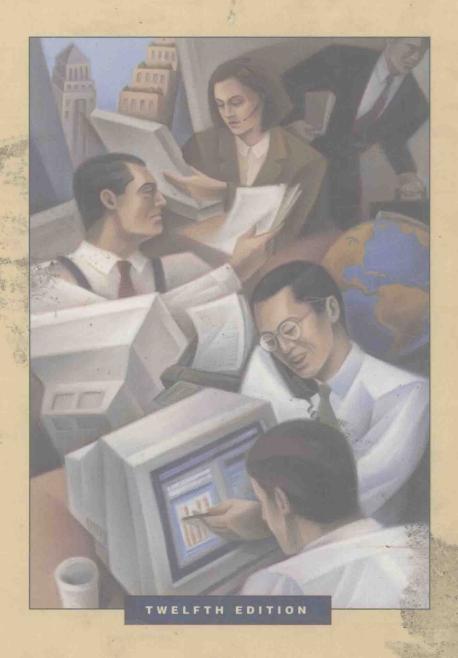
FINANCIAL & MANAGERIAL ACCOUNTING

The Basis for Business Decisions



Williams

Haka

Bettner

Meigs

FINANCIAL AND AND MANAGERIAL ACCOUNTING

The Basis for Business Decisions

Twelfth Edition

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Dr. Williams has been extensively involved in professional accounting activities with the American Accounting Association (AAA), the American Institute of CPAs (AICPA), the Tennessee Society of CPAs, and other organizations. In 1999–2000, he served as president of the AAA and in that capacity traveled throughout the world speaking on issues related to accounting education and practice. He has recently served on two task forces of the AICPA to redesign the CPA examination to meet the changing needs of the profession for the 21st century.



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Mark S. Bettner Associate professor at Bucknell University, Mark Bettner has received numerous teaching and research awards. In addition to his work on the Meigs and Williams titles, he has written many ancillary materials, published in scholarly journals, and presented at numerous academic and practitioner conferences. Mark is also on the editorial advisory boards of several academic journals, including the *International Journal of Accounting and Business Society*.



Preface

NOTE TO STUDENTS

The primary focus of this book is discovering the meaning of accounting information—and how this information is used by decision makers. Throughout this text, we provide you with financial and managerial accounting concepts to give you an understanding of how to use accounting information to make informed decisions. We introduce you only briefly to actual accounting practices and techniques.

Today, everyone needs a basic understanding of accounting information, not just those students planning careers in business. No matter which career you choose, you will work with accounting information and use it in managing your personal financial activities. Using accounting information is simply a part of everyday life.

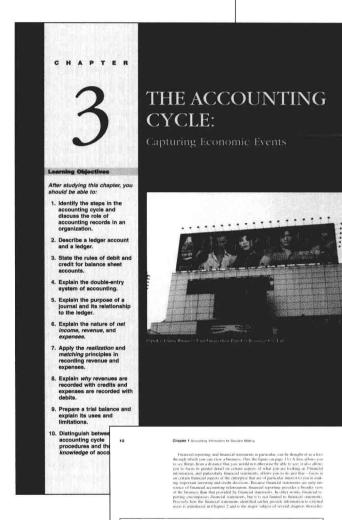
OUR APPROACH

Our goals in this text are to develop your abilities to understand accounting information and to use this information in making economic decisions. To understand accounting information, you also must understand the economic activities that the information describes. In this book, we focus primarily on business activities. However, many of the accounting concepts we discuss also apply to the economic activities of individuals as well as government and nonprofit organizations.

The purpose of accounting is to provide information useful to economic decision makers. Throughout the book, we cast you in many decision-making roles. We have implemented many new elements to provide a greater understanding of how accounting information is used in decision making. Refer to our Walkthrough pages in this preface for a detailed look at the features designed to enhance your decisionmaking skills.

Opening Vignette

The chapter openers feature vignettes that relate realworld companies, such as Amazon.com and Nike, to the accounting concepts covered in the chapter.



Cash Effects

Cash Effects sections show how a transaction or method impacts the cash flow of an organization.

CASH EFFECTS

A Second Look

A Second Look box at the end of each chapter returns to the real-world company highlighted in the chapter opener. This second look allows students to relate the accounting topics they have just learned to those practiced by actual businesses.



