

A low-angle, upward-looking photograph of a modern skyscraper at night. The building's glass facade is illuminated from within, creating a grid of warm yellow and orange lights against the dark blue night sky. The perspective makes the building appear to converge towards the top of the frame.

Williams Haka Bettner Carcello

Financial & Managerial Accounting

The Basis for Business Decisions

16th edition

16th Edition

Financial & Managerial Accounting

THE BASIS FOR BUSINESS DECISIONS

Jan R. Williams

University of Tennessee

Susan F. Haka

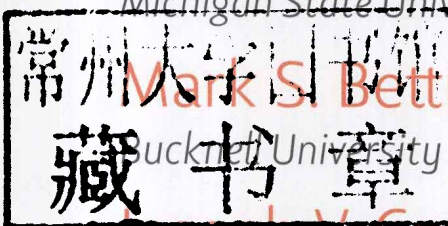
Michigan State University

Mark S. Bettner

Luckett University

Joseph V. Carcello

University of Tennessee



Mc
Graw
Hill

McGraw-Hill
Irwin



FINANCIAL AND MANAGERIAL ACCOUNTING: THE BASIS FOR BUSINESS DECISIONS

Published by McGraw-Hill/Irwin, a business unit of The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY, 10020.
Copyright © 2012, 2010, 2008, 2005, 2002, 1999, 1996, 1993, 1990, 1987, 1984, 1981, 1977 by The McGraw-Hill Companies, Inc. All rights reserved.
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 consent of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

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

ISBN 978-0-07-811104-4

MHID 0-07-811104-8

Vice president and editor-in-chief: *Brent Gordon*

Editorial director: *Stewart Mattson*

Publisher: *Tim Vertovec*

Executive editor: *Steve Schuetz*

Executive director of development: *Ann Torbert*

Developmental editor: *Rebecca Mann*

Vice president and director of marketing: *Robin J. Zwettler*

Marketing director: *Brad Parkins*

Marketing manager: *Michelle Heaster*

Vice president of editing, design, and production: *Sesha Bolisetty*

Managing editor of editing, design, and production: *Lori Koettters*

Managing editor of photo, design, and publishing tools: *Mary Conzachi*

Lead project manager: *Harvey Yep*

Senior buyer: *Michael R. McCormick*

Cover and interior design: *Pam Verros*

Senior photo research coordinator: *Keri Johnson*

Photo researcher: *Ira Roberts*

Senior media project manager: *Allison Souter*

Media project manager: *Ron Nelms*

Cover image: © Getty Images/Dennis McColeman

Typeface: 10/12 Times Roman

Compositor: *Laserwords Private Limited*

Printer: *R. R. Donnelley*

Library of Congress Cataloging-in-Publication Data

Financial & managerial accounting : the basis for business decisions / Jan R. Williams . . . [et al.].

—16th ed.

p. cm.

Includes index.

ISBN-13: 978-0-07-811104-4 (alk. paper)

ISBN-10: 0-07-811104-8 (alk. paper)

1. Accounting. I. Williams, Jan R. II. Title: Financial and managerial accounting.

HF5636.F5314 2012

657—dc22

2010036617

**To Ben and Meg Wishart and Asher, Lainey, and Lucy Hunt,
who have taught me the joys of being a grandfather.**

—Jan R. Williams

For Cliff, Abi, and my mother, Fran.

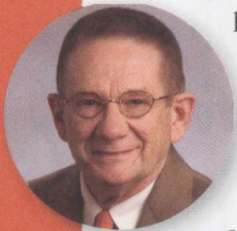
—Susan F. Haka

To my parents, Fred and Marjorie.

—Mark S. Bettner

**To Terri, Stephen, Karen, and Sarah, whose sacrifices
enabled me to participate in writing this book. Thank you—I
love you!**

—Joseph V. Carcello



Jan R. Williams is Dean of the College of Business Administration and the Stokely Foundation Leadership Chair at the University of Tennessee, where he has been a faculty member since 1977. He received a BS degree from George Peabody College, an MBA from Baylor University, and a PhD from the University of Arkansas. He previously served on the faculties at the University of Georgia and Texas Tech University. A CPA in Tennessee and Arkansas, Dr. Williams is also the coauthor of three books and has published over 70 articles on issues of corporate financial reporting and accounting education. He served as president of the American Accounting Association in 1999–2000 and has been actively involved in Beta Alpha Psi, the Tennessee Society of CPAs, the American Institute of CPAs, and AACSB International—the Association to Advance Collegiate Schools of Business—the accrediting organization for business schools and accounting programs worldwide. He currently serves as chair-elect of the Board of Directors of AACSB International.



Susan F. Haka is the Associate Dean for Academic Affairs and Research and the Ernst & Young Professor of Accounting in the Department of Accounting and Information Systems at Michigan State University. Dr. Haka received her PhD from the University of Kansas and a master's degree in accounting from the University of Illinois. She served as president of the American Accounting Association in 2008–2009 and has previously served as president of the Management Accounting Section. Dr. Haka is active in editorial processes and has been editor of *Behavioral Research in Accounting* and an associate editor of *Journal of Management Accounting Research*, *Accounting Horizons*, *The International Journal of Accounting*, and *Contemporary Accounting Research*. Dr. Haka has been honored by Michigan State University with several teaching and research awards, including both universitywide Teacher-Scholar and Distinguished Faculty awards.

