



# REACHING GREAT HEIGHTS BEGINS WITH A SOLID BASE

As our eyes are captured by the striking skyline of great cities, it's important to remember that their impressive achievements are based on strong foundations. In much the same way, being successful in the business world begins with fundamental courses like financial accounting. It is only when students have a firm grasp of concepts like the accounting cycle that there is a base on which to stand, a strong foundation on which to grow.

In this edition, as before, the authors have revised the text with a keen eye toward the principle of helping students establish the foundation they will need for future success in business. Through the addition of a new chapter called Global Business and Accounting, as well as extensive coverage of International Financial Reporting Standards, the book also introduces students to larger themes and evolving concerns. This dual emphasis allows students to keep their eyes trained upward even as they become solidly grounded in accounting fundamentals.

*Financial Accounting* continues to rest on a bedrock of three key components:

“The writing style is precise and simple and should be easy for reading.”

*Professor Albert Tsang, The Chinese University of Hong Kong*

**Clear Accounting Cycle Presentation.** In the first five chapters of *Financial Accounting*, the authors present the Accounting Cycle in a clear, graphically interesting four-step process. Central to this presentation is the dedication of three successive chapters to three key components of the cycle: recording entries (Chapter 3), adjusting entries (Chapter 4), and closing entries (Chapter 5). There are easy-to-read margin notes explaining each equation used in particular journal entries.

**Problem-Solving Skills.** *Financial Accounting* challenges your students to think about real-world situations and put themselves in the role of the decision maker through Case In Point, Your Turn, and Ethics, Fraud, & Corporate Governance boxes. Students reference the adidas AG, Herzogenaurach Financial Statements—included in the text as an appendix—to further hone problem-solving skills by evaluating real-world financial data. The authors show a keen attention to detail when creating high quality end-of-chapter material, such as the Critical Thinking Cases and Problems, ensuring that all homework is tied directly back to chapter learning objectives.

“The end-of-chapter exercises are very well prepared and pitched at moderate levels of difficulty.”

*Professor Albert Tsang,  
The Chinese University of  
Hong Kong*

“There are **sufficient IFRS contents** in this book for my teaching needs.”

*Dr. Chan-Ng Ai Lin,  
Nanyang Technological University*

**Student Motivation.** The authors have put together a market-leading student package that will not only motivate your students, but help you see greater retention rates in your accounting courses. The Online Learning Center provides supplemental tools for both students and instructors. The book encourages students to apply what they’re learning and improve their grades.

# How Does Williams Help Students

## Step-by-Step Process for the Accounting Cycle

*Financial Accounting* was the FIRST text to illustrate Statement of Financial Position and Income Statement transactions using the four-step process described below. This hallmark coverage has been further revised and refined in this edition.

The authors break down the Accounting Cycle into three full chapters to help students absorb and understand this material: recording entries (Chapter 3), adjusting entries (Chapter 4), and closing entries (Chapter 5). Transactions are demonstrated visually to help students conquer recording transactions by showing the **four steps in the process**:

**L01 Analysis**—shows which accounts are recorded with an increase/decrease.

**L02 Debit/Credit Rules**—helps students to remember whether the account should be debited/credited.

**L03 Journal Entry**—shows the result of the two previous steps.

**L04 Ledger T-Accounts**—shows students what was recorded and where.

The authors put the Accounting Equation ( $A = L + E$ ) in the margin by transaction illustrations to show students the big picture!

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transactions related to changes in the company's financial position and reported directly in its statement of financial position. The revenue and expense transactions that took place on 31 January will be addressed later in the chapter.

Each transaction from 20 January through 27 January is analyzed first in terms of increases in assets, liabilities, and equity. Second, we follow the debit and credit rules for entering these increases and decreases in specific accounts. Asset ledger accounts are shown on the left side of the analysis; liability and equity ledger accounts are shown on the right side. For convenience in the following transactions, both the debit and credit figures for the transaction under discussion are shown in *red*. Figures relating to earlier transactions appear in *black*.

**20 Jan.** Michael McBryan and family invested \$80,000 cash in exchange for share capital.

**ANALYSIS** The asset Cash is increased by \$80,000, and equity (Share Capital) is increased by the same amount.

**DEBIT-CREDIT RULES** Increases in assets are recorded by debits; debit Cash \$80,000. Increases in equity are recorded by credits; credit Share Capital \$80,000.

**JOURNAL ENTRY**

20 Jan.	Cash	80,000	
	Share Capital		80,000

**ENTRIES IN LEDGER ACCOUNTS**

	Cash		Share Capital
1/20	80,000		
			1/20
			80,000

**Owners invest cash in the business**

Assets	=	Liabilities	+	Equity
+\$80,000				+\$80,000

**21 Jan.** Representing Overnight, McBryan negotiated with both the City of Santa Teresa and Metropolitan Transit Authority (MTA) to purchase an abandoned bus garage. (The city owned the land, but the MTA owned the building.) On 21 January, Overnight Auto Service purchased the land from the city for \$52,000 cash.

