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EDITION

# FINANCIAL ACCOUNTING

A Bridge to Decision Making



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Baldwin

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# FINANCIAL ACCOUNTING

A Bridge to Decision Making, 5e

**Robert W. Ingram**

*University of Alabama*

**Thomas L. Albright**

*University of Alabama*

**Bruce A. Baldwin**

*Arizona State University West*



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**Financial Accounting: A Bridge to Decision Making, 5e**

Robert W. Ingram, Thomas L. Albright, Bruce A. Baldwin

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For more information  
contact South-Western,  
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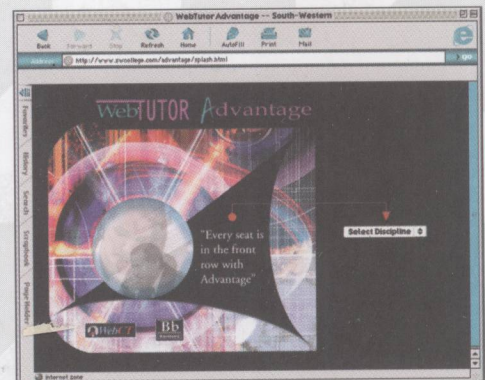
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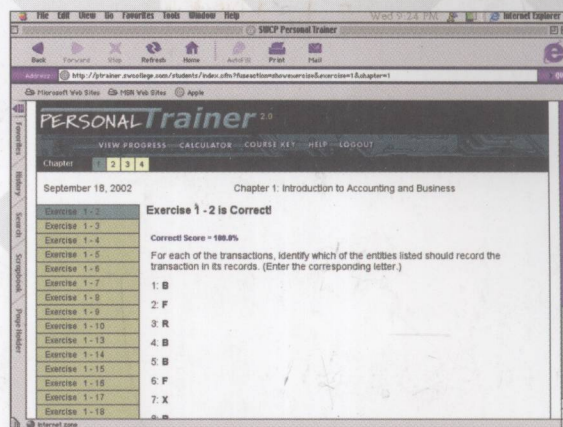
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**TABLE 1**  
**FUTURE VALUE OF SINGLE AMOUNT**

Period	Interest Rate											
	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.12
1	1.01000	1.02000	1.03000	1.04000	1.05000	1.06000	1.07000	1.08000	1.09000	1.10000	1.11000	1.12000
2	1.02010	1.04040	1.06090	1.08160	1.10250	1.12360	1.14490	1.16640	1.18810	1.21000	1.23210	1.25440
3	1.03030	1.06121	1.09273	1.12486	1.15763	1.19102	1.22504	1.25971	1.29503	1.33100	1.36763	1.40493
4	1.04060	1.08243	1.12551	1.16986	1.21551	1.26248	1.31080	1.36049	1.41158	1.46410	1.51807	1.57352
5	1.05101	1.10408	1.15927	1.21665	1.27628	1.33823	1.40255	1.46933	1.53862	1.61051	1.68506	1.76234
6	1.06152	1.12616	1.19405	1.26532	1.34010	1.41852	1.50073	1.58687	1.67710	1.77156	1.87041	1.97382
7	1.07214	1.14869	1.22987	1.31593	1.40710	1.50363	1.60578	1.71382	1.82804	1.94872	2.07616	2.21068
8	1.08286	1.17166	1.26677	1.36857	1.47746	1.59385	1.71819	1.85093	1.99256	2.14359	2.30454	2.47596
9	1.09369	1.19509	1.30477	1.42331	1.55133	1.68948	1.83846	1.99900	2.17189	2.35795	2.55804	2.77308
10	1.10462	1.21899	1.34392	1.48024	1.62889	1.79085	1.96715	2.15892	2.36736	2.59374	2.83942	3.10585
11	1.11567	1.24337	1.38423	1.53945	1.71034	1.89830	2.10485	2.33164	2.58043	2.85312	3.15176	3.47855
12	1.12683	1.26824	1.42576	1.60103	1.79586	2.01220	2.25219	2.51817	2.81266	3.13843	3.49845	3.89598
13	1.13809	1.29361	1.46853	1.66507	1.88565	2.13293	2.40985	2.71962	3.06580	3.45227	3.88328	4.36349
14	1.14947	1.31948	1.51259	1.73168	1.97993	2.26090	2.57853	2.93719	3.34173	3.79750	4.31044	4.88711
15	1.16097	1.34587	1.55797	1.80094	2.07893	2.39656	2.75903	3.17217	3.64248	4.17725	4.78459	5.47357
16	1.17258	1.37279	1.60471	1.87298	2.18287	2.54035	2.95216	3.42594	3.97031	4.59497	5.31089	6.13039
17	1.18430	1.40024	1.65285	1.94790	2.29202	2.69277	3.15882	3.70002	4.32763	5.05447	5.89509	6.86604
18	1.19615	1.42825	1.70243	2.02582	2.40662	2.85434	3.37993	3.99602	4.71712	5.55992	6.54355	7.68997
19	1.20811	1.45681	1.75351	2.10685	2.52695	3.02560	3.61653	4.31570	5.14166	6.11591	7.26334	8.61276
20	1.22019	1.48595	1.80611	2.19112	2.65330	3.20714	3.86968	4.66096	5.60441	6.72750	8.06231	9.64629
21	1.23239	1.51567	1.86029	2.27877	2.78596	3.39956	4.14056	5.03383	6.10881	7.40025	8.94917	10.80385
22	1.24472	1.54598	1.91610	2.36992	2.92526	3.60354	4.43040	5.43654	6.65860	8.14027	9.93357	12.10031
23	1.25716	1.57690	1.97359	2.46472	3.07152	3.81975	4.74053	5.87146	7.25787	8.95430	11.02627	13.55235
24	1.26973	1.60844	2.03279	2.56330	3.22510	4.04893	5.07237	6.34118	7.91108	9.84973	12.23916	15.17863
25	1.28243	1.64061	2.09378	2.66584	3.38635	4.29187	5.42743	6.84848	8.62308	10.83471	13.58546	17.00006



