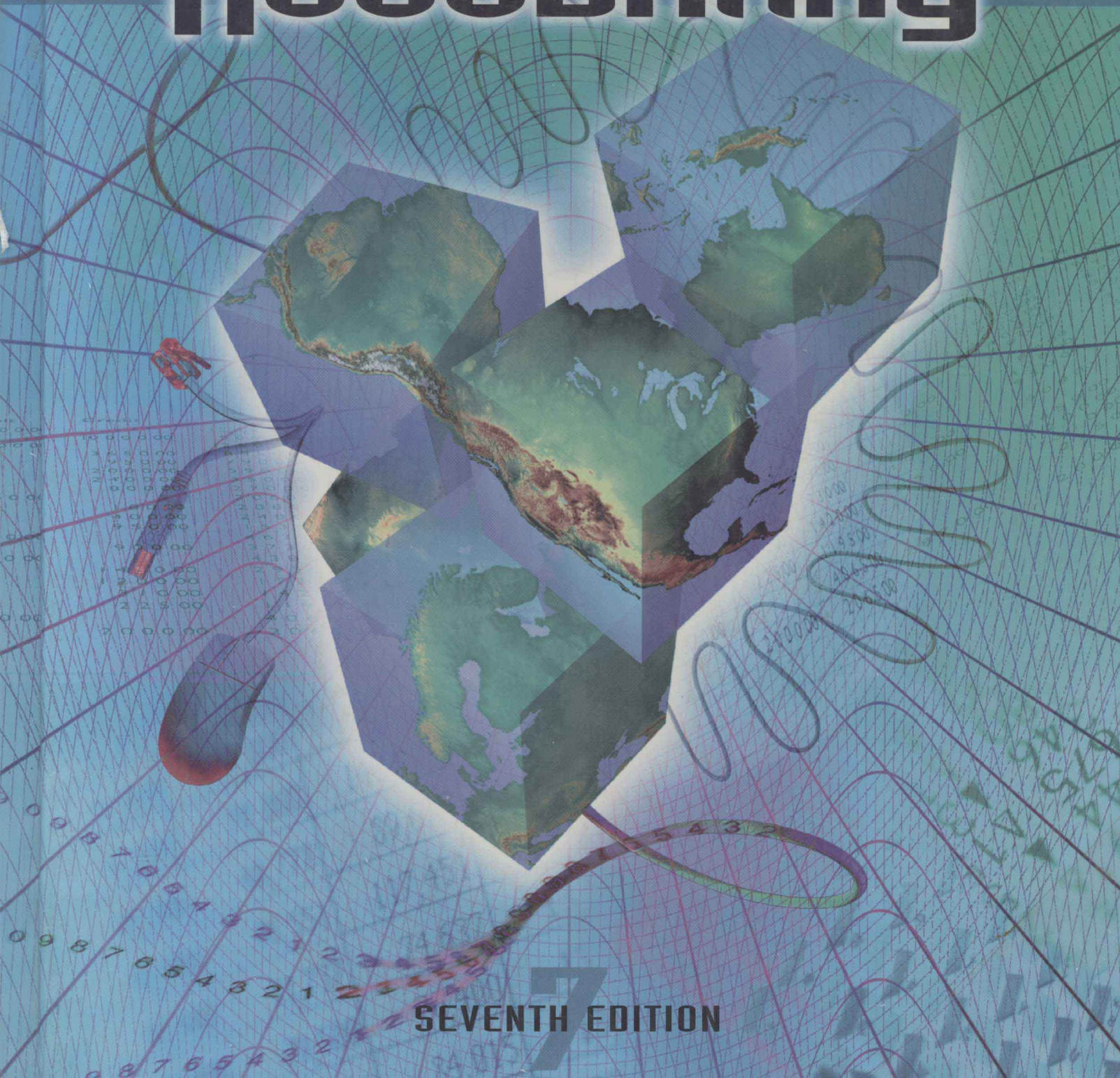


WARREN REEVE FESS

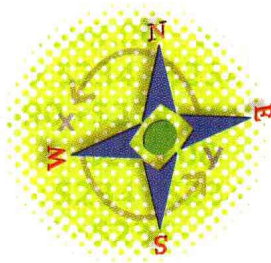
Financial & Management Accounting



SEVENTH EDITION

SEVENTH EDITION

Financial & Managerial Accounting



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by Warren, Reeve, and Fess

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Why Step Forward When You Can Leap?

