

WARREN REEVE

FINANCIAL & MANAGERIAL
ACCOUNTING



9E

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ACCOUNTING

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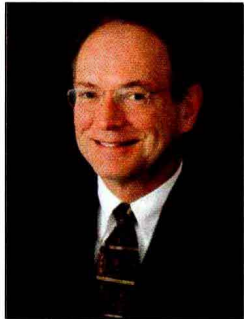
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Dr. Carl S. Warren is Professor Emeritus of Accounting at the University of Georgia, Athens. For over 25 years, Professor Warren taught all levels of accounting classes. Professor Warren has taught classes at the University of Georgia, University of Iowa, Michigan State University, and University of Chicago. Professor Warren focused his teaching efforts on principles of accounting and auditing. Professor Warren received his doctorate degree (Ph.D.) from Michigan State University and his undergraduate (B.B.A) and masters (M.A.) degrees from the University of Iowa. During his career, Professor Warren published numerous articles in professional journals, including *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accountancy*, *The CPA Journal*, and *Auditing: A Journal of Practice & Theory*. Professor Warren's outside interests include writing short stories and novels, oil painting, playing handball, golfing, skiing, backpacking, and fly-fishing.



James M. Reeve

Dr. James M. Reeve is Professor Emeritus of Accounting and Information Management at the University of Tennessee. Professor Reeve taught on the accounting faculty for 25 years, after graduating with his Ph.D. from Oklahoma State University. His teaching effort focused on undergraduate accounting principles and graduate education in the Master of Accountancy and Senior Executive MBA programs. Beyond this, Professor Reeve is also very active in the Supply Chain Certification program, which is a major executive education and research effort of the College. His research interests are varied and include work in managerial accounting, supply chain management, lean manufacturing, and information management. He has published over 40 articles in academic and professional journals, including the *Journal of Cost Management*, *Journal of Management Accounting Research*, *Accounting Review*, *Management Accounting Quarterly*, *Supply Chain Management Review*, and *Accounting Horizons*. He has consulted or provided training around the world for a wide variety of organizations, including Boeing, Procter and Gamble, Norfolk Southern, Hershey Foods, Coca-Cola, and Sony. When not writing books, Professor Reeve plays golf and is involved in faith-based activities.

Get Connected

For over 75 years, *Accounting* has been used effectively to teach generations of businessmen and women. As the most successful business textbook of all time, it continues to introduce students to accounting through a variety of time-tested ways. With this edition, we continue our quest to explore new ways to connect the modern student to accounting, a discipline that is challenging and rewarding.

With this quest in mind, we came to you, the teachers of accounting, and asked what works, what doesn't, and what needs improvement. For this edition, we employed many new methods to get closer to instructors who teach the course every day. As always, your responses were thorough and insightful, and through reviews, focus groups, and our ground-breaking Blue Sky Workshops, we've created a contemporary and efficient learning system for today's student and instructor. In fact, our Blue Sky Workshops brought together accounting teachers from all over the country to discuss content, chapter pedagogy, book design, and supplements. For the first time, instructors had input on every aspect of the project, and the effect of their input on this edition is clear. By connecting with those who use the book, *Financial and Managerial Accounting, 9e*, delivers everything students and instructors need, with nothing they don't.

The original author of *Accounting*, James McKinsey, could not have imagined the success and influence this text has enjoyed or that his original vision would continue to lead the market into the twenty-first century. As the current authors, we appreciate the responsibility of protecting and enhancing this vision, while continuing to refine it to meet the changing needs of students and instructors. Always in touch with a tradition of excellence but never satisfied with yesterday's success, this edition enthusiastically embraces a changing environment and continues to proudly lead the way. We sincerely thank our many colleagues who have helped to make it happen.



"The teaching of accounting is no longer designed to train professional accountants only. With the growing complexity of business and the constantly increasing difficulty of the problems of management, it has become essential that everyone who aspires to a position of responsibility should have a knowledge of the fundamental principles of accounting."

— James O. McKinsey, Author, first edition, 1929

Connect to Course Content

As the clear leader in pedagogical innovation, *Financial and Managerial Accounting, 9e*, introduces the next step in the evolution of accounting textbooks. Through discussions at the Blue Sky Workshops and other instructor interactions, this edition is closer than ever to becoming the “perfect” accounting text.

NEW!

Example Exercise

Based on extensive market feedback, we’ve developed new Example Exercises that reinforce concepts and procedures in a bold, new way. Like a teacher in a classroom, students follow the authors’ example to see how to complete accounting applications as they are presented in the text. This feature also provides a list of Practice Exercises that parallel the Example Exercises, so students get the practice they need.