PanciCo Inc

Capturing the economic events of a lemonade stand is a fairly simple process. In fact, for most lemonade stands, an empty cigar box easily serves as a complete information system.

Capturing the economic events of **PepsiCo**, **Inc.**, however, is an entirely different matter. This giant corporation generates annual revenue in excess of \$20 billion from sales of its soft drink products, its Tropicana juices, and its Frito-Lay snack foods. Employing nearly 120,000 people, and operating hundreds of manufacturing facilities and thousands of warehouses and distribution centers, **PepsiCo**, **Inc.**, must somehow capture complex business transactions occurring in more than 160 countries worldwide.

From lemonade stands to multinational corporations, being able to efficiently capture the effects of economic events, such as sales orders and raw material purchases, is absolutely essential for survival. Companies like Pepsico, Inc., rely upon sophisticated computer systems to capture economic activities. Some small enterprises, however, may use paper ledgers and journals to record business transactions.

Although Overnight Auto Service engaged in several business transactions in the previous chapter, we did not illustrate how these events were captured by Overnight for use by management and other interested parties. This chapter demonstrates how accounting systems record economic events related to a variety of business transactions.

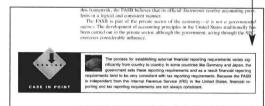
Your Turn

Your Turn boxes put students in the role of decision makers, requiring them to apply chapter concepts to situations faced by investors, creditors, and managers. Ethics icons indicate boxes that require ethical decisions.



Case in Point

Case in Point boxes use actual business events to illustrate the relationship between accounting concepts and the real world. International icons indicate boxes that contain international information.



64 Chapter 2 their Francius Statements its annual financial statements, in perticular, management rissappear as strong as is reasonably possible. As a result, many one

its annual financial statements, in particular, annuagement nies to make the companappear as strang as is reacourably possible. As a result, many creditors regard note free appear as strang as is reacourably possible. As a result, many creditors regard note free appear admits of a result of the result of th



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America Online

he beginning of this chapter, we asked how you would know whether America Online was cessiful. This chapter introduced the basic futuroist statements allowing you to begin to a

asset this question.

America Ordinary recover statements for 1997, 1868, and 1999, indicate that its net in core (losses) were \$8480 ndton, \$124 ndton), and \$120 ndton, inspecticely this examinate in 1997 and 1998, the company, secures were less than its agreement and, therefore and the extraction was reported. The 1998 loss, it contains a west less than its agreement and the 1997 loss. If \$1000, restriction accessed and passes are presented in the 1997 loss. If \$1000, restriction accessed as 2000 of 1900, restriction accessed as 2000 of 1900, restriction accessed as 2000 of 1900 and the foreigning sepanded as 2000 of 1900 of 190

Another measure of aucoss total as sometimes clear is waitness for company securities to generating measure of courts to be used or the proposes. America Chemiss statement of court from the tot 1997. 1988, and 1999 federate that if had protein court from them to the generating cancer (and the court of the court o

At the early stage in your study of accounting, you can begin to understand how investor and creditors can use important information in the company's francial statements to lear these short accessors the beginning make information describes.

NEW!

Management Strategy

Management Strategy boxes illustrate how accounting information is used to evaluate business strategies and to make strategic business decisions.

FINANCIAL ANALYSIS

Relationships among the three primary financial statements provide the opportunity learn a great deal about a company by bringing pieces of information together in a mea ingful way. In fact, some people believe that relationships in the financial statements a



While the above refers exclusively to information found in the balance sheet, key in formation from one financial statement intens is combined with information from nonfined financial statement. For example, we may be inforested in knowing the amount of act provided by operations closh finos statement relative to the amount of a company provided by operations closh finos statement relative to the amount of a company in the company of the contract of the company of

Many of the chapters in this text introduce you to various types of financial analysis.

NEW! Financial Analysis

Financial Analysis sections introduce ratios and other analytical techniques that relate to the material covered in each chapter. Chapter 14 includes comprehensive coverage of the subject of financial statement analysis. These combine to give the book a strong orientation of using accounting information for decision making.

