

Eleventh Edition

Accounting

The Basis for Business Decisions

Meigs Williams Haka Bettner

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The Basis for Business Decisions

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ACCOUNTING: THE BASIS FOR BUSINESS DECISIONS

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INTERNATIONAL EDITION

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Tribute



Walter B. Meigs, the founding author of this textbook, was my father. He died in 1997, and it is with great pride that I dedicate this edition to his memory.

Walter was the consummate accounting educator. He was a tireless researcher and a prolific author. But most of all, he was a teacher who had a profound love and respect for students, accounting, and the process of education.

I have great admiration for my father, but here I will address only his role as a textbook author. He worked hard, wrote well, and—most importantly—took the time to determine and understand the needs of students. As a result, he authored five series of successful accounting textbooks, each of which has been revised many times.

Walter had many natural talents, but his success was due primarily to long hours of hard work. He just wouldn't quit until he "had it right." He also adapted well to change. He began his writing career with a manual typewriter and concluded it by developing materials to be used on the Internet. He was instrumental in shifting the emphasis of accounting education from bookkeeping techniques to decision making.

For this dedication, I was asked to summarize his contributions to accounting education in just a few words. In my heart and mind, I do it in one—I just say "Wow!"

—Robert F. Meigs

About the Authors

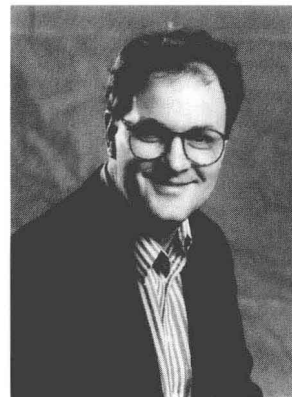


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Active in many professional organizations, Jan was a member of the Accounting Education Change Commission, and served on many committees for the AAA, including the Director of Education from 1993–95. Jan is the president-elect of the AAA and recently chaired the AAA's Professional Relations Committee, which is designed to improve and strengthen the AAA's relationships with business and professional practice.



Susan F. Haka Currently an Ernst & Young Professor of Accounting at Michigan State University, Sue Haka's teaching interests include management accounting, strategic cost management, and international management accounting. Appointed Department Chair beginning in the fall of 1998, Sue has been awarded the prestigious All-University Teacher-Scholar Award and has twice received the Department's Outstanding Teaching Award. An Associate Editor for *Accounting Horizons* and incoming Editor of *Behavioral Research in Accounting*, Sue also serves on the editorial boards of the *Accounting Review* and *Journal of Management Accounting Research*. Through her research, Sue maintains close ties to industry. She is a member of the Board of Directors of Simpson Industries, Inc., a mid-sized auto supply company.



Mark S. Bettner Chair of the Department of Management at Bucknell University, Mark Bettner has received numerous teaching and research awards. In addition to his work on the Meigs 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*.

For Elaine
For Cliff and Abi
For Students (past, present, and future)

YOUR TURN

Large bottles of Heinz ketchup used to have two labels—one in front and one on the back. Through a careful analysis of manufacturing costs, production managers found that Heinz could save several hundred thousand dollars per year by applying only one label.

CASE IN POINT

From the pages of BusinessWeek

MICROBREWS—WITHOUT THE FROTH

Gene B. Marcial

Once the toast of Wall Street, U.S. microbrewers—young companies that produce specialty beer at regional breweries—have lost more than two-thirds of their market value since a pack of them went public in late 1995, as earning have disappointed investors. Pyramid Breweries, which PaineWebber took public at \$19 On Dec. 12, 1995 now trades at \$3. And Pete's Brewing, taken public at \$18 by Morgan Stanley on Nov. 11, 1995, is at \$4. Forever lost causes? • Not to investment manager Vince Carino, who sees microbreweries as a prime investment opportunity. The president of Brookhaven Capital has acquired shares in several of these pariahs. His top picks, in which he has taken a 5% stake: Boston Beer (SAM), down to \$9 from its initial public offering price of \$20 in November, 1995, and RedHook Ale Brewery (HOOK), down to \$6 from its price of \$17 in August, 1995. • Carino expects Boston Beer, which makes such brands as Samuel Adams, Oregon Original and Long Shot at facilities in five states, "will be the first to rebound—in an industry that's now in transition." • Carino is also betting that Anheuser-Busch, which owns 25% of RedHook, will move to acquire the rest of this producer of nine styles of beer. Carino speculates that Anheuser could make a bid of \$11 to \$12 for the shares it doesn't already own.

Why did the stocks of several specialty breweries lose more than two-thirds of their market value in less than three years? Why did investors initially contribute so much capital to these young companies? What information is reported in the financial statements of these companies concerning the capital contributed by investors? What risks do these investors face should the performance of the brewery stocks continue to decline? These are some of the important questions addressed in Chapter 11. • In this chapter we examine why businesses incorporate, how corporations are formed, and numerous issues related to the capital cost of market price.

