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Financial Accounting

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FIFTH EDITION

Financial Accounting

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Cornell University

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Ithaca College

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Texas Christian University

 **McGraw-Hill
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FINANCIAL ACCOUNTING

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Bob is a widely published author specializing in behavioral accounting. He was selected as the AAA Outstanding Educator in 2000. His prior text, *Accounting and Human Information Processing* (Prentice Hall, 1981), was awarded the AICPA/AAA Notable Contributions to the Accounting Literature Award. He received this award again in 1996 for a paper. He has published numerous articles in the *Journal of Accounting Research*; *Accounting, Organizations, and Society*; and other accounting journals. He is past Vice President-Publications of the American Accounting Association and is a member of the American Institute of CPAs and the editorial boards of *The Accounting Review*; *Accounting, Organizations, and Society*; *Journal of Accounting Literature*; and *Journal of Behavioral Decision Making*.

Patricia A. Libby

Patricia Libby is Chair of the Department of Accounting and Associate Professor of Accounting at Ithaca College, where she teaches the undergraduate financial accounting course. She previously taught graduate and undergraduate financial accounting at Eastern Michigan University and the University of Texas. Before entering academe, she

was an auditor with Price Waterhouse (now PricewaterhouseCoopers) and a financial administrator at the University of Chicago. She received her B.S. from Pennsylvania State University, her M.B.A. from DePaul University, and her Ph.D. from the University of Michigan; she is also a CPA.

Pat conducts research on using cases in the introductory course and other parts of the accounting curriculum. She has published articles in *The Accounting Review*, *Issues in Accounting Education*, and *The Michigan CPA*. She has also conducted seminars nationwide on active learning strategies, including cooperative learning methods.

Daniel G. Short

Daniel Short is Professor of Accounting and Dean of the M.J. Neeley School of Business at Texas Christian University in Fort Worth, Texas. Formerly he was Dean at the Richard T. Farmer School of Business at Miami University (Ohio) and the College of Business at Kansas State University. Prior to that, he was Associate Dean at the University of Texas at Austin, where he taught the undergraduate and graduate financial accounting courses. He also taught at the University of Michigan and the University of Chicago. He received his undergraduate degree from Boston University and his M.B.A. and Ph.D. from the University of Michigan.

Dan has won numerous awards for his outstanding teaching abilities and has published articles in *The Wall Street Journal*, *The Accounting Review*, the *Journal of Accounting Research*, and other business journals. He has worked with a number of Fortune 500 companies, commercial banks, and investment banks to develop and teach executive education courses on the effective use of accounting information. Dan has also served on boards of directors in several industries, including manufacturing, commercial banking, and medical services. He is currently on the economic development committee of the Fort Worth Chamber of Commerce.

The proven favorite

Over four editions, authors Bob Libby, Pat Libby, and Dan Short have made **Financial Accounting** into the best-selling book on the market.* How? By helping the instructor and student to become partners in learning, using a remarkable learning approach that keeps students engaged and involved in the material from the first day of class.

* Monument Information Resource, 2003 Report

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F I F T H
e d i t i o n



Financial Accounting

DECK HDI DAL SBUX HET OSI DJ SAM HD
PIZZA ELV DECK HDI DAL SBUX HET OSI DJ S

Financial Accounting's distinctive focus company method motivates students by involving them in the business decisions of a real company, demonstrating how financial accounting makes a difference in the success of a firm. That, combined with pedagogical features and technology assets that serve a variety of learning styles, makes Libby/Libby/Short the textbook that both students and instructors agree is the best of its kind on the market today.

of students and instructors alike.

Financial Accounting maintains its leadership by focusing on three key attributes:

REVELANCE. Libby/Libby/Short's trademark focus company approach is your best tool for demonstrating the relevance of financial accounting topics. Ethics continues to be a crucial topic within accounting, and *Financial Accounting* integrates coverage of ethical issues throughout the book. Furthering its real-world applicability, the end-of-chapter cases tie into the bundled annual report from Pacific Sunwear of California and the contrasting report from American Eagle Outfitters. This gives students valuable practice in reading and interpreting real financial data. Finally, Real-World Excerpts expand important chapter topics with insight into how real firms use financial accounting to their competitive advantage.

CLARITY. Do students complain that their textbook is hard to read? They don't if they're reading *Financial Accounting*. Libby/Libby/Short's clean, engaging writing is cited as a consistent strength by both instructors and students. In addition, the organization of the material is constantly refined to ensure maximum readability for students and flexibility for teachers.