**TABLE 2**  
**FUTURE VALUE OF ANNUITY (AMOUNTS PAID OR RECEIVED AT END OF PERIOD)**

Period	Interest Rate											
	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.12
1	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
2	2.01000	2.02000	2.03000	2.04000	2.05000	2.06000	2.07000	2.08000	2.09000	2.10000	2.11000	2.12000
3	3.03010	3.06040	3.09090	3.12160	3.15250	3.18360	3.21490	3.24640	3.27810	3.31000	3.34210	3.37440
4	4.06040	4.12161	4.18363	4.24646	4.31013	4.37462	4.43994	4.50611	4.57313	4.64100	4.70973	4.77933
5	5.10101	5.20404	5.30914	5.41632	5.52563	5.63709	5.75074	5.86660	5.98471	6.10510	6.22780	6.35285
6	6.15202	6.30812	6.46841	6.63298	6.80191	6.97532	7.15329	7.33593	7.52333	7.71561	7.91286	8.11519
7	7.21354	7.43428	7.66246	7.89829	8.14201	8.39384	8.65402	8.92280	9.20043	9.48717	9.78327	10.08901
8	8.28567	8.58297	8.89234	9.21423	9.54911	9.89747	10.25980	10.63663	11.02847	11.43589	11.85943	12.29969
9	9.36853	9.75463	10.15911	10.58280	11.02656	11.49132	11.97799	12.48756	13.02104	13.57948	14.16397	14.77566
10	10.46221	10.94972	11.46388	12.00611	12.57789	13.18079	13.81645	14.48656	15.19293	15.93742	16.72201	17.54874
11	11.56683	12.16872	12.80780	13.48635	14.20679	14.97164	15.78360	16.64549	17.56029	18.53117	19.56143	20.65458
12	12.68250	13.41209	14.19203	15.02581	15.91713	16.86994	17.88845	18.97713	20.14072	21.38428	22.71319	24.13313
13	13.80933	14.68033	15.61779	16.62684	17.71298	18.88214	20.14064	21.49530	22.95338	24.52271	26.21164	28.02911
14	14.94742	15.97394	17.08632	18.29191	19.59863	21.01507	22.55049	24.21492	26.01919	27.97498	30.09492	32.39260
15	16.09690	17.29342	18.59891	20.02359	21.57856	23.27597	25.12902	27.15211	29.36092	31.77248	34.40536	37.27971
16	17.25786	18.63929	20.15688	21.82453	23.65749	25.67253	27.88805	30.32428	33.00340	35.94973	39.18995	42.75328
17	18.43044	20.01207	21.76159	23.69751	25.84037	28.21288	30.84022	33.75023	36.97370	40.54470	44.50084	48.88367
18	19.61475	21.41231	23.41444	25.64541	28.13238	30.90565	33.99903	37.45024	41.30134	45.59917	50.39594	55.74971
19	20.81090	22.84056	25.11687	27.67123	30.53900	33.75999	37.37896	41.44626	46.01846	51.15909	56.93949	63.43968
20	22.01900	24.29737	26.87037	29.77808	33.06595	36.78559	40.99549	45.76196	51.16012	57.27500	64.20283	72.05244
21	23.23919	25.78332	28.67649	31.96920	35.71925	39.99273	44.86518	50.42292	56.76453	64.00250	72.26514	81.69874
22	24.47159	27.29898	30.53678	34.24797	38.50521	43.39229	49.00574	55.45676	62.87334	71.40275	81.21431	92.50258
23	25.71630	28.84496	32.45288	36.61789	41.43048	46.99586	53.43614	60.89330	69.53194	79.54302	91.14788	104.60289
24	26.97346	30.42186	34.42647	39.08260	44.50200	50.81558	58.17667	66.76476	76.78981	88.49733	102.17415	118.15524
25	28.24320	32.03030	36.45926	41.64591	47.72710	54.86451	63.24904	73.10594	84.70090	98.34706	114.41331	133.33387

