild is a past KPMG Peat Marwick National

Fellow and is a recipient of fellowships from the American Accounting Association and the Ernst and Young Foundation.

Professor Wild is an active member of the American Accounting Association and its sections. He has served on several committees of these organizations, including the Outstanding Accounting Educator Award, National Program Advisory, Publication, and Research Committees.

Professor Wild is author of *Financial Statement Analysis* published by Irwin/McGraw-Hill. His research appears in *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting and Economics*, *Contemporary Accounting Research*, *Journal of Accounting, Auditing and Finance*, *Journal of Accounting and Public Policy*, and other business periodicals. He is associate editor of *Contemporary Accounting Research* and has served on several editorial boards including *The Accounting Review*.

Professor Wild, his wife, and four children enjoy travel, music, sports, and community activities.

Preface

Let's Talk

Through market-based surveys, focus groups, reviews, and personal correspondence with instructors and students, several shared interests and needs in accounting education today are revealed. In a nutshell, these desires can be grouped into five pedagogical areas: (1) motivation, (2) balance, (3) technology, (4) real world, and (5) active learning. The main goal in this new book is to address these needs and create the most contemporary, exciting, relevant, and flexible financial accounting book. A quick summary of these areas follows.

Motivation

Motivation drives learning. From each chapter's opening article and its focus on young entrepreneurs to the decision-making prompted by the Decision Maker, this book motivates readers. It brings accounting and business to life and demonstrates that this material can make a difference in our lives.

Balance

This book takes a balanced approach toward accounting.

We know accounting involves preparing, analyzing, and using information. This book balances each of these important roles in explaining and illustrating topics. We also know accounting is important for both corporate and noncorporate businesses. This book balances the focus on these businesses with special emphasis on entrepreneurs. Likewise, from Chapter Linkages and learning objectives organized by the *CAP Model*TM to the unique Decision Analysis section, this book balances all aspects of accounting.

Technology

Technology continues to change business and accounting, creating new and exciting accounting opportunities. This book is a leader in applying and showing technology in accounting. From the innovative Taking It to the Net projects and Web-based assignments to its Online Learn-

ing Center and Video Package, this book pushes the accounting frontiers.

Real World

Accounting is important to the information age. From features and assignments that highlight companies like NIKE, Reebok, and America Online to the Teamwork in Action and Communication in Practice activities, this book shows accounting in a modern, global context. It also engages both accountants and nonaccountants. From the interesting Decision Facts features to the Decision Feature article, this book shows accounting is relevant to each of us.

Active Learning

Active learning implies active inquiry and interaction. This book provides strong pedagogical materials for those interested in applying active learning activities. From innovative *Beyond the Numbers* assignments such as Hitting the Road and *Business Week* activities to Decision Ethics features and teamwork requirements, this book is a leader in active learning. Also, the *MHLA* service is a new, special addition to the book's support package.

The importance of decision making is reflected in each of these areas. Whether one emphasizes preparation, analysis, or use of accounting data, the vital role of decision making pervades each. This book's **DecisionCenter** links the key features that focus on decision making. These include: Decision Feature, Decision Maker, Decision Ethics, Decision Facts, and Decision Analysis.

This is just a sneak preview of this book's new and exciting features. From communication, interpersonal, and critical thinking skills to the development of ethical and global awareness, this book leads the way. Please take a moment to look at these and other special features in the remainder of this preface to see why this book is the *first choice* in financial accounting books.

To Instructor

This book gives Web addresses for current follow-ups to articles, company excerpts, and financial statements, and to add a real world flavor.

To Student

The chapter's opening article and its *Decision Maker* and *Decision Facts* features drive home the relevance of accounting and business.

Motivation

Motivation is a main goal of this book. We know information retention is selective—if it doesn't apply to the lives of readers, they typically aren't motivated to learn. This book explains and illustrates how accounting applies to the reader, with special attention to entrepreneurial activity and business decisions. Here is a sampling of materials that motivate the reader.

The chapter opening article, titled **Decision Feature**, sets the stage and shows how the chapter's contents are relevant to the reader. Articles usually focus on young entrepreneurs in business who benefit from preparing, analyzing, and using accounting information. These articles bring the material to life in concrete terms to today's reader.

Cyber Receivables



MANASSAS, VA—Steve Milo was looking for a way to pay his tuition at the University of Virginia. His answer was to open a small retail outlet for comic books. But that short-term solution grew to become a long-term business venture. Milo's company, **AnotherUniverse.com**, is now the world's largest retailer of science fiction and comic books (www.AnotherUniverse.com).

Remarkably, Milo's success is as much a product of chance as a planned strategy. Not seeing much potential in Internet sales, Milo concen-

Decision Maker features develop critical thinking and decision-making skills by requiring decisions using accounting information. Each chapter contains two to four of these features. They are purposely chosen to reflect different kinds of decision makers. Examples are investors, consultants, programmers, financial planners, engineers, appraisers, and political and community activists. Guidance answers are provided.