TECHNOLOGY AIDES. Today's students have divergent learning styles and numerous time commitments, and they want technology supplements that help them study more efficiently and effectively. McGraw-Hill's Homework Manager and Homework Manager Plus, Topic Tackler, and ALEKS for *Financial Accounting* provide students with three powerful tools tied directly to *Financial Accounting*, fifth edition, that will help them maximize their study time and make their learning experience more enjoyable. In addition, a **new** Algorithmic Test Bank allows instructors to create an infinite number of algorithm-generated quizzes and test assignments.

Libby/Libby/Short's *Financial Accounting* is the proven choice for presenting financial accounting in a clear, relevant approach that keeps students engaged throughout your course. Read on for more insight into what has made this textbook such a success with faculty and students.

The Financial Accounting

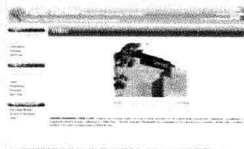
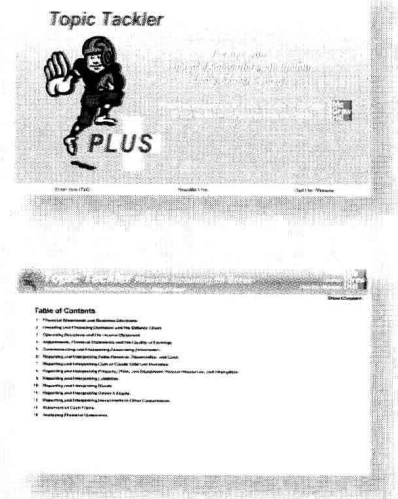
Libby/Libby/Short's Digital Learning System complements the textbook every step of the way, giving students the extra help they need while providing instructors with tools for teaching a stimulating and rewarding class.



TOPIC TACKLER PLUS DVD

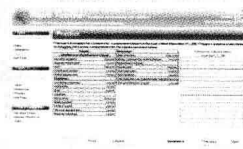
For today's technologically savvy students, **Topic Tackler Plus** is a DVD tutorial that offers a virtual helping hand in understanding the most challenging topics of the financial accounting course. Through a step-by-step sequence of video clips, audio-narrated slides, interactive practice exercises, and self-tests, Topic Tackler offers help on two key topics for every chapter, keeping your students engaged and learning as they read.

Topic Tackler Plus content is also accessible from the textbook's Online Learning Center, allowing students to access these powerful resources anywhere, at any time.



Video clips provide real-world perspectives from a variety of accounting experts.

VIDEO CLIPS



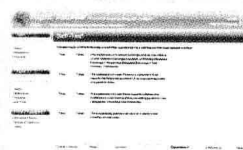
Fun, interactive exercises help students remember key terminology.

EXERCISES



Audio-narrated slide shows offer step-by-step coverage of challenging topics and make a great resource for review. Many also feature animations.

NARRATED SLIDES



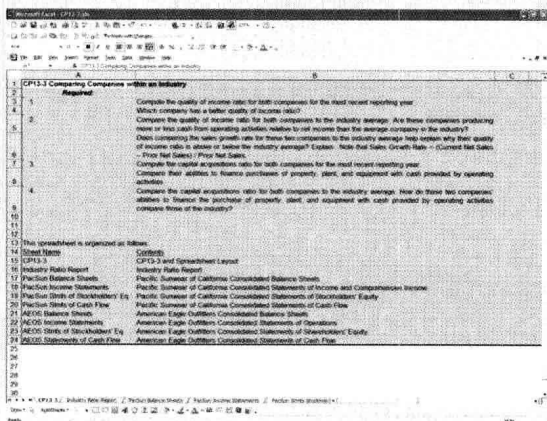
Self-grading quizzes cover all of the main topics, providing an ideal way to brush up before a test.

SELF-TESTS



Concepts appearing in the text that receive additional treatment in Topic Tackler are marked with a unique icon.

Digital Learning System



Excel Templates for Use with the Annual Report Cases

If you're going to work in accounting (or business in general), you have to know Microsoft Excel. Students use the real annual reports of American Eagle Outfitters and Pacific Sunwear of California with accompanying Excel Templates to manipulate real-world data and solve problems. These assignments allow students to experience problem solving as it truly happens in real companies. (The annual reports are found in the textbook appendixes and on this DVD. Prepared by Beth Kern at Indiana University–South Bend, the Excel Templates are found on the DVD and on the book's website.)

Algorithmic Test Bank

If you've ever thought that no test bank, however well made, could have all of the problems you could possibly need, think again. The Algorithmic Test Bank available with Libby/Libby/Short includes a problem generator that replicates the structure of text problems while populating them with fresh numbers. Create unique versions of every homework assignment, every quiz, every test—or use it to provide dozens of similar but distinct problems for students to practice on.