Preface

END-OF-CHAPTER FEATURES

- · Defined Key Terms and Self-Test Questions review and reinforce chapter material.
- Five Comprehensive Problems, ranging from two to five pages in length, review and synthesize text material throughout the book.
- · Demonstration Problems and their solutions allow students to test their knowledge of key points in the chapters.
- Internet Assignments at the end of chapters require students to go to a specific Internet site to answer questions.
- Business Week Assignments at the end of each chapter are assignments based on recent articles. They require students to answer questions by relating accounting concepts to current events.
- Icons identify exercises involving General Ledger Applications Software (GLAS), Spreadsheet Applications Template Software (SPATS), ethical issues, group activities, and international issues.











• The Annual Report from Tootsie Roll Industries, Inc., for 1999 is used throughout the text in exercise and problem material to reveal actual business applications of text material.

TECHNOLOGY

Student CD-ROM

The Student CD-ROM is packaged with every new copy of the textbook. It includes General Ledger Applications Software (GLAS), Spreadsheet Applications Template Software (SPATS), and Tutorial Software.



General Ledger Applications Software (GLAS) The GLAS accounting program saves time and minimizes errors because it operates as an integrated system. Amounts entered in the general journal or special journals can be posted to the general ledger with a single keystroke. GLAS icons show students where this tool can be used to solve end-of-chapter problems.



Spreadsheet Applications Template Software (SPATS) The SPATS software allows students to develop important spreadsheet skills by using templates to solve selected assignments identified by an icon in the end-of-chapter material.

· Online Learning Center

Our new website at www.mhhe.com/business/accounting/williams_basis_12e supports the twelfth edition with the following features:

Tutorial Software Provides a variety of ways to test students' knowledge of the material in the text. Students can randomly access different review methods. Explanations of right and wrong answers are provided and scores are tallied.

Links to Professional Resources These links send students to various sites to gather real-world data and market news.

Quizzes Multiple-choice online quizzes for students test their knowledge.

Alternate Problems Alternative versions of the end-of-chapter problems give students more practice at applying their knowledge. Solutions are provided for instructors.

Technology

Downloadable Instructor Supplements Instructors can access the following supplements electronically: PowerPoint, Solutions Manual, Instructor's Manual, and SPATS solutions.

PageOut PageOut is an exclusive McGraw-Hill product that allows an instructor to create a professional course website in less than an hour.

• NetTutorTM

NetTutor™ is an online, live tutoring service that guides students through their accounting problems step-by-step. Students also can watch as other students' questions are answered—giving them the opportunity to constantly improve their accounting skills. Students can gain access to NetTutor™ by purchasing a new text-book with the NetTutor password card. Contact your McGraw-Hill/Irwin sales representative for more information.

• PowerWeb

PowerWeb is a database of online financial and managerial articles that are updated weekly. Exercises and teaching suggestions for instructors also are provided. Students can gain access to PowerWeb by purchasing a new textbook with the PowerWeb password card.

• Interactive Financial Accounting Lab by Ralph E. Smith and Rick Birney, both of Arizona State University (ISBN 0-07-236137-9)

Interactive Managerial Accounting Lab by Diane Pattison, University of San Diego; Patrick McKenzie and Rick Birney, both of Arizona State University (ISBN 0-07-236138-7)

Available in network or stand-alone versions, this innovative software allows students to solve accounting problems and receive feedback in a motivating, interactive, multimedia environment. The Administration Module and Gradebook features allow instructors to manipulate the "calendar" of assignments students are required to complete and also to track students' performance. The **Financial Accounting Lab** provides a comprehensive review of the fundamentals of the accounting cycle, while the **Managerial Accounting Lab** offers more than 15 hours of computerized exercise sets to help students learn management accounting.

Computerized Practice Sets

Prepared by Leland Mansuetti and Keith Weidkamp of Sierra College, these business simulations for Windows provide a dynamic educational alternative to manual sets.

Granite Bay Jet Ski, Level 1 (ISBN 0-07-234088-6), Instructor's Manual (ISBN 0-07-234104-1)

Granite Bay Jet Ski, Level 2 (ISBN 0-07-234105-X), Instructor's Manual (ISBN 0-07-234106-8)

Wheels Exquisite, Inc. Level 1 (ISBN 0-07-561243-7), Instructor's Manual (ISBN 0-07-561242-9)

• Understanding Corporate Annual Reports: A Financial Analysis Project, Fourth Edition, by William R. Pasewark (ISBN 0-07-238714-9) This project contains extensive instructions for obtaining and analyzing an annual report from a publicly traded corporation.