Entrepreneur

You are the owner of a small retail store. You are considering allowing customers to purchase merchandise using credit cards. Until now, your store only accepted cash and checks. What form of analysis do you use to make this decision?

Decision Maker

Decision Maker
Decision Maker
Decision Maker
Decision Maker
Decision Maker

Company Excerpts call attention to well-known organizations to illustrate accounting concepts. These excerpts are often accompanied by a photo drawing attention to the nature of the business and its relevance to readers.

Proceeds from subscriptions . . . are deferred at the time of sale and are included in . . . Income on a pro rata basis over the terms of the subscription.

The New York Times

NIKE, INC. CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share data)

YEAR ENDED MAY 31,	98	97
Revenues	\$9,553.1	\$9,186.5
Costs and expenses:		
Costs of sales	6,065.5	5,503.0
Selling and administrative	2,623.8	2,303.7
Interest expense (Notes 4 and 5)	60.0	52.3

Financial Statements of familiar companies are used to acquaint readers with the format, content, and use of accounting information. The financial statements for NIKE, Reebok, and America Online are reproduced in the book and referenced often.

Balance

Accounting is a service activity focused on preparing, analyzing, and using information. This book presents a balanced approach to these three aspects of accounting. The preparation aspect of accounting is well established and reflected in the book. But a new and progressive emphasis on analysis and use puts this book on the frontier of accounting education. This book also presents a balanced approach to corporate and noncorporate businesses. More than 80% of today's businesses are noncorporations, with many of these involving entrepreneurial activities. Here's a sampling of textual materials reflecting this book's balanced approach:

C.A.P. Learning Objectives are grouped by conceptual, analytical, or procedural. This color-coded identification enables the instructor to uniquely design a class to meet personal instructional and learning goals—whether they be conceptual, analytical, procedural, or some combination of the three. This is accomplished by stressing those text materials, assignments, and test questions (all keyed by C, A, or P) that reflect the instructor's preferred emphasis.

At least one **Decision Facts** per chapter focuses on accounting for the entrepreneur. This book is unique in addressing the important role of entrepreneurs, and showing the relevance of accounting to them. Also, each chapter includes a special **Entrepreneurial Decision** assignment at the end of the *Beyond the Numbers* section.

Entrepreneur Incubators

There now are nearly 600 entrepreneur incubators in the U.S. sponsored by nonprofits, colleges, or private groups. Most incubators provide startup entrepreneurs a space plus support services for a fee. Services typically include management advice, office support, and financial, legal, and technical help. Entrepreneurs usually leave an incubator after two to three years. Interestingly, nearly 90% of entrepreneurs that

Decision Facts

Decision Facts
Decision Facts
Decision Facts
Decision Facts
Decision Facts

A **Decision Analysis** section wraps up each chapter and emphasizes critical-thinking and decision-making skills. Each section introduces one or more tools of analysis. It applies these tools to actual companies and interprets the results. The section often focuses on use of ratio analyses to study and compare the performance and financial condition of competitors.

DECISION ANALYSIS

Return on Investment

A4 Compute and interpret return on investment.

We introduced return on investment in assessing return and risk earlier in the chapter. Return on investment is also useful in evaluating management, analyzing and forecasting profits, and planning future activities. **Dell Computer** has its marketing department compute return on investment for *every* mailing. "We spent 15 months educating people about return on invested capital," says Dell's Chief Financial Offi-

The **Accounting Equation** (Assets = Liabilities + Equity) is used as a tool to evaluate each journal entry. The accounting equation is especially useful in learning and understanding the impacts of business transactions and events on financial statements.

Aug. 31	Cash	6,300		Assets = Liabilities	+ Equity
	Sales		6,000	+6,300	+300
	Sales Taxes Payable (\$6,000 × 0.05)		300		+6,000

To Instructor

PowerPoint presentation slides can be customized for your instructional style and are great visual aids to lecture materials.

To Student

Use the book's Home Page for current updates, hot links to important sites, additional assignments, quizzes, and much more . . .