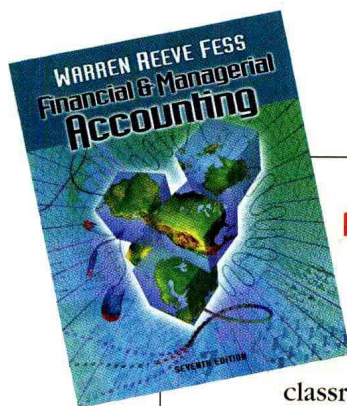
i n n o v a t i o n

m o t i v a t i o n

r e s u l t s

Leadership: The Product of Innovation

In a way, this book represents our most innovative response to the influences that shape the business world. **Why?** Because the book itself is just the tip of the iceberg. Besides its clear organization and comprehensive, tested content, *Financial & Managerial Accounting 7e* is also the gateway to a better way of teaching Accounting. But in spirit, its mission is unchanged – to break new ground and set new standards as the leading text in Accounting.

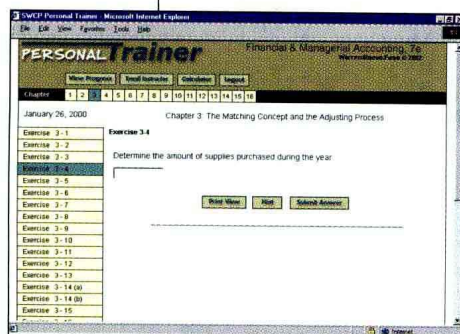
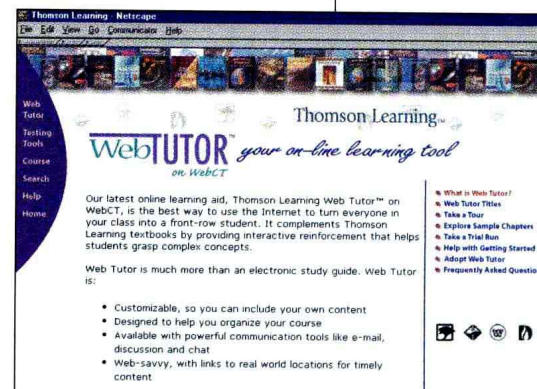


Interconnectivity and the classroom. On the cover you see a world pulsing with energy, each part connected to every other. That's how business runs today, and with *Financial & Managerial Accounting 7e* you can tap into that energy. This edition's Internet learning options aren't afterthoughts or add-ons – they're specially designed extensions of the classroom experience. So you can tailor them to suit the needs of any particular curriculum – or even a particular class. It's not just another text. It's a learning system – a system that helps bring accounting principles to life.

Inspiration to order. The instructor is the best judge of what technology supplements will best fit the class. So we make the selection as flexible as possible:

WebTutor® Advantage on WebCT® and WebTutor Advantage on Blackboard are platform-driven systems for complete Web-based course management and delivery. More than just an interactive study guide, WebTutor Advantage provides lecture replacement and concept review, in addition to reinforcement. Powerful instructor tools are also provided to assist communication and collaboration between students and faculty.

Personal WebTutor Advantage uses the Internet to complement *Financial & Managerial Accounting 7e* with interactive reinforcement – PowerPoint and review problems with audio – to help students grasp complex concepts.



Personal Trainer is an Internet-based product that gives students hints about the accuracy of their solutions to text exercises so that they can discover which concepts they're not grasping. Both you and your students can track scores, number of attempts, and the use of the hints.

