

Financial Accounting

6th
edition

INFORMATION FOR DECISIONS

John J. Wild

University of Wisconsin at Madison

 **McGraw-Hill
Irwin**



To my students and family, especially **Kimberly, Jonathan, Stephanie,** and **Trevor.**

FINANCIAL ACCOUNTING: INFORMATION FOR DECISIONS

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Dear Colleagues/Friends,

As we roll out the new edition of *Financial Accounting*, I wish to thank each of you who provided suggestions to improve our textbook. As teachers, we know how important it is to select the right book for our course. This new edition reflects the advice and wisdom of many dedicated reviewers, students, instructors, and symposium and workshop participants. Together, we have created the most readable, concise, current, accurate, and innovative accounting book available today.

Throughout the writing process, I steered this book in the manner you directed. Reviewers, instructors, and students say this book's enhanced presentation, graphics, and technology cater to different learning styles and help students better understand accounting. McGraw-Hill *Connect Accounting*[®] offers new features to improve student learning and to assist instructor teaching and grading. LearnSmart, Self-Quiz and Study, Guided Examples, and Interactive Presentations provide additional tools and resources needed to achieve success through faster learning, more efficient studying, and higher retention of knowledge. You and your students will find all these tools easy to apply.

I owe the success of this book to you and our colleagues who graciously took time to help us focus on the changing needs of today's instructors and students. I feel fortunate to have witnessed our profession's extraordinary devotion to teaching. Your feedback and suggestions are reflected in everything I write. Please accept my heartfelt thanks for your dedication in helping today's students learn, understand, and appreciate accounting.

With kindest regards,

John J. Wild

About the Author



JOHN J. WILD is a distinguished professor of accounting at the University of Wisconsin at Madison. He previously held appointments at Michigan State University and the University of Manchester in England. He received his BBA, MS, and PhD from the University of Wisconsin.

Professor Wild teaches accounting courses at both the undergraduate and graduate levels. He has received numerous teaching honors, including the Mabel W. Chipman Excellence-in-Teaching Award, the departmental Excellence-in-Teaching Award, and the Teaching Excellence Award from the 2003 and 2005 business graduates at the University of Wisconsin. He also received the Beta Alpha Psi and Roland F. Salmonson Excellence-in-Teaching Award from Michigan State University. Professor Wild has received several research honors and is a past KPMG Peat Marwick National Fellow and is a recipient of fellowships from the American Accounting Association and the Ernst and Young Foundation.

Professor Wild is an active member of the American Accounting Association and its sections. He has served on several committees of these organizations, including the Outstanding Accounting Educator Award, Wildman Award, National Program Advisory, Publications, and Research Committees. Professor Wild is author of *Fundamental Accounting Principles*, *Financial Accounting Fundamentals*, *Managerial Accounting*, and *College Accounting*, each published by McGraw-Hill/Irwin. His research articles on accounting and analysis appear in *The Accounting Review*; *Journal of Accounting Research*; *Journal of Accounting and Economics*; *Contemporary Accounting Research*; *Journal of Accounting, Auditing and Finance*; *Journal of Accounting and Public Policy*; and other journals. He is past associate editor of *Contemporary Accounting Research* and has served on several editorial boards including *The Accounting Review*.

In his leisure time, Professor Wild enjoys hiking, sports, travel, people, and spending time with family and friends.

Helping Students Achieve New Heights

Financial Accounting, 6e

Assist your students in achieving new heights by giving them what they need to succeed in today's financial accounting course.

Whether the goal is to become an accountant or a businessperson, or simply to be an informed consumer of accounting information, *Financial Accounting (FA)* has helped thousands of students succeed by giving them support in the form of leading-edge accounting content that engages students, paired with state-of-the-art technology that elevates their understanding of key accounting principles.

With *FA* on your side, you'll be provided with **engaging content** in a **motivating style** to help students see the relevance of accounting. Students are motivated when reading materials that are clear and pertinent. *FA* excels at engaging students. Its chapter-opening vignettes showcase dynamic, successful entrepreneurial individuals and companies guaranteed to **interest and excite students**. This edition's featured companies—**Research In Motion** (maker of BlackBerry), **Apple**, **Nokia**, and **Palm**—captivate students with their products and annual reports, which are a pathway for learning financial statements. Further, this book's coverage of the accounting cycle fundamentals is widely praised for its clarity and effectiveness.