See the example of the application being presented.

Example Exercise 1-1

objective 2

On August 25, Gallatin Repair Service extended an offer of \$125,000 for land that had been priced for sale at \$150,000. On September 3, Gallatin Repair Service accepted the seller’s counteroffer of \$137,000. On October 20, the land was assessed at a value of \$98,000 for property tax purposes. On December 4, Gallatin Repair Service was offered \$160,000 for the land by a national retail chain. At what value should the land be recorded in Gallatin Repair Service’s records?

Follow My Example 1-1

\$137,000. Under the cost concept, the land should be recorded at the cost to Gallatin Repair Service.

For Practice: PE 1-1A, PE 1-1B

Follow along as the authors work through the example exercise.

Try these corresponding end-of-chapter exercises for practice!

Clear Objectives and Key Learning Outcomes

To help guide students, the authors revised and focused the chapter objectives and developed key learning outcomes related to each chapter objective. All aspects of the chapter content and end-of-chapter exercises and problems connect back to these objectives and related outcomes. In doing so, students can test their understanding and quickly locate concepts for review.

NEW!

"At a Glance" Chapter Summary

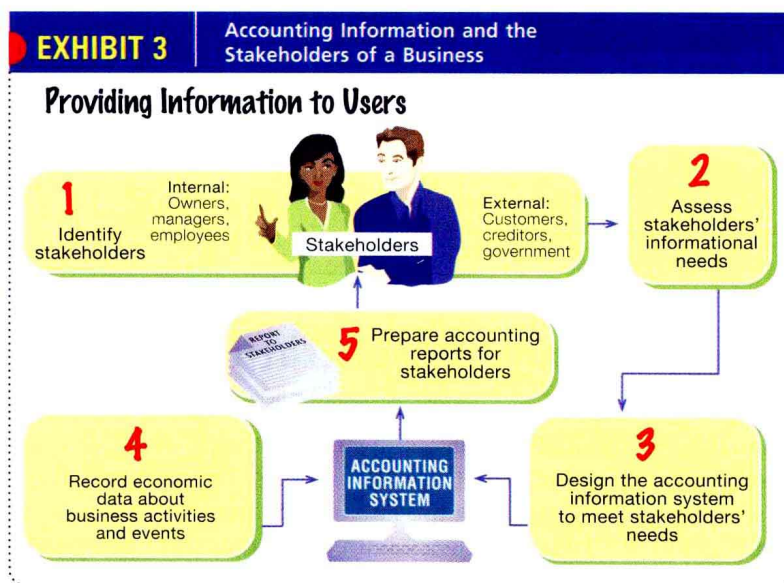
The "At a Glance" summary grid ties everything together and helps students stay on track. First, the Key Points recap the chapter content for each chapter objective. Second, the related Key Learning Outcomes list all of the expected student performance capabilities that come from completing each objective. In case students need further practice on a specific outcome, the last two columns reference related Example Exercises and their corresponding Practice Exercises. Through this intuitive grid, all the chapter pedagogy links together in one cleanly integrated summary.

5. Describe the financial statements of a corporation and explain how they interrelate.			
Key Points	Key Learning Outcomes	Example Exercises	Practice Exercises
The principal financial statements of a corporation are the income statement, the retained earnings statement, the balance sheet, and the statement of cash flows. The income statement reports a period's net income or net loss, which also appears on the retained earnings statement. The ending retained earnings reported on the retained earnings statement is also reported on the balance sheet. The ending cash balance is reported on the balance sheet and the statement of cash flows.	<ul style="list-style-type: none"> List and describe the financial statements of a corporation. Prepare an income statement. Prepare a retained earnings statement. Prepare a balance sheet. Prepare a statement of cash flows. Explain how the financial statements of a corporation are interrelated. 	<p>1-4</p> <p>1-5</p> <p>1-6</p> <p>1-7</p>	<p>1-4A, 1-4B</p> <p>1-5A, 1-5B</p> <p>1-6A, 1-6B</p> <p>1-7A, 1-7B</p>

Provides a conceptual review of each objective.

Creates a checklist of skills to help review for a test.

Directs the student to this helpful new feature!



Modern, User-Friendly Design

The internal design has been modified to be both appealing and easy to navigate. Based on student testimonials of what they find most useful, this streamlined presentation includes a wealth of helpful resources without feeling cluttered. To update the look of the material, some Exhibits use computerized spreadsheets to better reflect the changing environment of business. Visual learners will appreciate the generous number of exhibits and illustrations used to convey concepts and procedures.