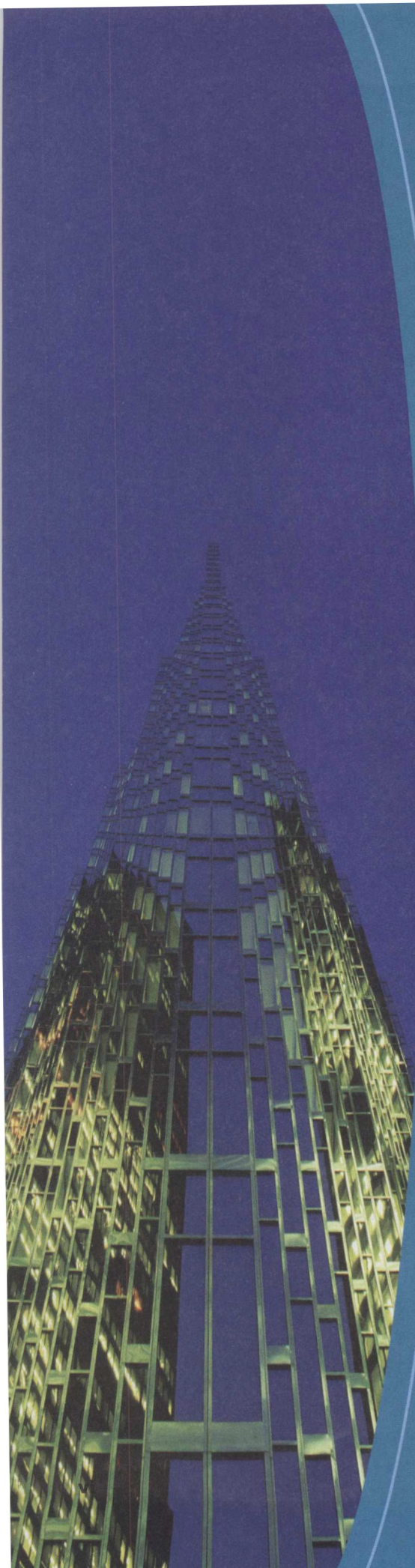
Meet the Authors

Mark S. Bettner is the Christian R. Lindback Chair of Accounting & Financial Management at Bucknell University. Dr. Bettner received his PhD in business administration from Texas Tech University and his MS in accounting from Virginia Tech University. He has received numerous teaching and research awards. In addition to his work on *Financial Accounting* and *Financial & Managerial Accounting*, he has written many ancillary materials, published in scholarly journals, and presented at academic and practitioner conferences. Professor Bettner is also on the editorial advisory boards of several academic journals, including the *International Journal of Accounting and Business Society* and the *Accounting Forum*, and has served as a reviewer for several journals, including *Advances in Public Interest Accounting* and *Hospital and Health Services Administration*.



Joseph V. Carcello is the Ernst & Young and Business Alumni Professor in the Department of Accounting and Information Management at the University of Tennessee. He also is the cofounder and director of research for UT's Corporate Governance Center. Dr. Carcello received his PhD from Georgia State University, his MAcc from the University of Georgia, and his BS from the State University of New York College at Plattsburgh. Dr. Carcello is currently the author or coauthor of four books, more than 60 journal articles, and three monographs. Dr. Carcello serves on the Public Company Accounting Oversight Board's (PCAOB) Investor Advisory Group, and he previously served two terms on the PCAOB's Standing Advisory Group. He also has testified before the U.S. Treasury Department's Advisory Committee on the Auditing Profession and has served as a member of a COSO task force that developed guidance on applying COSO's internal control framework for smaller public companies. Dr. Carcello is active in the American Accounting Association—he serves as an associate editor of *Accounting Horizons* and serves on the editorial boards of *The Accounting Review*, *Auditing: A Journal of Practice & Theory*, and *Contemporary Issues in Auditing*. Dr. Carcello has consulted with three of the Big Four accounting firms, regional and local accounting firms, and the Securities and Exchange Commission.





REACHING GREAT HEIGHTS BEGINS WITH A SOLID BASE

As our eyes are drawn upward to the skyline of great cities, it's important to remember that these impressive constructions are able to reach such heights only because their foundations are strong. In much the same way, being successful in the business world begins with fundamental courses like financial and managerial accounting. It is only when students have a firm grasp of concepts like the accounting cycle and managerial decision making that they have a base on which to stand, a strong foundation on which to grow.

In this edition, as before, the Williams team has revised the text with a keen eye toward the principle of helping students establish the foundation they will need for future success in business. However, through new coverage of International Financial Reporting Standards and a revised globalization chapter, the Williams book also introduces students to larger themes and evolving concerns. This dual emphasis allows students to keep their eyes trained upward even as they become solidly grounded in accounting fundamentals.

The Williams book continues to rest on a bedrock of four key components:

Balanced Coverage. The 16th edition of Williams provides the most balanced coverage of financial and managerial topics on the market. By giving equal weight to financial and managerial topics, the authors emphasize the need for a strong foundation in both aspects of accounting.

“Excellent book! Explains difficult subjects in easy-to-understand terms.”