FA also delivers innovative technology to help student performance. **Connect Accounting®** provides students with instant grading and feedback for assignments that are completed online. **Connect Accounting Plus®** integrates an online version of the textbook with *Connect Accounting*. Our algorithmic test bank offers infinite variations of numerical test bank questions. The Self-Quiz and Study, Guided Examples, Interactive Presentations, and LearnSmart all provide additional support to help reinforce concepts and keep students motivated.

We're confident you'll agree that ***FA* will help your students achieve new heights.**

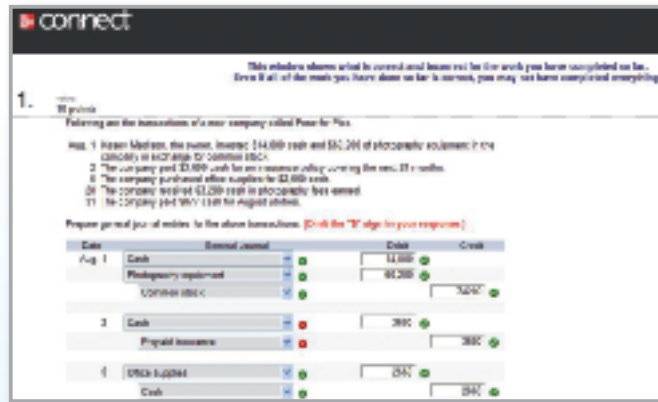




Students' Connection to

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

Online Assignments: *Connect Accounting* helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. *Connect* grades homework automatically and gives immediate feedback on any questions students may have missed.



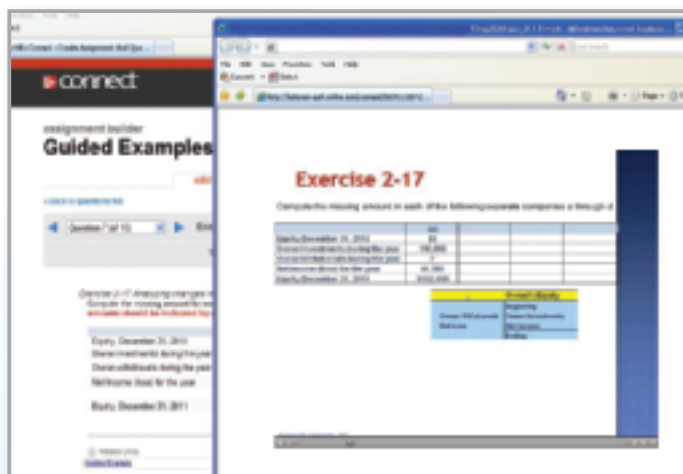
Interactive Presentations: The interactive presentations provide engaging narratives of all chapter learning objectives in an interactive online format. The presentations are tied specifically to *Financial Accounting, 6e*. They follow the structure of the text and are organized to match the learning objectives within each chapter. While the interactive presentations are not meant to replace the textbook in this course, they provide additional explanation and enhancement of material from the text chapter, allowing students to learn, study, and practice with instant feedback at their own pace.



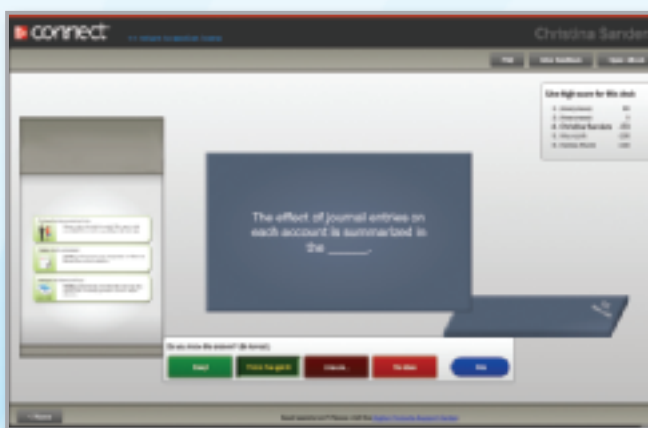
Student Resource Library: The *Connect Accounting* Student Study Center gives access to additional resources such as recorded lectures, online practice materials, an eBook, and more.