Always aware of the issues and changes in real world accounting, the colorful and dynamic *Financial and Managerial Accounting, 9e*, visually highlights coverage that is designed to help students make the connection between accounting concepts and business practices. Accounting doesn't occur in a vacuum, and the new and improved features found in each chapter make the content come to life.

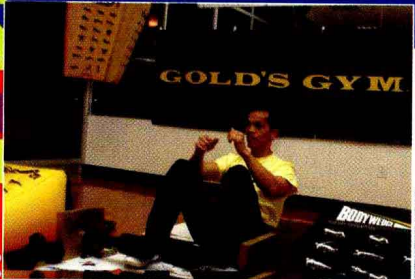
Improved Chapter Openers

Building on the strengths of past editions, these openers continue to relate the accounting and business concepts in the chapter to the student's life. New for this edition, these openers now employ examples of real companies as well providing invaluable insight into real practice. The following companies are among those that have been incorporated into the chapter openers.

- Google
- Marvel Entertainment
- Fatburger
- Gold's Gym
- Electronic Arts
- The North Face

chapter 2

Analyzing Transactions



objectives

After studying this chapter, you should be able to:

1. Describe the characteristics of an account and record transactions using a chart of accounts and journal.
2. Prepare an unadjusted trial balance and explain how it can be used to discover errors.
3. Discover and correct errors in recording transactions.
4. Describe and illustrate the posting of journal entries to accounts.

Gold's Gym International, Inc.

You can organize your digital music within your MP3 player or iPod[®] according to various playlists, according to your favorite songs, genre, artist, or album. Your playlists allow you to quickly retrieve music for listening. Computer files are organized within folders for the same reason. Information, like music or digital files, is organized into categories to simplify retrieval and reporting. In the same way that you organize your digital information, a business also needs to organize its transactions. For example, when you shop at Wal-Mart or Target or buy groceries at Kroger or SUPERVALU, you enter into a transaction that is processed and recorded by the business. A company such as Gold's Gym, the largest co-ed gym chain in the world, must also process, record, and summarize its transactions. For example, Gold's would want to record all its cash transactions so that they can be summarized as a single category, called "cash." This is much the same way you would summarize the cash transactions in the check register of your checkbook.

In Chapter 1, we analyzed and recorded this kind of information by using the accounting equation: $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$. However, such a format is not practical for most businesses, and in this chapter we will study more efficient methods of recording transactions. We will conclude this chapter by discussing how accounting errors may occur and how they may be detected and corrected by the accounting process.

Using Accounts to Record Transactions

In Chapter 1, we recorded the November transactions for NetSolutions using the accounting equation format shown in Exhibit 1. However, this format is not efficient or practical for companies that have to record and summarize thousands or millions of transactions daily. As a result, accounting systems are designed to show the increases and decreases in each financial statement item as a separate record. This record is called an **account**.

To illustrate, the Cash column of Exhibit 1 records the increases and decreases in cash. Likewise, the other columns in Exhibit 1 record the increases and decreases in Supplies, Land, Accounts Payable, Capital Stock, Dividends, Fees Earned, Wages Expense, Rent Expense, Supplies Expense, Utilities Expense, and Miscellaneous Expense. As we illustrate next, each of these columns can be organized into a separate account that more efficiently records and summarizes transactions.

An account, in its simplest form, has three parts. First, each account has a title, which is the name of the item recorded in the account. Second, each account has a space for recording increases in the amount of the item. Third, each account has a space for recording decreases in the amount of the item. The account form presented below is called a **T account** because it resembles the letter T. The left side of the account is called the **debit** side, and the right side is called the **credit** side.¹

Title	
Left side debit	Right side credit

¹ The terms debit and credit are derived from the Latin debitor and creditor.



Financial Analysis and Interpretation

The Financial Analysis and Interpretation section in Chapters 5–14 introduces relevant, key ratios throughout the textbook. Students connect with the business environment as they learn how stakeholders will interpret financial reports. This section covers basic analysis tools that students will use again in the Financial Statement Analysis chapter. Furthermore, students get to test their proficiency with these tools through special activities and exercises in the end of the chapter. Both the section and related end-of-chapter material are indicated with a unique icon for a consistent presentation.



Roughly eight out of every ten workers in the United States are service providers.