TABLE 3  
PRESENT VALUE OF SINGLE AMOUNT

Period	Interest Rate											
	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.12
1	0.99010	0.98039	0.97087	0.96154	0.95238	0.94340	0.93458	0.92593	0.91743	0.90909	0.90090	0.89286
2	0.98030	0.96117	0.94260	0.92456	0.90703	0.89000	0.87344	0.85734	0.84168	0.82645	0.81162	0.79719
3	0.97059	0.94232	0.91514	0.88900	0.86384	0.83962	0.81630	0.79383	0.77218	0.75131	0.73119	0.71178
4	0.96098	0.92385	0.88849	0.85480	0.82270	0.79209	0.76290	0.73503	0.70843	0.68301	0.65873	0.63552
5	0.95147	0.90573	0.86261	0.82193	0.78353	0.74726	0.71299	0.68058	0.64993	0.62092	0.59345	0.56743
6	0.94205	0.88797	0.83748	0.79031	0.74622	0.70496	0.66634	0.63017	0.59627	0.56447	0.53464	0.50663
7	0.93272	0.87056	0.81309	0.75992	0.71068	0.66506	0.62275	0.58349	0.54703	0.51316	0.48166	0.45235
8	0.92348	0.85349	0.78941	0.73069	0.67684	0.62741	0.58201	0.54027	0.50187	0.46651	0.43393	0.40388
9	0.91434	0.83676	0.76642	0.70259	0.64461	0.59190	0.54393	0.50025	0.46043	0.42410	0.39092	0.36061
10	0.90529	0.82035	0.74409	0.67556	0.61391	0.55839	0.50835	0.46319	0.42241	0.38554	0.35218	0.32197
11	0.89632	0.80426	0.72242	0.64958	0.58468	0.52679	0.47509	0.42888	0.38753	0.35049	0.31728	0.28748
12	0.88745	0.78849	0.70138	0.62460	0.55684	0.49697	0.44401	0.39711	0.35553	0.31863	0.28584	0.25668
13	0.87866	0.77303	0.68095	0.60057	0.53032	0.46884	0.41496	0.36770	0.32618	0.28966	0.25751	0.22917
14	0.86996	0.75788	0.66112	0.57748	0.50507	0.44230	0.38782	0.34046	0.29925	0.26333	0.23199	0.20462
15	0.86135	0.74301	0.64186	0.55526	0.48102	0.41727	0.36245	0.31524	0.27454	0.23939	0.20900	0.18270
16	0.85282	0.72845	0.62317	0.53391	0.45811	0.39365	0.33873	0.29189	0.25187	0.21763	0.18829	0.16312
17	0.84438	0.71416	0.60502	0.51337	0.43630	0.37136	0.31657	0.27027	0.23107	0.19784	0.16963	0.14564
18	0.83602	0.70016	0.58739	0.49363	0.41552	0.35034	0.29586	0.25025	0.21199	0.17986	0.15282	0.13004
19	0.82774	0.68643	0.57029	0.47464	0.39573	0.33051	0.27651	0.23171	0.19449	0.16351	0.13768	0.11611
20	0.81954	0.67297	0.55368	0.45639	0.37689	0.31180	0.25842	0.21455	0.17843	0.14864	0.12403	0.10367
21	0.81143	0.65978	0.53755	0.43883	0.35894	0.29416	0.24151	0.19866	0.16370	0.13513	0.11174	0.09256
22	0.80340	0.64684	0.52189	0.42196	0.34185	0.27751	0.22571	0.18394	0.15018	0.12285	0.10067	0.08264
23	0.79544	0.63416	0.50669	0.40573	0.32557	0.26180	0.21095	0.17032	0.13778	0.11168	0.09069	0.07379
24	0.78757	0.62172	0.49193	0.39012	0.31007	0.24698	0.19715	0.15770	0.12640	0.10153	0.08170	0.06588
25	0.77977	0.60953	0.47761	0.37512	0.29530	0.23300	0.18425	0.14602	0.11597	0.09230	0.07361	0.05882





