

EIGHTH EDITION

Financial Accounting

Robert Libby
Cornell University

Patricia A. Libby
Ithaca College

Daniel G. Short
Texas Christian University

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Education

To: Jenni, Jon, Emma, and Sophia Drago
Heather and Scott Andresen
Bob and Mary Ann Short, and Maryrose Short
Herman and Doris Hargenrater
Oscar and Selma Libby
Laura Libby



FINANCIAL ACCOUNTING, EIGHTH EDITION

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This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 DOW/DOW 1 0 9 8 7 6 5 4 3

ISBN 978-0-07-802555-6
MHID 0-07-802555-9

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Library of Congress Cataloging-in-Publication Data

Libby, Robert.
Financial accounting / Robert Libby, Cornell University; Patricia A. Libby, Ithaca College;
Daniel G. Short, Texas Christian University.—Eighth edition.
pages cm
Includes index.
ISBN 978-0-07-802555-6 (alk. paper)—ISBN 0-07-802555-9 (alk. paper)
1. Accounting. 2. Corporations—Accounting. 3. Financial statements. I. Libby, Patricia A.
II. Short, Daniel G. III. Title.
HF5636.L53 2014
657—dc23

2013006922

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ABOUT THE AUTHORS

ROBERT LIBBY

Robert Libby is the David A. Thomas Professor of Accounting at Cornell University, where he teaches the introductory financial accounting course. He previously taught at the University of Illinois, Pennsylvania State University, the University of Texas at Austin, the University of Chicago, and the University of Michigan. He received his BS from Pennsylvania State University and his MAS and PhD from the University of Illinois; he is also a CPA.

Bob is a widely published author and researcher specializing in behavioral accounting. He was selected as the AAA Outstanding Educator in 2000 and received the AAA Outstanding Service Award in 2006 and the AAA Notable Contributions to the Literature Award in 1985 and 1996. He is the only person to have received all three of the Association's highest awards for teaching, service, and research. He has published numerous articles in *The Accounting Review*; *Journal of Accounting Research*; *Accounting, Organizations, and Society*; and other accounting journals. He has held a variety of offices, including vice president in the American Accounting Association, and he is a member of the American Institute of CPAs and the editorial boards of *The Accounting Review*; *Accounting, Organizations, and Society*; and *Journal of Accounting Literature*.

PATRICIA A. LIBBY

Patricia Libby is associate professor of accounting at Ithaca College, where she teaches the undergraduate financial accounting course. She previously taught graduate and undergraduate financial accounting at Eastern Michigan University and the University of Texas. Before entering academe, she was an auditor with Price Waterhouse (now PricewaterhouseCoopers) and a financial administrator at the University of Chicago. She is also faculty advisor to Beta Alpha Psi and Ithaca College Accounting Association. She received her BS from Pennsylvania State University, her MBA from DePaul University, and her PhD from the University of Michigan; she is also a CPA.

Pat conducts research on using cases in the introductory course and other parts of the accounting curriculum. She has published articles in *The Accounting Review*, *Issues in Accounting Education*, and *The Michigan CPA*.

DANIEL G. SHORT

Daniel Short is professor of accounting and former dean of the M.J. Neeley School of Business at Texas Christian University in Fort Worth, Texas. Before he joined TCU, he was dean at the Richard T. Farmer School of Business at Miami University and the College of Business at Kansas State University. Prior to that, he was associate dean at the University of Texas at Austin, where he taught the undergraduate and graduate financial accounting courses. He also taught at the University of Michigan and the University of Chicago. He received his undergraduate degree from Boston University and his MBA and PhD from the University of Michigan.

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



A TRUSTED LEADER FOR

The award-winning author team of Bob Libby, Pat Libby, and Dan Short has made *Financial Accounting* a best-selling textbook by helping the instructor and student become partners in learning. Libby/Libby/Short uses a remarkable learning approach that keeps students engaged and involved in the material from the first day of class.

Libby/Libby/Short's *Financial Accounting* maintains its leadership by focusing on three key attributes:

THE PIONEERING FOCUS COMPANY APPROACH

The Libby/Libby/Short authors' trademark focus company approach is the best method for helping students understand financial statements and the real-world implications of financial accounting for future managers. **This approach shows that accounting is relevant and motivates students by explaining accounting in a real-world context.** Throughout each chapter, the material is integrated around a familiar focus company, its decisions, and its financial statements. This provides the perfect setting for discussing the importance of accounting and how businesses use accounting information.

A BUILDING-BLOCK APPROACH TO TEACHING TRANSACTION ANALYSIS

Most faculty agree that mastery of the accounting cycle is critical to success in financial accounting. And yet all other financial books introduce and develop transaction analysis in one chapter, bombarding a student early in the course with an overload of new concepts and terms. The authors believe that most faculty take more time with the accounting cycle, but other financial accounting textbooks don't. **By slowing down the introduction of transactions and giving students time to practice and gain mastery, this building-block approach leads to greater student success in their study of later topics in financial accounting such as adjusting entries.**

POWERFUL TECHNOLOGY FOR TEACHING AND STUDY

Students have different learning styles and conflicting time commitments, so they want technology tools that will help them study more efficiently and effectively. The 8th edition includes even more technology features, including McGraw-Hill Connect Accounting, LearnSmart, and Tegrity Campus. See pages xvi–xxi for more details.

STUDENTS AND INSTRUCTORS

*“[Libby, Libby, Short] does a **great job explaining financial accounting concepts to college students on an introductory level.**”*

—Peggy O’Kelly, Northeastern University

*“The text has **some of the best discussions that I have seen in introductory texts of statement of cash flows and financial statement analysis topics.**”*

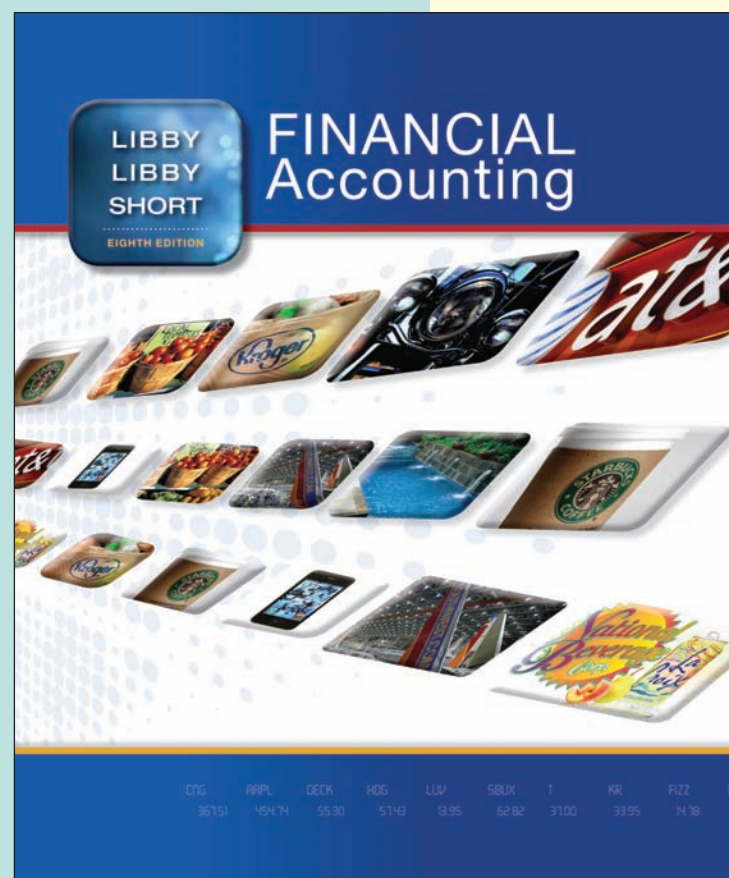
—Marilyn Misch, Pepperdine University

*“Excellent book with **very good and clear writing, coverage, illustrations** and overall very student friendly.”*

—Kashi Balachandran, New York University

*“The book does an excellent job of using real-world examples to highlight the importance of understanding financial accounting to students who may or may not be interested in pursuing accounting careers. I think this book will hold students’ attention, without sacrificing the technical information that provides the foundation for further accounting coursework. **Exceptionally well written and nicely organized.**”*

—Paul Hribar, University of Iowa



MARKET-LEADING PEDAGOGY

Financial Accounting, 8e, offers a host of pedagogical tools that complement the different ways you like to teach and the ways your students like to learn. Some offer information and tips that help you present a complex subject; others highlight issues relevant to what your students read online or see on television. Either way, *Financial Accounting's* pedagogical support will make a real difference in your course and in your students' learning.