Comprehensive Real World Notes

Students get a close-up look at how accounting operates in the marketplace through a variety of items in the margins and in the Business Connections boxed features throughout the book. In addition, a variety of end-of-chapter exercises and problems employ real world data to give students a feel for the material accountants see daily. No matter where they are found, elements that use material from real companies are indicated with a unique icon for a consistent presentation. The following companies are among those highlighted in the text.

- AT&T
- J.C. Penney Co.
- Campbell Soup Co.
- Hewlett-Packard
- Mercedes-Benz
- Delta Air Lines
- Ford Motor Co.
- Gillette
- General Electric

Business Connections



RAPID INVENTORY AT COSTCO

Costco Wholesale Corporation operates over 300 membership warehouses that offer members low prices on a limited selection of nationally branded and selected private label products. Costco emphasizes generating high sales volumes and rapid inventory turnover. This enables Costco to operate profitably at significantly lower gross margins than traditional wholesalers, discount retailers, and supermarkets. In addition, Costco's rapid turnover provides it the opportunity to conserve on its cash, as described below.

Because of its high sales volume and rapid inventory turnover, Costco generally has the opportunity to receive cash from the sale of a substantial portion of its inventory at mature warehouse operations before it is required to pay all its merchandise vendors, even though Costco takes advantage of early payment terms to obtain payment dis-

counts. As sales in a given warehouse increase and inventory turnover becomes more rapid, a greater percentage of the inventory is financed through payment terms provided by vendors rather than by working capital (cash).



Integrity, Objectivity, and Ethics in Business

In each chapter, these cases help students develop their ethical compass. Often coupled with related end-of-chapter activities, these cases can be discussed in class or the students can consider them as they read the chapter. These are always indicated with a unique icon for a consistent presentation.

Integrity, Objectivity, and Ethics in Business



THE RESPONSIBLE BOARD

Recent accounting scandals, such as those involving **Enron**, **WorldCom**, and **Fannie Mae**, have highlighted the roles of boards of directors in executing their responsibilities. For example, eighteen of Enron's former directors and their insurance providers have settled shareholder litigation for \$168 million, of which \$13 million is to come from the directors' personal assets. Board members are now on notice that their directorship responsibilities are being taken seriously by stockholders.

Though the presentation of this edition includes many new and improved elements, the traditional tools that have helped students for years remain an integral part of the book.

@netsolutions

Continuing Case Study: Students follow a fictitious company, NetSolutions, throughout Chapters 1–5 as the example company to demonstrate a variety of transactions. To help students connect to the world of accounting, the NetSolutions transactions in Chapters 1 and 2 are often paired with nonbusiness events to which students can easily relate.

Summaries: Within each chapter, these synopses draw special attention to important points and help clarify difficult concepts.



The left side of all accounts is the debit side, and the right side is the credit side.

In the preceding examples, you should observe that the left side of asset accounts is used for recording increases, and the right side is used for recording decreases. Also, the right side of liability and stockholders' equity accounts is used to record increases, and the left side of such accounts is used to record decreases. The left side of all accounts, whether asset, liability, or stockholders' equity, is the debit side, and the right side is the credit side. Thus, a debit may be either an increase or a decrease,

Key Terms: At the end of each chapter, this list of key terms provides page numbers for easy reference.

Self-Examination Questions: Five multiple-choice questions, with answers at the end of the chapter, help students review and retain chapter concepts.

Illustrative Problem and Solution: A solved problem models one or more of the chapter's assignment problems, so that students can apply the modeled procedures to end-of-chapter materials.

Illustrative Problem



J. F. Outz, M.D., has been practicing as a cardiologist for three years in a professional corporation known as Hearts, P.C. During April 2007, Hearts, P.C. completed the following transactions:

- Apr. 1. Paid office rent for April, \$800.
3. Purchased equipment on account, \$2,100.
5. Received cash on account from patients, \$3,150.
8. Purchased X-ray film and other supplies on account, \$245.
9. One of the items of equipment purchased on April 3 was defective. It was returned with the permission of the supplier, who agreed to reduce the account for the amount charged for the item, \$325.

Students need to practice accounting in order to understand and use it. To give your students the greatest possible advantages in the real world, *Financial and Managerial Accounting, 9e*, goes beyond presenting theory and procedure with comprehensive, time-tested, end-of-chapter material.

Eye Openers (formerly Discussion Questions): Contains quick concept review questions and single transaction exercises, which are ideal to help students break down concepts into basic parts, ensuring a solid foundation on which to build.

Example Exercises: For Practice Includes two parallel variations of the Example Exercise in the chapter, allowing students to practice the applications the authors illustrated earlier.