Naser Kamleh, Wallace
Community College

Student Motivation. The Williams team has put together a market-leading student package that will not only motivate your students, but help you see greater retention rates in your accounting courses. Vital pieces of technology supplement the core curriculum covered in the book: the Online Learning Center provides supplemental tools for both students and instructors; and McGraw-Hill Connect Accounting uses end-of-chapter material pulled directly from the textbook to create static and algorithmic questions that can be used for homework and practice tests. The full *Financial & Managerial Accounting* package encourages students to apply what they’re learning and improve their grades.

“The text is excellent. **I wish the texts had been this well written** when I was a student!”

Mark Anderson, Bob Jones University

“This is a **well balanced textbook** that encompasses many issues, yet provides them in a precise, readable, and orderly fashion to students. The extent of the real-world examples makes this edition **clearly a superior choice.**”

Hossein Noorian,
Wentworth Institute

Clear Accounting Cycle Presentation. In the first five chapters of *Financial & Managerial Accounting*, the authors present the Accounting Cycle in a clear, graphically interesting four-step process. Central to this presentation is the dedication of three successive chapters to three key components of the cycle: recording entries (Chapter 3), adjusting entries (Chapter 4), and closing entries (Chapter 5). The Williams team places easy-to-read margin notes explaining each equation used in particular journal entries.

“This textbook is current and very interactive. It brings in excellent “real-world” applications for the students to use in applying the concepts. It has **excellent student and instructor resources.** Some of the resources would be especially valuable for instructors teaching online.”

Karen Mozingo, Pitt
Community College

Problem-Solving Skills. *Financial & Managerial Accounting* challenges your students to think about real-world situations and put themselves in the role of the decision maker through Case In Point, Your Turn, and Ethics, Fraud & Corporate Governance boxes. Students reference the Home Depot Financial Statements—included in the text as an appendix—to further hone problem-solving skills by evaluating real world financial data. The authors show a keen attention to detail when creating high-quality end-of-chapter material, such as the Critical Thinking Cases and Problems, ensuring that all homework is tied directly back to chapter learning objectives.

How Does Williams Help Students

Step-by-Step Process for the Accounting Cycle

Financial & Managerial Accounting was the FIRST text to illustrate Balance Sheet and Income Statement transactions using the four-step process described below. This hallmark coverage has been further revised and refined in the 16th edition.

The Williams team breaks down the Accounting Cycle into three full chapters to help students absorb and understand this material: recording entries (Chapter 3), adjusting entries (Chapter 4), and closing entries (Chapter 5). Transactions are demonstrated visually to help students conquer recording transactions by showing the **four steps in the process**:

- 1 Analysis**—shows which accounts are recorded with an increase/decrease.
- 2 Debit/Credit Rules**—helps students to remember whether the account should be debited/credited.
- 3 Journal Entry**—shows the result of the two previous steps.
- 4 Ledger T-Accounts**—shows students what was recorded and where.

The Williams team puts the Accounting Equation ($A = L + OE$) in the margin by transaction illustrations to show students the big picture!

Recording Balance Sheet Transactions: An Illustration 91

its balance sheet. The revenue and expense transactions that took place on January 31 will be addressed later in the chapter.

Each transaction from January 20 through January 27 is analyzed first in terms of increases in assets, liabilities, and owners' equity. Second, we follow the debit and credit rules for entering these increases and decreases in specific accounts. Asset ledger accounts are shown on the left side of the analysis; liability and owners' equity ledger accounts are shown on the right side. For convenience in the following transactions, both the debit and credit figures for the transaction under discussion are shown in *red*. Figures relating to earlier transactions appear in *black*.

Jan. 20 Michael McBryan and family invested \$80,000 cash in exchange for capital stock.

ANALYSIS	DEBIT-CREDIT RULES	JOURNAL ENTRY	ENTRIES IN LEDGER ACCOUNTS				
The asset Cash is increased by \$80,000, and owners' equity (Capital Stock) is increased by the same amount.	Increases in assets are recorded by debits; debit Cash \$80,000. Increases in owners' equity are recorded by credits; credit Capital Stock \$80,000.	Jan. 20 Cash 80,000 Capital Stock 80,000	<table border="1"><thead><tr><th>Cash</th><th>Capital Stock</th></tr></thead><tbody><tr><td>1/20 80,000</td><td>1/20 80,000</td></tr></tbody></table>	Cash	Capital Stock	1/20 80,000	1/20 80,000
Cash	Capital Stock						
1/20 80,000	1/20 80,000						

Owners invest cash in the business

Assets	=	Liabilities	+	Owners' Equity
+80,000				+80,000

Jan. 21 Representing Overnight, McBryan negotiated with both the City of Santa Teresa and Metropolitan Transit Authority (MTA) to purchase an abandoned bus garage. (The city owned the land, but the MTA owned the building.) On January 21, Overnight Auto Service purchased the land from the city for \$52,000 cash.