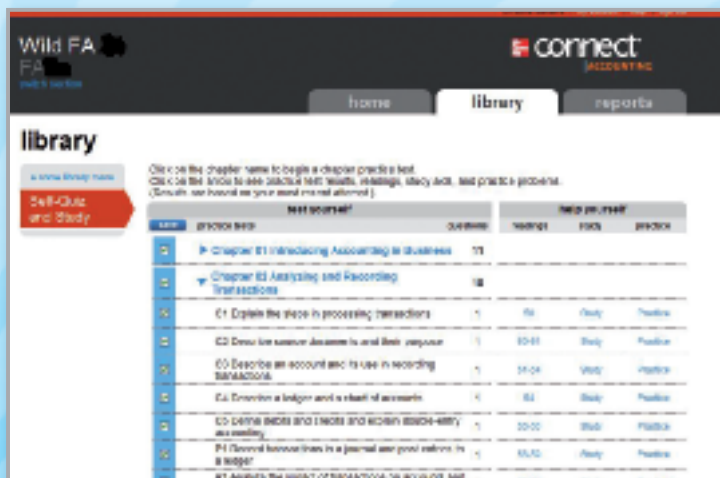
Achieve New Heights!



Guided Examples: The Guided Examples in *Connect Accounting* provide a narrated, animated, step-by-step walk-through of select exercise similar to those assigned. These short presentations provide reinforcement when students need it most.



LearnSmart: LearnSmart adaptive self-study technology within *Connect Accounting* helps students make the best use of their study time. LearnSmart provides a seamless combination of practice, assessment, and remediation for every concept in the textbook. LearnSmart's intelligent software adapts to students by supplying questions on a new concept when they are ready to learn it. With LearnSmart, students will spend less time on topics they understand and practice more on those they have yet to master.



Self-Quiz and Study: The Self-Quiz and Study (SQS) connects students to the learning resources students need to succeed in the course. For each chapter, students can take a practice quiz and immediately see how well they performed. A study plan then recommends specific readings from the text, supplemental study material, and practice exercises that will improve students' understanding and mastery of each learning objective.

Connect Accounting

Connect Accounting[®] offers a number of powerful tools and features to make managing assignments easier, so faculty can spend more time teaching. With *Connect Accounting*, students can engage with their coursework anytime and anywhere, making the learning process more accessible and efficient. (Please see previous page for a description of the student tools available within *Connect Accounting*.)

Simple Assignment Management and Smart Grading

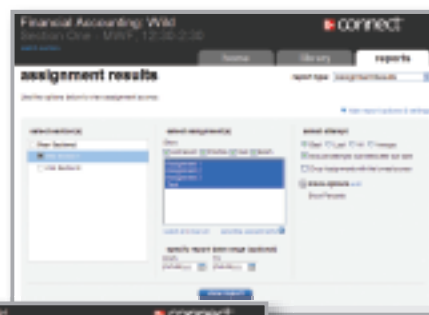
With *Connect Accounting*, creating assignments is easier than ever, so you can spend more time teaching and less time managing. *Connect Accounting* enables you to:

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

Student Reporting

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

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



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Instructor Library

The *Connect Accounting* Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The *Connect Accounting* Instructor Library includes: access to the eBook version of the text, PowerPoint files, Solutions Manual, Instructor Resource Manual, and Test Bank.

"I have nothing but praise for *Connect*. It saves me a significant amount of time by grading homework for me. The majority of students like that (1) it's always available/conforms to their schedule, (2) provides immediate feedback, . . . (3) the way they can access the eBook from *Connect Plus* for targeted help."

—Eric Carstensen, MiraCosta College

Tools for Instructors

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



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Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. Tegrity Campus's unique search feature helps students efficiently find what they need, when they need it, across an entire semester of class recordings. Help turn your students' study time into learning moments immediately supported by your lecture. With Tegrity Campus, you also increase intent listening and class participation by easing students' concerns about note-taking. Lecture Capture will make it more likely you will see students' faces, not the tops of their heads.

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

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How Can Text-Related Web Resources Enrich My Course?