Slides

Constructing the Statement of Cash Flows Using Changes in Noncash Balance Sheet Accounts

	Sources	Uses
Net Income	Always	
Net Loss		Always
Changes in noncash assets	Decreases	Increases
Changes in liabilities*	Increases	Decreases
Changes in capital stock accounts	Increases	Decreases
Dividends paid to stockholders		Always

Vol.

* Contra assets follow the rules for liabilities.

Prev Next

Changes in the accounts mentioned on the previous slide can be classified as either sources or uses of cash as shown on this slide.

- Net income is always a source of cash
- Net loss is always a use of cash
- Decreases in noncash asset accounts are always sources of cash and increases are uses of cash
- Increases in liability accounts are always sources of cash and decreases are uses of cash
- Contra-assets follow the rules for liabilities

Print All Slides

Narrated Slides

The next best thing to a private lecture, Libby/Libby/Short's narrated slides combine spoken narration, animation, and easy navigability to provide a comprehensive, easy-to-follow study aid for students brushing up for a quiz or a test. Every chapter has its own presentation that closely follows that chapter's organization, even reproducing key chapter figures and exhibits.

Proven Learning Solutions

Financial Accounting offers a host of pedagogical tools that complement the ways you like to teach and the ways your students like to learn. Some offer information and tips that help you present a complex subject; others highlight issues relevant to what your students read online or see on television. Either way, *Financial Accounting's* pedagogical support will make a real difference in your course and in your students' learning.

FINANCIAL ANALYSIS

Alternative Accounting Methods and GAAP

Many people mistakenly believe that GAAP permits only one accounting method to be used to compute each value on the financial statements (e.g., inventory). Actually, GAAP often allows a selection of an accounting method from a menu of acceptable methods. This permits a company to choose the methods that most closely reflect its particular economic circumstances. This flexibility complicates the financial statement users' task, however. Users must understand how the company's choice of accounting methods affects its financial statement presentations. As renowned financial analysts Gabrielle Napolitano, Michael Moran, and Abby Joseph Cohen of the investment banking firm of Goldman, Sachs & Co. note in their recent research report,

Discretionary choices in financial reporting that can ultimately lead to or create future earnings shocks that drive stock prices must be identified; analysts must make adjustments to minimize or eliminate the impact of these drivers on corporate performance. As a result, financial statement users must (1) develop a keen understanding of the fundamentals underlying each firm's business operations, and (2) familiarize themselves with the corporate reporting practices of the companies they are analyzing.*

REAL WORLD EXCERPT
ANALYST'S REPORT

Financial Analysis

These features tie important chapter concepts to real-world decision-making examples. They also highlight alternative viewpoints and add to the critical thinking and decision-making focus of the text.

SELF STUDY QUIZ

PROBLEM 14

PELEVY Animal Supplies, Inc., is a healthy specialty retailer of premium pet food and supplies, with over 600 stores across the United States. Indicate whether the following transactions from a recent statement of cash flows affected each flow as an operating (O), investing (I), or financing (F) activity, and show the direction of the effect (+ or -) on net income or cash, or a decrease in cash.

TRANSACTIONS	TYPE OF ACTIVITY (I, O, or F)	EFFECT ON CASH FLOWS (+ OR -)
1. Distribution to shareholders		
2. Receipt of cash from customers		
3. Advance to treasury		
4. Payment of income taxes		
5. Payment of cash to suppliers		
6. Repayment of long-term debt principal		
7. Receipt of interest on investments		
8. Borrowing of long-term debt		
9. Issuance of common stock		
10. Payment of interest on debt		
11. Payment of cash to employees		
12. Sale of property		

After you have completed your answers, check them with the solutions at the bottom of the page.

ANSWERS: 1. F, -; 2. O, +; 3. F, -; 4. O, -; 5. O, -; 6. F, -; 7. O, +; 8. F, +; 9. F, +; 10. O, -; 11. O, -; 12. I, +.

Self-Study Quizzes

This active learning feature engages the student, provides interactivity, and promotes efficient learning. Research shows that students learn best when they are actively engaged in the learning process. These quizzes ask students to pause at strategic points throughout each chapter to ensure that they understand key points before moving ahead.