ANALYSIS	DEBIT-CREDIT RULES	JOURNAL ENTRY	ENTRIES IN LEDGER ACCOUNTS				
The asset Land is increased \$52,000, and the asset Cash is decreased \$52,000.	Increases in assets are recorded by debits; debit Land \$52,000. Decreases in assets are recorded by credits; credit Cash \$52,000.	Jan. 21 Land 52,000 Cash 52,000	<table border="1"><thead><tr><th>Land</th><th>Cash</th></tr></thead><tbody><tr><td>1/21 52,000</td><td>1/20 80,000 1/21 52,000</td></tr></tbody></table>	Land	Cash	1/21 52,000	1/20 80,000 1/21 52,000
Land	Cash						
1/21 52,000	1/20 80,000 1/21 52,000						

Purchase of an asset for cash

Assets	=	Liabilities	+	Owners' Equity
+52,000				-52,000

Build a Strong Foundation?

Robust End-of-Chapter Material

Brief Exercises

BRIEF EXERCISE 3.1
The Accounting Cycle

Listed below in random order are the eight steps comprising a complete accounting cycle:

- Prepare a trial balance.
- Journalize and post the closing entries.
- Prepare financial statements.
- Post transaction data to the ledger.
- Prepare an adjusted trial balance.
- Make end-of-period adjustments.
- Journalize transactions.
- Prepare an after-closing trial balance.

a. List these steps in the sequence in which they would normally be performed. (A detailed understanding of these eight steps is not required until Chapters 4 and 5.)

b. Describe ways in which the information produced through the accounting cycle is used by a company's management and employees.

Problem Set B

PROBLEM 21.1B
Evaluating a Special Order

Swirl Incorporated designs and manufactures fashionable women's clothing. For the coming year, the company has scheduled production of 50,000 silk skirts. Budgeted costs for this product are as follows:

	Unit Costs (\$0,000 units)	Total
Variable manufacturing costs	\$40	\$2,000,000

COMPREHENSIVE PROBLEM 6

Utease Corporation

Utease Corporation has many production plants across the midwestern United States. A newly opened plant, the Bellingham plant, produces and sells one product. The plant is treated, for responsibility accounting purposes, as a profit center. The unit standard costs for a production unit, with overhead applied based on direct labor hours, are as follows:

Self-Test Questions

The answers to these questions appear on page 137.

- According to the rules of debit and credit for balance sheet accounts:
 - Increases in asset, liability, and owners' equity accounts are recorded by debits.
 - Decreases in asset and liability accounts are recorded by
- Which of the following is provided by a trial balance in which total debits equal total credits?
 - Proof that no transaction was completely omitted from the ledger during the posting process.
 - Proof that the correct debit or credit balance has been computed for each account.

ASSIGNMENT MATERIAL Discussion Questions

- Baker Construction is a small corporation owned and managed by Tom Baker. The corporation has 21 employees, few creditors, and no investor other than Tom Baker. Thus, like many small businesses, it has no obligation to issue financial statements to creditors or investors. Under these circumstances, is there any reason for this corporation to maintain accounts?
- What is the meaning of the term *revenue*? Does the receipt of cash by a business indicate that revenue has been earned? Explain.
- What is the meaning of the term *expenses*? Does the payment of cash by a business indicate that an expense has been incurred? Explain.

Demonstration Problem

Reed Mfg. Co. operates two plants that produce and sell floor tile. Shown below are the operating results of both plants during the company's first quarter of operations:

	St. Louis Plant	Springville Plant
Sales	\$2,000,000	\$2,000,000
Variable costs	720,000	880,000

Critical Thinking Cases

CASE 3.1
Revenue Recognition

The realization principle determines when a business should recognize revenue. Listed next are three common business situations involving revenue. After each situation, we give two alternatives as to the accounting period (or periods) in which the business might recognize this revenue. Select the appropriate alternative by applying the realization principle, and explain your reasoning.

a. Airline ticket revenue: Most airlines sell tickets well before the scheduled date of the flight. (Period ticket sold; period of flight.)

CASE 3.2
Measuring Income Fairly

Kim Morris purchased Print Shop, Inc., a printing business, from Chris Stanley. Morris made a cash down payment and agreed to make annual payments equal to 40 percent of the company's net income in each of the next three years. (Such "earn-outs" are a common means of financing the purchase of a small business.) Stanley was disappointed, however, when Morris reported a first year's net income far below Stanley's expectations.

The agreement between Morris and Stanley did not state precisely how "net income" was to be measured. Neither Morris nor Stanley was familiar with accounting concepts. Their agreement stated only that the net income of the corporation should be measured in a "fair and reasonable manner." In measuring net income, Morris applied the following policies:

- Revenue was recognized when cash was received from customers. Most customers paid in cash, but a few were allowed 30-day credit terms.

EXERCISE 16.15
Home Depot Product vs. Period Costs

Use the Home Depot 2009 financial statements in Appendix A at the end of this textbook. Read note 1 to the financial statements that summarizes significant accounting policies for Home Depot. Read the section titled "Cost of Sales" on page A-00. Explain how Home Depot classifies some transportation, shipping, and handling costs as period expenses and others as product costs. On what basis does it distinguish between shipping or transportation costs that are period expenses and those that are product costs?

Problem Set A

PROBLEM 16.1A
An Introduction to Product Costs

Aqua-Marine manufactures fiberglass fishing boats. The manufacturing costs incurred during its first year of operations are shown as follows:

Brief Exercises supplement the exercises with shorter, single-concept exercises that test the basic concepts of each chapter. These brief exercises give instructors more flexibility in their homework assignments.