Online Learning Center (OLC)

We offer an Online Learning Center (OLC) that follows *Financial Accounting* chapter by chapter. It doesn't require any building or maintenance on your part. It's ready to go the moment you and your students type in the URL:

www.mhhe.com/wildFA6e

As students study and learn from *Financial Accounting*, they can visit the Student Edition of the OLC Website to work with a multitude of helpful tools:

- Generic Template Working Papers
- Chapter Learning Objectives
- Interactive Chapter Quizzes
- PowerPoint® Presentations
- Narrated PowerPoint® Presentations*
- Video Library
- Excel Template Assignments
- iPod Content*

* indicates Premium Content

A secured Instructor Edition stores essential course materials to save you prep time before class. Everything you need to run a lively classroom and an efficient course is included. All resources available to students, plus:

- Instructor's Resource Manual
- Solutions Manual
- Solutions to Excel Template Assignments
- Test Bank

The OLC Website also serves as a doorway to other technology solutions, like course management systems.



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eCollegeSM



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



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How Students Can Study On the Go Using Their iPods

iPod Content

Harness the power of one of the most popular technology tools students use today—the Apple iPod. Our innovative approach allows students to download audio and video presentations right into their iPod and take learning materials with them wherever they go. Students just need to visit the Online Learning Center at www.mhhe.com/wildFA6e to download our iPod content. For each chapter of the book they will be able to download audio narrated lecture presentations for use on various versions of iPods. iPod Touch users can even access self-quizzes.

It makes review and study time as easy as putting on headphones.

How Can McGraw-Hill Help Teach My Course Online?

Improve Student Learning Outcomes and Save Instructor Time with ALEKS®

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

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

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

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ALEKS®



Innovative Textbook Features

Using Accounting for Decisions

Whether we prepare, analyze, or apply accounting information, one skill remains essential: decision-making. To help develop good decision-making habits and to illustrate the relevance of accounting, our book uses a unique pedagogical framework we call the Decision Center. This framework is comprised of a variety of approaches and subject areas, giving students insight into every aspect of business decision-making; see three examples to the right and one below. Answers to Decision Maker and Ethics boxes are at the end of each chapter.

Inventory Turnover and Days' Sales in Inventory Decision Analysis

Inventory Turnover

Earlier chapters described two important ratios useful in evaluating a company's short-term liquidity: current ratio and acid-test ratio. A merchandiser's ability to pay its short-term obligations also depends on how quickly it sells its merchandise inventory. **Inventory turnover**, also called *merchandise inventory turnover*, is one ratio used to assess this and is defined in Exhibit 5.13.


A3 Assess inventory management using both inventory turnover and days' sales in inventory.

EXHIBIT 5.13
Inventory Turnover

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

Learning Objectives

CAP

CONCEPTUAL	ANALYTICAL	PROCEDURAL
C1 Explain the steps in processing transactions and the role of source documents. (p. 52)	A1 Analyze the impact of transactions on accounts and financial statements. (p. 61)	P1 Record transactions in a journal and post entries to a ledger. (p. 58)
C2 Describe an account and its use in recording transactions. (p. 53)	A2 Compute the debit ratio and describe its use in analyzing financial condition. (p. 72)	P2 Prepare and explain the use of a trial balance. (p. 67)
C3 Describe a ledger and a chart of accounts. (p. 56)		P3 Prepare financial statements from business transactions. (p. 68)
C4 Define debits and credits and explain double-entry accounting. (p. 57)	 LP2	

GLOBAL VIEW

This section discusses differences between U.S. GAAP and IFRS in the items and costs making up merchandise inventory, in the methods to assign costs to inventory, and in the methods to estimate inventory values.

Items and Costs Making Up Inventory Both U.S. GAAP and IFRS include broad and similar guidance for the items and costs making up merchandise inventory. Specifically, under both accounting systems, merchandise inventory includes all items that a company owns and holds for sale. Further, merchandise inventory includes costs of expenditures necessary, directly or indirectly, to bring those items to a salable condition and location.

Assigning Costs to Inventory Both U.S. GAAP and IFRS allow companies to use specific identification in assigning costs to inventory. Further, both systems allow companies to apply a *cost flow assumption*. The usual cost flow assumptions are: FIFO, Weighted Average, and LIFO. However, IFRS does not (currently) allow use of LIFO. As the convergence project progresses, this prohibition may or may not persist.

Estimating Inventory Costs The value of inventory can change while it awaits sale to customers. That value can decrease or increase.