WebTutor on WebCT and **WebTutor on Blackboard** are interactive, platform-driven study guides that turn everyone in your class into a front-row student. WebTutor complements this textbook by providing interactive reinforcement that helps students grasp complex concepts.

The Product Web Site has elements to help students learn and instructors teach principles of accounting, including downloadable instructors' supplements, quizzes, E-lectures, review problems and more.

General Ledger Software, now available on CD, is a self-grading system tailored to the text. With additional problems, including the Continuing Problem from Chapters F1-F4, it's easy to use for teaching accounting processes (journalizing and preparing financial statements).

PROFIT in the Classroom® is a commercial accounting software package that has been adapted for student use and tailored to specific assignments included in the textbook. With a complete instructor's package, you can easily integrate this software into your classroom activities and help students get a firm grasp of basic accounting principles.



11,000,000 successful results. This edition appears nearly 75 years after the first edition of the text from which it is derived, *Accounting*, was published in 1929. Yet this is the text that takes accounting into the 21st century – and not in spite of tradition, but *because* of it. For if *Financial & Managerial Accounting* and *Accounting* have a tradition, it can be summarized as innovation that produces results. Over 11 million students have been introduced to accounting via this family of texts. And that's a tradition you can build on.

Starting Fresh

Preparing a new edition of an innovative text takes an army of colleagues. A simple acknowledgments section alone is not enough – so we salute the people who continue to make this family of texts the most widely used textbooks for accounting principles.

Users of the 6th edition provided valuable classroom feedback. Focus groups and questionnaire respondents shared their personal insights. And dozens of reviewers kept us on track during the revision of this edition. We took these comments very seriously, and the text is stronger because of them.

But that's only part of the reason that this is the text of choice. The companies we profile have grown and changed over time, and so has *Financial & Managerial Accounting*. This evolution has been organized by a long list of distinguished authors, editors, and reviewers, all making unique and invaluable contributions whose echoes can still be heard today.

Looking Forward

Back in 1929, author James McKinsey could not have imagined the success and influence this family of texts has enjoyed, or that his original vision would remain intact. As the current authors, we appreciate the responsibility of protecting this vision, while continuing to shape it to meet the needs of students and instructors. 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



The Business of Business is Accounting

Financial & Managerial Accounting 7e focuses squarely on the business of business – how accounting contributes to effective management while emphasizing the most important accounting procedures. Why? Because it's a simple fact that 80% of accounting courses are filled with non-accounting majors. So we've designed *Financial & Managerial Accounting 7e* to speak to *anyone* who takes an introductory accounting course:

■ **Ch F1 Introduction to Accounting and Business.** This chapter begins with a section that defines business and describes common types of businesses, forms of organization, and the diverse interests of a business's stakeholders.

Type of Adjustment	Adjusting Entry	Effect of Omitting Adjusting Entry on the Balance Sheet and Income Statement
Deferred expense	Dr. Expense Cr. Asset	Expenses Understated and Net Income Overstated Assets Overstated and Owner's Equity Overstated
Deferred revenue	Dr. Liability Cr. Revenue	Liabilities Overstated and Owner's Equity Understated Revenues Understated and Net Income Understated
Accrued expense	Dr. Expense Cr. Liability	Expenses Understated and Net Income Overstated Liabilities Understated and Owner's Equity Overstated
Accrued revenue	Dr. Asset Cr. Revenue	Assets Understated and Owner's Equity Understated Revenues Understated and Net Income Understated
Fixed assets	Dr. Expense Cr. Contra Asset	Expenses Understated and Net Income Overstated Assets Overstated and Owner's Equity Overstated

■ Ch F3 The Matching Concept and the Adjusting Process.

A table summarizes each type of adjustment, adjusting entry, and the financial statement effect of omitting an adjusting entry. The discussion of adjustments ends with the adjusted trial balance.