An Alternate Problem Set provides students with even more practice on important concepts.

Six Comprehensive Problems, ranging from two to five pages in length, present students with real-world scenarios and challenge them to apply what they've learned in the chapters leading up to them.

Defined **Key Terms** and **Self-Test Questions** review and reinforce chapter material.

Demonstration Problems and their solutions allow students to test their knowledge of key points in the chapters.

Critical Thinking Cases and Problems put students' analytical skills to the test by having them think critically about key concepts from the chapter and apply them to business decisions. **TWO** sets of Problems and a full set of Exercises in EACH chapter give *Financial & Managerial Accounting* the edge in homework materials.

Ethics Cases in each chapter challenge students to explore the ethical impact of decisions made in business.

The **2009 Home Depot Financial Statements** are included in Appendix A. Students are referred to key aspects of the 10-K in the text material and in end-of-chapter material to illustrate actual business applications of chapter concepts.



Excel
Templates



Connect Accounting
System



Ethical



Group
Activities



Writing



Internet



International

The Williams Pedagogy Helps

- High-profile companies frame each chapter discussion through the use of dynamic **CHAPTER OPENER** vignettes. Students learn to frame the chapter's topic in a real-world scenario.

- **YOUR TURN** boxes challenge students with ethically demanding situations. They must apply what they've learned in the text to situations faced by investors, creditors, and managers in the real world.

YOUR TURN

You as a Team Leader



Assume you are the leader of the Boards and More product creation team for the new soap box design. At the initial meeting of the cross-organizational team, a serious reservation is raised by the team members from the printing firm about the confidentiality and intellectual printing firm. The reservations of the printing firm representatives are so serious that the viability of the soap box design project is threatened. What should you do?

(See our comments on the Online Learning Center Web site.)

"Lots of eye appeal and in-depth coverage.
Students will love it."

James Specht, Concordia College

- **EXHIBITS** illustrate key concepts in the text.

CHAPTER 12

Income and Changes in Retained Earnings



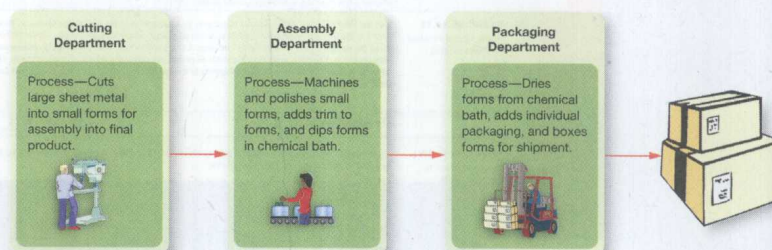
© Thomson, Stanley/CORBIS

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

- LO1** Describe how irregular income items, such as discontinued operations and extraordinary items, are presented in the income statement.
- LO2** Compute earnings per share.
- LO3** Distinguish between basic and diluted earnings per share.
- LO4** Account for cash dividends and stock dividends, and explain the effects of these transactions on a company's financial statements.
- LO5** Describe and prepare a statement of retained earnings.
- LO6** Define *prior period adjustments*, and explain how they are presented in financial statements.
- LO7** Define *comprehensive income*, and explain how it differs from net income.
- LO8** Describe and prepare a statement of stockholders' equity and the stockholders' equity section of the balance sheet.
- LO9** Illustrate steps management might take to improve the appearance of the company's net income.

Learning Objectives

Exhibit 18-2 PRODUCTION PROCESS FOR METAL PRODUCTS, INC.



Students Reach Great Heights

PROCTER & GAMBLE COMPANY

A company's pattern of sales and net income are important factors in evaluating its financial success. Consider **Procter & Gamble Company**, for example. Two billion times a day, **P&G** products are sold around the world. The company has one of the largest and strongest portfolios of recognizable brands, including Pampers, Tide, Ariel, Always, Whisper, Pantene, Bounty, Pringles, Folgers, Charmin, Downy, Lenor, Iams, Crest, Clairol, Actonel, Dawn, and Olay. Ninety-eight thousand people work for **P&G** in almost 80 countries worldwide.

One of the attributes of financially successful companies like **P&G** is their consistent strength over time in terms of primary measures of financial performance, such as net sales and net earnings. Net sales, measuring the value of merchandise sold less returns, increased from \$74,832 million in 2007 to \$81,748 million in 2008 and declined to \$78,029 million in 2009. This represents an approximate 9 percent increase in 2008 and a modest 3 percent decline in 2009, for a combined increase for the two years of approximately 6 percent. Net income, which starts with sales and is reduced by various expenses required to generate those sales, increased from \$10,340 million in 2007 to \$12,075 million in 2008 (an approximate 17 percent increase) and to \$13,436 million in 2009 (an approximate 11 percent increase), or a combined increase for the two years of approximately 28 percent. These figures represent impressive financial performance in terms of the company's ability to provide goods to its customers and to operate in a manner that results in a profit that benefits the company's stockholders. ■

"Williams is a great text overall. It provides excellent and accurate coverage of the accounting principles curriculum. **Students like it better than any other text I have used.** A few years ago I was in a situation where I had to use a different text, since I took over a class for another teacher at the last minute. Students were getting the Williams text on their own and **I saw immediate improvement in their understanding and grades** across the board. Williams comes through again and again, where other texts fall hopelessly short."