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

A QUESTION OF ETHICS BOXES—These boxes appear throughout the text, conveying the importance and the consequences of acting responsibly in business practice.

KEY RATIO ANALYSIS BOXES—Each box presents ratio analysis for the focus company in the chapter as well as for comparative companies. Cautions are also provided to help students understand the limitations of certain ratios.

FOCUS ON CASH FLOWS BOXES—Each of the first eleven chapters includes a discussion and analysis of changes in the cash flows of the focus company and explores the decisions that caused those changes.

INTERNATIONAL PERSPECTIVE BOXES—These boxes highlight the emergence of global accounting standards (IFRS) at a level appropriate for the introductory student.

AND CONTENT

Anticipating a greater emphasis on International Financial Reporting Standards (IFRS) in the United States and recognizing its presence in more than 100 countries worldwide, selected IFRS topics are integrated in appropriate chapters at a level suitable for introductory financial accounting so students will be well-prepared to use statements prepared under IFRS in their careers. The coverage in Libby/Libby/Short exceeds the standards suggested by the PricewaterhouseCoopers (PwC) IFRS Ready program (2010) for sophomores and juniors presented below:

- Sophomores interviewing for summer programs and internships and who have had at least one term of accounting should have a pre-awareness of IFRS by being able to define what IFRS stands for and why it could be important to their future careers.
- Juniors and above interviewing for internships or full-time positions should be able to demonstrate an awareness of IFRS by being able to articulate which global organization establishes IFRS, what an example of a difference between U.S. GAAP and IFRS may be, and generally where it is used in the world.

The following table outlines the coverage chapter by chapter.

CHAPTER	TOPIC
1 Financial Statements and Business Decisions, p. 18	The IASB and Global Convergence of Accounting Standards
2 Investing and Financing Decisions and the Accounting System, p. 66	Understanding Foreign Financial Statements
3 Operating Decisions and the Accounting System, p. 104	Income Statement Differences
5 Communicating and Interpreting Accounting Information, p. 243	Differences in Accounting Methods Acceptable under IFRS and U.S. GAAP Treatment of Extraordinary Items
7 Reporting and Interpreting Cost of Goods Sold and Inventory, p. 338	Use of Last-In First-Out Method for Inventory
8 Reporting and Interpreting Property, Plant, and Equipment; Intangibles; and Natural Resources, pp. 399, 408	Component Allocation Differences in Accounting for Tangible and Intangible Assets
9 Reporting and Interpreting Liabilities, pp. 459, 461	Classification of Refinanced Debt Contingent Liabilities
11 Reporting and Interpreting Owners' Equity, p. 560	Stockholders' Equity Terminology
12 Statement of Cash Flows, p. 601	Treatment of Interest Received and Paid

*“The textbook focuses on the key accounting concepts and is **written clearly so that it is easy for students to understand.**”*

—Rada Brooks,
University of
California Berkeley,
Haas School
of Business

*“The **real-life examples are an excellent way to draw in the student and I thought that the ethics components and IFRS components were an excellent addition.**”*

—Tammy Metzke,
Milwaukee Area
Technical College

PRACTICE IS KEY TO SUCCESS

PAUSE FOR FEEDBACK AND SELF-STUDY QUIZ

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

“The **Pause for Feedback and Self-Study Quizzes** give the student the opportunity to test their understanding of the material before moving forward and also assist in breaking up the chapter into manageable sections.”

—Betty P. David, Francis Marion University

NEW!

GUIDED HELP

Today's students have a wide variety of time commitments. And research shows that when they have difficulty understanding a key concept, they benefit most when help is available immediately. **Our unique Guided Help feature provides a narrated, animated, step-by-step walk-through of select topics covered in the Self-Study Quiz that can be viewed any time through their mobile device or online. Students will simply need to scan the QR code to view directly on their mobile device or go to the text website at www.mhhe.com/libby8e to view online. It also saves office hour time!**

PAUSE FOR FEEDBACK



Inventory should include all items owned that are held for resale. Costs flow into inventory when goods are purchased or manufactured. They flow out (as an expense) when they are sold or disposed of. The cost of goods sold equation describes these flows.

SELF-STUDY QUIZ

1. Assume the following facts for Harley-Davidson's Motorclothes leather baseball jacket product line for the year 2013.
Beginning inventory: 400 units at unit cost of \$75.
Purchases: 600 units at unit cost of \$75.
Sales: 700 units at a sales price of \$100 (cost per unit \$75).

Using the cost of goods sold equation, compute the dollar amount of **goods available for sale, ending inventory, and cost of goods sold** of leather baseball jackets for the period.

Beginning inventory	
+ Purchases of merchandise during the year	
Goods available for sale	
– Ending inventory	
Cost of goods sold	

2. Assume the following facts for Harley-Davidson's Motorclothes leather baseball jacket product line for the year 2014.
Beginning inventory: 300 units at unit cost of \$75.
Ending inventory: 600 units at unit cost of \$75.
Sales: 1,100 units at a sales price of \$100 (cost per unit \$75).

Using the cost of goods sold equation, compute the dollar amount of **purchases** of leather baseball jackets for the period. Remember that if three of these four values are known, the cost of goods sold equation can be used to solve for the fourth value.

Beginning inventory	
+ Purchases of merchandise during the year	
– Ending inventory	
Cost of goods sold	

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

GUIDED HELP



For additional step-by-step video instruction on using the cost of goods sold equation to compute relevant income statement amounts, go to the URL or scan the QR code in the margin with your smartphone or iPad.

www.mhhe.com/libby8e

1. Beginning inventory (400 × \$75)	\$30,000
+ Purchases of merchandise during the year (600 × \$75)	45,000
Goods available for sale (1,000 × \$75)	75,000
– Ending inventory (300 × \$75)	22,500
Cost of goods sold (700 × \$75)	\$82,500
2. BI = 300 × \$75 = \$22,500	BI + P – EI = CGS
EI = 600 × \$75 = \$45,000	22,500 + P – 45,000 = 82,500
CGS = 1,100 × \$75 = \$82,500	P = 105,000

Solutions to
SELF-STUDY QUIZ

CHAPTER TAKE-AWAYS

Bulleted end-of-chapter summaries complement the learning objectives outlined at the beginning of the chapter.