**ANALYSIS** The asset Land is increased \$52,000, and the asset Cash is decreased \$52,000.

**DEBIT-CREDIT RULES** Increases in assets are recorded by debits; debit Land \$52,000. Decreases in assets are recorded by credits; credit Cash \$52,000.

**JOURNAL ENTRY**

21 Jan.	Land	52,000	
	Cash		52,000

**ENTRIES IN LEDGER ACCOUNTS**

	Land		Cash
1/21	52,000		
			1/20
			80,000
			1/21
			52,000

**Purchase of an asset for cash**

Assets	=	Liabilities	+	Equity
+\$52,000				
-\$52,000				



# The Williams Pedagogy Helps

- High-profile companies frame each chapter discussion through the use of dynamic **CHAPTER OPENER** vignettes. Students learn to frame the chapter's topic in a real-world scenario. **Learning Objectives (L01, L02, L03, etc)** guide them along the main goals of the chapter.

- **YOUR TURN** boxes challenge students with ethically demanding situations. They must apply what they've learned in the text to situations faced by investors, creditors, and managers in the real world.



## LEARNING OBJECTIVES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

- L01** Identify the steps in the accounting cycle and discuss the role of accounting records in an organization.
- L02** Describe a ledger account and a ledger.
- L03** Understand how statement of financial position accounts are increased or decreased.
- L04** Explain the double-entry system of accounting.
- L05** Explain the purpose of a journal and its relationship to the ledger.
- L06** Explain the nature of profit, revenue, and expenses.
- L07** Apply the recognition and matching principles in recording revenue and expenses.
- L08** Understand how revenue and expense transactions are recorded in an accounting system.
- L09** Prepare a trial balance and explain its uses and limitations.
- L010** Distinguish between accounting cycle procedures and the knowledge of accounting.

### YOUR TURN

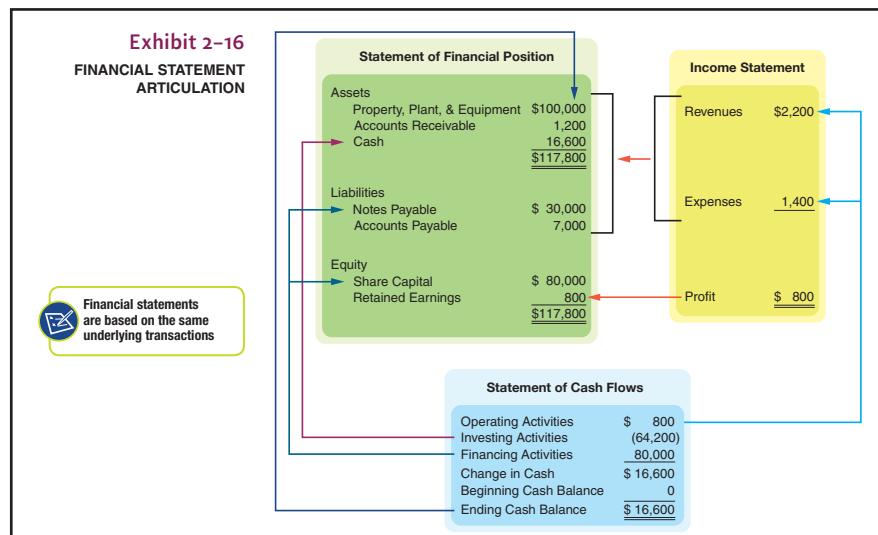
#### You as Overnight Auto Service's Accountant



Your good friend, Fred Jonas, is the manager of Harbor Cab Co. Your family and Fred's family meet frequently outside of your respective workplaces for fun. At a recent barbecue, Fred asked you about the amount of repair services rendered by Overnight Auto to Airport Shuttle Services in February. Airport Shuttle Services competes with Harbor Cab Co. for fares to and from the airport. What should you say to Fred?

(See our comments on the Online Learning Center Web site.)

- **EXHIBITS** illustrate key concepts in the text.



# Students Reach Great Heights

## The Accounting Cycle Capturing Economic Events

### NESTLÉ S.A.

Capturing the economic events of a lemonade stand is a fairly simple process. In fact, for most lemonade stands, an empty cigar box may serve as a complete information system.

Capturing the economic events of **Nestlé S.A.**, however, is an entirely different matter. This giant corporation with headquarters in Switzerland generates annual revenue of over US\$100 billion from sales of its various kinds of food and beverage products. Employing over 330,000 people, and operating hundreds of manufacturing facilities and thousands of warehouses and distribution centers, **Nestlé S.A.**, must somehow capture complex business transactions occurring in almost every country in the world.

From lemonade stands to multinational corporations, being able to efficiently capture the effects of economic events, such as sales orders and raw material purchases, is absolutely essential for survival. Companies like **Nestlé S.A.**, rely upon sophisticated computer systems to capture economic activities. Some small enterprises, however, may use paper ledgers and journals to record business transactions.