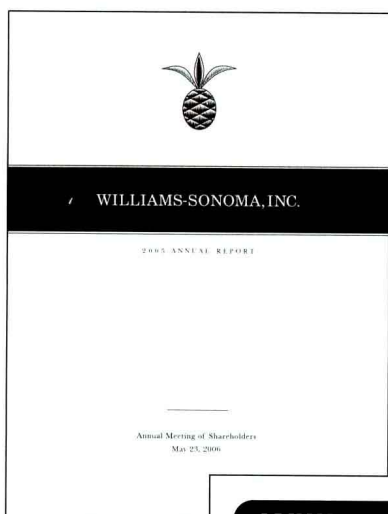
Exercises: Completely revised and accompanied by a general topic and a reference to chapter objective.

Problems Series A and B: Completely revised and accompanied by a general topic and a reference to chapter objective.

Special Activities: Focus on understanding and solving pertinent business and ethical issues. Some are presented as conversations in which students can “observe” and “participate” when they respond to the issue being discussed.

Comprehensive Problems: Located after Chapters 4, 5, 10, 14 and 22 to integrate and summarize chapter concepts and test students’ comprehension.

Financial Statement Analysis Problem: Located in Chapter 15, this problem features the Williams-Sonoma, Inc., 2005 Annual Report, which allows students to engage current, real world data.



Williams-Sonoma, Inc., Problem

FINANCIAL STATEMENT ANALYSIS

The financial statements for *Williams-Sonoma, Inc.*, are presented in Appendix E at the end of the text. The following additional information (in thousands) is available:

Accounts receivable at February 1, 2004	\$ 31,573
Inventories at February 1, 2004	404,100
Total assets at February 1, 2004	1,470,735
Stockholders' equity at February 1, 2004	804,591

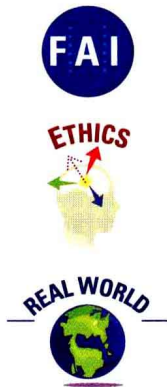
Instructions

- Determine the following measures for the fiscal years ended January 29, 2006, and January 30, 2005, rounding to one decimal place.
 - Working capital
 - Current ratio
 - Quick ratio
 - Accounts receivable turnover
 - Number of days' sales in receivables
 - Inventory turnover

Connect and Practice

Each chapter's Eye Openers, Example Exercises: For Practice, and Exercises provide those important brief exercises and can be assigned for homework or used as examples in the classroom. Among those sections, you'll find an average of 35 exercises per chapter! In addition, the two full sets of problems can be used as classroom illustrations, assignments, alternate assignments, or as independent study.

While always tied to the chapter content, some of the end-of-chapter material covers special topics like those covered in the book features. Specifically, you'll see



Financial Analysis and Interpretation: After being introduced to key ratios of financial analysis and interpretation in the related section of Chapters 5–15, students get to test their proficiency through special activities and exercises that frequently feature real company data.

Ethical Dilemmas: Often paired with the scenario presented in the Integrity, Objectivity, and Ethics in Business feature, these exercises and activities put the student in the role of a decision maker faced with a problem to solve.


Real World Applications: These exercises and activities encourage students to speculate about the real-world effects of newly learned material.

In addition to content, the versatile end-of-chapter section also indicates

Communication Items: These activities help students develop communication skills that will be essential on the job, regardless of the fields they pursue.

EX 1-2
Professional ethics
obj. 1

A fertilizer manufacturing company wants to relocate to Collier County. A 13-year-old report from a fired researcher at the company says the company's product is releasing toxic by-products. The company has suppressed that report. A second report commissioned by the company shows there is no problem with the fertilizer.

 Should the company's chief executive officer reveal the context of the unfavorable report in discussions with Collier County representatives? Discuss.

Internet Projects: These activities acquaint students with the ever-expanding accounting-related areas of the Web.

Team Building: Group Learning Activities let students learn accounting and business concepts while building teamwork skills.

SA 4-4
Compare balance sheets

Group Project

Internet Project

In groups of three or four, compare the balance sheets of two different companies, and present to the class a summary of the similarities and differences of the two companies. You may obtain the balance sheets you need from one of the following sources:

1. Your school or local library.
2. The investor relations department of each company.
3. The company's Web site on the Internet.
4. EDGAR (Electronic Data Gathering, Analysis, and Retrieval), the electronic archives of financial statements filed with the Securities and Exchange Commission.

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- Students connect to real businesses through our Business Connections videos. This collection of films on accounting issues brings the subject alive. Most notably, the new Chapter 16, "Introduction to Managerial Accounting," incorporates a video of the manufacturing operation of Washburn Guitars, a producer of instruments used by many popular artists today.