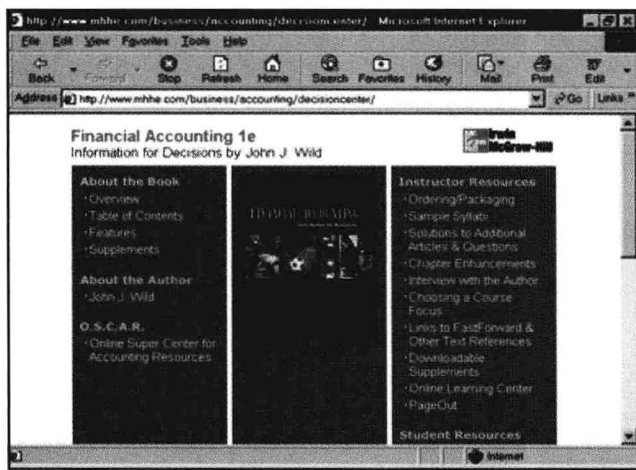


A Student Software CD provides several technology-assisted educational activities. These include (1) *Essentials of Financial Accounting*—multimedia software reviewing the accounting cycle, (2) *PeachTree Templates*—for selected assignments, (3) *Tutorial Software*—interactive review of topics, and (4) *GLAS* and (5) *SPATS*—general ledger and instructional software to help solve selected problems.

Technology

Technology and innovation for the first course in accounting can be exciting and fun. This book makes the transition to new technologies easy. It is the leader in demonstrating the relevance of technology and showing readers how to use it. Here's a sampling of items pushing the technology frontier:

The book's **Home Page**, www.mhhe.com/decisioncenter, is the starting point for accessing accounting and business resources on the Web. This Web site harnesses technological resources to provide the most up-to-date and powerful Web services available.



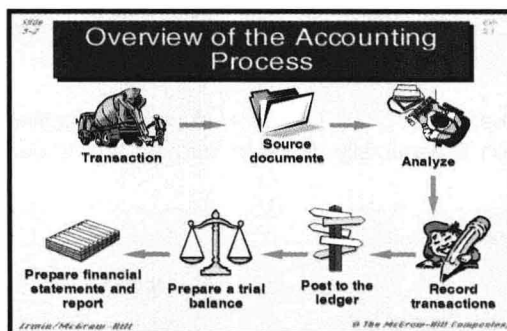
Taking It to the Net requires accessing a Web site and obtaining information relevant to the chapter. It aims to make readers comfortable with Web technology, familiar with information available, and aware of the power of Web technology.

Access the Cannondale promotional Web site at www.cannondale.com.

1. What is the primary product that Cannondale sells?
2. Review its 10-K—this is the annual form required by the SEC. You can access this from the SEC's Edgar system (www.sec.gov). You must scroll down the form to find the statements.

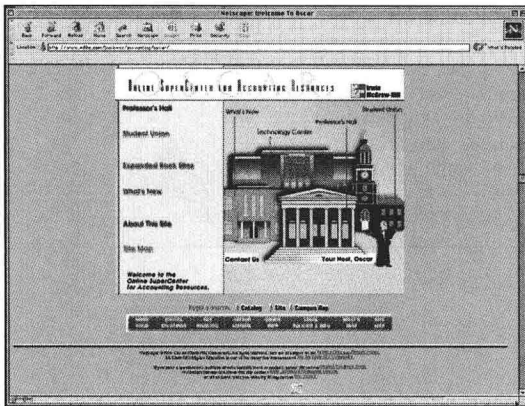
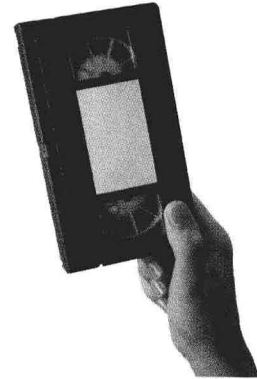
Taking It to the Net
C1, A2

PowerPoint® Presentations and Supplements augment each chapter with colorful graphics, interesting charts, innovative examples, and interactive activities. The PowerPoint® materials are flexible and can be customized for any use. Selected color transparencies, along with a complete set of transparency masters, are available for overhead projectors.



Technology

A **Financial Accounting Video Library** provides short, action-oriented videos for lively classroom discussion. The focus is on use of accounting information for business decisions. Video segments also emphasize the impact of transactions on financial statements and their analysis.

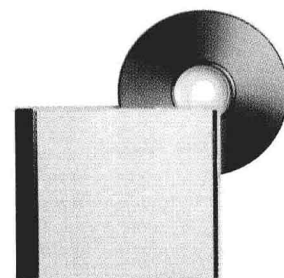


McGraw-Hill Learning Architecture (MHLE) is a complete course delivery system for this book over the Internet. It includes materials from the Study Guide, Instructor's Resource Manual, Ready Shows (PowerPoint slides), and CompuTest (computerized test bank). MHLE also is used for online quizzing, student interaction, course administration, and content delivery [0-07-234843-7].

Online Learning Center (OLC) supports the book with chapter learning objectives, outlines, key terms, extra chapter visuals and examples, and other review and quiz materials. OLC is compatible with online delivery systems, and is compatible with **Pageout** — a Course Web site Development Center [0-07-234841-0].

CompuTest is an electronic version of the Test Bank. It gives instructors the power to write tests that can be administered on paper, or over a campus network, or using the Internet. Test results can be merged into its gradebook program. It also allows question editing and random selection of test questions by number, learning objective, or difficulty [0-07-234768-6].