INTERNATIONAL PERSPECTIVE

Understanding the Meaning of Account Titles in Foreign Financial Statements

We learned in Chapter 1 that differences in the political, cultural, and economic environments of other countries have produced significant variations in accounting and reporting rules. Foreign companies often use different account titles from U.S. companies. The pharmaceutical company GlaxoSmithKline in the United Kingdom is one example. A glance at a recent financial report shows that this entity's account titles are similar to those used by U.S. companies, except for the following titles:

United Kingdom Accounts	U.S. Equivalents
Assets	
Stocks	Similar to inventories
Debtors	Includes receivables among other items
Liabilities	
Loans	Similar to Notes and Bonds Payable
Creditors	Similar to Accounts Payable; relates to what is owed to suppliers and others
Provisions	A summary of payables for income tax, dividends, payroll, and other liabilities
Shareholders' Equity	
Share Capital	Similar to Contributed Capital
Profit and Loss Account	Similar to Retained Earnings

International Perspective

These sections highlight the emergence of global competition and resulting business issues throughout the text as well as the end-of-chapter material.

Real-World Excerpts

These insightful excerpts appear throughout the text and include annual report information from the focus companies, as well as numerous other companies, news articles from various publications, analysts' reports, 10-K forms, press releases, and First Call notes.

Callaway Battered in Quarter, SAs Analysts
Net Income Fell Short of Wall Street Expectations
 Callaway Golf yesterday reported sales of \$363.5 million for the three months that ended March 31, but analysts saw the Callaway parent company took too many strokes to touch the green.
 Callaway posted first-quarter net income of \$16.8 million, or 61 cents a share, including one-time charges, but that fell short of Wall Street's expectations. The consensus estimate of analysts published by Thomson First Call was 70 cents a share.
 Source: *Wall Street Journal*, March 27, 2003, p. 1.

The reported earnings (actual) exceeded the expected 60 cents per share (61 - 70 cents), and, as a result, the share price dropped around \$2. The following excerpt from a recent article in *Harvard Business Review* points out the growing importance of tracking or hearing the average or consensus analysts' estimate.

The Earnings Game: Everyone Plays, Nobody Wins
 Quarterly earnings numbers dominate the decisions of executives, analysts, investors, and arbitrageurs. Earnings analysis expects earnings that earnings will rise in a smooth, steady, predictable line has become, at many times, a game whose objective is not even to cooperate to deliver the highest possible return to shareholders.
 Source: *Harvard Business Review*, June 1999, p. 65.

Financial Leverage Ratio

As we discussed earlier in the chapter, companies use large amounts of money to acquire additional assets by issuing stock to investors and borrowing funds from creditors. These additional assets are used to generate more income. However, some debt must be repaid, taking on increasing amounts of liabilities carries increased risk. The financial leverage ratio provides one measure for analysts to examine the financing and investing strategies.

ANALYTICAL QUESTION
 How is management using debt to increase the amount of assets the company employs to earn income for stockholders?

RATIO AND COMPARISONS

Financial Leverage Ratio = Average Total Assets/Average Stockholders' Equity
 Average is a simple average computed by adding together the beginning and ending balance of assets and stockholders' equity, then dividing by two. An average of the balance sheet accounts is done to capture the migration of accounts during the period. In a formula format, the computation is:

$$\frac{\text{Total Assets}}{\text{Total Equity}}$$

The 2003 ratios for Papa John's (in dollars are in thousands)

	2003 Balance	2002 Balance	Average
Total Assets	\$376,343	\$417,002	\$396,672
Total Equity	\$122,000	\$150,000	\$136,000
Financial Leverage Ratio			2.91

Determining the Competition
 How does Papa John's compare to other competitors, Pizza Hut and Domino's, and how does Papa John's compare to Papa John's own stock in the market for the following reasons:
 • Papa John's ratio is 2.91, which is higher than the 2.54 ratio for Pizza Hut and the 2.23 ratio for Domino's.
 • Papa John's ratio is higher than the 2.54 ratio for Pizza Hut and the 2.23 ratio for Domino's.
 • Papa John's ratio is higher than the 2.54 ratio for Pizza Hut and the 2.23 ratio for Domino's.

Management's Incentives to Violate Accounting Rules

Executives in the stock market have their decisions on their reputation as a company's financial success. When companies are profitable and their stock price is high, their reputation is high. When companies are unprofitable and their stock price is low, their reputation is low. Executives are often paid based on the company's stock price. This means that executives are often paid based on the company's stock price. This means that executives are often paid based on the company's stock price. This means that executives are often paid based on the company's stock price.

Company	Event	Comments, Plans, and Outcomes
Enron	\$1 billion in stock repurchases, leading to a 10% increase in the stock price.	Enron's stock price fell 10% after the repurchases. Enron's stock price fell 10% after the repurchases. Enron's stock price fell 10% after the repurchases.
WorldCom	\$2.5 billion in stock repurchases, leading to a 10% increase in the stock price.	WorldCom's stock price fell 10% after the repurchases. WorldCom's stock price fell 10% after the repurchases. WorldCom's stock price fell 10% after the repurchases.

A Question of Ethics

These boxes appear throughout the text, conveying the importance of acting responsibly in business practice.