■ **Ch F4 Completing the Accounting Cycle.** The work sheet is introduced in this chapter. Lines on the work sheet illustrations are numbered to assist you in your classroom presentation.

■ **Ch F5 Accounting Systems and Internal Controls.** An illustration of the revenue and collection cycle in a computerized accounting system, using QuickBooks®, is included.

■ **Ch F6 Accounting for Merchandising Businesses.** The discussion of perpetual inventory systems gives students a clear understanding of inventory accounting by drawing connections to buying groceries or fast food meals.

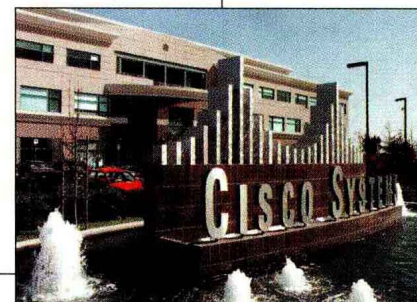
■ **Ch F8 Receivables.** The discussion of discounting notes receivable is in a chapter appendix.

■ **Ch F9 Inventories.** The concept of inventory cost flows is introduced without reference to the perpetual or periodic systems. The journal entries in a perpetual system are presented alongside the inventory subsidiary ledger to illustrate the FIFO and LIFO flow of costs.

■ **Ch F10 Fixed Assets and Intangible Assets.** Gains and losses on exchanges of fixed assets are discussed only from a GAAP viewpoint.

■ **Ch F13 Corporations: Income and Taxes, Stockholders' Equity, and Investments in Stocks.** A section on reporting stockholders' equity is included. A section covering short-term investments in stocks is included at the end of the chapter.

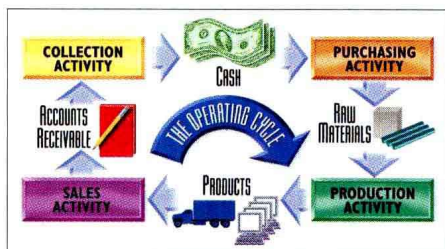
■ An **Appendix** contains the **Annual Report for Cisco Systems**.



Features That Speak to Students

The design is as colorful and dynamic as the text, which is broken into conceptual segments designed to help students make the connection between accounting and business:

Setting the Stage. The beginning of each chapter connects the student's own experiences to the chapter's topic. This tangible link is a great motivator.



Business on Stage. This brief presentation of a business concept introduces accounting functions in a business context.

Encore. Did it work? Each chapter ends with a quick, fascinating story about a real business that succeeded or failed because it chose to observe or ignore the chapter's principle.

Other features that keep students on track and motivated:

Questions & Answers in the margin of the text help students check whether they understand what they've just read.



Points of Interest. These margin notes offer insight into subjects of special interest to students, such as careers and current events.

Summaries within each chapter bring special attention to important points.

Business Transactions. In Chapters F1 and F2, students are introduced to business transactions through non-business events that help them better understand the nature of transactions.

Continuing Case Study. A fictitious dot.com company, Net Solutions, is used throughout Chapters F1-F5 as the example company for which a variety of transactions are illustrated.



Real World Notes. J.C. Penney Co. and General Electric are just a couple of the familiar examples that provide a close-up look at how accounting operates in the marketplace. These examples are highlighted in the margin of the text:



AT&T

Coca-Cola Enterprises Inc.

Ford Motor Co.

UPS

Financial Analysis and Interpretation. At the end of each chapter, a section describes an important element of financial analysis to help students understand the information in financial statements and how that information is used.



Taking Lessons Into Life

Procedures are important, but it takes much more to make a successful transition into the business world. This edition gives students the special tools they will need to thrive in the real world:

- **Critical-Thinking and Decision-Making Activities.** Students need to develop analytical abilities, not just memorize rules. These activities focus on understanding and solving issues. Some are presented as dialogues – a conversation in which students can “observe” and “participate” when they respond to the issue being discussed.