Interactive Financial Accounting Lab for Windows is an innovative, multimedia program to help students learn the fundamentals of accounting. The Instructor Package contains a network CD-ROM, Installation and Setup Manual, and instructions on use of its grade book [0-07-229961-4].



To Instructor and Student

The **glossary** gives complete and accurate definitions of key terms. A key term is set in bold when first introduced, and the glossary references this page number. It also gives synonyms for key terms.

A **summary** describes the chapter in terms of its learning objectives. It assists in understanding key concepts, procedures, and analyses.

Questions give readers quick feedback on their understanding of key chapter topics.

Quick Studies are effective checks on concepts, procedures, and analyses. They help build the reader's confidence with the material. Each are keyed to usually one learning objective.




Exercises focus on one or more learning objectives. They are mildly challenging and are an effective way to launch into more challenging problems.

Check Figures serve as an aid to readers.

Real World

Showing readers that accounting matters is part of an effective learning package. This book is the leader in real world instructional materials. It offers unique assignments challenging the reader to apply knowledge learned in practical and diverse ways. These challenges include analytical problems, research requirements, comparative analysis, teamwork assignments, and communication exercises. They also allow greater emphasis on conceptual, analytical, communication, and interpersonal skills. Here's a sampling of these materials:

Questions

11. Refer to the balance sheet of **NIKE** in Appendix A. What percent of accounts receivable as of May 31, 1998, has been set aside as an allowance for doubtful accounts? How does this percent compare to the prior year? 
12. Refer to the balance sheet of **Reebok** in Appendix A. Does Reebok use the direct write-off method or allowance method to account for doubtful accounts? What is the realizable value of the accounts receivable as of December 31, 1997? What is another name for the Allowance for Doubtful Accounts? 
13. Refer to the balance sheet of **America Online** in Appendix A. Identify and report any unrealized gain or loss on available-for-sale securities for fiscal years ended June 30, 1998 and 1997. 

Reporting in Action requires analysis and use of NIKE's annual report information given in Appendix A. The unique *Swoosh Ahead* feature allows use of the most current information in the marketplace.

NIKE designs, produces, markets, and sells sports footwear and apparel. Key financial figures for NIKE's fiscal year ended May 31, 1998 are:

Key figure	In millions
Financing (liabilities + equity)	\$5,397.4
Net income (profit)	399.6
Revenues (sales)	9,553.1

Reporting in Action

A1, A3, A4



Required

1. What is the total amount of assets invested in NIKE?
2. What is NIKE's return on investment? NIKE's assets at May 31, 1997 equal \$5,361.2 (in millions).
3. How much are total expenses for NIKE?

Analysis Component

4. Does NIKE's return on investment seem satisfactory if competitors average a 2% return?

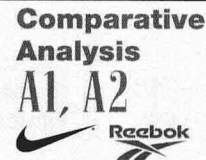
Swoosh Ahead

5. Obtain NIKE's most recent annual report. You can access NIKE's annual report (called form 10-K) at its Web site (www.nike.com) or at the SEC's Web site (www.sec.gov). Compute NIKE's return on investment using this updated annual report information. Compare the May 31, 1998, fiscal year-end return on investment to any subsequent years' returns you are able to compute.

Comparative Analysis compares the performance and financial condition of NIKE and Reebok using the procedures and analyses described in the chapter. These activities help develop analytical skills.

Key comparative figures (\$ millions) for NIKE and Reebok follow:

Key figures*	NIKE			Reebok		
	1998	1997	1996	1997	1996	1995
Operating Cash Flows	\$ 517.5	\$ 323.1	\$ 339.7	\$ 126.9	\$ 280.3	\$ 171.7
Total Assets	5,397.4	5,361.2	3,951.6	1,756.1	1,786.2	1,651.6



Required

1. Compute the recent two years' cash flow on total assets ratio for both NIKE and Reebok.
2. What does the cash flow on total assets ratio measure?

Serial and Comprehensive Problems are included in several chapters and focus on multiple learning objectives from multiple chapters. They help integrate and summarize key concepts.

Serial Problem Echo Systems



On October 1, 2000, Mary Graham organized a computer service company called **Echo Systems**. Echo Systems is organized as a sole proprietorship and provides consulting services, computer system installations, and custom program development. Graham adopts the calendar year for reporting purposes and expects to prepare the company's first set of financial statements as of December 31, 2000. The initial chart of accounts for its accounting system includes these items:

Account	No.	Account	No.
Cash	101	Mary Graham, Capital	301
Accounts Receivable	106	Mary Graham, Withdrawals	302
Computer Supplies	126	Computer Services Revenue	403

Problems often cover multiple learning objectives and usually require preparing, analyzing, and using information. They are paired with **Alternate Problems** (at the end of the book) for further review of the same topics. Problems are supported with software and other technology options. Many include an **Analytical Component** focusing on financial statement consequences and interpretations. A **Demonstration Problem** is at the end of each chapter to illustrate key concepts, procedures, and analyses.