Chapter Changes

1. Introduction to Accounting and Business

- New informational Exhibit 4 on accounting career paths with salary ranges gets students excited about the field.
- Expanded section on ethical behavior in business accompanied by new Exhibit 2 outlining examples of fraud since 2000 emphasizes the importance of reporting accurate, reliable financial information.
- A new horizontal format displays how transactions affect each account and facilitates the preparation of the financial statements.
- New chapter opener features Google.

2. Analyzing Transactions

- Opens with a new transition that ties the horizontal format of Chapter 1 into the use of accounts and the rules of debits and credits. Also, a new section describing how students should analyze and record transactions aids students with their homework.
- New Exhibit 3 summarizes the rules of debit and credit along with normal balances of accounts so students can see how both guiding principles operate together.
- New margin labels help guide students through transaction analysis.
- New chapter opener features Gold's Gym.

3. The Adjusting Process

- All adjusting entries now include explanations.
- New Exhibits 1 and 2 illustrate the types of adjustments students will encounter as well as the affects of those adjustments on the Income Statement and Balance Sheet. Exhibit 1 focuses on prepaid expense and unearned revenue, and Exhibit 2 focuses on accrued revenue and accrued expense.
- The terminology has been revised to be consistent with Chapter 2. That is, we now use the terms *prepaid expense* and *unearned revenue* instead of *deferred expense* and *deferred revenue*.
- Exhibit 6 (formerly Exhibit 5) has been revised with adjusting entries from NetSolutions to clearly summarize the effect of adjustments on the financial statements.
- New chapter opener features Marvel Entertainment, Inc.
- New Integrity, Objectivity, and Ethics in Business discusses personal use of office supplies.

4. Completing the Accounting Cycle

- Opens by illustrating the flow of accounting data from the unadjusted trial balance to the adjusted trial balance and financial statements using an end-of-period spreadsheet (work sheet). This is followed by the preparation of financial statements and closing entries for NetSolutions.
- New Exhibit 8 clearly illustrates each step in the accounting cycle and the role of the accountant in the process.
- New learning objective, Illustration of the Accounting Cycle, reviews and illustrates each step in the accounting cycle for Kelly Consulting. This illustration is a complete review of the accounting cycle and recaps what students have learned in Chapters 1–4.
- To familiarize students with alternate formats, the end-of-period spreadsheet is presented in a computerized spreadsheet format.
- Preparation of the end-of-period spreadsheet (work sheet) is included in an end of the chapter appendix. This appendix uses the NetSolutions chapter illustration. The chapter exercises and problems have been designed so that instructors have the option of requiring students prepare the end-of-period spreadsheet (work sheet).
- New chapter opener features Electronic Arts, Inc.

5. Accounting for Merchandising Businesses

- The chart of accounts for a merchandising business is now integrated with the discussion of merchandise transactions early in the chapter to help students transition from service businesses to merchandising business.
- Nonbank Credit Card transactions such as American Express transactions are recorded in the same manner as MasterCard and VISA transactions. This better reflects the accounting for American Express transactions used by most retailers.
- New appendix covers periodic inventory in a merchandising business and includes a new exhibit which compares the perpetual and periodic systems. This appendix also includes the closing entries under the periodic system.
- The end-of-chapter exercises and problems have been designed so that instructors can assign exercises and problems using the perpetual system, the periodic inventory, or both systems.