# STUDENT PREFACE

## How to Do Well in this Course

We are going to let you in on some trade secrets instructors seldom tell students. That's why this section is labeled "For Students Only." If instructors find out we have revealed these secrets, we'll probably get a lot of mail.

Getting good grades is not a matter of luck. That's not the secret. Also, it is no secret that doing assignments (on time), going to class (regularly), getting enough sleep and exercise, eating properly, and studying throughout the semester (instead of just at exam time) will improve your grades. But this is hard work. So, what you want is a way to get good grades and not work so hard, right? Well, pay attention—the secret is to work smarter! That's not the same as being smarter, which is a matter of luck. Here's how you work smarter.

**Step 1: Determine why this course is important for you.** First, figure out why you're taking this class. What are your goals for the class? Do you care about this course? Do you have a strong motivation to learn about accounting? Perhaps being an accountant comes on your list of career options just below sweeping up at McDonalds. Maybe your goal is to make lots of money. Or, maybe you're just in college to have a good time until you inherit the family fortune. In any case, this course is designed for you. One of the surest ways to have a million dollars is to start with ten million and not know anything about accounting and business management. If you don't inherit wealth, you're not likely to get it without speaking the language of business. Accounting is the language! Maybe you just want to get a good job, but you're pretty sure you don't want to be an accountant. Fine! This course isn't going to make an accountant out of you. It will help you understand some of the "mystical rituals" of accounting that non-accountants often find confusing. Whatever type of management position you have in any organization, you can be pretty sure you're going to have to work with accountants and with accounting information. You should know they can have a major effect on your life. Many organizations use accounting information to evaluate their employees for salary and promotion decisions. You should understand how to interpret this information. You may even learn accounting isn't what you think. Whether you grow to love or hate accounting, decide what you can get out of this course that will be useful to you.

**Step 2: Find out what your instructors expect of you in this course.** Next, check out your instructor. If you're lucky, your instructor is sensitive, warm, caring, has a good sense of humor, is witty, loves teaching, and wants you to do well in the course. If instead your instructor is more normal (and less perfect), remember, the instructor is still the instructor. And as the instructor, she has power over your life. So, find out what she expects from you. What are her goals for the course? What does she want you to know or be able to do once you complete the course? Perhaps she will tell you (good sign), but if not, ask. You should say: "Professor Whatever-Your-Name-Is



(it would be wise to use the right name), what's the lowdown on the layout for this course?" This is education jargon for "what are your goals for this course?" This may catch her off guard, so give her a minute or two to think. You may even have to wait until the next class meeting to get your answer. Make sure you and your instructor understand each other's goals. Some accounting instructors expect all their students to become accountants. If you have one of these, make it clear. Tell your instructor: "I don't plan to be no accountant!" (Make sure you add the *ant*, or you may get fast agreement.) Find out what's in this course for you.

**Step 3: Find out how you will be graded.** Now, find out how you will be graded. How does the instructor test? Is he one of the picky types: "What is the third word on the fifth line on page 211?" Or, does he go for the broader, thought questions: "Explain how accounting was instrumental in negotiating the third treaty of Versailles in 1623." Does he go for multiple guess, or are short answers his cup of tea? Whatever the method, you need to know what is expected of you and how these expectations translate into grades. Occasionally, you'll find an instructor whose stated expectations don't agree with how he tests and grades. That's why you need to find out about both expectations and grades. If they don't seem to be consistent, you'll have to determine what the instructor really expects.