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NOTE TO INSTRUCTORS

The twelfth edition of *Financial and Managerial Accounting: The Basis for Business Decisions* features a more contemporary design, cutting-edge supplements, and fresh insights based on reviewer feedback.

We scrutinized and reworked the contents of the text for the twelfth edition. A few of our content changes include the following: the financial accounting chapters now take a corporate approach, the accounting cycle has been split into three chapters to enable faculty to cover this critical material in more manageable pieces, forms of business organization material have been integrated throughout the text, a new Chapter 24 covers performance measurement, and Tootsie Roll Industries replaces Toys "R" Us as the annual report referenced throughout the text's EOC material.

SUMMARY OF CONTENTS AND CHANGES

Chapter 1 Accounting: Information for Decision Making

- Accounting is introduced as a system of information for decision making.
- Both financial and managerial accounting are introduced in parallel fashion by discussing (1) users of the information, (2) their objectives with regard to the information, (3) the integrity of the information, and (4) specific characteristics of the information.

Chapter 2 Basic Financial Statements

- Chapter 2 introduces the accounting equation and describes how a company's financial statement changes as result of a series of simple business transactions.
- The chapter ends with an illustration of a simple balance sheet, income statement, and statement of cash flows and a discussion of how these statements articulate.

NEW!

Chapter 3 The Accounting Cycle: Capturing Economic Events

- This edition has added a third accounting cycle chapter to enable faculty to cover this critical material in more managable pieces.
- Chapter 3 builds on the comprehensive illustration introduced in Chapter 2.
- This chapter introduces the complete accounting cycle, from analyzing economic events to preparing financial statements (including a simple statement of cash flows).

NEW!

Chapter 4 The Accounting Cycle: Accruals and Deferrals

• Chapter 4 builds on the material covered in Chapter 3 and provides thorough coverage of the adjusting entries.

NEW!

Chapter 5 The Accounting Cycle: Reporting Financial Results

- Chapter 5 builds on the material covered in Chapters 3 and 4. It focuses on the relationship of the income statement, statement of retained earnings, and the balance sheet. It also describes the closing process.
- A supplemental topic, "The Worksheet," is included at the end of the chapter.

Comprehensive Problem 1—Tony's Rentals

Chapter 6 Accounting for Merchandising Activities

- Chapter 6 introduces students to merchandising businesses, inventories, and the cost of goods sold.
- · Both perpetual and periodic inventory systems are discussed.
- Various performance measures of merchandising businesses are introduced and illustrated.

Chapter 7 Financial Assets

- Chapter 7 addresses accounting and reporting issues related to cash and cash equivalents, short-term investments, and accounts receivable.
- Mark-to-market reporting of short-term investments is explained, and the need for estimating uncollectible accounts receivable is discussed and illustrated.

Chapter 8 Inventories and the Cost of Goods Sold

- Chapter 8 identifies the various cost flow assumptions used by businesses in accounting for inventories.
- Both perpetual and period inventory systems are illustrated.
- FIFO versus LIFO reporting issues are illustrated (including a discussion of a LIFO reserve).

Comprehensive Problem 2-Guitar Universe, Inc.

Chapter 9 Plant Assets and Depreciation

- Chapter 9 focuses on accounting issues related to tangible and intangible longterm fixed assets (including the disposal of plant assets and valuation issues pertaining to certain intangible assets).
- The widespread use of straight-line depreciation is emphasized.

Chapter 10 Liabilities

- Chapter 10 covers both current and noncurrent liabilities.
- Noncurrent liability coverage includes issues related to bonds, pensions, and other postretirement benefits.
- Chapter 10 can be used in conjunction with Appendix B, which covers the time value of money, should an instructor choose to do so.

Chapter 11 Stockholders' Equity: Paid-in Capital

- Chapter 11 discusses various issues related to contributed capital.
- Topics include legal capital, preferred stock, treasury stock, stock splits, book value, and market value.

Chapter 12 Income and Changes in Retained Earnings

- Chapter 12 presents net income and its components.
- Some of the specific topics covered are discontinued operations, extraordinary items, accounting changes, earnings per share, cash and stock dividends, and the statement of changes in stockholders' equity.

Chapter 13 Statement of Cash Flows

- The statement of cash flows discussion emphasizes the broad classifications of cash flows: operating, investing, and financing.
- This chapter describes the form and content of the statement of cash flows by both the direct and the indirect method, with particular emphasis on reconciling net income to net cash provided by (or used in) operating activities.