CHAPTER TAKE-AWAYS

- 7-1. Apply the cost principle to identify the amounts that should be included in inventory and the expense matching principle to determine cost of goods sold for typical retailers, wholesalers, and manufacturers. p. 329
Inventory should include all items owned that are held for resale. Costs flow into inventory when goods are purchased or manufactured. They flow out (as an expense) when they are sold or disposed of. In conformity with the expense matching principle, the total cost of the goods sold during the period must be matched with the sales revenue earned during the period. A company can keep track of the ending inventory and cost of goods sold for the period using (1) the perpetual inventory system, which is based on the maintenance of detailed and continuous inventory records, and (2) the periodic inventory system, which is based on a physical count of ending inventory and use of the cost of goods sold equation to determine cost of goods sold.
- 7-2. Report inventory and cost of goods sold using the four inventory costing methods. p. 334
The chapter discussed four different inventory costing methods used to allocate costs between the units remaining in inventory and the units sold and their applications in different economic circumstances. The methods discussed were specific identification, FIFO, LIFO, and average cost. Each of the inventory costing methods conforms to GAAP. Public companies using LIFO must provide note disclosures that allow conversion of inventory and cost of goods sold to FIFO amounts. Remember that the cost flow assumption need not match the physical flow of inventory.
- 7-3. Decide when the use of different inventory costing methods is beneficial to a company. p. 339
The selection of an inventory costing method is important because it will affect reported income, income tax expense (and hence cash flow), and the inventory valuation reported on the balance sheet. In a period of rising prices, FIFO normally results in a higher income and higher taxes than LIFO; in a period of falling prices, the opposite occurs. The choice of methods is normally made to minimize taxes.
- 7-4. Report inventory at the lower of cost or market (LCM). p. 342
Ending inventory should be measured based on the lower of actual cost or replacement cost (LCM basis). This practice can have a major effect on the statements of companies facing declining costs. Damaged, obsolete, and out-of-season inventory should also be written down to their current estimated net realizable value if below cost. The LCM adjustment increases cost of goods sold, decreases income, and decreases reported inventory in the year of the write-down.

IN FINANCIAL ACCOUNTING

COMPREHENSIVE PROBLEMS

Selected chapters include problems that cover topics from earlier chapters to refresh, reinforce, and build an integrative understanding of the course material.

COMPREHENSIVE PROBLEM (CHAPTERS 6-8)

Complete the requirements for each of the following independent cases: **COMP8-1**

Case A, Dr Pepper Snapple Group, Inc., is a leading integrated brand owner, bottler, and distributor of nonalcoholic beverages in the United States, Canada, and Mexico. Key brands include Dr. Pepper, Snapple, 7-UP, Moti's juices, A&W root beer, Canada Dry ginger ale, Schweppes ginger ale, and Hawaiian Punch, among others.

The following represents selected data from recent financial statements of Dr Pepper Snapple Group (dollars in millions):

DR PEPPER SNAPPLE GROUP, INC.		
Consolidated Balance Sheets (partial)		
(in millions)	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$701	\$315
Accounts receivable (net of allowances of \$3 and \$5, respectively)	585	536

CASES AND PROJECTS

Annual Report Cases

CP1-1
LO1-1
Finding Financial Information

Refer to the financial statements of American Eagle Outfitters in Appendix B at the end of this book.

Required:
Skim the annual report. Look at the income statement, balance sheet, and cash flow statement closely and attempt to infer what kinds of information they report. Then answer the following questions based on the report.

1. What types of products does American Eagle Outfitters sell?
2. On what date does American Eagle Outfitters's most recent reporting year end?
3. For how many years does it present complete
 - a. Balance sheets?
 - b. Income statements?
 - c. Cash flow statements?

CASES AND PROJECTS

This section includes annual report cases, financial reporting and analysis cases, critical thinking cases, and financial reporting and analysis team projects.

CONTINUING CASE

NEW!

The continuing case revolves around Penny's Pool Service & Supply, Inc. and its largest supplier, Pool Corporation, Inc. In the first five chapters, the continuing case follows the establishment,

operations, and financial reporting for Penny's. In Chapter 5, Pool Corporation, a real publicly traded corporation, is also introduced in more detail. The Pool Corporation example is then extended to encompass each new topic in the remaining chapters.

"This is an excellent book that can be used for both an introductory course as well as an MBA class. The book has a simple, conversational and easy-to-understand writing style. The book is also very well organized and has a lot of end-of-chapter material. **This is one of the best financial accounting books that I have come across.** It is a must for a financial accounting course."

—Syed Hasan, George Mason University

CONTINUING CASE

Financial Statements for a New Business Plan **CC1-1**

Penny Cassidy is considering forming her own pool service and supply company, Penny's Pool Service & Supply, Inc. (PPSS). She has decided to incorporate the business to limit her legal liability. She expects to invest \$20,000 of her own savings and receive 1,000 shares of common stock. Her plan for the first year of operations forecasts the following amounts at the end of the year December 31, 2014: Cash in bank, \$2,900; amounts due from customers for services rendered, \$2,300; pool supplies inventory, \$4,600; equipment, \$28,000; amounts owed to Pool Corporation, Inc., a pool supply wholesaler, \$3,500; note payable to the bank, \$5,000. Penny forecasts first year sales of \$60,000, wages of \$24,000, cost of supplies used \$8,200, other administrative expenses \$4,500, and income tax expense of \$4,000. She expects to pay herself a \$10,000 dividend as the sole stockholder of the company.

Required:
If Penny's estimates are correct, what would the following first year financial statements look like for Penny's Pool Service & Supply (use Exhibits 1.2, 1.3, and 1.4 as models).

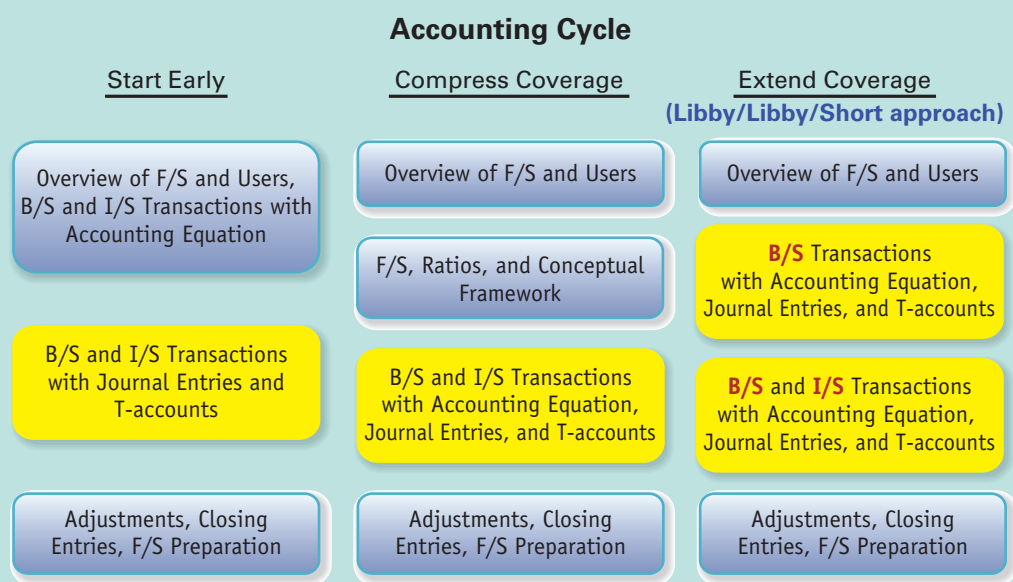
1. Income statement
2. Statement of stockholders' equity
3. Balance sheet

A PROVEN TEACHING AND

Faculty agree the accounting cycle is the most critical concept to learn and master for students studying financial accounting. Libby/Libby/Short believes students struggle with the accounting cycle when transaction analysis is covered in one chapter. If students are exposed to the accounting equation, journal entries, and T-accounts for both balance sheet and income statement accounts in a single chapter, many are left behind and are unable to grasp material in the next chapter, which typically covers adjustments and financial statement preparation.