Decreases in Inventory Value Both U.S. GAAP and IFRS require companies to write down (reduce the cost recorded for) inventory when its value falls below the cost recorded. This is referred to as the *lower of cost or market* method explained in this chapter. U.S. GAAP prohibits any later increase in the recorded value of that inventory even if that decline in value is reversed through value increases in later periods. However, IFRS allows reversals of those write downs up to the original acquisition cost. For example, if **RIM Research In Motion** wrote down its 2010 inventory from \$622 million to \$600 million, it could not reverse this in future periods even if its value increased to more than \$622 million. However, if RIM applied IFRS, it could reverse that previous loss. (Another difference is that value refers to *replacement cost* under

Fraud

Reversing Returns. On May 3, 2011, **Green Mountain Coffee Roasters** beat analysts' earnings estimates by \$0.10 per share for the 13-week period ended March 26, 2011. The next day the stock price rose \$11.91 per share to close at \$75.98 per share, an 18.5% increase over the prior day's closing price. In the weeks that followed, some analysts raised questions about the quality of Green Mountain's earnings because of its accounting for sales returns. They allege that a large part of that earnings increase was due to an accounting adjustment that reversed much of a reserve that was set up for sales returns in prior periods.

Decision Insight

Revenue Spread The **New Orleans Saints** have *Unearned Revenues* of about \$60 million in advance ticket sales. When the team plays its home games, it settles this liability to its ticket holders and then transfers the amount earned to *Ticket Revenues*.



Decision Ethics Answer — p. 184

Credit Manager As a new credit manager, you are being trained by the outgoing manager. She explains that the system prepares checks for amounts net of favorable cash discounts, and the checks are dated the last day of the discount period. She also tells you that checks are not mailed until five days later, adding that "the company gets free use of cash for an extra five days, and our department looks better. When a supplier complains, we blame the computer system and the mailroom." Do you continue this payment policy?

Decision Maker Answer — p. 185

Supplier A retailer requests to purchase supplies on credit from your company. You have no prior experience with this retailer. The retailer's current ratio is 2.1, its acid-test ratio is 0.5, and inventory makes up most of its current assets. Do you extend credit?

CAP Model

The Conceptual/Analytical/Procedural (CAP) Model allows courses to be specially designed to meet your teaching needs or those of a diverse faculty. This model identifies learning objectives, textual materials, assignments, and test items by C, A, or P, allowing different instructors to teach from the same materials, yet easily customize their courses toward a conceptual, analytical, or procedural approach (or a combination thereof) based on personal preferences.

Global View

This section explains international accounting practices relating to the material covered in that chapter. This section is purposefully located at the end of each chapter so that each instructor can decide what emphasis, if at all, is to be assigned to it. The aim of this Global View section is to describe accounting practices and to identify the similarities and differences in international accounting practices versus that in the U.S. As we move toward global convergence in accounting practices, and as we witness the likely conversion of U.S. GAAP to IFRS, the importance of student familiarity with international accounting grows. This innovative section helps us begin down that path of learning and teaching global accounting practices.

New Fraud Boxes

Stewardship is a crucial part of modern business and accounting. Fraud is a gross violation of stewardship. Each chapter introduces one or more new features devoted to accounting's role in fraud detection and prevention. These features describe, or relate to, provocative real-life scenarios of people who pursued fraudulent accounting activities for personal gain.

Bring Accounting To Life



Chapter Preview With Flowchart

This flowchart feature provides a handy textual/visual guide at the start of every chapter. Students can now begin their reading with a clear understanding of what they will learn and when, allowing them to stay more focused and organized along the way.

Quick Check

These short question/answer features reinforce the material immediately preceding them. They allow the reader to pause and reflect on the topics described, then receive immediate feedback before going on to new topics. Answers are provided at the end of each chapter.

Quick Check

Answers — p. 130



- Classify the following assets as (1) current assets, (2) plant assets, or (3) intangible assets:
(a) land used in operations, (b) office supplies, (c) receivables from customers due in 10 months, (d) insurance protection for the next 9 months, (e) trucks used to provide services to customers, (f) trademarks.
- Cite at least two examples of assets classified as investments on the balance sheet.
- Explain the operating cycle for a service company.