Malcolm E White, Columbia College

CASE IN POINT

Successful companies sometimes experience reductions in cash. Often these reductions are intentional in order to more productively use the company's cash in different ways. For example, in the year ending June 30, 2009, **Microsoft Corporation** reported a *decrease* in cash in excess of \$4 billion! Does this mean that the company was experiencing extreme financial difficulty? Not necessarily. That year, operations provided over \$19 billion. The overall decline was due to approximately \$7.5 billion being used in financing activities, primarily for paying cash dividends to stockholders and purchasing treasury stock. In addition, the company



© ImagineChina via AP Images

▲ **CASE IN POINT** boxes link accounting concepts in the chapter to their use in the real world. These examples often present an international scenario to expose students to accounting practices around the world.

◀ **ETHICS, FRAUD & CORPORATE GOVERNANCE** boxes discuss the accounting scandals of recent years that have sparked such comprehensive legislation as Sarbanes-Oxley. The inclusion of EFCG boxes in each chapter offers instructors the opportunity to bring complex accounting and ethical issues into the classroom.

Ethics, Fraud & Corporate Governance

As discussed in Chapter 2, the Sarbanes-Oxley Act (SOX) substantially increases the civil and criminal penalties associated with securities fraud, including fraudulent financial reporting. The increased penalties are intended to reduce illegal behaviors. Even prior to SOX, the penalties available to the government and the Securities and Exchange Commission for prosecuting securities fraud were substantial. For example, Andrew Fastow, **Enron's** former chief financial officer, and primary architect of **Enron's** fraudulent actions, pled guilty to a number of fraud-related criminal charges and has received a 10-year prison sentence. Former chief executive officer of **Enron**, Jeffrey Skilling, also was convicted of numerous criminal charges related to his role at **Enron**.

Businesspeople are sometimes told by their superiors to commit actions that are unethical and in some instances even illegal. The clear message of management is "participate in this behavior or find a job elsewhere." Management pressure and intimidation can make it difficult to resist demands to engage in unethical behavior. Employees sometimes believe that they are insulated from responsibility and liability because "they were just following orders."

As you encounter ethical dilemmas during your business career, remember that obeying orders from your superiors that are unethical, and certainly those that are illegal, may expose

you to serious consequences, including criminal prosecution and incarceration.



© AP Photo/David J. Phillip

Setting Standards

McGraw-Hill Connect Accounting



Less Managing. More Teaching. Greater Learning.

McGraw-Hill *Connect Accounting* is an online assignment and assessment solution that connects students with the tools and resources needed to achieve success through faster learning, more efficient studying, and higher retention of knowledge.

McGraw-Hill Connect Accounting features

Connect Accounting offers a number of powerful tools and features to make managing assignments easier, so faculty can spend more time teaching. With *Connect Accounting*, students can engage with their coursework anytime and anywhere, making the learning process more accessible and efficient. *Connect Accounting* offers you the features described below.

Simple assignment management

With *Connect Accounting*, creating assignments is easier than ever, so you can spend more time teaching and less time managing. *Connect Accounting* enables you to:

- Create and deliver assignments easily with select end-of-chapter questions and test bank items.
- Go paperless with the eBook and online submission and grading of student assignments.
- Have assignments scored automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.

Smart grading

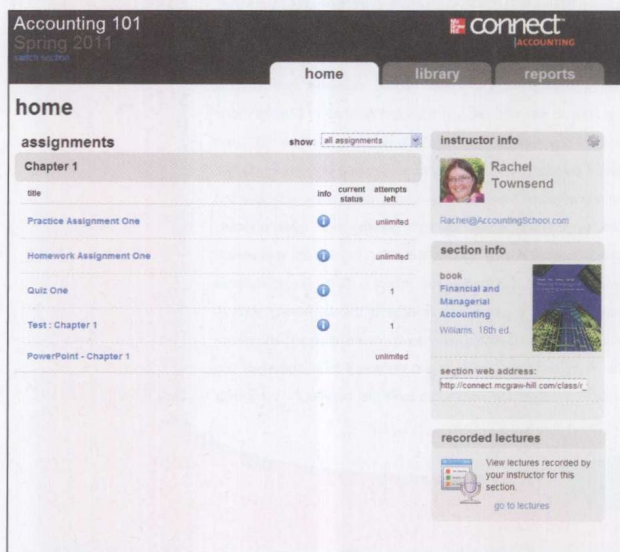
When it comes to studying, time is precious. *Connect Accounting* helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. When it comes to teaching, your time also is precious. The grading function enables you to:

- Have assignments scored automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

Instructor library

The *Connect Accounting* Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The Instructor Library also allows you to upload your own files. Your students can access these files through the student library. The *Connect Accounting* Instructor Library includes

- eBook
- PowerPoint files
- Access to all instructor supplements



in Online Technology

Student library

The *Connect Accounting* Student Library is the place for students to access additional resources. The Student Library:

- Offers students quick access to lectures, practice materials, eBooks, and more.
- Provides instant practice material and study questions, easily accessible on the go.