Many businesses invest idle cash in marketable securities rather than letting it accumulate in a non-interest-bearing checking account. These investments can provide very high returns. Unfortunately, due to their potential volatility, they can also subject a business to very high risks.

Many business rely upon the investment advice of full-service brokers to assist them in managing their marketable securities portfolio. Others believe that they do not need the ongoing consultation offered by full-service brokers, and elect to buy and sell their marketable securities using discount brokers or the Internet.

There is much to learn before selecting a full-service broker, a discount broker, or an on-line service. To find out more about the risk, costs, and range of services that each of these alternatives offer, visit the following Internet address for investors.

www.investorguide.com/brokerages.htm

To learn about specific broker firms, including complaints filed against them by investors, visit the home pages of the National Association of Security Dealers, Inc., and the Securities and Exchange Commission at the following addresses:

www.nasdr.com

www.sec.gov

NET CONNECTIONS



• **Case in Point** boxes, retained from the tenth edition, use actual business events to illustrate the relationship between accounting concepts and the real world.



• **Net Connections** identify interesting sites on the Internet where students will find additional information to enhance their understanding of chapter material.

End-of-Chapter Material

- Defined **Key Terms** and **Self-Test Questions** review and reinforce chapter material.
- **Comprehensive Problems**, each ranging from two to five pages in length, review and synthesize text material throughout the book.
- **Demonstration Problems** are provided along with solutions to allow you to test your knowledge of key points in the chapter.
- **Internet Assignments** at the end of each chapter require you to go to a specific Internet site to answer the questions given. Additional Internet Assignments may be found in Appendix B, which is new to this edition.
- **Icons** identify General Ledger Applications Software (GLAS), Spreadsheet Applications Template Software (SPATS), ethical issues, group activities, and Internet Assignments.
- **Annual Report** from Toys "R" Us is used throughout the text in exercise and problem material to reveal actual business applications of text material. It is also the subject of the comprehensive problem that follows Chapter 14.

TECHNOLOGY

- **Interactive Financial Accounting Lab** by Ralph E. Smith and Rick Birney, both of Arizona State University (ISBN 0078472938)
- **Interactive Managerial Accounting Lab** by Diane Pattison, University of San Diego; Patrick McKenzie, Arizona State University; and Rick Birney, Arizona State University (ISBN 0075613204)

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 the instructor 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 over 15 hours of computerized exercise sets to help students learn management accounting.

- **GLAS (General Ledger Applications Software** ISBN 0075618249)

This 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 in the text show students where this tool can be used to solve end-of-chapter problems.

- **SPATS (Spreadsheet Applications Template Software** ISBN 0075618230)

This software allows students to develop important spreadsheet skills by using these templates to solve selected assignments that are identified by an icon in the end-of-chapter material.

- **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 0256221146

Instructor's Manual ISBN 0256221154

Granite Bay Jet Ski, Inc., Level 2 ISBN 0256220980

Instructor's Manual ISBN 0256220999

Wheels Exquisite, Inc., Level 1 ISBN 0075612437

Instructor's Manual ISBN 0075612429

- **CyberLab**

This new Web site at www.mhhe.com/meigs will support the eleventh edition of *Accounting* with the following features:

Current Events & Business News Links Links to sites containing news of major developments in the world of business and finance.

Interesting New Sites Interesting Web sites we've discovered since publication of the text.

Assignment Links One-click access to every Net site referenced in the textbook.

Self-Tests Chapter-by-chapter on-line tests to review concepts presented in the book. This feature will work best with Netscape Navigator, but should work with other browsers.

New Net Assignments Internet assignments we've developed since publication of the text.

Bulletin Board A forum for users of the book to exchange ideas and questions.

E-Mail Authors Send your questions, comments, or suggestions directly to any of the authors.

- McGraw-Hill's **Online Learning Center** allows instructors to assign materials, post announcements, and virtually conduct class via the Internet. Instructors can track a student's course work using the electronic gradebook, send messages to an individual student, and conduct a discussion with a group of students. The Online Learning Center is offered on CD-ROM or through web delivery. It is ready to use but also can be easily customized.

STUDENT SUPPLEMENTS

- **Study Guide** (Vol. 1 ISBN 0070432023, Vol. 2 ISBN 0073659266)

Students can measure their progress through a wealth of self-test material (with solutions) and a summary of chapter key points.

- **Working Papers** (Vol. 1 ISBN 0073039101, Vol. 2 ISBN 007303911X)

This soft-cover booklet is filled with columnar paper for each Problem and Comprehensive Problem in the textbook. Students encounter Checkpoints throughout the working papers to ensure they are on the right track.