- **Group Learning Activities** let students learn accounting and business concepts while building teamwork skills.

- **Internet Activities** launch students into accounting-related areas of the Worldwide Web’s ever-expanding universe.



- **“What Do You Think?”** These exercises and activities let students speculate about the real-world effects of newly learned material.

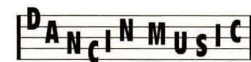
- **“What’s Wrong With This?”** These innovative exercises challenge students to analyze and discover what is wrong with a financial statement or a report.



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

Accounting must be practiced to be understood and retained. The quantity and quality of these end-of-chapter resources have always been distinguishing characteristics of *Financial & Managerial Accounting*:

- **Continuing Problem in Chs. F1-F4.** Here’s a great opportunity for students to practice what they’ve learned – and now they can use the General Ledger Software with this problem. As they study each step of the accounting cycle, students can follow a single company – *Dancin Music* – from its transactions to the effect of those transactions on its financial statements.



- **Illustrative Problem and Solution.** A solved problem models one or more of a chapter’s assignment problems, helping students make the most of the chapter and end-of-chapter materials.

- **Self-Examination Questions** include a matching activity to help students review and retain terms and definitions.

- **Exercises.** An average of 20 exercises at the end of each chapter – more than any other text on the market – can be assigned or used as examples in the classroom. Most of these exercises focus on only one specific chapter objective.

- **Problems.** Each chapter includes two full sets of problems for use as classroom illustrations, for assignments, for alternate assignments, or for independent studying. This edition features shortened problems to provide better focus on key chapter topics.



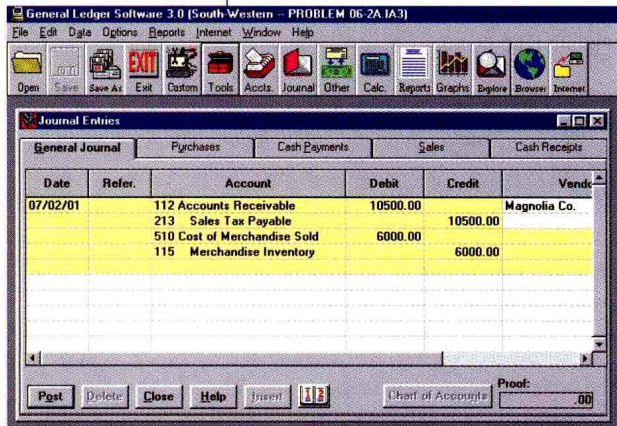
- **Comprehensive Problems.** At the end of Chs. F4, F6, F11, and F14, cumulative learning applications integrate and summarize the concepts of several chapters to test students' comprehension.

New Tools to Get the Job Done Right

We've designed our entire supplement package around the comments instructors have provided about their courses and teaching needs. These comments have made this supplement package the best in the business.

Available to Students – Because each student has different needs, *Financial & Managerial Accounting 7e* offers a broad range of supplements. Both print material and easy-to-use, affordable technologies help students succeed in the course and in the business world. Some of these supplements are:

- **Working Papers.** The traditional Working Papers are available both with and without problem-specific forms for preparing solutions for all exercises and problems.
- **Working Papers Plus**, prepared by John Wanlass of DeAnza College. This alternative to traditional working papers integrates the exercises and selected problems from the text with forms for preparing their solutions.