Problems

Problem 8-1 Short-term investment transactions and entries



Check Figure Unrealized
Holding Gain, \$975 Cr.

Checkers Company had no short-term investments prior to year 2000 but had the following transactions involving short-term investments in available-for-sale securities during 2000:

- Mar. 16 Purchased 3,000 shares of Diamond Co. stock at 22½ plus a \$1,948 brokerage fee.
Apr. 1 Paid \$100,000 to buy 90-day U.S. Treasury bills (debt securities), \$100,000 principal amount, 5% interest, dated April 1.

Required

Preparation Component

1. Prepare journal entries to record the preceding transactions and events.
2. Prepare a schedule to compare the cost and fair values of Checkers' short-term investments in available-for-sale securities.
3. Prepare an adjusting entry, if necessary, to record the fair value adjustment to the short-term investments account.

To Instructor

Teamwork in Action and Communicating in Practice are excellent starting points in developing an active learning environment. Both develop communication and interpersonal skills.

To Student

Team-building, collaborative effort skills are usually crucial to career success.

Active Learning

Active learning requires effective assignments. This book contains student-proven and instructor-tested assignment materials. Proven and thoughtful assignments not only facilitate but motivate effective and active learning. Many assignments include writing components. Here's a sampling of relevant active learning materials:

Teamwork in Action assignments require preparing, analyzing, and using information in teams. They can be completed in or outside of class. These active learning activities reinforce understanding of key topics and develop interpersonal skills.

The expanded accounting equation consisting of assets, liabilities, owner's capital, owner's withdrawals, revenues, and expenses can give us useful information on changes in a company's financial position.

Required

1. *Learning teams* of six (or more) members should be formed. Each team member must select one of the six components (each team must have at least one expert in each component): (a) assets, (b) liabilities, (c) owner's capital, (d) owner's withdrawals, (e) revenues, and (f) expenses.

Teamwork in Action

C3, A1

Communicating in Practice activities aim at applying accounting knowledge to develop written and verbal communication skills.

The class should be divided into teams. Teams are to select an industry, and each team member is to select a different company in that industry. Each team member is to acquire the annual report of the company selected. Annual reports can be obtained in many ways, including accessing the SEC's EDGAR database [www.sec.gov].

Required

1. Each team member should use the annual report to compute the debt ratio.

Communicating in Practice

A2

Hitting the Road is a unique part of each chapter's assignment materials. This activity requires readers to work outside the book and often requires application of interpersonal and communication skills. Tasks range from visits to local merchandisers and Social Security headquarters to conducting phone interviews and Web searches. These activities help readers understand and appreciate the relevance of accounting.

Hitting the Road

C1

Arrange an interview (in person or by phone) with the manager of a retail shop in a mall or in the downtown area of your community. Explain to the manager that you are an accounting student studying merchandising activities and the accounting for sales returns and sales allowances. Ask the manager what the store policy is regarding returns. Also find out if sales allowances are ever negotiated with customers.

A **Business Week Activity** requires the reader to apply the chapter's material to read and interpret a *Business Week* article. It also aids in developing reading comprehension skills and gives exposure to business happenings. Students can purchase this book with a special *Business Week* subscription package.

Read the article "Michael Dell: Whirlwind on the Web" in the April 7, 1997, issue of *Business Week*. Answer the following questions:

1. How many days of sales does Dell have in inventory?
2. How does Dell's days of sales in inventory compare with one of its chief competitors?

Business Week Activity

A3

Decision Center

The **Decision Center** provides students with a framework to organize chapter materials and, more important, to emphasize the crucial role of decision making in accounting. The Decision Center is showcased inside the front cover and is used throughout the textbook and its chapters. The following primary pedagogical tools comprise much of the Decision Center.

A **Decision Feature** article opens each chapter of the textbook. All chapter openers use a real world, entrepreneurial company to motivate the accounting materials. The entrepreneurial focus and flavor is unique to this textbook. Students find the Decision Feature interesting, motivating, and relevant.

Decision Ethics is a role-playing scenario that requires accounting and business decisions with ethical consequences. It shows the interaction of judgment and ethics, the need for ethical awareness, and the impact of ethics in business. Guidance answers are provided.

Decision Ethics

Entrepreneur

You and a friend develop a new design for mountain bikes that improves speed and performance by 25% to 40%. You plan to form a small business to manufacture and market these bikes. You and your friend want to minimize taxes, but your prime concern is potential lawsuits from individuals who will "push the limit" on these bikes and be injured. What form of organization do you set up?