- **Ready Notes** (Vol. 1 ISBN 0073039071, Vol. 2 ISBN 007393908X)
Selected PowerPoint screens have been printed from the Ready Shows product to make students better note takers during lectures.
- **Student Learning Tools** (ISBN 0256255776)
This workbook, by Barbara Chiappetta of Nassau Community College, helps students develop and use critical thinking and learning-to-learn skills in a collaborative team environment.

NOTE TO THE INSTRUCTOR

The eleventh edition of *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 Eleventh Edition. The first four chapters now offer a better balance between using and creating financial information. Students will be introduced to how accounting and the “information age” merge to impact the world of business. To further this edition’s more student-friendly approach, Financial Statement Analysis has been moved to Chapter 14 to follow the Statement of Cash Flows chapter. In addition, a new chapter on Global Business and Accounting (Chapter 15) offers broad coverage of the contemporary accounting issues that affect the international business world. Chapters 17 and 18 introduce students to the concepts of Activity-Based Costing and Activity-Based Management.

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 management 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

- Using the sole proprietorship form of business organization, this chapter introduces the accounting equation and how a company’s financial statement changes as a 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.

Chapter 3 The Accounting Cycle: Capturing Economic Events

- This chapter builds on the comprehensive illustration introduced in Chapter 2.
- Students are introduced to the complete accounting cycle, from analyzing economic events to preparing of financial statements (including a simple statement of cash flows).
- Adjusting entries, while introduced, are limited to supplies and depreciation.

Chapter 4 The Accounting Cycle: Preparing an Annual Report

- This chapter builds on the material covered in Chapter 3. However, it includes thorough coverage of the adjusting process.
- The comprehensive illustration introduced in Chapters 2 and 3 is used in Chapter 4 to demonstrate how accruals and deferrals result from timing differences between cash flow and income statement transactions.

Comprehensive Problem 1—Tony’s Rentals

Chapter 5 Accounting for Merchandising Activities

- This chapter 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 6 Forms of Business Organization

- This chapter serves as a transition from sole proprietorships to corporations, and all subsequent chapters take a corporate approach.
- Proprietorships, partnerships, and corporations are compared and contrasted, and differences in the components of equity among the various forms of business organizations are illustrated.

Chapter 7 Financial Assets

- This chapter 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

- This chapter identifies the various cost flow assumptions used by businesses in accounting for inventories.
- Both perpetual and periodic 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**

- This chapter focuses on accounting issues related to tangible and intangible long-term 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.
- The use of MACRS for income tax purposes is discussed.

Chapter 10 Liabilities

- This chapter covers both current and noncurrent liabilities.
- Noncurrent liability coverage includes issues related to bonds, pensions, and other post-retirement benefits.
- The chapter can be used in conjunction with Appendix C, which covers the time value of money, should an instructor choose to do so.

Chapter 11 Stockholders' Equity: Paid-In Capital

- In this chapter various issues related to contributed capital are discussed.
- Topics include legal capital, preferred stock, treasury stock, stock splits, book value, and market value.

Chapter 12 Income and Changes in Retained Earnings

- The presentation of net income and its components is the primary subject of this chapter.

- 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 is covered by emphasizing the different broad classifications of cash flows: operating, investing, and financing.
- Emphasis is placed on 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—Toys “R” Us, Inc.

Chapter 15 Global Business and Accounting

- This new chapter provides students with an understanding of the issues that impact accounting in the global business environment. The economic, cultural, political, and technological international differences that result in differences among accounting information systems are identified.
- International differences in financial and management accounting procedures are discussed and related to variation in cultures, laws, economies, and technological infrastructures that exists 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 decision-making 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

- This chapter 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

- 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.
- Cost procedures that are useful to management over the life cycle of the value chain are introduced. These procedures include target costing, life-cycle costing, just-in-time inventory techniques, and tracking cost of quality.

Chapter 19 Cost-Volume-Profit Analysis

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

Chapter 20 Incremental Analysis

- This chapter 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—The Gilster Company**Chapter 21 Responsibility Accounting and Performance Evaluation**

- This chapter 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.
- Links the decision outcomes with rewards based on the accounting information of each cost, profit, or investment center.

Chapter 22 Operational Budgeting

- The chapter 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 working of the master budget process is demonstrated, and static and flexible budgets are contrasted.

Chapter 23 Standard Cost Systems

- This chapter explains the purpose of standard costing as a control mechanism and specifies how standards are determined as well as their motivational impact.
- Computation of overhead, materials, and labor variances are discussed, along with their usefulness for decision making.

Comprehensive Problem 5—Utease Corporation**Chapter 24 Capital Budgeting**

- This chapter considers the role of capital budgeting in the firm's ability to achieve long-range goals and objectives and 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.

We have tried to achieve three goals in this revision. These are to make the text more student-oriented, contemporary, and flexible.

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.