The market-leading Libby/Libby/Short approach spreads transaction analysis coverage over two chapters so that students have the time to master the material. In Chapter 2 of *Financial Accounting*, students are exposed to the accounting equation and transaction analysis for investing and financing transactions that only affect balance sheet accounts. This provides students with the opportunity to learn the basic structure and tools used in accounting in a simpler setting. In Chapter 3, students are exposed to more complex operating transactions that also affect income statement accounts. As a result of this slower building-block approach to transaction analysis, students are better prepared and ready to learn adjustments, financial statement preparation, and more advanced topics. After the students have developed an understanding of the complete accounting cycle and the resulting statements, Chapter 5 takes students through the corporate reporting and analysis process.

LEARNING METHODOLOGY



This graphic shows a detailed comparison of the Libby/Libby/Short approach to the accounting cycle chapters compared to the approach taken by other financial accounting texts.

The authors' approach to introducing the accounting cycle has been tested in peer-reviewed, published research studies. One of these award-winning studies has shown that the accounting cycle approach used in this textbook yields learning gains that outpace approaches used in other textbooks by a significant margin.

I really like the way the Balance Sheet accounts are introduced with the accounting equation, then you go directly to Debit and Credit entries. I have not seen a text use this approach. I feel it would break the material down to make it easier to grasp for the first-time accounting student. I LOVE that the journal entries are introduced right in the same chapter as the accounting equation. Most texts introduce the accounting equation in chapter 1, then debits and credits in chapter 2. I like the approach the Libby text is using! Love the illustrations . . . This shows BOTH the accounting equation AND Journal Entries."

—Christy Land, Catawba Valley Community College

WHAT'S NEW IN THE 8th EDITION?

One reason Libby/Libby/Short's *Financial Accounting is a best-selling* textbook is because instructors can trust the flexibility in key topical coverage, the simplified explanations of complex topics, and end-of-chapter material that relates directly to the chapter's text and engages the students with concepts and decision making using details from the chapter.

Chapter 1

Focus Company: Le-Nature's Inc.

- **New** focus company and coverage of an exciting, but simple, recent accounting fraud. Students are introduced to the structure, content, and use of the four basic financial statements through the story of two brothers who founded Le-Nature's Inc., a natural beverage company. Le-Nature's financial statements are used to support increases in borrowing for expansion. When actual sales do not live up to expectations, the brothers turn to financial statement fraud to cover up their failure. The fact that banks and other parties involved lost upwards of \$700 million and the perpetrators are now spending a total of 70 years in federal prison emphasizes the importance of controls, responsible ethical conduct, and accurate financial reporting.
- The simple statement of stockholders' equity replaces the statement of retained earnings to match current practice.
- **New GUIDED HELP** feature provides all users of the text with free access to step-by-step video instruction on preparing a simple balance sheet, income statement, and statement of stockholders' equity for LaCrosse Footwear, a leading outdoor footwear company.
- **New CONTINUING CASE** added to the end-of-chapter problems based on the activities of Penny's Pool Service & Supply, Inc. and its supplier, Pool Corporation. These cases summarize key points emphasized in each chapter in a consistent context throughout the text. In Chapter 1, students prepare a basic income statement, statement of stockholders' equity, and balance sheet based on Penny's estimates for the first year.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 2

Focus Company: Chipotle Mexican Grill

- **New** focus company **Chipotle Mexican Grill** (replacing Papa John's International in 7e), with integration of financial information for the first quarter of 2012 (not for a month as in 7e).
 - Use of Chipotle Mexican Grill eliminates complications of franchise accounting involved in the Papa John's example in the 7e.
 - Chipotle's business strategy is based on sustainable practices that are of growing interest to businesses and society.
- Cash flow statement coverage limited to identifying transactions as operating, investing, or financing.
- Discussion and illustration of issuing common stock using accounts students will likely see in real statements—Common Stock and Additional Paid-in Capital (not Contributed Capital, which was used in 7e). The demonstration case and EOC material have been changed to reflect coverage of these new accounts.
- Update of the conceptual framework to reflect the new definitions from the FASB.
- Trial balance introduced (moved from Chapter 4 in 7e) and updated as needed as part of the continuing illustration of Chipotle Mexican Grill's quarterly transactions.
- T-accounts added after each transaction to illustrate posting the effects.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on transaction analysis and recording, posting, and classifying accounts for investing and financing activities
- **New CONTINUING CASE** added to the end-of-chapter problems. In this case, students prepare journal entries, post to T-accounts, prepare a trial balance and classified balance sheet, identify investing and financing activities affecting cash flows, and compute

and interpret the current ratio based on the balance sheet for Penny's Pool Service.

- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases with requirements reflecting the changes in topics emphasized in each chapter.

Chapter 3

Focus Company: Chipotle Mexican Grill

- **New** focus company **Chipotle Mexican Grill**
- Update of the conceptual framework to reflect the new definitions from the FASB.
- The key ratio in this chapter was changed to the Net Profit Margin ratio (replacing coverage of the Total Asset Turnover ratio in the 7e).
- Trial balance updated as needed as part of the continuing illustration of Chipotle Mexican Grill's quarterly transactions.
- T-accounts added after each transaction to illustrate posting the effects.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on transaction analysis and recording, posting, and classifying accounts for operating activities.
- **New CONTINUING CASE** where students prepare journal entries for operating activities, prepare a classified income statement, and compute and analyze the net profit margin based on the income statement for Penny's Pool Service.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases with requirements reflecting the changes in topics emphasized in each chapter.

Chapter 4

Focus Company: Chipotle Mexican Grill

- **New** focus company **Chipotle Mexican Grill**
 - The March 31, 2012, statements in Chapter 4 are quite similar to the actual quarterly statements of Chipotle, except for a few simplifications.
- The key ratio in this chapter was changed from Net Profit Margin ratio to the Total Asset Turnover ratio.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on recording adjusting entries.

- **New CONTINUING CASE** added where students prepare adjusting entries for Penny's Pool Service.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases with requirements reflecting the changes in topics emphasized in each chapter.

Chapter 5

Focus Company: Apple Inc.

- **New** focus company **Apple Inc.**, with integration of the financial statements and corporate governance and disclosure processes of students' favorite technology company.
- **New** simplified exhibit explaining the role of management, auditors, boards of directors, and regulators in ensuring the integrity of financial reporting.
- Focus narrowed to three topics: details of the corporate governance and disclosure process; financial statement formats and important subtotals, totals, and additional disclosures; and the analysis of financial statements through gross profit, net profit, total asset turnover, and return on assets analyses.
- Fraud triangle added to corporate governance discussion.
- Issuance of par value stock moved to the discussion of financing activities in Chapter 2.
- **New** section on the effects of transactions on key ratios added to tie the material in this chapter to coverage in Chapters 2, 3, and 4.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on preparing a detailed classified income statement and balance sheet from a trial balance for amazon.com, the world's largest online retailer.
- **Two New CONTINUING CASES** added to the end-of-chapter problems. The first asks students to evaluate the effects of key transactions on important statement subtotals and financial ratios for Penny's Pool Service & Supply. The second introduces Penny's supplier, Pool Corporation, a public company, and asks students to prepare a detailed classified income statement and balance sheet and compute the gross profit percentage and return on assets ratios.

- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 6

Focus Company: Deckers Outdoor Corporation

- Focus and contrast company data updated.
- Content narrowed to three related topics: computing and reporting net sales, receivables valuation, and control of cash.
- Coverage of gross profit percentage moved to Chapter 5.
- Exhibits reorganized to better reflect the chapter flow.
- Coverage of bad debt recoveries increased.
- Coverage of electronic banking increased.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on preparing entries related to bad debts and determining their financial statement effects.
- **New CONTINUING CASE** added to the end-of-chapter problems. Students are asked to make summary entries for bad debts and compute the amount to be reported as net sales for Pool Corporation, a public company.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 7

Focus Company: Harley-Davidson, Inc.

- Focus and contrast company data updated.
- Coverage of perpetual versus periodic inventory systems moved to section on cost of goods sold, near the beginning of the chapter.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on computation of goods available for sale and cost of goods sold.
- Exhibits 7.4 and 7.5 revised to make it easier to see the effects of FIFO, LIFO, and average costing methods on the financial statements.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on computing cost of goods sold and ending inventory under FIFO and LIFO costing methods.
- **New** Appendix B added demonstrating the effects of determining FIFO and LIFO cost of goods sold under periodic versus perpetual inventory systems.

- **New CONTINUING CASE** added to the end-of-chapter problems. Students are asked to determine the financial statement effects of the choice between FIFO and LIFO when inventory costs are increasing and when they are decreasing for Pool Corporation.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 8

Focus Company: Southwest Airlines

- Focus and contrast company data updated.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on the three cost allocation methods—straight-line method, units-of-production method, and double-declining balance method.
- **New** International Perspective box on component allocation, replacing the International Perspective box on measurement basis for property, plant, and equipment in the previous edition.
- Coverage of intangible assets moved to precede the discussion of natural resources.
- **New** International Perspective box on the differences in accounting for tangible and intangible assets, replacing the International Perspective box on standards in process in the previous edition.
- **New CONTINUING CASE** added to the end-of-chapter problems. Students are asked to record the acquisition, depreciation, and disposal of equipment for Pool Corporation, a public company.
- Two demonstration cases: One on accounting for and reporting of property, plant, equipment, and intangible assets; and one on accounting for natural resources.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 9

Focus Company: Starbucks

- Focus and contrast company data updated.
- Quick ratio coverage removed.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on present value.

- **New CONTINUING CASE** added to the end-of-chapter problems. Students are asked to record and report liabilities for Pool Corporation, a public company.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 10

Focus Company: AT&T

- **New** focus company **AT&T** and revised coverage related to reporting and interpreting the bonds of **AT&T**.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on calculating the issue price of a bond.
- **New CONTINUING CASE** added to the end-of-chapter problems. Students are asked to compute the issue price, interest expense, interest paid, and book value of the bonds for Pool Corporation, a public company.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 11

Focus Company: The Kroger Company

- Focus and contrast company data updated.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on recording transactions related to stock dividends and stock splits.
- New section on the statement of changes in stockholders' equity.
- **New CONTINUING CASE** added to the end-of-chapter problems. Students are asked to record the repurchase of shares by Pool Corporation, a public company, as well as all necessary entries related to its dividends.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 12

Focus Company: National Beverage Corporation

- Statement of cash flows coverage moved to Chapter 12.
- Focus and contrast company data updated.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on

preparing the operating section of the statement of cash flows using the indirect method.

- **New** Demonstration Case illustrating preparation of the complete statement of cash flows based on the comparative balance sheet and other related information.
- **New** Chapter Supplement C (and related problem material) illustrates preparation of the statement of cash flows using the complete T-account approach.
- **New CONTINUING CASE** involving preparation of the complete statement of cash flows for Pool Corporation, a public company.
- New and updated real companies, as well as modified accounts, names, and amounts for fictional companies in end-of-chapter exercises, problems, and cases.

Chapter 13

Focus Company: The Home Depot

- Financial statement analysis coverage moved to Chapter 13.
- Focus and contrast company data updated.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on the computation of the current ratio, inventory turnover ratio, and price/earnings ratio.
- **New CONTINUING CASE** added to the end-of-chapter problems. Students are asked to compute ratios for Pool Corporation, a public company.

Appendix E

Focus Company: The Washington Post Company

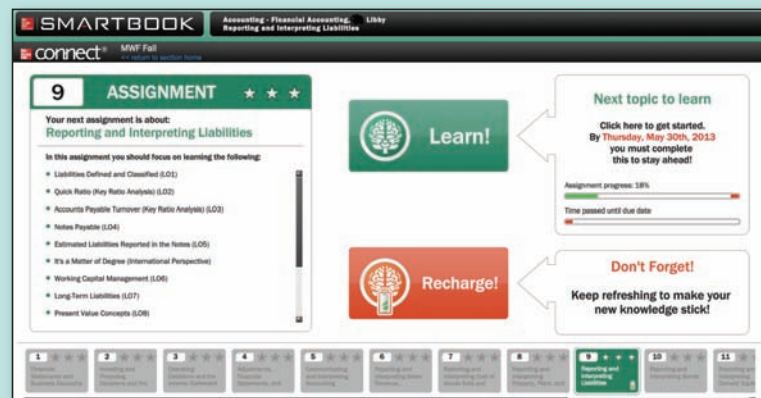
- Reporting and interpreting investments in other corporations coverage moved to Appendix E.
- Material organized so that instructors can easily choose which (if any) investments topics they wish to cover.
- Focus and contrast company data updated.
- **New GUIDED HELP** feature provides free access to step-by-step video instruction on passive investments accounting.
- **New** Chapter Supplement A on held-to-maturity bonds purchased at other than par value using the amortized cost method.
- **New CONTINUING CASE** added to the end-of-chapter problems. Students are asked to prepare journal entries for Pool Corporation, a public company, assuming that it has purchased shares for the trading securities portfolio and the available-for-sale securities portfolio.

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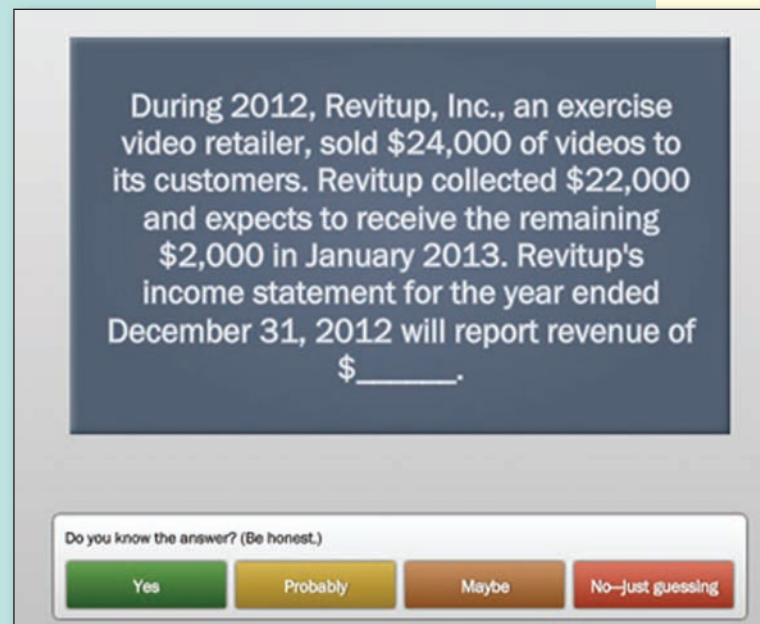
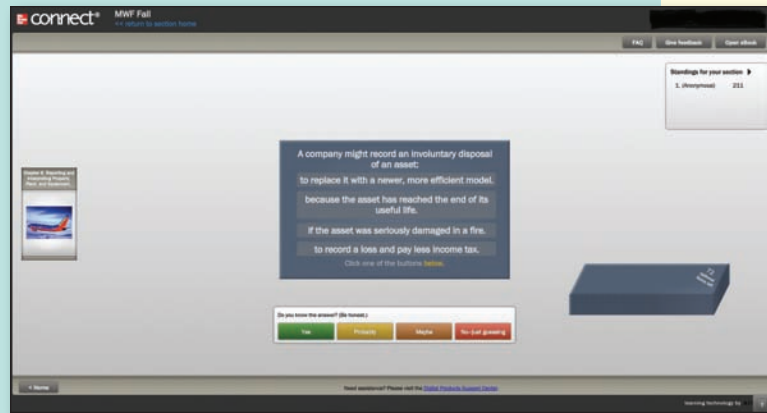
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Online Assignments