Decision Maker is a role-playing scenario showing the relevance of accounting to internal and external decision makers (users). It develops critical thinking and analytical skills by requiring decisions using accounting information. Each chapter contains two to four of these scenarios. They are purposely chosen to reflect a variety of users — such as investors, consultants, programmers, financial planners, engineers, appraisers, and political and community activists. Guidance answers are provided.

Decision Facts highlight relevant, interesting, and topical items from practice that are useful in preparing, analyzing, and using accounting information. These items are strategically placed throughout the textbook to help students understand and effectively apply accounting.

Game Day Adjustments

Game day for the **Boston Celtics** includes adjusting accounts. When the Celtics receive cash from ticket sales and broadcast fees, it is recorded in an unearned revenue account called "Deferred Game Revenues." The Celtics recognize this unearned revenue on a game-by-game basis. Because the NBA regular season begins in October and ends in April, revenue recognition is mainly limited to this period. For the 1998 season, the Celtics' quarterly (3-month) revenues (in millions) are: \$0 for July–Sept.; \$25 for Oct.–Dec.; \$40 for Jan.–Mar.; and \$11 for April–June. [Source: Boston Celtics, Annual & Quarterly Reports.]

Decision Facts

Decision Facts
Decision Facts
Decision Facts
Decision Facts
Decision Facts
Decision Facts
Decision Facts

The **Decision Center** helps students organize and apply several other pedagogical support materials:

Real-World Excerpts call attention to interesting examples from practice. Excerpts are often accompanied by a photo or graphic to draw attention to the nature of the business and its relevance to readers.

Decision Aids helps readers organize and link accounting concepts, procedures, and analyses. Here are some examples:

Chapter Linkages launch each chapter and establish bridges between prior, current, and upcoming chapters.

Chapter Outline gives a mental and visual framework to help readers learn the material.

Chapter Preview kicks off each chapter by explaining the material's importance and relevance.

QuickChecks are short questions strategically located in each chapter to help reinforce the material.

Decision Feedback

A solid core of traditional and innovative assignments are augmented by *Beyond the Numbers* assignments that challenge readers to apply knowledge in practical and diverse ways. Challenges include analytical problems, research requirements, comparative analysis, teamwork assignments, and communication exercises.

A **Decision Analysis** section concludes each chapter and focuses on several decision-making skills. Each section introduces one or more tools of analysis. It then applies these tools to analyze and interpret the performance of actual companies and their competitors. At the end of this section, a **You Decide** feature is included that requires application of these decision tools to business decisions using accounting data.

Book Organization and Key Chapter Innovations

Part I introduces students to financial accounting and its basic concepts, procedures, and analyses.

Chapter 1: Accounting in the Information Age. This chapter motivates students by explaining the relevance of accounting and identifying accounting-related career opportunities. It describes business activities and shows how they are reported in financial statements using NIKE's actual statements. Students are introduced to the concepts of risk and return, and then compute and perform an analysis of return on investment for NIKE as benchmarked against Reebok and other competitors.

Chapter 2: Financial Statements and Business Transactions. A main purpose of Chapters 2–4 is to show students how the financial statements introduced in Chapter 1 capture business transactions. This first chapter shows how financing (owner investments and withdrawals), investing (asset purchases), and operating (revenues and expenses) activities are reflected in the statements. Much of this analysis is done using the accounting equation. Students also calculate and analyze return on equity, and review Nintendo's financial highlights in both dollars and yen.

Chapter 3: Analyzing and Recording Transactions. This chapter conveys many of the basics of the accounting system, including double-entry accounting, T-accounts, and key internal documents such as journals, ledgers, and the trial balance. Analysis and use of financial statements are improved when one understands the accounting system and its limitations. The chapter concludes with a risk analysis of Stride Rite using the debt ratio. This risk analysis includes a discussion of financial leverage along with the benchmarking of competitors such as Fila, Converse, and L.A. Gear.

Chapter 4: Accrual Accounting and Financial Statements. This chapter explains the purpose of accrual accounting (revenue and expense recognition) and the need for accounting adjustments—one example uses the Boston Celtics' game day adjustments to unearned revenue. A complete set of financial statements is prepared from the accounts, including a statement of cash flows. The chapter concludes with an analysis of the profit margin and current ratio of Ben & Jerry's both over time and against its competitors.

Part 2 explains operating activities for buying and selling merchandise and how they are reflected in financial statements.

Chapter 5: Accounting for Merchandising Activities. The operating cycle is described in this chapter along with accounting for the buying and selling of goods. The chapter explains the management of discounts and cost flows through

the accounting system. The impact of technology and perpetual inventory are illustrated with reference to Wal-Mart and its suppliers. The chapter describes the importance of both the acid-test and gross margin ratios for merchandisers, and illustrates its application to J.C. Penney and its competitors.