"Once again, I think this is an exceptional book. During the review, I found myself enjoying just reading the book and looking at all the wonderful examples. . . . It has relevant stories that most students would enjoy reading about. . . . These stories about entrepreneurs show why accounting is relevant to a student's business understanding."

—Norman Colter, University of New Mexico

employee is *bonded* when a company purchases an insurance policy to protect against a theft by that employee. Bonding reduces the risk because bonded employees know an independent bonding agent is involved and is unlikely to be sympathetic with an

Point: The Association of Certified Fraud Examiners (cfenet.com) estimates that employee fraud costs small companies more than \$100,000 per incident.

Marginal Student Annotations

These annotations provide students with additional hints, tips, and examples to help them more fully understand the concepts and retain what they have learned. The annotations also include notes on global implications of accounting and further examples.

"This text captures students' interest with a lively writing style and contemporary examples/cases. Technically accurate and lends itself to use by instructors who use a variety of teaching styles."

—Gerald Smith, University of Northern Iowa

Outstanding Assignment Material

Once a student has finished reading the chapter, how well he or she retains the material can depend greatly on the questions, exercises, and problems that reinforce it. This book leads the way in comprehensive, accurate assignments.

Demonstration Problems present both a problem and a complete solution, allowing students to review the entire problem-solving process and achieve success.

Chapter Summaries provide students with a review organized by learning objectives. Chapter Summaries are a component of the CAP model (see page xii), which recaps each conceptual, analytical, and procedural objective.

DEMONSTRATION PROBLEM

The following transactions and events took place during the reporting period (Kern does not use reversing entries).

- In September 2011, Kern sold \$140,000 of merchandise. Experience shows that costs of the warranty on the merchandise are 10% of the sales price, and prepare the adjusting journal entry for the warranty on October 8 to record the expense on an item sold in September.
- On October 12, 2011, Kern arranged with a supplier to purchase equipment by paying \$2,500 cash and signing a note payable at a 12% interest rate. Prepare the entries related to this transaction.
- In late December, Kern learns it is facing a lawsuit.

PLANNING THE SOLUTION

- Analyze each situation to determine which accounts need to be updated with an adjustment.
- Calculate the amount of each adjustment and prepare the necessary journal entries.
- Show the amount of each adjustment in the designated accounts, determine the adjusted balance, and identify the balance sheet classification of the account.
- Determine each entry's effect on net income for the year and on total assets, total liabilities, and total equity at the end of the year.

SOLUTION TO DEMONSTRATION PROBLEM 1

1. Adjusting journal entries.

(a) Dec 31	Wages Expense	1,750	
	Wages Payable		1,750
	To accrue wages for the last day of the year (\$8,750 × 1/5).		
(b) Dec 31	Depreciation Expense—Equipment	4,000	
	Accumulated Depreciation—Equipment		4,000
	To record depreciation expense for the year (\$20,000/5 years = \$4,000 per year).		
(c) Dec 31	Unearned Services Revenue	100,000	
	Services Revenue		100,000
	To recognize services revenue earned (\$120,000 × 20/24).		
(d) Dec 31	Insurance Expense	600	
	Prepaid Insurance		600
	To adjust for expired portion of insurance (\$1,800 × 4/12).		

Key Terms		
Acid-test ratio (p. 174)	Gross margin (p. 159)	Purchase discount (p. 161)
Cash discount (p. 161)	Gross margin ratio (p. 174)	Retailer (p. 158)
Cost of goods sold (p. 158)	Gross profit (p. 158)	Sales discount (p. 161)
Credit memorandum (p. 167)	Inventory (p. 159)	Selling expenses (p. 171)
Credit period (p. 161)	List price (p. 160)	Shrinkage (p. 168)
Credit terms (p. 161)	Merchandise (p. 158)	Single-step income statement (p. 172)
Debit memorandum (p. 162)	Merchandise inventory (p. 159)	Supplementary records (p. 164)
Discount period (p. 161)	Merchandise (p. 158)	Trade discount (p. 160)
EOM (p. 161)	Multiple-step income statement (p. 171)	
FOB (p. 163)		
General and administrative expenses (p. 171)		

Key Terms are bolded in the text and repeated at the end of the chapter with page numbers indicating their location. The book also includes a complete Glossary of Key Terms.

Multiple Choice Quiz Questions quickly test chapter knowledge before a student moves on to complete Quick Studies, Exercises, and Problems.