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

Intelligent Response Technology (IRT)

IRT is a redesigned student interface for our end-of-chapter assessment content. The benefits include improved answer acceptance to reduce students' frustration with formatting issues (such as rounding). Also, select questions have been redesigned to test students' knowledge more fully. They now include tables for students to work through rather than requiring that all calculations be done offline.



M4-4 Recording Adjusting Entries (Deferred Accounts) LO4-1
 In each of the following transactions (a) through (c) for Romney's Marketing Company, use the three-step process illustrated in the chapter to record the adjusting entry at year-end December 31, 2015. The process includes (1) determining if revenue was earned or an expense incurred, (2) determining whether cash was received or paid in the past or will be received or paid in the future, and (3) computing the amount of the adjustment. (If no entry is required for a transaction/event, select "No journal entry required" in the first account field.)

a. Collected \$1,200 rent for the period December 1, 2015, to April 1, 2016, which was credited to Unearned Rent Revenue on December 1, 2015.
 b. Purchased a machine for \$32,000 cash on January 1, 2011. The company estimates annual depreciation at \$3,200.
 c. Paid \$5,000 for a two-year insurance premium on July 1, 2015; debited Prepaid Insurance for that amount.

[view transaction list](#) [view general journal](#)

Journal Entry Worksheet

Record the annual depreciation entry.

Transaction	General Journal	Debit	Credit
b.	Depreciation expense	3,200	
	Accumulated depreciation		3,200

*Enter debits before credits

[done](#) [clear transaction](#) [record transaction](#)

E5-5 Preparing a Classified Balance Sheet LO5-3
 Campbell Soup Company is the world's leading maker and marketer of soup and sells other well-known brands of food in 120 countries. Presented here are the items listed on its recent balance sheet (dollars in millions) presented in alphabetical order.

Accounts payable	\$ 585	Other assets	\$ 136
Accounts receivable	560	Other current assets	152
Accrued expenses	619	Other current debt	785
Cash and cash equivalents	484	Other noncurrent liabilities	3,777
Common stock, \$0.0375 par value	351	Property, plant, and equipment, net	2,103
Intangible assets	2,660	Retained earnings	745
Inventories	767		

Required:
 Prepare a classified consolidated balance sheet for Campbell Soup for the current year (ended July 31). (Enter your answers in millions (i.e., 10,000,000 should be entered as 10).)

CAMPBELL SOUP COMPANY
 Consolidated Balance Sheet
 July 31, Current Year
 (In millions)

Assets	
Current Assets:	
Cash and cash equivalents	\$ 484
Accounts receivable	
Accounts payable	
Accounts receivable	
Total current assets	484
Total assets	\$ 484
Liabilities and Stockholders' Equity	
Current liabilities:	

BEYOND THE CLASSROOM

Guided Examples

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

“As a student I need to interact with course material in order to retain it, and *Connect* offers a perfect platform for this kind of learning. Rather than just reading through textbooks, *Connect* has given me the tools to feel engaged in the learning process.

—Jennah Epstein Kraus, Student,
Bunker Hill Community College

The screenshot shows a presentation slide titled "Exercise 3-7". On the left, a sidebar indicates "1. Slide 1" and "00:00". The main content area contains the following text:

Five Star Foods, a marketer and distributor of food service products, serves many organizations. The following summarized transactions are typical of those that occurred in a recent year (dollars are in thousands).

- a. Purchased plant and equipment for \$630 in cash.
- b. Borrowed \$1,500 from a bank, signing a short term note.
- c. Provided \$40,000 in service to customers during the year, with \$32,500 on account and the rest received in cash.
- d. Paid \$5,100 cash on accounts payable.
- e. Purchased \$27,500 inventory on account.
- f. Paid payroll, \$4,250 during the year.
- g. Received \$28,000 on account paid by customers.
- h. Purchased and used fuel of \$1,250 in delivery vehicles during the year (paid for in cash).
- i. Declared and paid \$600 in dividends for the year.
- j. Incurred \$75 in utility usage during the year; paid \$25 in cash and owed the rest on account.

Required:
For each of the transactions, prepare journal entries.

Student Library

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

The screenshot shows the "Financial Accounting" Student Library interface. The page title is "Financial Accounting Tuesday/Thursday" with a "my courses" link. Navigation tabs include "home", "library", and "reports". The "library" tab is active, displaying "Essential resources for practice and study." with the following options:

- ebook**: access and search your textbook
- course files**: download files for the course
- LearnSmart**: identify your study needs and practice to improve
- lectures**: view your instructor's recorded lectures

A sidebar on the left lists additional resources: "ebook", "course files", "LearnSmart study modules", "recorded lectures", and "student resources".

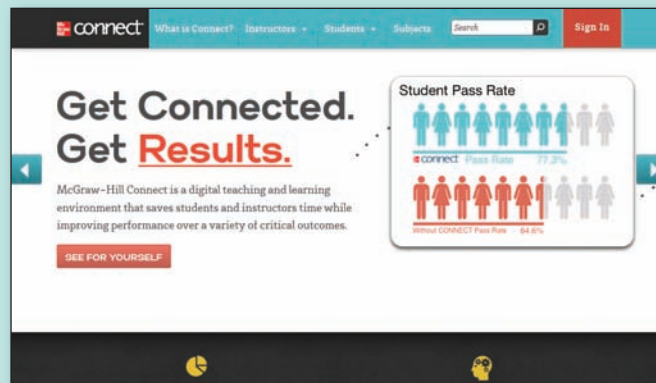
MCGRAW-HILL CONNECT ACCOUNTING FEATURES

Connect Accounting offers a number of powerful tools and features to make managing assignments easier, so faculty can spend more time teaching.

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- 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.
- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.



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- Collect data and generate reports required by many accreditation organizations, such as AACSB and AICPA.

Instructor Library

The *Connect Accounting* Instructor Library is a 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, videos, slide presentations, Solutions Manual, Instructor's Manual, and Test Bank. The *Connect Accounting* Instructor Library also allows you to upload your own files.