Investing and Financing Activities

For all firms, Chapter 1 that companies report cash inflows and outflows over a period in their statement of cash flows. This statement shows all transactions that affect cash in three categories: operating, investing, and financing activities. Operating activities are covered in Chapter 3. Investing activities include buying and selling long-term assets and investments. Financing activities include borrowing and repaying debt (including short-term bank loans), issuing and repurchasing stock, and paying dividends. What cash is not included in the transactions are the cash flows of cash flows. When cash is not included in the transactions, such as when a building is acquired with a long-term mortgage note payable, there is no cash effect on the statement of cash flows. To meet the cash flow statement for a firm, the effect on the statement of cash flows. In general, the effects of such activities are as follows:

Operating activities	Investing activities	Financing activities
Operating activities: The transactions in this chapter were operating activities.	Investing activities: Purchasing long-term assets and investments for cash; Selling long-term assets and investments for cash; Lending cash to others; Receiving principal payments on loans made to others.	Financing activities: Borrowing cash from banks; Repaying the principal on borrowings from banks; Issuing stock for cash; Repurchasing stock with cash; Paying cash dividends.

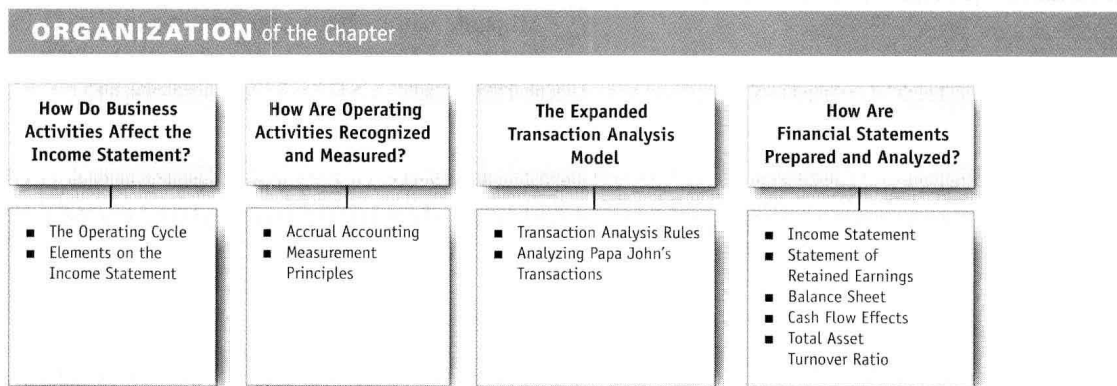
Focus on Cash Flows

Each of the first 12 chapters includes a discussion and analysis of changes in the cash flow of the focus company and explores the decisions that caused those changes. The early and consistent coverage of cash flows encourages students to think more critically about the decisions they will face as managers and the impact those decisions will have on the company's cash flow.

Proven Learning Solutions

ORGANIZATION OF THE CHAPTER SCHEMATIC

A unique feature of Libby/Libby/Short, this visual framework provides a powerful visual schematic of each chapter's content, easily enabling students to find exactly the chapter topic or concept they're looking for.



HOW DO BUSINESS ACTIVITIES AFFECT THE INCOME STATEMENT?

Learning Objective 1

Describe a typical business operating cycle and explain the necessity for the time period assumption.

The Operating Cycle

The long-term objective for any business is to *turn cash into more cash*. If a company is to stay in business, this excess cash must be generated from operations (that is, from the activities for which the business was established), not from borrowing money or