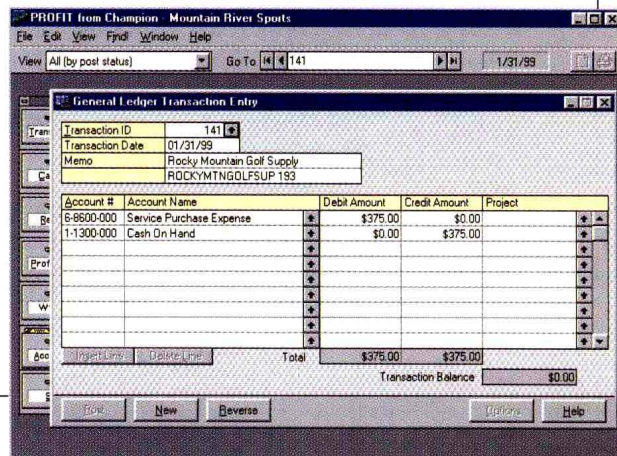


- **General Ledger Software**, prepared by Dale Klooster and Warren Allen. This best-selling educational general ledger package is enhanced with a problem checker that enables students to determine if their entries are correct. Solving end-of-chapter problems, the continuing problem, and comprehensive problems as well as practice sets is as easy as clicking icons with a mouse.

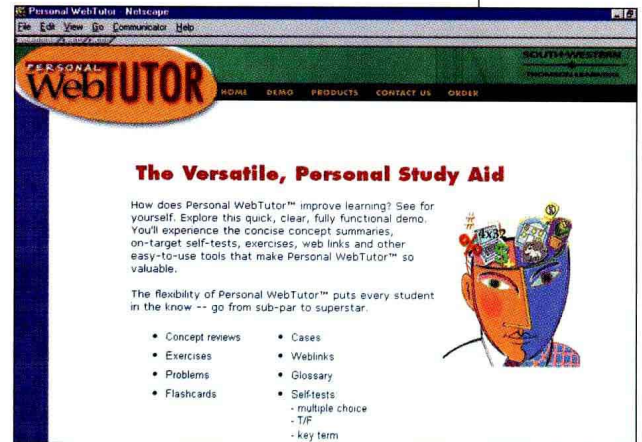
- **Spreadsheet Applications Software.** This completely revised software gives students the opportunity to solve dozens of problems by using Excel®.

- **Study Guide**, prepared by Carl Warren and Jim Reeve. The Study Guide includes quiz and test tips, multiple choice, fill-in-the-blank, and true-false questions with solutions.

- **PROFIT in the Classroom.** Using this award-winning software to solve specific problems in the textbook helps students get a firm grasp of debits and credits and the principles related to basic transactions for accounts receivable and payable, inventory, and payroll.

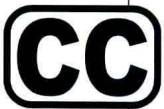
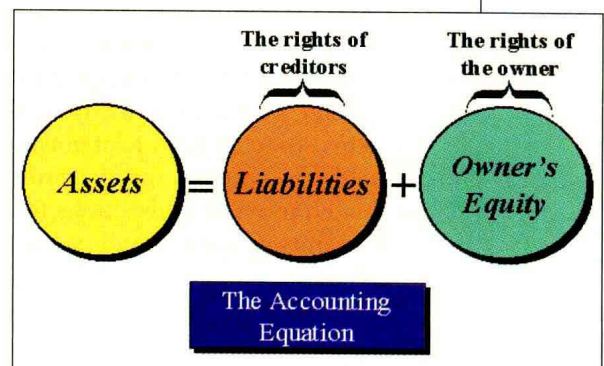


- **WebTutor Advantage on WebCT and WebTutor Advantage on Blackboard** give students access to study resources and interactive experiences beyond the classroom. Special resources for instructors include powerful communication and other course management tools.
- **Personal WebTutor Advantage.** This product includes a wealth of content, including PowerPoint, review problems with audio, automatically-scored quizzes, exercises, and terminology reinforcement.
- **Personal Trainer.** This innovative Internet-based tutorial gives students hints as they solve exercises from the text and allows them to track their progress.
- **WebTutor on WebCT and WebTutor on Blackboard** provide interactive reinforcement to help students grasp complex concepts.
- **Product Web Site.** At the text's Web site, students have free access to additional quizzes, drills, e-lectures, Excel application templates, review problems, and many other study resources.