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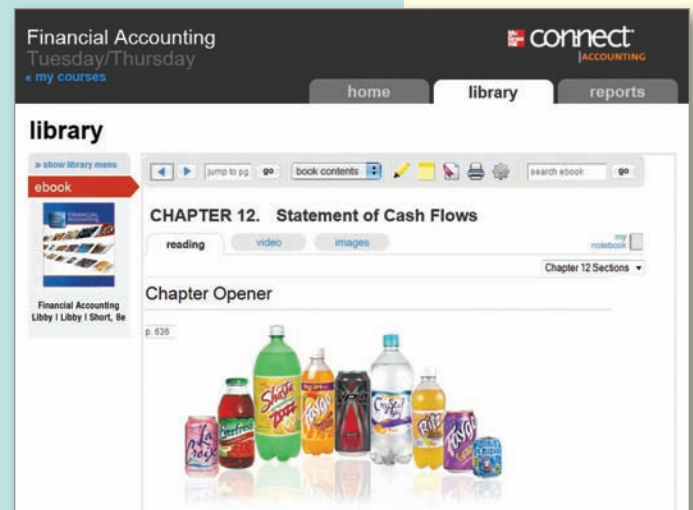
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—Professor Lisa McKinney, M.T.A., CPA, University of Alabama



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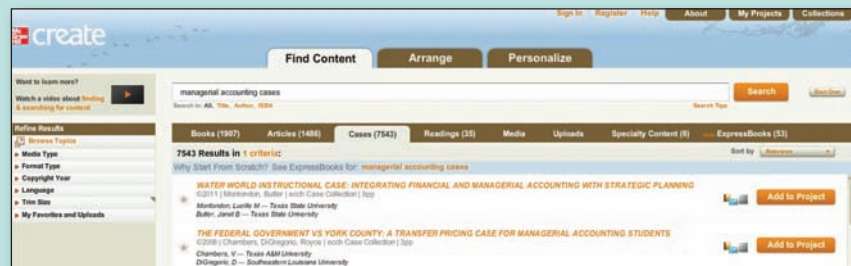
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COMPLETE TEACHING PACKAGE FOR INSTRUCTORS

Access to the instructor's key text ancillary materials is at your fingertips. You can find all of the instructor ancillaries on McGraw-Hill *Connect Accounting* and on the password-protected instructor website, including: Presentation Slides, Solutions Manual, Test Bank and Computerized Test Bank, Instructor's Resource Manual, Solutions to Excel Templates, and text exhibits.

Presentation Slides

Prepared by Susan Galbreath at David Lipscomb University, Jon Booker and Charles Caldwell at Tennessee Technological University, and Cynthia Rooney, University of New Mexico–Los Alamos. Completely customized PowerPoint presentations for use in your classroom.

Solutions Manual

Prepared by Robert Libby, Patricia Libby, and Daniel Short. Provides solutions to end-of-chapter questions, mini-exercises, exercises, problems, alternate problems, and cases.

Test Bank

Prepared by Gina Lord at Santa Rosa College. This comprehensive test bank includes more than 1,500 true/false, multiple-choice, and matching questions and problems, each tagged by learning objective, topic area, difficulty level, and AACSB, Bloom's, and AICPA categories.

Instructor's Resource Manual

Prepared by Jeannie Folk at College of DuPage. Includes overviews of chapter topics and resources to help you prepare for class. It describes the ready-to-use resources that support the text and presents other enrichment resources, including innovative active learning exercises that you can use in class. This manual is a must-read for any instructor interested in improving teaching evaluations.

MBA Companion to Financial Accounting

Available in Create. Prepared by Frank Hodge of University of Washington, the MBA Companion mirrors the format of the text to further explore three important long-term liabilities: leases, taxes, and pensions. It uses UNDER ARMOUR's current disclosures in discussing these topics and provides enough detail to allow MBA students to read, discuss, and actively make decisions related to these topics. The accompanying exercises, problems, and cases allow students to test their understanding of the material.

Instructor Excel Templates

Solutions to the student Excel Templates used to solve selected end-of-chapter exercises and problems. These assignments are designated by the Excel icon.



EZ Test Online

McGraw-Hill's EZ Test Online is a flexible and easy-to-use electronic testing program that allows instructors to create tests from book-specific items. EZ Test Online accommodates a wide range of question types and allows instructors to add their own questions. Multiple versions of the test can be created and any test can be exported for use with course management systems such as BlackBoard/WebCT. EZ Test Online gives instructors a place to easily administer EZ Test-created exams and quizzes online. The program is available for Windows and Macintosh environments.

ASSURANCE OF LEARNING READY

Many educational institutions today are focused on the notion of *assurance of learning*, an important element of some accreditation standards. *Financial Accounting* is designed specifically to support your assurance of learning initiatives with a simple, yet powerful solution.

Each test bank question for *Financial Accounting* maps to a specific chapter learning outcome/objective listed in the text. You can use our test bank software, EZ Test and EZ Test Online, or *Connect Accounting* to easily query for learning outcomes/objectives that directly relate to the learning objectives for your course. You can then use the reporting features of EZ Test or *Connect Accounting* to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB STATEMENT



The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Financial Accounting* recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the test bank to the six general knowledge and skill guidelines in the AACSB standards.

The statements contained in *Financial Accounting* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Financial Accounting* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have labeled selected questions within the Test Bank to accompany *Financial Accounting* according to the six general knowledge and skill areas.

COMPLETE STUDY PACKAGE FOR STUDENTS

Online Learning Center

www.mhhe.com/libby8e

Financial Accounting's Online Learning Center offers students additional study resources, including Self-Study quizzes, B set exercises, PowerPoint slides, and Excel templates tied to the end-of-chapter material, all organized by chapter.

Student PowerPoint Presentations

Selected presentation slides reproduced in student version. Presentation slides are located on the text's website.

Check Figures

Prepared by LuAnn Bean at Florida Institute of Technology. This resource provides answers to select problems and cases. Check Figures are located on the text's Online Learning Center.

Study Guide Available in Create

An outstanding learning tool, this guide gives students a deeper understanding of the course material and reinforces, step by step, what they are learning in the main text.

Working Papers Available in Create

Working Papers are provided to assist students in solving complex text assignments. The Working Papers are available both in print and as Excel spreadsheets.

Excel Templates

Available on the text website www.mhhe.com/libby8e. These templates are tied

to selected end-of-chapter material and are available on the text website. These assignments are designated by the Excel icon.

Understanding Corporate Annual Reports, by William R. Pasewark

Available in Create

This financial analysis project emphasizes the interpretation and analysis of financial statements. It contains extensive instructions for obtaining an annual report from a publicly traded corporation. Students gain hands-on experience working with annual reports and are then better prepared to understand financial accounting concepts and their use in the business world.

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ACKNOWLEDGMENTS

Many dedicated instructors have devoted their time and effort to help us make each edition better. We would like to acknowledge and thank all of our colleagues who have helped guide our development decisions for this and previous editions. This text would not be the success it is without the help of all of you.