- Transportation Out has been revised as Delivery Expense so that it is easier for students to identify it as an income statement account.
 - New chapter opener features Whole Foods Market.
- 6. Inventories (formerly Chapter 8)**
- Based on reviewer and user feedback, inventories are now covered after merchandising businesses.
 - Objectives 3 and 4 now use the same data to draw a better comparison between perpetual (Objective 3) and periodic (Objective 4) inventory systems.
 - The periodic inventory discussion (Objective 4) has been reorganized to better reflect real world practice. Specifically, ending inventory is determined first and is then subtracted from merchandise available for sale to determine the cost of merchandise sold.
 - The prior edition's Objective 2, which focuses on reporting errors of inventory on the financial statements, has been moved to Objective 6 to improve the flow of the chapter. In addition, this discussion has been simplified.
 - New chapter opener features Best Buy.
- 7. Sarbanes Oxley, Internal Controls, and Cash (formerly Chapter 6)**
- The chapter begins with a discussion of the Sarbanes-Oxley Act that includes an example of a General Electric internal control report.
 - The coverage of cash now reflects modern banking practices, including new information about cash received by Electronic Funds Transfer, expanded information about bank statements in an electronic environment, and streamlined coverage of vouchers and manual forms.
 - The bank reconciliation form now appears in a vertical format to be consistent with practice. To simplify for students, "company" replaces "depositor" in the bank reconciliation form.
 - Petty Cash coverage is now covered as Special Purpose Cash Funds.
 - New chapter opener features Ebay.
 - Two new Integrity, Objectivity, and Ethics in Business discuss check fraud and bank errors.
- 8. Receivables (formerly Chapter 7)**
- The direct write-off method of accounting for uncollectible receivables now comes before the allowance method, so students can build from simple to complex concepts.
 - A T-account approach is used to illustrate the allowance method.
 - New comparison of the percent of sales and analysis of receivables estimation methods summarizes Objective 4.
 - New Objective 5 compares direct write-off and allowance methods.
 - New chapter opener features FedEx-Kinkos.
- 9. Fixed Assets and Intangible Assets**
- Declining-Balance Depreciation is now Double-Declining-Balance Depreciation.
 - New Exhibit 7 compares depreciation methods.
 - New Exhibit 8 presents revising depreciation estimates graphically.
 - Certain coverage has been streamlined for a clearer presentation. Specifically, capital and revenue expenditure is now covered as part of Objective 1, as is the discussion of leasing fixed assets.
 - Financial Analysis and Interpretation item now covers the Fixed Asset Turnover Ratio, as it is more relevant to the chapter.
 - New chapter opener features Fat Burger.
- 10. Current Liabilities and Payroll**
- Changes to the McGrath withholding table use the universal IRS Percentage Method. This change simplifies the calculation method in the text.
 - New chapter opener features Panera.
 - New Business Connections features a discussion on the condition of Social Security.
- 11. Corporations: Organization, Capital Stock Transactions, and Dividends**
- Based upon user and reviewer feedback, this chapter has been reorganized so that dividends are discussed immediately after the accounting for issuing of stock. The accounting for treasury stock, reporting stockholders' equity, and stock splits now follows the discussion of dividends.
 - New Exhibit 2 shows the advantages and disadvantages of corporate forms.
 - The discussion of preferred stock has now been simplified to focus only on nonparticipating preferred stock.
 - New chapter opener features Yankee Candle.
 - New Integrity, Objectivity, and Ethics in Business discusses not-for-profit organizations.

Chapter Changes

12. Income Taxes, Unusual Income Items, and Investments in Stocks

- New classification scheme for unusual items: those that impact current periods and those that impact prior periods.
- New section on Retroactive Restatements presented in Objective 2.
- Cumulative change in accounting principle replaced with the restatement method per SFAS 154.
- New graphic on three treatments for unusual items.
- New chapter opener features Gaylord Entertainment, Inc.

13. Bonds Payable and Investments in Bonds

- Objective 2 covers the characteristics and computation of bonds to improve the flow of the chapter.
- New section covers the payment and redemption of bonds. Sinking funds are now covered here.
- New chapter opener features Under Armor.
- Business Connections feature on Bowie Bonds reflects the effect of recent events on these bonds.
- New Integrity, Objectivity, and Ethics in Business discusses credit quality.

14. Statement of Cash Flows

- Opening section orients the student to the Statement of Cash Flows by building on the discussion in Chapter 1. In addition, new Exhibit 1 examines the Statement of Cash Flows of NetSolutions.
- New format for the indirect method reflects real world practice.
- Expanded section on Cash Flows from Operating Activities includes new Exhibit 5 that outlines the adjustment to net income on cash flows and summarizes the affect of changes in current assets and current liabilities on net income as it pertains to cash flows.
- New chapter opener features Jones Soda Company, as does Exercise 14-16.
- New Business Connections features Microsoft and Dell's view of cash resources.
- New Integrity, Objectivity, and Ethics in Business on collecting accounts features Overhill Flowers.
- Financial Analysis and Interpretation item redefines free cash flows to leave out dividends, which could be considered discretionary, to simplify the presentation.

15. Financial Statement Analysis

- Features Williams-Sonoma in the chapter opener and engages Williams-Sonoma's 2005 Annual Report in the end-of-chapter material.
- Objective 4 on Corporate Annual Reports now discusses internal controls and other auditing issues.
- New Integrity, Objectivity, and Ethics in Business discusses the results of a CEO survey about corporate ethics.
- New Business Connections features different investing strategies.