Multiple Choice Quiz Answers on p. 203 mhhe.com/wildFA6e

Additional quiz questions are available at the book's Website.

1. A company has \$550,000 in net sales and \$193,000 in gross profit. This means its cost of goods sold equals

- \$743,000
- \$550,000
- \$357,000
- \$193,000
- \$(193,000)

QUICK STUDY

OS 5-1 Inventory costing with FIFO perpetual

Inventory costing with FIFO perpetual

	Units	Unit Cost
Inventory on January 1	320	\$6.00
Inventory on January 9	85	6.40
Inventory on January 25	110	6.60

Quick Study assignments are short exercises that often focus on one learning objective. Most are included in *Connect Accounting*. There are usually 8-10 Quick Study assignments per chapter.

Exercises are one of this book's many strengths and a competitive advantage. There are about 10-15 per chapter and most are included in *Connect Accounting*.

Company A shipped \$500 of goods to China Co., and China Co. has arranged to sell the goods to the consignee. Which company should include any unsold goods in its ending inventory?

EXERCISES

Exercise 5-1 Inventory ownership C1

Company B had shipped \$850 of merchandise FOB destination to China Co. Which company should include the \$850 of merchandise in transit as part of its year-end inventory?

Exercise 5-2 Inventory costs

balance sheet accounts. Prepare the adjusting information.

PROBLEM SET A

Problem 3-1A Preparing adjusting and subsequent journal entries C1 A1 P1

the company purchased inventory of supplies. Prepare the adjusting information.

PROBLEM SET B

Problem 3-1B Preparing adjusting and subsequent journal entries C1 A1 P1

Problem Sets A & B are proven problems that can be assigned as homework or for in-class projects. All problems are coded according to the CAP model (see page xii), and Set A is included in *Connect Accounting*.

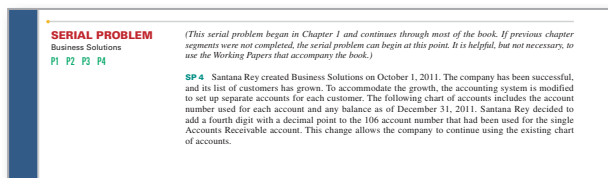
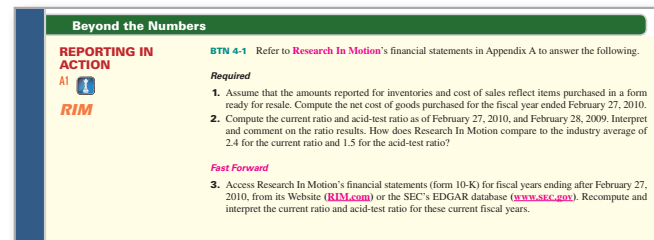
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- Entrepreneurial Decision
- Global Decision






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- Quick Studies, Exercises, and Problems available in *Connect* are marked with an icon.
- Online Learning Center (OLC) includes Interactive Quizzes, Excel template assignments, and more.
- Problems supported with Microsoft Excel template assignments are marked with an icon.

- Material that receives additional coverage (slide shows, videos, audio, etc.) available in iPod ready format are marked with an icon.
- Assignments that focus on global accounting practices and companies are often identified with an icon.

The authors extend a special thanks to accuracy checkers Barbara Schnathorst, The Write Solution, Inc.; Helen Roybark, Radford University; Donna Grace, Sheridan College; Yvonne Phang, Borough of Manhattan Community College; Mitchell Franklin, Syracuse University; Beth Woods; Judith Zander, Grossmont College; Wanda Wong, Chabot College; and David Krug, Johnson County Community College.

Enhancements in This Edition

This edition's revisions are driven by instructors and students. General revisions to the entire book are in the following bulleted list; specific chapter-by-chapter revisions follow.