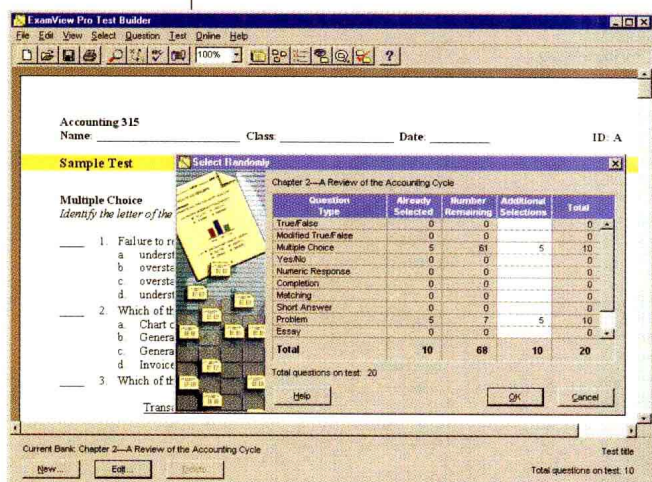


Available to Instructors – South-Western Publishing continues to lead the field in supplements for instructors, from traditional printed materials to the latest integrated classroom technology. Among these support tools are:

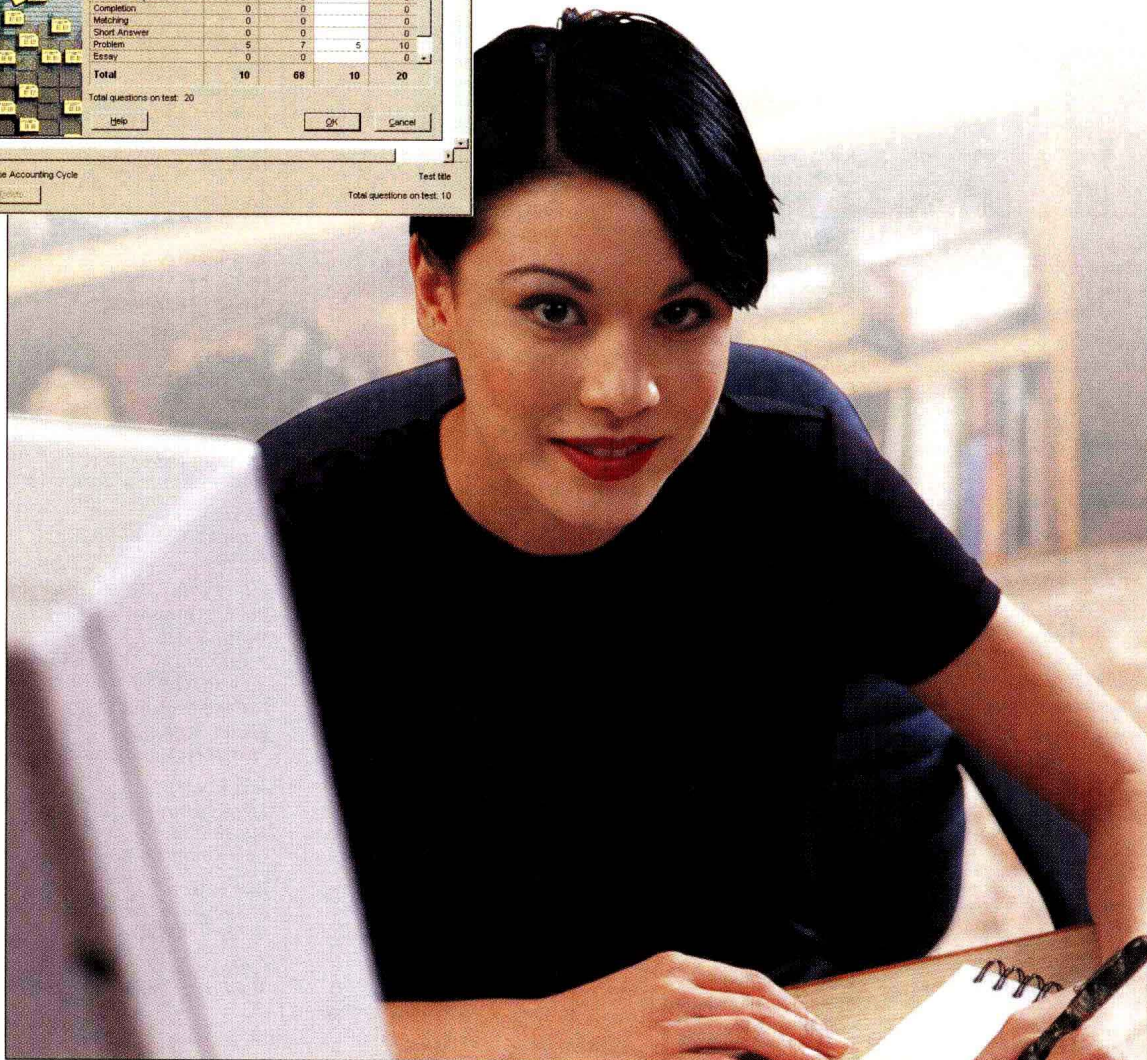
- **Product Support Site.** A variety of instructor resources are now available through South-Western's password-protected Web site. Text-specific and other related resources are organized by chapter and topic. Many of these resources are also available on CD-ROM.
- **An Instructor's Guide to Making the Most of Online Resources** is an imaginative resource to help you connect your classroom with *Financial & Managerial Accounting 7e* and its dynamic spectrum of digital teaching and learning resources.
- **Videos.** A complete video course is available for distance learning and to help complete a student's onsite classroom experience. A collection of brief **Business in Focus** videos highlight how accounting impacts people and processes in the business world.
- **PowerPoint™ Presentation**, prepared by Doug Cloud of Pepperdine University. The PowerPoint Presentation enhances lectures and simplifies class preparation. You can also add your own custom slides, using this popular software package.
- **Instructor's CD-ROM** is a convenient source for the PowerPoint Presentation, Instructor's Manual, Test Bank, ExamView®, and Excel Application Templates and Solutions.