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, which now contain an analytical element that asks students to interpret the information they are working with or to use it in some form of business decision.

Our approach is to involve students more directly in the learning process, and 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 Web sites on their own. We make this very simple by providing the addresses of these sites in the textbook and by providing links to these sites through the book's home page. No instructor assistance should be required.

CONTEMPORARY TEXT

Any course is more relevant and more interesting if it is up to date. We have tried to make this text contemporary in all respects, from *Business Week* chapter openers to topical coverage to assignment material.

Each chapter opens with an excerpt from a recent *Business Week* article. This article leads students into the chapter by relating the events in the article to the topics discussed in the chapter. Additional *Business Week* exercises are included in the Instructor's Resource Manual. Students may purchase a *Business Week* edition of the text, which will allow them to receive a 16-week subscription to *Business Week* as well as access to the *Business Week* archive Web site. Of course, the Internet materials provided to accompany this text are the most contemporary, since they can be and will be updated regularly, allowing them to be more current than any printed material.

FLEXIBLE TEXT

This text is supported by diverse assignment material and optional Internet material. Additional supplements are also provided to accompany the text.

Instructor Supplements

- **Instructor's Resource Guide** (Vol. 1 ISBN 0073038954, Vol. 2 ISBN 0070396698)

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 Disk** (Vol. 1 ISBN 007561961X, Vol. 2 ISBN 007561960X)
This comprehensive manual provides solutions to all Discussion Questions, Exercises, Problems, Cases and Unstructured Problems, and Comprehensive Problems.
- **Solutions Transparencies** (Vol. 1 ISBN 0073039004, Vol. 2 ISBN 0070396477)
A complete set of acetates contains the solutions to all of the Exercises and Problems found in the Solutions Manual.
- **Test Bank** (Vol. 1 ISBN 0073039039, Vol. 2 ISBN 0073039047)
With an abundance of objective questions and short exercises, this supplement is a valuable resource for instructors who prepare their own quizzes and examinations.

- **Computest**

This computerized version of the manual test bank is available in Macintosh® (ISBN 0073039128) or Windows® (ISBN 0073038962) format.

- **Ready Shows** (ISBN 0075618257)

This comprehensive package is filled with multimedia aids that use PowerPoint® 4.0 software to illustrate chapter concepts.

- **Ready Slides** (ISBN 0075618214)

Selected four-color PowerPoint slides from the Ready Shows are available in a master format for easy classroom use.

- **Case Videos (with Manual)** (ISBN 0070434409)

Eight vignettes ranging from 5–15 minutes 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 vs. accrual income, break-even analysis, capital budgeting, corporate bonds, and making investment decisions.

- **Financial Accounting Video Library**

- **Managerial/Cost Accounting Video Library**

This diverse array of videos can be used to stimulate classroom discussion, illustrate key concepts, or review critical material. For example, the Managerial Accounting Video Library includes videos featuring George Bush at the Baldrige Award ceremony, on-site footage from manufacturers such as Ford, and service corporations such as First National Bank of Chicago.

WE HAVE LISTENED TO YOU

This edition is based on the careful comments and suggestions of the following people. We extend our sincere thanks for their efforts to guide us in our revision.

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Sincerely,
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 Susan F. Haka
 Mark S. Bettner

Contents in Brief

1	Accounting: Information for Decision Making	2
2	Basic Financial Statements	38
3	The Accounting Cycle: Capturing Economic Events	82
4	The Accounting Cycle: Preparing an Annual Report	142
	Comprehensive Problem 1—Tony’s Rentals	190
5	Accounting for Merchandising Activities	192
6	Forms of Business Organization	232
7	Financial Assets	274
8	Inventories and the Cost of Goods Sold	328
	Comprehensive Problem 2—Guitar Universe, Inc.	374
9	Plant Assets and Depreciation	376
10	Liabilities	424
11	Stockholders’ Equity: Paid-in Capital	474
12	Income and Changes in Retained Earnings	512
13	Statement of Cash Flows	552
14	Financial Statement Analysis	608
	Comprehensive Problem 3—Toys “R” Us, Inc.	671
15	Global Business and Accounting	674
16	Management Accounting: A Business Partner	708
17	Accounting Systems for Measuring Costs	746
18	Costing and the Value Chain	792
19	Cost-Volume-Profit Analysis	824
20	Incremental Analysis	860
	Comprehensive Problem 4—Gilster Company	887
21	Responsibility Accounting and Performance Evaluation	890
22	Operational Budgeting	930
23	Standard Cost Systems	968
	Comprehensive Problem 5—Utease Corporation	1000
24	Capital Budgeting	1002
Appendix A	Toys “R” Us Annual Report	1029
Appendix B	Exploring The Internet	1056
Appendix C	The Time Value of Money: Future Amounts and Present Values	1070
	Index	1089