- New coverage in each chapter on fraud and accounting controls, with explanation on the role of accounting
- Revised and updated assignments throughout
- Updated ratio (tool) analyses for each chapter
- New material on International Financial Reporting Standards (IFRS) in most chapters, including new global examples
- New and revised entrepreneurial examples and elements
- Revised serial problem through nearly all chapters
- New art program, visual info-graphics, and text layout
- New **Research In Motion** (maker of BlackBerry) annual report with comparisons to **Apple**, **Palm**, and **Nokia** (IFRS) with new assignments for each
- Updated graphics added to each chapter's analysis section
- New technology content integrated and referenced in the book
- Revised Global View section in each chapter referencing international accounting with examples using global companies
- Updated assignments covering international accounting

Chapter 1

Twitter NEW opener with new entrepreneurial assignment

New section on fraud, including explanation of the *fraud triangle*

Streamlined and consolidated learning objectives

New section on International Standards and convergence

Updated section on accounting principles, assumptions, and constraints

New section on accounting effects of the Dodd-Frank *Wall Street Reform and Consumer Protection Act*

New graphic discussing fraud control in accounting

Updated compensation data in exhibit

Chapter 2

CitySlips NEW opener with new entrepreneurial assignment

Reorganized and streamlined learning objectives

Enhanced introduction of double-entry accounting

New box on the fraud risks with religious organizations

New coverage on reading and using an annual report

Enhanced layout for transaction analysis

New discussion on accounting quality

Chapter 3

Cheezburger Network NEW opener with new entrepreneurial assignment

Revised and streamlined presentation of accounting adjustments

Enhanced info-graphics for adjusting entries

Revised exhibit on steps in preparing financial statements

Expanded discussion of global accounting

New box on fraud and lack of controls on assets within government agencies

Revised graphics for closing process

Enhanced details for general ledger after the closing process

Chapter 4

Heritage Link Brands REVISED opener with new entrepreneurial assignment

Streamlined learning objectives

Revised 2-step presentation for recording merchandise sales and its costs

New box on the accounting quality implications of accounting for sales returns

New discussion on fraud and invoices

Revised discussion of gross margin

Chapter 5

Fitness Anywhere NEW opener with new entrepreneurial assignment

Color-coded graphic for introducing cost flow assumptions

Revised discussion on inventory controls

Revised discussion of inventory accounting under IFRS

For Better Learning

Chapter 6

New Belgium Brewing Company

NEW opener with new entrepreneurial assignment

Revised SOX discussion of controls, including the role of COSO

Streamlined learning objectives

New material on drivers of human fraud

New graphic introducing a bank reconciliation with links to bank and book balances

Revised graphic on frequent cyber frauds

New graphic on drivers of financial misconduct

Chapter 7

Johnny Cupcakes **NEW opener**

with new entrepreneurial assignment

Streamlined learning objectives

Reorganized recording of credit sales

Further clarification of interest formula

New boxes covering fraud risks with accounts receivable and some potential controls

Chapter 8

Games2U NEW opener with new entrepreneurial assignment

Reorganized learning objectives

Added entry to record impairment

Enhanced discussion of asset sales

Updated all real world examples and graphics

New box highlighting fraud risks with long-term assets

Chapter 9

SnorgTees NEW opener with new entrepreneurial assignment

New box highlighting fraud risks with payables

Updated tax illustrations and assignments using most recent government rates

New data on frauds involving employee payroll

New entry to reclassify long- to short-term debt

Updated all real world examples and graphics

Chapter 10

CakeLove NEW opener with new entrepreneurial assignment

Enhanced graphics for bonds and notes

Revised discussion of debt-to-equity

Enhanced explanation of how U.S. GAAP and IFRS determine fair value

New fraud discussion on hidden liabilities

Chapter 11

Clean Air Lawn Care NEW opener with new entrepreneurial assignment

Streamlined learning objectives

Inserted numerous key margin computations for entries involving equity

New box highlighting fraud risks with stock valuation

Updated all real world examples and graphics

Chapter 12

Animoto NEW opener with new entrepreneurial assignment

Streamlined learning objectives

New box highlighting fraud risks and cash controls

Updated discussion of different classifications for certain cash flows under IFRS

Increased number and range of assignments

Chapter 13

Motley Fool REVISED opener with new entrepreneurial assignment

Streamlined learning objectives

New discussion on analysis tools to help identify fraud

New companies—**Research In Motion, Apple, Palm** and **Nokia**—and new data throughout the chapter, exhibits, and illustrations

Enhanced horizontal and vertical analysis using new company and industry data

Enhanced discussion of common-size graphics

Revised ratio analysis using new company and industry data

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* Appendixes D & E are available on the book's Website, mhhe.com/wildFA6e, and as print copy from a McGraw-Hill representative.

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