- **Traditional Ancillaries.** The Solutions Manual and Instructor's Manual are available on South-Western's password-protected Web site, on the instructor's CD-ROM, as well as in separate bound volumes. The Test Bank is also included in the ExamView® Pro Testing Software on the instructor's CD-ROM, as well as in separate bound volumes.
- The **Instructor's Manual** contains a wide range of writing exercises, group learning activities, demonstration problems, and accounting scenarios.
- The **Test Bank** includes more than 2,800 true/false questions, multiple choice questions, and problems, plus multi-chapter achievement tests.



- **ExamView Pro Testing Software** is easy-to-use software that allows you to customize exams, practice tests, and tutorials and deliver them over a network, on the Web, or in printed form.



Acknowledging the Team of Leaders

A student's first impression of a course is the leader of the classroom – the instructor. Because the textbook plays an important supporting role in the teaching/learning environment, our collaboration with instructors is invaluable. We thank them for their contribution to making *Financial & Managerial Accounting 7e* a text unsurpassed in quality.

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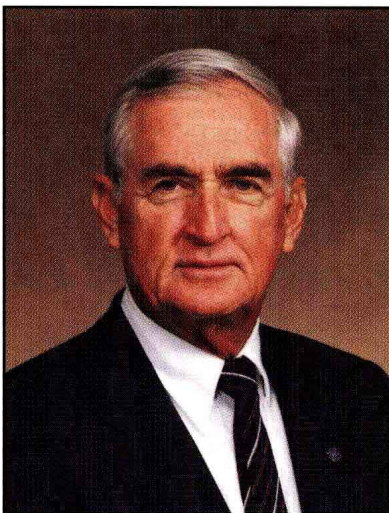
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