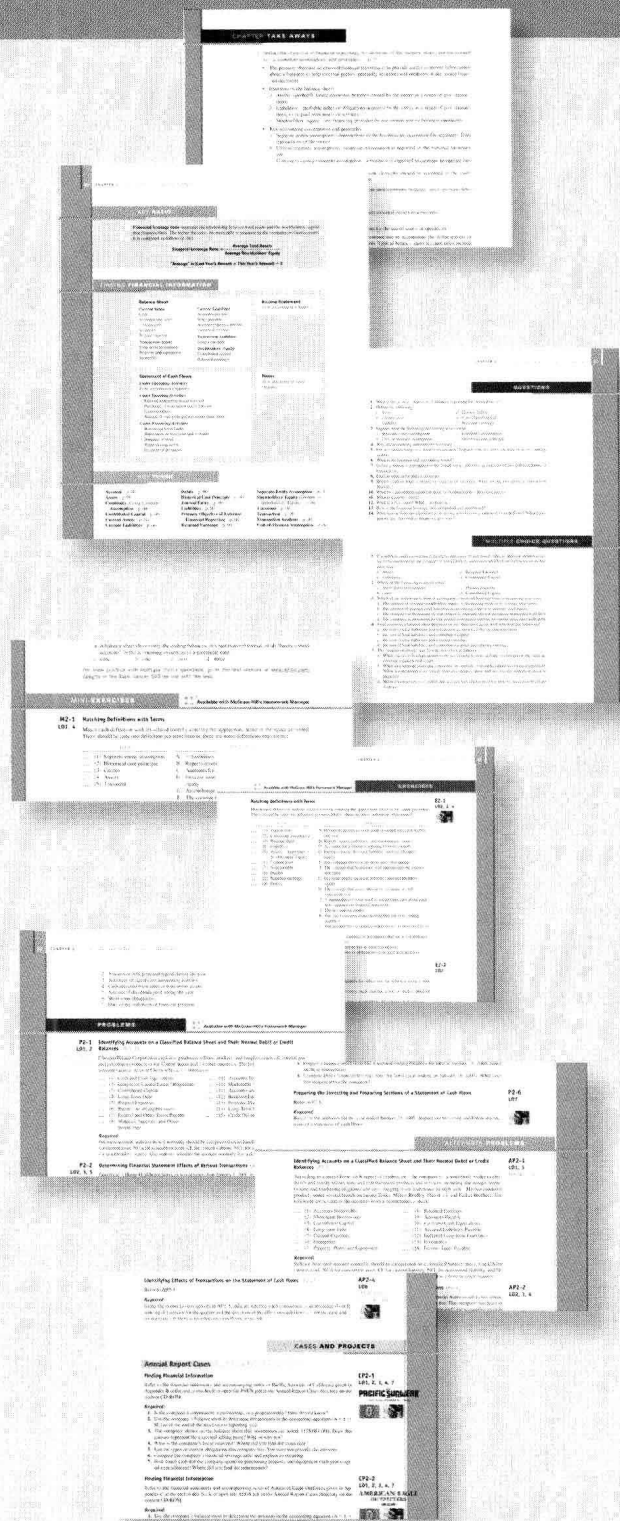
ALL JOURNAL ENTRIES TIED TO THE ACCOUNTING EQUATION

Journal entries marked with (A), (L), (SE), (R), (E), or (X, if a contra-account) and plus and minus signs in early chapters assist students in transaction analysis. In addition, following each journal entry is a summary of the effects of the transaction on the fundamental accounting equation.

Flexible End-of-Chapter Content and Organization

Each chapter is followed by an extensive selection of end-of-chapter assignments that examine single concepts or integrate multiple concepts presented in the chapter, arranged by level of difficulty and in learning objective order. To maintain the real-world flavor of the chapter material, they are often based on other real domestic and international companies and require analysis, conceptual thought, calculation, and written communication. Assignments suitable for individual or group written projects and oral presentations are included in strategic locations.

- **Chapter Take-Aways:** bulleted end-of-chapter summaries that compliment the learning objectives outlined at the beginning of the chapter.
- **Key Ratios:** summary of the key ratios presented in the chapter.
- **Key Terms:** page referenced to the chapter text.
- **Finding Financial Information:** highlights the chapter's key concepts, numbers, and totals in an easy-to-review graphic. The graphic includes Balance Sheet, Income Statement, Statement of Cash Flows, and Note Information.
- **Questions**
- **Multiple-Choice Questions**
- **Mini-Exercises**
- **Exercises**
- **Problems:** cross-referenced in blue to the Alternative Problems.
- **Alternative Problems:** similar in level and content to the end-of-chapter problems
- **Cases and Projects:** include Annual Report Cases, Financial Reporting and Analysis Cases, Critical Thinking Cases, and Financial Reporting and Analysis Projects



What's New in the Fifth Edition?

The primary goals of the fifth edition revisions are to provide instructors with more flexibility in key topical coverage, to simplify explanations of complex topics; to make the end-of-chapter material match instructor needs better, and to accurately reflect the exciting changes taking place in the accounting environment. As a result, the authors have revised at least 50 percent of the end-of-chapter material in each chapter, as well as making the detailed revisions noted in the following sections.