**Step 4: Emphasize learning what's important.** Figure out what you need to do to accomplish your goals and meet the instructor's expectations. A major lesson you should learn, if you haven't already, is "what you take from a course (and almost anything else) depends on what you bring to it." Your attitude is important. If you decide something is worth learning, you'll probably find a way to learn it. Not because you're supposed to learn it, but because you want to. "Wanting to" is the biggest part of working smarter. Wanting to learn will go a long way toward helping you get a good grade. Unfortunately, it may not be enough unless what you want to learn is also what your instructor wants you to learn. Therefore, you need to make sure you and your instructor are on the same wavelength. If you're not, talk it over. Find out why the instructor has a different outlook. You may change your opinion about what's important. Determine how to focus your efforts. Not everything in this book or course is equally important. Focus on what's most important to you and to your instructor.

**Step 5: Communicate with your instructor.** Try to remember your instructor is a person. Even the authors of this book are people. We have wives, children, and pets. Most instructors really want to see you do well, but we need your help. Instructors don't know everything. In particular, we can't read your mind. You need to let your instructor know if you're having problems understanding the material you're expected to learn, figuring out what the instructor expects of you, or figuring out how to prepare for tests and other assignments. Talk with your instructor about problems you're having with the class. Remember, your instructor really is human.


This is your class. You paid for it. OK, maybe it was your parents, or somebody else who put out cold, hard cash for you to take this course. Don't let anybody keep you from getting your money's worth. Working smarter means determining what's important and focusing your attention and efforts on these things. Then, don't be distracted from your goals. If you run into problems, deal with them. If you don't understand something in class or in the book, ask questions. If you're afraid of asking dumb questions in class, remember: looking dumb in class is better than looking dumb on an exam. If you think you may be missing key points, talk with your instructor. If you want to learn, you can.

That's it. Give it try. We think you'll find the course more enjoyable and the experience more rewarding. Of course, you might also try doing assignments, going to class, getting enough sleep and exercise, eating properly, and studying throughout the semester. They usually help, even though they are hard work.

Best wishes to you, not only in this course, but throughout life.

Rob Ingram  
Tom Albright  
Bruce Baldwin

**A side note.** To aid you in the learning process, the following icons appear throughout the text.

-  Your instructor may have chosen Personal Trainer® as a supporting product for your course. If so, this icon identifies those exercises and problems in the text that can be completed online using this product. Personal Trainer is an Internet-based homework tutor designed specifically for students taking a financial course in accounting. With the help of warm-ups and hints, as well as enhanced spreadsheets, you can complete assigned or practice by completing unassigned homework online and submit your answers to your instructor.



SPREADSHEET

Excel activities are integrated throughout the text. In the Chapter F1 appendix you will find “A Short Introduction to Excel” that will help you get started. Throughout the text, specific assignments that you may choose to complete using spreadsheet software are identified with this icon. Problems titled “Excel in Action,” which contain more assistance with using this very helpful tool, create a continuing case that unfolds throughout the book. In addition, in Chapters F8 and F9, you will find guidance in “Using Excel” for time value of money problems.



INTERNATIONAL

Throughout the text, this icon appears where international financial accounting topics are addressed. You can use this icon to alert you to information that involves the global economy.



[http://ingram.  
swlearning.com](http://ingram.swlearning.com)  
.....

The Web site for this text contains many helpful learning aids. You will find quiz questions with feedback, PowerPoint® presentation slides for review of chapter coverage, crossword puzzles to test your vocabulary knowledge, check figures to selected assignments, learning objectives from the chapter to help you keep clear focus on the core goals, and updates for the latest information about changes in GAAP and any new, important information related to the text. In addition, this icon lets you know there's a related Internet hotlink connected to the text's Web site.



# INSTRUCTOR PREFACE

**Enron, Andersen, WorldCom, Tyco, Kmart, FAO Schwarz, the roller-coaster changes in the stock market, the changing interest rates—all these and other companies and topics headline the news and grab our attention.** How can investors, creditors, employees, customers, and other stakeholders understand what's going on and how can they minimize their exposure to risk?

Your students may or may not be aware of the concerns of large company investors or creditors. However, they probably do understand there are risks in the business world and that knowing more about the financial information of companies is helpful to controlling those risks.