16. Introduction to Managerial Accounting

- New chapter introduction to Managerial Accounting begins with a description of managerial accounting that transitions students from financial accounting and outlines the role of the management accountant in the business world.
- Comprehensive example featuring the Legend Guitar Company grounds the manufacturing processes and provides students with a framework to discuss managerial topics. Objective 2 covers the costs and terminology associated with a manufacturing business, while Objective 3 provides a set of sample financial statements with financial data similar to what students examined in financial accounting.
- The chapter closes with a description of the other specific uses of managerial accounting information to complete the introduction.
- New chapter opener features Washburn Guitar. A video tour of the manufacturing process for a specific Washburn Guitar is available through ThomsonNOW.
- New Integrity, Objectivity, and Ethics in Business discusses developing an ethical framework.
- New Business Connections discuss grocery plus cards and decisions that can be made from the data they collect.

17. Job Order Cost Systems (formerly part of Chapter 16)

- This chapter continues the Legend Guitar Company from Chapter 18 to provide continuity in the presentation.

- Washburn Guitar is again featured in the opener with more detail about the manufacturing process of the custom Maya guitar.
 - New Business Connections discusses contingent compensation in the movie industry.
- 18. Process Cost Systems** (formerly Chapter 17)
- Objective 1 compares and contrasts Job Order and Process Costing to help transition students between the two concepts. New Exhibit 1 summarizes this comparison.
 - New comprehensive text example features Frozen Delight Ice Cream Company. In addition, new Exhibit 2 provides a diagram of the ice cream making process, which helps students understand the processes and departments involved.
 - The Example Exercises feature Rocky Springs Bottling Company and can be used in a progression throughout the chapter, providing another comprehensive example of process costing. Yet, they can be assigned independently of each other, providing flexibility in the chapter's coverage.
 - New chapter opener features Dreyer's Grand Ice Cream. A video tour of the manufacturing process for Dreyer's is available through ThomsonNOW.
 - New Integrity, Objectivity, and Ethics in Business discusses DuPont's advocacy for social responsibility.
- 19. Cost Behavior and Cost-Volume-Profit Analysis** (formerly Chapter 18)
- Former objective on the assumption underlying cost-volume-profit analysis now concludes Objective 4 on using CVP and profit-volume chart to improve the flow of the chapter.
 - New chapter opener features Netflix.
 - New Integrity, Objectivity, and Ethics in Business discusses how pharmaceutical companies create orphan drugs, which target rare diseases, in reference to break-even points.
 - Business Connections features Sirius Satellite Radio's contract with Howard Stern in reference to break-even point.
- 20. Variable Costing for Management Analysis** (formerly Chapter 19—Profit Reporting)
- New title is "Variable Costing for Management Analysis" to reflect the new focus of the chapter on the type of analysis rather than focusing on the method of reporting.
 - A new definition of market segments better defines their characteristics.
 - A new section on Analyzing Contribution Margins introduces Analyzing Market Segments for greater clarity.
 - New Exhibit 11 on Contribution Margin Analysis illustrates the causes for difference between planned and actual contributions margins.
 - New graphic conveys the discrepancy of actual versus planned for both quantity and price/unit cost factors.
 - New chapter opener features Adobe Systems.
- 21. Budgeting** (formerly Chapter 20)
- New Exhibit 2 examines human behavior and budgeting.
 - Computerized budgeting discussion in Objective 2 reflects current business practices.
 - New chapter opener features The North Face.
 - New Business Connections discusses MP3 players.
- 22. Performance Evaluation Using Variances from Standard Costs** (formerly Chapter 21)
- The Example Exercises feature Landon Awards Co., and can be used in a progression throughout the chapter, providing a comprehensive example of using variances. Yet, they can be assigned independently of each other, providing flexibility in the chapter's coverage.
 - Direct Labor and Materials combined in new Objective 3 to integrate related topics. In addition, nonmanufacturing expenses are now covered with direct labor.
 - New terminology is added to reflect other real world considerations. Specifically, nonfinancial performance measure is now defined as a performance measure expressed in unit other than dollars, such as yield, customer satisfaction, or percent on time.
 - New chapter opener features Mini Cooper.
 - New Business Connections contrasts performance evaluation in school with evaluation in the business world.
- 23. Performance Evaluation for Decentralized Operations** (formerly Chapter 22)
- New chapter opener features K2.
 - New Integrity, Objectivity, and Ethics in Business on Shifting Income through Transfer Prices features Glaxo Smith Kline.
 - New Business Connections features Scripps Howard Company in its discussion of ROI.