Chapter 1

- Updated coverage of recent accounting scandals
- New exhibit (Exhibit 1.7) summarizing the four basic financial statements
- New International Perspective feature discussing International Accounting Standards Board
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- New annual report cases and new financial reporting cases

Chapter 2

- Updated opening discussion for Papa John's International
- Moved financial leverage ratio later in the chapter
- Enhanced discussion and visuals within Key Ratio Analysis feature
- Updated articles and ratio comparisons
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 3

- Updated opening discussion for Papa John's International
- New International Perspective discussing foreign financial statements
- Updated articles and ratio comparisons
- Added summary chart to enhance understanding of how statements are linked
- Clarified requirement and transactions
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- New annual report cases

Chapter 4

- Updated opening discussion for Papa John's International
- Added new section on Analysis of Adjusting Entries
- New art integrated into discussion of deferrals and accruals
- Realigned discussion by Revenues (deferred and accrued) and Expenses (deferred and accrued) in fifth edition versus Deferrals (revenues and expenses) and Accruals (revenues and expenses) in fourth edition.
- Added summary exhibits—Exhibits 4.3 and 4.4—for deferrals and accruals to

highlight the differences in the earning of revenue (or incurring of expense) versus cash receipts (or payments)

- Expanded introductory summary of accounts to be adjusted in the Papa John's illustration to emphasize the identification of deferrals and accruals and the timing of cash receipts and payments
- Rearranged illustrations to follow revisions made to text
- Simplified account titles to follow more closely with end-of-chapter account titles (e.g., Supplies Expense instead of General and Administrative Expense)
- Updated articles and ratio comparisons
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 5

- Added coverage of recent accounting scandals and new Sarbanes-Oxley requirements
- Added new exhibits explaining the corporate governance and accounting communication process
- Introduced new discussion of common-size income statements

- Included new discussion of International Accounting Standards Board
- Added new self-study quizzes
- Simplified financial statement presentations
- Substantially revised end of chapter using new real companies and numbers
- Added new financial reporting and ethics cases
- New annual report cases

Chapter 6

- New focus company (Deckers Outdoors, maker of Teva sandals)
- New self-study quiz on accounting for doubtful accounts
- New self-study quiz on aging of accounts receivable
- Introduced new, simpler presentation of aging method for estimation of doubtful accounts
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- New annual report cases

Chapter 7

- Reorganized discussion of effects of inventory methods on financial statement analysis moved to follow ratio discussions.
- Simplified presentation of cost of goods sold calculations
- Introduced new contrast company Ducati Motorcycles
- New step-by-step self-study quizzes

What's New?

- Added new basic exercises on the effects of cost-flow assumptions on cost of goods sold and ending inventory added to end of chapter material
- Substantially revised end-of-chapter exercises and problems using new real-world company data (Ford, Kodak, Dell, American Eagle Outfitters, etc.)
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 8

- Updated all articles and real-world information
- Clarified discussions/illustrations on revenue and capital expenditures, depreciation concepts, depreciation methods, and amortization
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 9

- New focus company (Starbucks)
- Introduced new chapter supplements—using Excel and Future Value Concepts to compute present values
- Integrated Excel commands in discussion of present

- value computations
- Revised payroll accounting discussion
- Provided new discussion showing relationship between operating activities and the creation of current liabilities
- Expanded discussion of lease liabilities
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers and expanded number of present value problems
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 10

- Moved discussion of bond basics into new section
- Focused discussion of types of bonds on only the most commonly used bonds
- New chapter supplement—using Excel to determine the present value of bonds
- Integrated Excel commands into discussion of computing the value of bonds
- Expanded amortization schedules to include full life of bonds
- Updated discussion of early retirement of bonds to include rule change
- Reorganized discussion of straight-line and effective-interest amortization to permit users to easily cover either or both methods
- Changed all interest

- payments to an annual basis to reduce repetitive computations
- Expanded discussion of how interest expense is reported
- Substantially revised end-of-chapter exercises and problems
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 11

- Updated real-world excerpts
- Removed coverage of stock issued for noncash assets so focus is now on the most common transactions
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 12

- Significantly updated all real world excerpts and articles
- Added a marginal visual
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 13

- Revised chapter to be used any time after Chapter 4
- Revised chapter to be used to cover direct, indirect, or both methods for presenting the Operating section
- Simplified presentation of the steps involved in preparing the operating section using the indirect method
- Expanded use of T-accounts to explain indirect method
- Added new problems with data that can be assigned for direct and/or indirect method
- Added Enron-based ethics case
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Chapter 14

- Updated focus and comparison companies
- Revised financial analysis of focus and comparison companies
- Substantially revised end-of-chapter exercises and problems using new real-world companies and numbers
- Upgraded Team Project to follow concept of a continuous project from prior and subsequent chapters
- New annual report cases

Teaching With Technology



ONLINE LEARNING CENTER www.mhhe.com/libby5e

For instructors, Libby's Online Learning Center contains the Instructor's Resource Manual, PowerPoint slides, Solutions Manual, Excel Templates tied to the end-of-chapter material, and the Annual Report Cases Templates, all organized by chapter. There are also links to professional resources.