Assessment and Reporting

Connect Accounting keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The reporting function enables you to:

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB and AICPA.

McGraw-Hill *Connect Plus Accounting*

McGraw-Hill reinvents the textbook learning experience for the modern student with *Connect Plus Accounting*. A seamless integration of an eBook and *Connect Accounting*, *Connect Plus Accounting* provides all of the *Connect Accounting* features plus the following:

- An integrated eBook, allowing for anytime, anywhere access to the textbook.
- Dynamic links between the problems or questions you assign to your students and the location in the eBook where that problem or question is covered.
- A powerful search function to pinpoint and connect key concepts in a snap.

In short, *Connect Accounting* offers you and your students powerful tools and features that optimize your time and energies, enabling you to focus on course content, teaching, and student learning. *Connect Accounting* also offers a wealth of content resources for both instructors and students. This state-of-the-art, thoroughly tested system supports you in preparing students for the world that awaits.

For more information about Connect, go to **www.mcgrawhillconnect.com**, or contact your local McGraw-Hill sales representative.



Accounting 101
Spring 2011
switch version

home library reports

library

eBook

Financial and Managerial Accounting eBook

Content

Chapter 2

Chapter Opener

Introduction to Financial Statements

A Starting Point: S...

Income Statement

Statement of Cash Flows

Relationships among Financial Statements

Forms of Business Organization

The Use of Financial Statements

Concluding Remarks

Summary of Learning Objectives

Key Terms Introduced

Demonstration Problem

Self-Test Questions

Assignment Material

Brief Exercises

Exercises

Problem Set A

Problem Set B

Chapter2: Basic Financial Statements

A Starting Point: Statement of Financial Position

All three financial statements contain important information, but each includes different information. For that reason, it is important to understand all three financial statements and how they relate to each other. The way they relate is sometimes referred to as **articulation**, a term we will say more about later in this chapter.

A logical starting point for understanding financial statements is the statement of financial position, also called the balance sheet. The purpose of this financial statement is to demonstrate where the company stands, in financial terms, at a specific point in time. As we will see later in this chapter, the other financial statements relate to the statement of financial position and show how important aspects of a company's financial position change over time. Beginning with the statement of financial position also allows us to understand certain basic accounting principles and terminologies that are important for understanding all financial statements.

Every business prepares a balance sheet at the end of the year, and many companies prepare one at the end of each month, week, or even day. It consists of a listing of the assets, the liabilities, and the owners' equity of the business. The date is important, as the financial position of a business may change quickly. **Exhibit 2-1** shows the financial position of Vagabond Travel Agency at December 31, 2009.

Exhibit 2-1

STATEMENT OF FINANCIAL POSITION

VAGABOND TRAVEL AGENCY
Statement of Financial Position
December 31, 2009

Assets	Liabilities & Owners' Equity
Cash	Notes Payable
Notes Receivable	

Tegrity Campus: Lectures 24/7



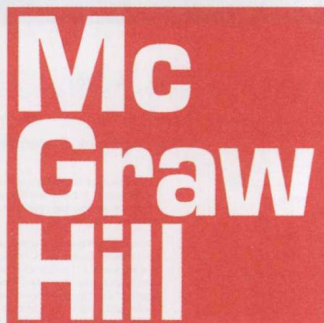
Tegrity Campus is a service that makes class time available 24/7 by automatically capturing every lecture in a searchable format for students to review when they study and complete assignments. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio. Students can replay any part of any class with easy-to-use browser-based viewing on a PC or Mac.

Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. With Tegrity Campus, students quickly recall key moments by using Tegrity Campus's unique search feature. This search helps students efficiently find what they need, when they need it, across an entire semester of class recordings. Help turn all your students' study time into learning moments immediately supported by your lecture.

To learn more about Tegrity watch a 2-minute Flash demo at <http://tegritycampus.mhhe.com>.

McGraw-Hill Higher Education and Blackboard have teamed up. What does this mean for you?

1. **Your life, simplified.** Now you and your students can access McGraw-Hill's Connect™ and Create™ right from within your Blackboard course—all with one single sign-on. Say goodbye to the days of logging in to multiple applications.
2. **Deep integration of content and tools.** Not only do you get single sign-on with Connect™ and Create™, you also get deep integration of McGraw-Hill content and content engines right in Blackboard. Whether you're choosing a book for your course or building Connect™ assignments, all the tools you need are right where you want them—inside of Blackboard.
3. **Seamless Gradebooks.** Are you tired of keeping multiple gradebooks and manually synchronizing grades into Blackboard? We thought so. When a student completes an integrated Connect™ assignment, the grade for that assignment automatically (and instantly) feeds your Blackboard grade center.
4. **A solution for everyone.** Whether your institution is already using Blackboard or you just want to try Blackboard on your own, we have a solution for you. McGraw-Hill and Blackboard can now offer you easy access to industry leading technology and content, whether your campus hosts it, or we do. Be sure to ask your local McGraw-Hill representative for details.