For many of your students, this course will be the only financial accounting course they will have. Thus, it is essential that they take from the course the basic understanding needed to make wise financial choices. Some of your students will choose accounting as their major area. For them, having a strong understanding of accounting and the role of accountants in the global community will serve as a firm foundation upon which they will build the more detailed skills cultivated in their higher-level courses. This fifth edition of *Financial Accounting: A Bridge to Decision Making*, will serve as a carefully crafted tool to assist you in teaching all of your students the language of business as they move forward to be the business decision-makers of tomorrow.

## Develop Understanding With Quality Content

### NEW! Mom's Cookie Company

The simple, yet realistic case of a small, start-up company unfolds throughout the text and provides students with an easy-to-understand example of the purpose of accounting, its process, and its importance in decision making. As students move from chapter to chapter, they learn how the owners of the company tackle basic business decisions using accounting information and how their accounting system develops over time. At the beginning of each chapter, following the opening question, new information about Mom's Cookie Company sets the stage for that chapter's coverage.



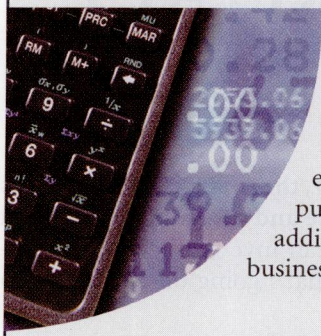
### What do we need to know to start a business?

In December of 2003, Maria and Stan were very excited about starting a company to sell cookies made using their mother's recipes. To honor their mother, they decided to call the business Mom's Cookie Company. Realizing they did not have much money and had little business experience, the brother and sister made plans to start with a small company. They hope the business will grow as more customers become aware of their products. Maria and Stan know that accountants provide advice to help managers of companies better understand their businesses. Because they had never started a company before, they made an appointment with Ellen Coleman, an accountant who had provided helpful business advice to several of their friends.



**NEW! Chapter-Opening Questions**

“What do we need to know to start a business?” “How much will it cost to borrow money?” These and other questions are asked by people in the business world every-day. Each chapter begins with its own key question to tell students upfront the overall focus of the chapter’s content.

**How much will it cost to borrow money?**

**M**aria and Stan have been successful in starting Mom’s Cookie Company. The company has been profitable and is growing as more customers demand its products. Maria and Stan are now concerned about meeting the additional demand. They need to expand their operations, and they are considering producing their own products rather than purchasing them from other bakeries. Before they can expand, however, they must obtain additional financing for their company. The time value of money is an important concept that business owners need to understand before they borrow money.

From page F284.

Included with the scenario is “Food for Thought,” which asked students to think about what they would do.

**FOOD FOR THOUGHT**

Suppose you were in Maria and Stan’s position. What would you want to know in order to start a business? What goals would you have for the business, and how would you plan to reach those goals? What resources would you need in your business, and how would you finance those resources? How would you organize your company? Who would your customers be? How would you know whether you are reaching your goals or not? These are issues Ellen poses to Maria and Stan.

From page F2.

Each scenario concludes with a discussion among the owners (Maria and Stan) and the company’s accountant (Ellen).

**Ellen:** *Creating a successful business is not an easy task. You need a good product, and you need a plan to produce and sell that product.*

**Maria:** *Stan and I think we have an excellent product. We don’t have a lot of money for equipment and other resources, but we have identified a bakery that could produce our products using our recipes and according to our specifications.*

**Stan:** *Also, we have spoken with several local grocery chains that have been impressed with samples and have agreed to sell our products.*

**Ellen:** *Good. A primary goal of every successful business is to create value for customers. If you focus on delivering a product that customers want at a price they are willing to pay, you are also likely to create value for yourselves as owners of the company. You have to make sure you know what it will cost to run your company and decide how you will obtain the money you need to get started.*

From page F2.



**NEW! Thinking Beyond the Question**

The chapter-opening question is revisited in the end-of-chapter section. Students are asked a challenge question that requires them to think beyond what has been presented in the chapter.

## Thinking Beyond the Question

### What do we need to know to start a business?

The chapter introduction asked you to consider what you would need to know in order to start a company. This chapter identified several important considerations. How would your answer to this question differ if you were starting a service business or a nonprofit service organization as opposed to a retail business?

From page F29.