Chapter 6: Merchandise Inventories and Cost of Sales. This chapter explains methods of assigning costs to inventory. It discusses the importance of accounting for inventory on both financial statements and tax reports. Other methods for measuring inventory are described. Dell is cited for its use of Web technology as a tool to slash inventory levels. The chapter concludes with further analysis of inventory management using both the merchandise turnover and the day's sales in inventory ratio as applied to Toys "R" Us and its competitors.

Part 3 emphasizes accounting and the management of investing activities for both current and long-term assets.

Chapter 7: Cash and Internal Control. This chapter explains important concepts of internal control. Controls are part of modern business—from face codes and counterfeiting tags to eBay's control of its cyberspace flea market. This leads to a discussion of the need to control cash and its equivalents, along with the use of banking activities as controls. The importance of cash management is described. The chapter wraps up with a discussion of liquidity, and then defines and analyzes the days' sales uncollected ratio for both Hasbro and Mattel.

Chapter 8: Receivables and Short-Term Investments. The chapter describes accounting for both accounts and notes receivable, including the estimation of bad debts and interest computations. It explains the management of receivables and how they can be converted to cash before maturity. Accounts receivable turnover is introduced and illustrated using the accounts of both Dell and Apple Computer. Also described are short-term investments, how to account for them, and the use of market value adjustments.

Chapter 9: Plant Assets, Natural Resources, and Intangibles. This chapter explains accounting for major long-term assets. This includes intangible assets, arguably one of the most important assets for companies in a modern, technological economy. The chapter describes asset cost allocations, revenue and capital expenditures, asset disposals, and other issues. It explains the management of assets and how goodwill is created and estimated. It also shows differences in plant asset requirements for different industries, using Harley-Davidson, Hershey, Kellogg, and McDonald's as examples. Total asset turnover is defined and illustrated by analyzing Coors and Anheuser-Busch.

Part 4 turns to the accounting for and the management of financing activities using both debt and equity.

Chapter 10: Current and Long-Term Liabilities. This chapter emphasizes current liabilities, including how they're defined, classified, and managed. Discussion focuses on determinable liabilities such as accounts payable, unearned revenues, and payroll liabilities as well as estimated liabilities including warranties, tax liabilities, and health and pension benefits. It explains contingent liabilities with reference to examples from McDonald's, Burger King, and Starbucks. Long-term liabilities are introduced by comparing their magnitude to current liabilities for companies such as CompUSA, The GAP, and Wendy's. Examples described include lease liabilities of Home Depot and the unearned subscription revenues of Sports Illustrated. The chapter concludes with computation and analysis of times interest earned for Best Buy.

Chapter 11: Bonds and Long-Term Notes Payable. The chapter begins with an analysis of bond (debt) financing versus equity financing. The pros and cons of each are described along with their impact for return on equity. A thorough explanation of accounting for bonds is covered along with a discussion of how to analyze bond quotes and interpret bond ratings. It also reviews "Bowie" bonds, municipal bonds, junk bonds, and convertibles. The latter part of the chapter focuses on note financing, including installment, mortgage, interest- and noninterest-bearing notes. The chapter wraps up with an analysis of collateral agreements for debt and describes how the ratio of pledged assets to secured liabilities is applied using data from Chock Full O'Nuts.

Chapter 12: Equity Transactions and Corporate Reporting. This chapter begins by analyzing crucial characteristics of the corporate form of organization. It then explains accounting for common, preferred, and treasury stock, and describes both cash and stock dividends. Examples involve analyzing NIKE's stock quote, reviewing Netscape's initial public offering (IPO), managing financial leverage through preferred stock, and the explosion in stock buybacks and online stock trading. The chapter analyzes the reporting of income information such as extraordinary items, discontinued

segments, and earnings per share. Special mention is made of stock options for companies such as MCI, PepsiCo, and Starbucks, and the future fortunes owed to managers such as Michael Eisner (Disney) and Stephen Case (AOL). It concludes with several important tools of analysis including book value per share, dividend yield, and the price-earnings ratio, with applications to Microsoft and Chevron.

Part 5 focuses on additional analyses of financial statements and cash flow information.

Chapter 13: Reporting and Analyzing Cash Flows. This chapter opens with the basics of cash flow reporting, including the purpose and importance of the statement of cash flows and the analysis and classification of cash flows. It includes a comparison of net income to operating cash flows for J.C. Penney and Sears. It then describes the analysis and reporting of operating cash flows using both the direct and indirect methods. Separate sections are provided for these two methods so that an instructor can choose to cover either or both methods. The direct method is illustrated with reference to the Boston Celtics' statement. The chapter wraps up with an analysis of the sources and uses of cash, a discussion of free cash flow, and the application of the cash flow on total assets ratio to NIKE, PepsiCo, Wal-Mart, and others.