SOURCE: [www.nestle.com](http://www.nestle.com)



### CASE IN POINT



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An investor who purchased 10,000 shares of **MTR Corporation** (the main operator for railways in Hong Kong) in 2000 would have paid about HK\$124,000. Ten years later, those 10,000 shares were worth about HK\$343,600! Does this mean that the price of each share increase over 177 percent over that period? No!

Since 2000, **MTR Corporation** has declared a number of stock dividends. It had committed during the initial public offering to give bonus shares to the shareholders in order to encourage them to hold their shares for a longer period of time. Besides, these investors may help create more demand for the company's shares and services—and in many cases, they also become loyal customers. So as the price of **MTR Corporation's** shares rose, the board declared numerous stock dividends. An investor who had purchased 10,000 shares in 2000 owned over 12,847 shares 10 years later without ever having had to purchase additional shares.

▲ **CASE IN POINT** boxes link accounting concepts in the chapter to their use in the real world. These examples often present an international scenario to expose students to accounting practices around the world.



## Ethics, Fraud, & Corporate Governance

Improper accounting for operating costs has often resulted in the U.S. Securities and Exchange Commission bringing action against companies for fraudulent financial reporting. Expenditures that are expected only to benefit the year in which they are made should be expensed (deducted from revenue in the determination of profit for the current period). Companies that engage in fraud will often defer these expenditures by capitalizing them (they debit an asset account reported in the statement of financial position instead of an expense account reported in the income statement).

Prior to **Enron** and **WorldCom**, one of the largest financial scandals in U.S. history occurred at **Waste Management**. **Waste Management** was the world's largest waste services company. The improper accounting at **Waste Management** lasted for approximately five years and resulted in an overstatement of earnings during this time period of \$1.7 billion. Investors lost over \$6 billion when **Waste Management's** improper accounting was revealed.

**Waste Management's** scheme for overstating earnings was simple. The company deferred recognizing normal operating expenditures as expenses until future periods. These improper deferrals were accomplished in a number of different ways, many of which involved improper accounting for long-term assets. For example, **Waste Management** incurred costs in buying and developing land to be used as landfills (i.e., garbage dumps). Capitalizing these costs—treating them as long-term assets—was proper accounting. However, in certain cases, the company was not able to secure the necessary governmental permits and approvals to use the purchased land as intended. In these cases, the costs that had been capitalized and reported as landfills in the statement of financial position should have been expensed immediately, thereby reducing profit for the year in which the company's failure to obtain government permits and approvals occurred.

◀ **ETHICS, FRAUD, & CORPORATE GOVERNANCE** boxes discuss the accounting scandals of recent years that have sparked such comprehensive legislation as Sarbanes-Oxley. The inclusion of these boxes in each chapter offers instructors the opportunity to bring complex accounting and ethical issues into the classroom.

# Setting Standards in

## McGraw-Hill Connect Accounting



McGraw-Hill *Connect Accounting* is an online assignment and assessment solution

that connects students with the tools and resources needed to achieve success through faster learning, more efficient studying, and higher retention of knowledge. *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. *Connect Accounting* offers you the features described below.

### Simple assignment management

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.

### Smart grading

When it comes to studying, time is precious. *Connect Accounting* helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. When it comes to teaching, your time also is precious. The grading function enables you to:

- 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.

### 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 Instructor Library also allows you to upload your own files. Your students can access these files through the student library. The *Connect Accounting* Instructor Library includes

- PowerPoint files
- Access to all instructor supplements

### Student library

The *Connect Accounting* Student Library is the place for students to access additional resources. The Student Library:

- Offers students quick access to lectures, practice materials, eBooks, and more.
- Provides instant practice material and study questions, easily accessible on the go.

### Assessment and 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.

In short, *Connect Accounting* offers you and your students powerful tools and features that optimize your time and energies, enabling you to focus on course content, teaching, and student learning. *Connect Accounting* also offers a wealth of content resources for both instructors and students. This state-of-the-art, thoroughly tested system supports you in preparing students for the world that awaits.

For more information about Connect, go to [www.mcgrawhillconnect.com](http://www.mcgrawhillconnect.com), or contact your local McGraw-Hill sales representative.

# Online Technology

## Tegrity Campus: Lectures 24/7



Tegrity Campus is a service that makes class time available 24/7

by automatically capturing every lecture in a searchable format for students to review when they study and complete assignments. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio. Students can replay any part of any class with easy-to-use browser-based viewing on a PC or Mac.

Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. With Tegrity Campus, students quickly recall key moments by using Tegrity Campus's unique search feature. This search helps students efficiently find what they need, when they need it, across an entire semester of class recordings. Help turn all your students' study time into learning moments immediately supported by your lecture.

To learn more about Tegrity, watch a 2-minute Flash demo at <http://tegritycampus.mhhe.com>.

## McGraw-Hill Higher Education and Blackboard have teamed up. What does this mean for you?

1. **Your life, simplified.** Now you and your students can access McGraw-Hill's Connect™ and Create™ right from within your Blackboard course—all with one single sign-on. Say goodbye to the days of logging in to multiple applications.
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 of 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.



## The Best of Both Worlds

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.