Blackboard

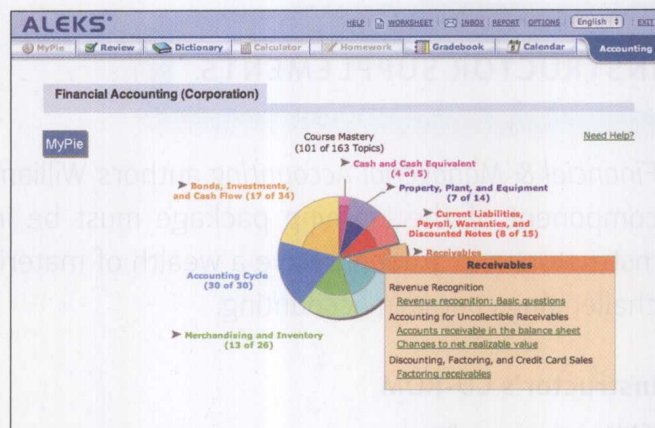
Do More

ALEKS® Improve Student Learning Outcomes and Save Instructor Time with ALEKS®

ALEKS is an assessment and learning program that provides individualized instruction in accounting. Available online in partnership with McGraw-Hill/Irwin, ALEKS interacts with students much like a skilled human tutor, with the ability to assess precisely a student's knowledge and provide instruction on the exact topics the student is most ready to learn. By providing topics to meet individual students' needs, allowing students to move between explanation and practice, correcting and analyzing errors, and defining terms, ALEKS helps students to master course content quickly and easily.

ALEKS also includes an Instructor Module with powerful, assignment-driven features and extensive content flexibility. The complimentary Instructor Module provides a course calendar, a customizable gradebook with automatically graded homework, textbook integration, and dynamic reports to monitor student and class progress. ALEKS simplifies course management and allows instructors to spend less time with administrative tasks and more time directing student learning.

To learn more about ALEKS, visit www.aleks.com/highered/business.



CourseSmart

Learn Smart. Choose Smart.

CourseSmart is a new way for faculty to find and review eTextbooks. It's also a great option for students who are interested in accessing their course materials digitally and saving money.

CourseSmart offers thousands of the most commonly adopted textbooks across hundreds of courses from a wide variety of higher education publishers. It is the only place for faculty to review and compare the full text of a textbook online, providing immediate access without the environmental impact of requesting a print exam copy.

With the CourseSmart eTextbook, student can save up to 45 percent off the cost of a print book, reduce their impact on the environment, and access powerful Web tools for learning. CourseSmart is an online eTextbook, which means users access and view their textbook online when connected to the Internet. Students can also print sections of the book for maximum portability. CourseSmart eTextbooks are available in one standard online reader with full text search, notes and highlighting, and email tools for sharing notes between classmates.

<http://www.coursesmart.com>

McGraw-Hill Customer Care Contact Information

At McGraw-Hill, we understand that getting the most from new technology can be challenging. That's why our services don't stop after you purchase our products. You can e-mail our Product Specialists 24 hours a day to get product-training online. Or you can search our knowledge bank of Frequently Asked Questions on our support Web site. For Customer Support, call **800-331-5094**, e-mail hmsupport@mcgraw-hill.com, or visit www.mhhe.com/support. One of our Technical Support Analysts will be able to assist you in a timely fashion.

Supplements for *Financial & Managerial Accounting*

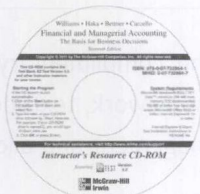
INSTRUCTOR SUPPLEMENTS

Financial & Managerial Accounting authors Williams, Haka, Bettner, and Carcello know that every component of the learning package must be integrated and supported by strong ancillaries. Instructors and students have a wealth of material at their fingertips to help make the most of a challenging course in accounting.

Instructor's CD-ROM

ISBN: 9780077328641

This all-in-one resource contains the Instructor's Resource Manual, Solutions Manual, Testbank Word files, Computerized TB, and PowerPoint® slides.



Online Learning Center (OLC) www.mhhe.com/williams_basis16e

The Online Learning Center (OLC) that accompanies *Financial & Managerial Accounting* provides a wealth of extra material for both instructors and students. With content specific to each chapter of the book, the Williams OLC doesn't require any building or maintenance on your part.

A secure **Instructor Resource Center** stores your essential course materials to save you prep time before class. The **Instructor's Manual**, **Solutions Manual**, **PowerPoint presentations**, and **Testbank** are now just a couple of clicks away.

The OLC Web site also serves as a doorway to McGraw-Hill's other technology solutions.

A strong foundation needs support.

Instructor's Resource Manual

Available on the Instructor's CD and OLC

This manual provides for each chapter: (1) a chapter summary detailing what has changed, new problems that have been added, and author suggestions on how to incorporate new material; (2) brief topical outline; (3) sample "10-minute quizzes" designed to test the basic concepts in each chapter; and (4) suggestions for group, Internet, and other class exercises to supplement the material in the book.

Solutions Manual

Available on the Instructor's CD and OLC

The Solutions Manual includes detailed solutions for every question, exercise, problem, and case in the text.

Testbank

Available on the Instructor's CD and OLC

This comprehensive Testbank contains over 3,000 problems and true/false, multiple-choice, and essay questions. Included in this edition are written explanations to the solutions—making it easier than ever for you to see where students have gone wrong in their calculations.

"A comprehensive accounting book that has more student and instructor resources than any textbook I have seen thus far. It is well written and very organized by topic."

Terri Meta, Seminole Community College