Chapter 14: Analysis of Financial Statements. This chapter explains the basics of fundamental analysis, including its purpose, building blocks, information required, benchmarking, and other tools of analysis. It pulls together many of the ratios and tools separately identified in prior chapters, but also extends the inquiry to both horizontal and vertical analyses. Special mention is made of mistakes by people such as the Beardstown Ladies in ignoring accounting fundamentals and the importance of benchmarking. Most of the analyses in this book are then applied to NIKE, and are benchmarked against Reebok and other competitors. The chapter defines terms such as short selling, bear and bull markets, blue chips, brokers, and ticker prices.

Appendixes cover specialized topics such as present and future values, partnerships, long-term investments, international transactions, and special journals.

Supplements

FOR THE INSTRUCTOR

Solutions Manual

The Solutions Manual, prepared by John J. Wild, contains solutions for all assignment materials. An electronic version on CD-ROM is also packaged with the Manual. 0-07-234671-X

Solutions Acetates

Overhead transparencies using large, boldface type are available for the Solutions Manual. 0-07-234714-7

Instructor's Resource Manual

An Instructor's Resource Manual, prepared by Jeannie Folk, College of DuPage, contains (for each chapter) a Lecture Outline, a chart linking all assignment materials to Learning Objectives, a list of relevant active learning activities, and additional visuals with transparency masters. It also provides additional instructional materials for helping manage an active learning environment. 0-07-234674-4

Test Bank

A Test Bank, prepared by Jane G. Wiese of Valencia Community College, contains a wide variety of test material, including true-false, multiple-choice, matching, short essay, short and long quantitative problems, and completion exercises. Test Bank materials are identified by varying levels of difficulty and are grouped by learning objectives. 0-07-234680-9

CompuTest for Windows offers a computerized version of the Test Bank using Brownstone Diploma 97. It gives instructors the power to write tests that can be administered on paper, or over a campus network, or on the Internet. Test results can be merged into Computest's gradebook program. Its test-building tools allow question editing and random selection of test questions by question number, learning objective, or level of difficulty. 0-07-234768-6

Financial Accounting Video Library

These short, action-oriented videos, developed by Dallas County Community College District, provide the impetus for lively classroom discussion. The focus is on the preparation, analysis and use of accounting information for business decision making. Video segments emphasize the impact of transactions on financial statements. 0-07-237616-3

Ready Shows and Ready Slides

These teaching enhancement packages are prepared by Jon A. Booker, Charles W. Caldwell, and Susan C. Galbreath of Tennessee Technological University:

- *Ready Shows* is a multimedia lecture slide package using PowerPoint® 7.0 to illustrate chapter concepts and procedures. It includes a viewer so the screens can be shown with or without Microsoft® PowerPoint® software, and it also allows revision of lecture slides. 0-07-234767-8

- *Ready Slides* are color teaching transparencies selected from Ready Shows (PowerPoint®) presentation slides for overhead presentation. The Ready Slides package also includes a booklet of additional black and white transparency masters for the entire set of slides. 0-07-234766-X

Presentation Manager CD

This software allows instructors to create custom presentations from their own materials or from the variety of additional materials on the CD-ROM (0-07-234715-5) that includes:

- Instructor's Resource Manual
- Ready Shows (PowerPoint® Slides)
- Video Clips
- Selections from Solutions Manual
- PageOut (Web) Software

Book Web Site

This book's web site (www.mhhe.com/decisioncenter) links both instructors and students to a wealth of useful information. This includes current articles and accompanying questions, additional problems with solutions, and software training sessions. The site also provides its own **Online Tutor** to answer student questions and help them better understand the materials.

McGraw-Hill Learning Architecture (MHLE)

A complete (distance learning) course delivery system provides digital content specially designed for Financial Accounting: Information for Decisions, 1/e. Materials from the Study Guide, Instructor's Resource Manual, Ready Shows (PowerPoint slides), and CompuTest (test bank) are available for delivery on the Internet using the TopClass system. Instructors can use MHLE for online quizzing, student interaction, course administration, and content delivery. 0-07-234843-7

Online Learning Center (OLC)

All digital materials described under MHLE are available through the Online Learning Center. OLC is compatible with full service online course delivery systems and is an alternative to the TopClass delivery system. OLC also works in conjunction with PageOut: (Course Web site Development Center)

PageOut: The Course Web site Development Center

PageOut offers a template for a professor to create a Web site with a syllabus page, Web site address, Online Learning Center content, online exercises and quizzes, grade book, discussion board, and an area for students to build their own Web pages. For more information, visit www.mhhe.com/pageout. 0-07-234841-0

Instructor Booklet for Student Software CD

This booklet explains how to use the 5 software items on the Student Software CD-ROM (prepared by Jack E. Terry, ComSource Associates, Inc.). It also includes solutions for the SPATS and PeachTree supported assignments. 0-07-235046-6