Chapter 14 Financial Statement Analysis

- General approaches for analyzing financial statements are introduced, as are specific ratios and other procedures for analyzing various aspects of a company's activities.
- These activities include liquidity and credit risk, profitability, quality of earnings, and capital structure.

Comprehensive Problem 3—Tootsie Roll Industries, Inc.

Chapter 15 Global Business and Accounting

- Chapter 15 provides students with an understanding of the issues that impact accounting in the global business environment.
- International differences in financial and management accounting procedures are discussed and related to variations in cultures, laws, economics, and technological infrastructures across countries.

Chapter 16 Management Accounting: A Business Partner

- The three basic principles of management accounting system design are introduced and explained. A management accounting system assigns decisionmaking authority, provides information to support decision making, and furnishes information for performance evaluation and reward assignment.
- Demonstrates the basic manufacturing process and matching cost flows. Distinguishes period and product costs, direct and indirect costs, raw materials, work in process, and finished goods inventories.

Chapter 17 Accounting Systems for Measuring Costs

- Chapter 17 covers manufacturing methods and related costs that result in different accounting system designs. Job order, process, and activity-based costing are introduced and demonstrated. Exhibits show how each costing method matches the cost flow with the manufacturing method.
- The impact of accounting system choices on related information for decision making is discussed as a lead-in to the next chapter. Motivations for cost allocation and choices of cost objects are introduced.

Chapter 18 Costing and the Value Chain

- Chapter 18 focuses on how decision making across the value chain drives the type of costs created by management. The chapter also shows the need for cost information related to the value chain.
- Over the life cycle of the value chain cost procedures useful to management are introduced. These procedures include target costing, life-cycle costing, justin-time techniques, and tracking cost of quality.

Chapter 19 Cost-Volume-Profit Analysis

- Chapter 19 defines fixed, variable, and semivariable costs and also explains the use of contribution margin and breakeven analysis in short-run decision settings.
- An illustration depicts how the assumptions required as inputs to C-V-P can lead managers to different conclusions about a marketing decision.

Chapter 20 Incremental Analysis

- Chapter 20 covers the definitions and importance of opportunity costs, sunk costs, incremental costs, and revenues for short-run business decisions.
- This chapter also demonstrates incremental analysis in a variety of business decision settings, including special order, where to produce, resource input mix, and pricing decisions.

Comprehensive Problem 4—Gilster Company

Chapter 21 Responsibility Accounting and Transfer Pricing

- Chapter 21 explains how cost, profit, and investment center structures assign decision-making authority over a firm's assets.
- The chapter also shows how top executives use accounting information to hold managers of cost, profit and investment centers responsible for their decisions.
- The impact of different transfer pricing methods on the accounting outcomes of cost, profit, and investment centers is illustrated.

Chapter 22 Operational Budgeting

- Chapter 22 clarifies how the budgeting process (1) assigns decision-making authority, (2) requires the organization to plan and share information, and (3) is useful for evaluating and rewarding performance.
- The master budget process is demonstrated, and static and flexible budgets are contrasted.

Chapter 23 Standard Cost Systems

- Chapter 23 explains the use of standard costing as a control mechanism; it also specifies how standards are determined as well as their motivational impact.
- Computation of overhead, materials, and labor variances is discussed, along with the use of variances for decision making.

NEW!

Chapter 24 Rewarding Business Performance

- This new chapter clarifies the role of incentive systems by presenting the methods and means that businesses use to motivate, evaluate, and reward good business decision making.
- This chapter also describes the DuPont method for analyzing the components
 of return on investment, residual income, and economic value added concepts.
 The balanced scorecard is introduced as a means for motivating, evaluating,
 and rewarding comprehensive business performance.

Comprehensive Problem 5—Utease Corporation Chapter 25 Capital Budgeting

- Chapter 25 considers the role of capital budgeting in a firm's ability to achieve long-range goals and objectives; it also links capital and operational budgets.
- Capital budgeting procedures that account for the time value of money are illustrated, including payback, internal rate of return, and net present value.
- The following special features in the end-of-chapter material help students clarify and apply the topics introduced in the chapter.

STUDENT-ORIENTED TEXT

Today, most careers do not center around the *preparation* of accounting information; however, every student will be a lifelong *user* of accounting information. For example, students will use accounting information to make business decisions throughout their careers.