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Terri Brunson, *The University of Akron*

Marci Butterfield, *University of Utah*

Kay Carnes, *Gonzaga University*

Nancy Cassidy, *Texas A&M University*

Michael Cathey, *The George Washington University*

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Chiaho Chang, *Montclair State University*

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Richard Fleischman, *John Carroll University*

Virginia Fullwood, *Texas A&M University—Commerce*

Cheryl Furbee, *Cabrillo College*

Mohamed Gaber, *SUNY Plattsburgh*

Joseph Galante, *Millersville University of*

Pennsylvania

Carolyn Galantine, *Pepperdine University*

Andy Garcia, *Bowling Green State University*

David Gelb, *Seton Hall University*

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Giorgio Gotti, *University of Massachusetts—Boston*

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Dennis Lee Kovach, *Community College of*

Allegheny

Tammy Kowalczyk, *Western Washington University*

Charles Ladd, *University of St. Thomas*

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Christy Land, *Catawba Valley Community College*

Maria Leach, *Auburn University at Montgomery*

Terry Lease, *Sonoma State*

Marc Lebow, *Christopher Newport University*

Deborah Lee, *Northeastern State University*

Patsy Lee, *University of North Texas*

Christy Lefevers-Land, *Catawba Valley Community*

College

Seth Levine, *University of Miami*

Elliott Levy, *Bentley University*

Phil Lewis, *Eastern Michigan University*

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Ling Lin, *University of Massachusetts—Dartmouth*

Daniel Litt, *University of California—Los Angeles*

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Joshua Livnat, *New York University*

Lawrence Logan, *University of Massachusetts—Dart-*

mouth

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 Birendra Mishra, *University of California at Riverside*
 Earl Mitchell, *Santa Ana College*
 Dennis P. Moore, *Worcester State College*
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 Samir Nissan, *California State University Chico*
 Tom Nunamaker, *Washington State University*
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 Keith Richardson, *Bellarmino University*
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 Joanne Rockness, *University of North Carolina—Wilmington*
 Lawrence Roman, *Cuyahoga Community College*
 John Rossi III, *Moravian College*
 John Rude, *Bloomsburg University*
 Joan Ryan, *Clackamas Community College*
 Karen Salmela, *University of Minnesota—Duluth*
 Angela Sandberg, *Jacksonville State University*
 Amy Santos, *Manatee Community College*
 Andrew Schmidt, *Columbia University*
 Richard Schroeder, *University of North Carolina—Charlotte*

Joann Segovia, *Minnesota State University Moorhead*
 Cindy Seipel, *New Mexico State University*
 Ann Selk, *University of Wisconsin—Green Bay*
 Kathleen Sevigny, *Bridgewater State College*
 Howard Shapiro, *Eastern Washington University*
 Warren Smock, *Ivy Technical Community College—Lafayette*
 Billy Soo, *Boston College*
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 W. Stewart Thomas, *University of North Carolina—Pembroke*
 Lynda Thompson, *Massasoit Community College*
 Theresa Tiggeman, *University of the Incarnate Word*
 Theodore Tully, *DeVry University*
 Lana Tuss, *Chemeketa Community College*
 Michael Ulinski, *Pace University*
 Ingrid Ulstad, *University of Wisconsin—Eau Claire*
 Marcia Veit, *University of Central Florida*
 Charles Wain, *Babson College*
 Charles Wasley, *University of Rochester*
 Daniel Weddington, *Ohio University—Zanesville*
 David Weiner, *University of San Francisco*
 Patti Weiss, *John Carroll University*
 Cheryl Westen, *Western Illinois University*
 David Wiest, *Washington and Lee University*
 Patrick Wilkie, *University of Virginia*
 Jefferson Williams, *University of Michigan*
 Wendy Wilson, *Southern Methodist University*
 Peter Woodlock, *Youngstown State University*
 Ron Woods, *North Seattle Community College*
 Darryl Woolley, *University of Idaho*
 Michael Yampuler, *University of Houston*
 Kathryn Yarbrough, *University of North Carolina—Charlotte*
 Zhang (May) Yue, *Northeastern University*
 Xiao-Jun Zhang, *University of California at Berkeley*

We are grateful to the following individuals who helped develop, critique, and shape the extensive ancillary package: Jeannie Folk, College of DuPage; LuAnn Bean, Florida Institute of Technology; Susan Galbreath, David Lipscomb University; Jon Booker, Tennessee

Technological University; Charles Caldwell, Tennessee Technological University; Cynthia Rooney, University of New Mexico—Los Alamos; Helen Roybark, Radford University; Catherine Plante, University of New Hampshire; Sandra Callaghan, Texas Christian University; Nancy Lynch, West Virginia University; Gina Lord, Santa Rosa College; Ilene Leopold Persoff, CW Post Campus—Long Island University; Mark McCarthy, East Carolina University; Kathrine Glass, Indiana University; Kevin Smith, Utah Valley University; Debbie Luna, El Paso Community College; Frank Hodge, University of Washington; and Jack Terry, ComSource Associates, Inc.

We also have received invaluable input and support through the years from present and former colleagues and students. We also appreciate the additional comments, suggestions, and support of our students and our colleagues at Cornell University, Ithaca College, and Texas Christian University.

Last, we applaud the extraordinary efforts of a talented group of individuals at McGraw-Hill who made all of this come together. We would especially like to thank Tim Vertovec, our director; James Heine, our executive brand manager; Rebecca Mann, our development editor; Christina Sanders, our managing development editor; Julie Hankins, our digital development editor; Kathleen Klehr, our senior marketing manager; Diane Nowaczyk, our senior project manager; Cara Hawthorne, Pam Verros, and Keith McPherson, our designers; Michael McCormick, our buyer; Daryl Horrocks, our lead media product manager; Jeremy Cheshareck, our senior content licensing specialist; and David Tietz, our photo researcher.

Robert Libby
 Patricia A. Libby
 Daniel G. Short

TO OUR STUDENT READERS

THIS BOOK IS AIMED AT TWO GROUPS OF READERS:

Future managers, who will need to interpret and use financial statement information in business decisions.

Future accountants, who will prepare financial statements for those managers.

Future managers need a firm basis for using financial statement information in their careers in marketing, finance, banking, manufacturing, human resources, sales, information systems, or other areas of management. Future accountants need a solid foundation for further professional study.

Both managers and accountants must understand how to *use financial statements in real business decisions* to perform their duties successfully. The best way to learn to do this is to study accounting in real business contexts. This is the key idea behind our *focus company approach*, which we introduce in the first chapter and which integrates each chapter's material around a focus company, its decisions, and its financial statements. The focus companies are drawn from 12 different industries, providing you with a broad range of experience with realistic business and financial accounting practices. In each chapter, *you will actually work with these real companies' statements* and those of additional contrast companies.

When you complete this book, you will be able to read and understand financial statements of real companies. We help you achieve this goal by:

- Selecting learning objectives and content based on the way that seasoned managers use financial statements in modern businesses. *We emphasize the topics that count.*
- Recognizing that students using this book have no previous exposure to accounting and financial statements and often little exposure to the business world. We take you through the financial statements three times at increasing levels of detail (in Chapter 1, Chapters 2 through 5, and Chapters 6 through 13). This is the secret to our "*building block approach.*"

- Helping you “*learn how to learn*” by teaching efficient and effective approaches for learning the material. Keep these learning hints in mind as you work your way through each chapter.
- Providing regular feedback in Self-Study Quizzes, which occur throughout each chapter. *Complete the quizzes before you move on.* Then check your answers against the solution provided in the footnote. If you are still unclear about any of the answers, you should refer back to the chapter material preceding the quiz before moving on.
- Highlighting the *Key Terms* in **bold print** and repeating their definitions in the margins. You should pay special attention to the definitions of these terms and review them at the end of the chapter. A handy glossary is provided at the end of the book; consult it if you forget the meaning of an important term.
- Introducing the *Key Financial Ratios* used to assess different elements of financial performance at the same time you are learning how to measure and report those elements. These will show you what kinds of accounting information managers use and how they interpret it.

At the end of each chapter you can test what you have learned by working the Demonstration Cases. *Working problems is one of the keys to learning accounting.* Good luck in your first accounting course.

Bob Libby
Pat Libby
Dan Libby

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