**NEW! Organization and Expansion of Topics**

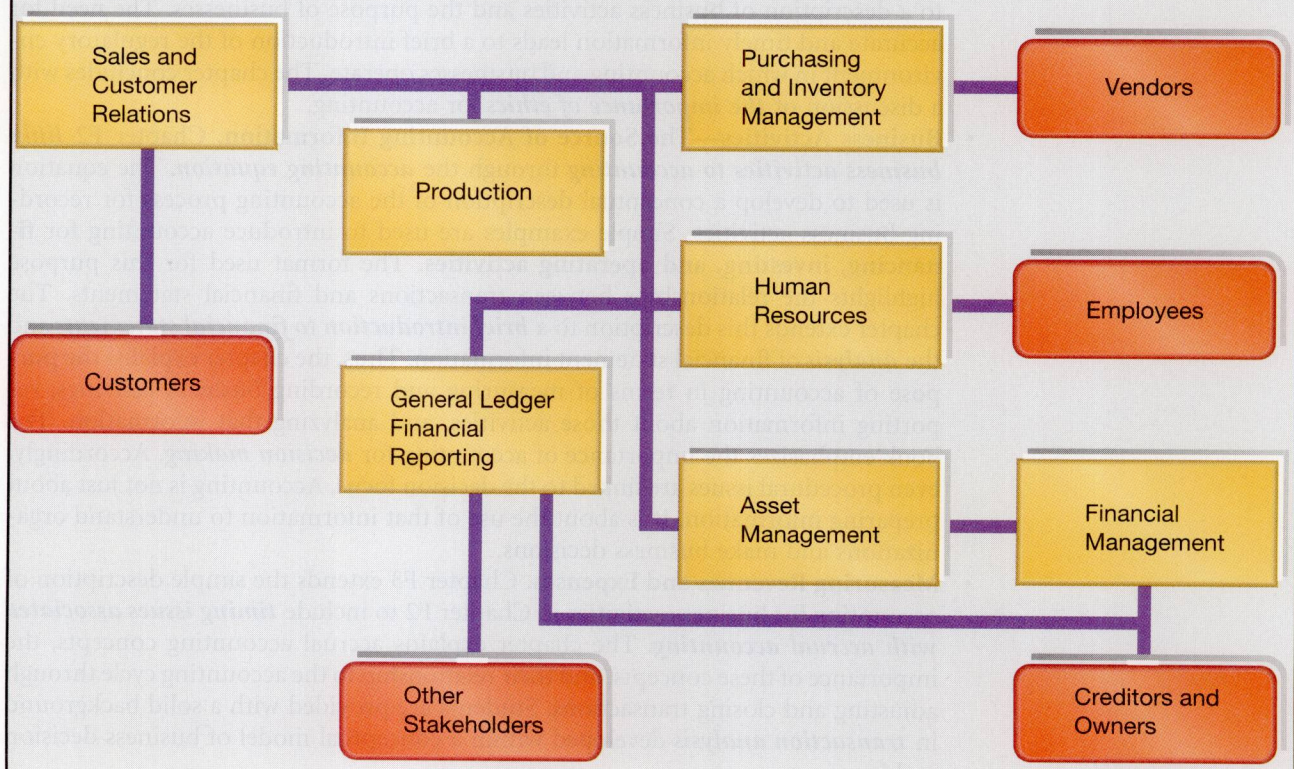
The first seven chapters of *Financial Accounting: A Bridge to Decision Making, 5e*, reflect an **extensive reorganization** of the first six chapters in prior editions. Among other effects, the changes have created a more focused description of the accounting cycle, including more coverage of adjustments and the accrual process. In addition, like-topics have been clustered to increase clarity and continuity for students.

- **Accounting and Organizations.** Chapter F1 provides a **conceptual foundation** for understanding the purpose of accounting in business organizations. The chapter examines the need for information about business activities. Information is linked to a description of business activities and the purpose of businesses. The need for accurate and timely information leads to a brief introduction of the regulatory environment in which accounting and businesses operate. The chapter concludes with a discussion of **the importance of ethics** for accounting.
- **Business Activities—The Source of Accounting Information.** Chapter F2 **links business activities to accounting** through the **accounting equation**. The equation is used to develop a conceptual description of the accounting process for recording business activities. Simple examples are used to introduce accounting for **financing, investing, and operating activities**. The format used for this purpose highlights the relationships between transactions and financial statements. The chapter extends this description to a **brief introduction to financial statements** and the **analysis** of financial statement information. Thus, the chapter explains the purpose of accounting in terms of measuring and recording business activities, reporting information about those activities, and analyzing that information. The book emphasizes the importance of accounting for **decision making**. Accordingly, even procedural issues are linked to the decision focus. Accounting is not just about preparing information. It is about the use of that information to understand organizations and make business decisions.
- **Measuring Revenues and Expenses.** Chapter F3 extends the simple description of accounting for business activities in Chapter F2 to include **timing issues associated with accrual accounting**. The chapter explains accrual accounting concepts, the importance of these concepts, and their relationship to the accounting cycle through adjusting and closing transactions. Students are provided with a solid background in **transaction analysis** developed within a conceptual model of business decision making.