In addition, for students and instructors, there are two appendixes linked to the text material, check figures, articles tied to end-of-chapter material, Web links to the focus company financial statements, and McGraw-Hill's Homework Manager (see the next item). Instructors can pull all of this material into their PageOut course syllabus or use it as part of another online course management system.

The student section of the site includes (in addition to the preceding elements) Topic Tackler Plus content (see page VI), self-quizzes, learning objectives, PowerPoint slides, chapter outlines, chapter take-aways, and digital flashcards.



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Technology



CAROL YACHT'S GENERAL LEDGER AND PEACHTREE COMPLETE 2007 CD-ROM

Carol Yacht's General Ledger Software is McGraw-Hill/Irwin's custom-built general ledger package. Carol Yacht's General Ledger can help your students master every aspect of the general ledger, from inputting sales and cash receipts to calculating ratios for analysis or inventory valuations.

Carol Yacht's General Ledger allows students to review an entire report and then double-click any single transaction to review or edit it. The report will then be updated on the fly to include the revised figures. When it comes to learning how an individual transaction affects the outcome of an entire report, no other approach matches that of Carol Yacht's General Ledger.

Also on Carol Yacht's General Ledger CD, students receive the educational version of Peachtree Complete 2007, along with templates containing data for many of the text exercises and problems. Familiarity with Peachtree Complete will be essential for students entering the job market, and Carol Yacht's Peachtree templates for use with Libby/Libby/Short's Financial Accounting, fifth edition, ensures that they get plenty of practice.



Students can use Carol Yacht's General Ledger to solve numerous problems from the textbook; the data for these problems are already included on Carol Yacht's General Ledger CD-ROM. You can even populate Carol Yacht's General Ledger with your own custom data.

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This integrated CD-ROM allows you to access most of the text's ancillary materials. You no longer need to worry about the various supplements that accompany your text. Instead, almost everything is available on one convenient CD-ROM: PowerPoint slides, Solutions Manual, Instructor's Resource Manual, Test Bank and Computerized Test Bank, Annual Report Cases Templates, Excel Templates for the end-of-chapter material (along with a guide), text exhibits, video, and links to the Web.

Online Learning Center

www.mhhe.com/libby5e

See page (XIV) for details.



Instructor's Resource Manual

ISBN 978-007293126-6 (ISBN 0072931264)

Prepared by Kathryn Yarbrough at the University of North Carolina-Charlotte. All supplements, including the Test Bank, Videos, Study Guide, and PowerPoint slides, are topically cross-referenced in the IRM to help instructors direct students

to specific ancillaries to reinforce key concepts. Transparency masters of text exhibits are included. Electronic files are available on the website.



Solutions Manual

ISBN 978-007293120-4 (ISBN 0072931205)

Prepared by Robert Libby, Patricia Libby, and Daniel Short. Provides solutions for end-of-chapter questions, mini-exercises, exercises, problems, and cases. Electronic files are available on the website.

PowerPoint Slides

Prepared by Jon Booker and Charles Caldwell at Tennessee Technological University and Susan Galbreath at David Lipscomb University. Completely customized PowerPoint presentations for use in your classroom. They are available on the Instructor CD-ROM and the website.

Solutions Acetates

ISBN 978-007293124-2 (ISBN 0072931248)

These overhead transparencies provide both in-class visuals as well as solutions to most of the end-of-chapter material.



Test Bank (Print version)

ISBN 978-007293119-8 (ISBN 0072931191)

Prepared by Anne Clem at Iowa State University. This comprehensive Test Bank includes more than 3,000 true/false, multiple-choice, essay, and matching questions, including questions on ratios and ethics which meet requirements of AACSB Standards on Assurance Learning.

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Add and edit questions; create up to 99 versions of each test; attach graphic files to questions; import and export ASCII files; and select questions based on type, level of difficulty, or learning objective. This software provides password protection for saved tests and question databases and is able to run on a network.

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Instructor Excel Templates

These Excel Templates allow students to develop important spreadsheet skills by using them to solve selected end-of-chapter assignments. They are available on the Instructor CD-ROM and on the website.



Carol Yacht's General Ledger and Peachtree Complete CD-ROM

See page (XV).

Check Figures

Prepared by Paula Miller at Collin County Community College. Provides answers to selected problems and cases. These figures are available on the book's website.

Instructor's Manual to Accompany the MBA Companion Supplement

ISBN 978-007293132-7 (ISBN 0072931329)

Prepared by Peggy Bishop Lane and Catherine Schrand, both of The Wharton School at the University of Pennsylvania. The MBA Companion includes expanded material on leases and deferred taxes.

Instructor's Manual to Accompany *Understanding Corporate Annual Reports* by William R. Pasewark

ISBN 978-007310182-8 (ISBN 0073101826)

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