We have worked to make this text more relevant to students' needs as well as more interesting, thereby motivating students to make the most of this learning opportunity. Evidence of this can be found in every problem and almost every exercise; now each contains an analytical element that asks students to interpret the information they are working with or to explain how they would use it in making some form of business decision.

Our approach is to involve students more directly in the learning process; that's why we challenge them to express their views. Features aimed at achieving this goal include the interactive Your Turn cases in every chapter, the analytical elements in our assignment material, and our Internet-related features.

Our Internet features encourage students to explore interesting, accounting-related websites on their own. We make this very simple by providing not only the addresses of these sites but also links to these sites through the book's website. No instructor assistance should be required.

CONTEMPORARY TEXT

Any course is more relevant and more interesting if it is up to date. We have made this text contemporary in all respects, from coverage of real-world companies in the chapter openers to topical coverage to assignment material.

The following special features in the end-of-chapter material help students clarify and apply the topics introduced in the chapter:

SUPPLEMENTS

For Students

- **Study Guide** (Vol. 1 ISBN 0-07-246590-5, Vol. 2 ISBN 0-07-246584-0) For each chapter, students can measure their progress through a wealth of self-test material (with solutions) and a summary of the chapter's key points.
- Working Papers (Vol. 1 ISBN 0-07-246582-4, Vol. 2 ISBN 0-07-246583-2) This softcover booklet is filled with columnar paper for each Problem and Comprehensive Problem in the textbook. Throughout the working papers students encounter Checkpoints to ensure they are on the right track.

We Have Listened to You

For Instructors

• **Instructor's Manual** (Vol. 1 ISBN 0-07-246594-8, Vol. 2 ISBN 0-07-246593-X) For each chapter and appendix, you will find:

A brief topical outline that indicates the topics to discuss in class.

An assignment guide that provides at a glance the topical content of each Exercise, Problem, and Case.

Comments and observations concerning the chapter content, methods of presentation, and usefulness of specific assignment material.

Many real-world examples not found in the text, including additional *Business Week* and Internet assignments, sample assignment schedules, and suggestions for using each element of the supplemental package.

- Solutions Manual with CD-ROM (Vol. 1 ISBN 0-07-246846-7, Vol. 2 ISBN 0-07-246847-5) This comprehensive manual provides solutions to all Discussion Questions, Exercises, Problems, Cases, and Comprehensive Problems, The enclosed CD-ROM contains the manual's electronic files.
- **Solutions Transparencies** (Vol. 1 ISBN 0-07-246580-8, Vol. 2 ISBN 0-07-246591-3) A complete set of acetates contains the solutions to all of the Exercises and Problems in the Solutions Manual.
- **Test Bank** (Vol. 1 ISBN 0-07-246588-3, Vol. 2 ISBN 0-07-246589-1) With an abundance of objective questions and short exercises, this supplement is a valuable resource for instructors who prepare their own quizzes and examinations.
- Computerized Test Bank (ISBN 0-07-246595-6) This computerized version of the manual test bank is available in Windows® format.
- Ready Shows (Vol. 1 ISBN 0-07-246852-1, Vol. 2 ISBN 0-07-246853-X) This
 comprehensive package is filled with multimedia aids that use PowerPoint software to illustrate chapter concepts.
- Instructor Spreadsheet Application Template Software (SPATS) (ISBN 0-07-246854-8) Solutions to the students' SPATS problems.
- Case Videos (with Manual) (ISBN 0-07-043440-9) Eight vignettes ranging from 5 to 15 minutes long cover various accounting topics as applied in real-company scenarios. A brief summary, key concepts and topics, suggested homework assignments, student handouts, small group activities, discussion questions, and teaching notes are provided for each vignette. Topical coverage includes external audits, inventory cost flows, ethics and reporting issues, cash versus accrual income, break-even analysis, capital budgeting, corporate bonds, and making investment decisions.
- Financial Accounting Video Library (ISBN 0-07-237616-3) and Managerial/Cost Accounting Video Library (ISBN 0-07-237617-1) This diverse array of videos prepared by Dallas County Community College District Telecourse can be used to stimulate classroom discussion, illustrate key concepts, or review critical material.

WE HAVE LISTENED TO YOU

Reviewer comments for this edition and previous editions have guided us in this revision. We extend our sincere thanks for their efforts to the following people:

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