- **Reporting Earnings and Financial Position.** Chapter F4 examines the *income statement, balance sheet, and statement of stockholders' equity*. Examples from both hypothetical and real companies are used to introduce basic financial reporting concepts and to provide a realistic description of variations that exist in practice.
- **Reporting Cash Flows.** Chapter F5 considers the *statement of cash flows*. Both the direct and indirect formats are included. Simple examples are used to describe the indirect format and to re-emphasize the importance of accrual accounting concepts. The chapter also examines the importance of the statement of cash flows for *evaluating business performance*.
- **Full and Fair Reporting.** Chapter F6 examines the broader context of financial reporting, including information in the annual report other than financial statements. It examines the importance of disclosure, accounting regulation, auditing, and internal control. The fifth edition pulls this material into one primary location to underscore the *importance of accounting as a validative, as well as descriptive, process*.
- **Computerized Accounting Systems.** Chapter F7 examines *accounting systems*, including the flow of data and processing in computerized systems. A goal of this chapter is to help students see *accounting as a dynamic, technological process*. Students sometimes get the impression that accounting is a clerical process without much technological sophistication. Modern accounting systems require a basic understanding of computer networks and database management systems. The world in which accountants work is not one of traditional journals and ledgers. It is one in which computer systems are essential to processing and analyzing business information. The chapter includes an *illustration of a simple accounting database system*. By working through this project, students learn how basic accounting functions are automated and how computers facilitate the accounting process. The Mom's Cookie Company database files that tie to this project are provided on the Student CD-ROM and on the text's Web site (<http://ingram.swlearning.com>).

**Exhibit 1** Components of an Accounting Information System



(Continued)



All of the components in the system are linked so they share data with each other. Some businesses use one software application that integrates all of these functions. **Systems that integrate most of the business information functions as a basis for management decisions are referred to as *enterprise resource planning (ERP) systems*.** Many large companies have implemented these systems from ERP developers such as SAP®, Peoplesoft®, and Oracle® Financials. Other companies may rely on software from dif

From pages F256–F257.

### REVISED! Presentation of Effect of Transactions on the Accounting Equation

The presentation of the effect of transactions on the accounting equation has been redesigned to more clearly represent the impact. This supporting visual is partnered with the related journal entries presentation so students see not only how the transaction enters the accounting system but also how each entry affects the balance sheet. Through this approach, students see how nominal accounts increase or decrease retained earnings. We have consistently used this format, which matches the spreadsheet structure, throughout the text to avoid confusion.

Journal				Effect on Accounting Equation				
Date	Accounts	Debits	Credits	A	=	L +	OE	
							CC +	RE
Feb. 12	Accounts Receivable	600		+600				
	Sales Revenue		600					+600
Feb. 12	Cost of Goods Sold	400						-400
	Merchandise Inventory		400	-400				

From page F84.

### NEW! Early Introduction to Debits and Credits

A new appendix in Chapter F2 provides an early introduction to the basics of debits and credits, T accounts, and journal entries. After covering this, students can easily move into Chapter F3, where journal entries are used to illustrate accrual accounting.

### ENHANCED! Coverage of Ethics

The emphasis on the importance of ethics begins in Chapter F1, is revisited in Chapter F3, and is reinforced in Case in Point boxes and assignments.

## THE IMPORTANCE OF ETHICS

### OBJECTIVE 8

Explain why ethics are important for business and accounting.

Ethics are important in business organizations. Ethics involve living by the norms and rules of society. In business, those norms and rules identify appropriate behavior for managers, employees, investors, and other stakeholders. Keeping their investors and other stakeholders fully informed about their business activities is an important ethical norm for managers. Managers who conceal their activities or who misrepresent those activities make it difficult for stakeholders to assess how well a business is performing. Overstating profits, for example, may result in investors allocating more resources to a company than actual results would justify. This misallocation results in a loss of value to society and often leads to financial harm for those who use this information.

From page F22.