

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, we use a pedagogical framework we call the Decision Center. This framework encompasses a variety of approaches and subject areas, giving students insight into every aspect of business decision making; see the four nearby examples for the different types of decision boxes, including those that relate to fraud. Answers to Decision Maker and Ethics boxes are at the end of each chapter.

Decision Analysis
Current Ratio

A1 Compute the current ratio and describe what it reveals about a company's financial condition.

An important use of financial statements is to help assess a company's ability to pay its debts in the near future. Such analysis affects decisions by suppliers when allowing a company to buy on credit. It also affects decisions by creditors when lending money to a company, including loan terms such as interest rate, due date, and collateral requirements. It can also affect a manager's decisions about using cash to pay debts when they come due. The **current ratio** is one measure of a company's ability to pay its short-term obligations. It is defined in Exhibit 4.10 as current assets divided by current liabilities.

EXHIBIT 4.10
Current Ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Decision Insight

Women Entrepreneurs The Center for Women's Business Research reports that women-owned businesses, such as **Haru**, are growing in the United States and that they:

- Total approximately 11 million and employ nearly 20 million workers.
- Generate \$2.5 trillion in annual sales and tend to embrace technology.
- Are philanthropic—70% of owners volunteer at least once per month.
- Are more likely funded by individual investors (73%) than venture firms (15%).

Decision Ethics
Answer — p. 204

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?

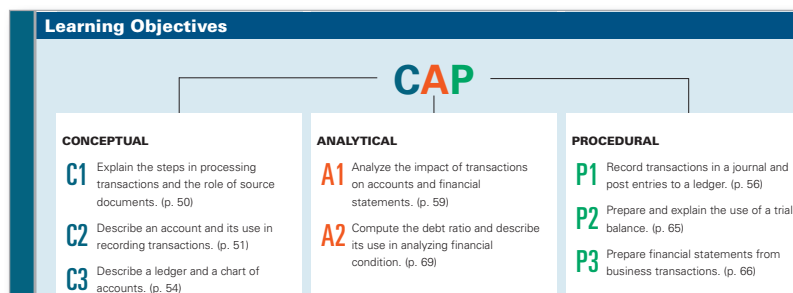
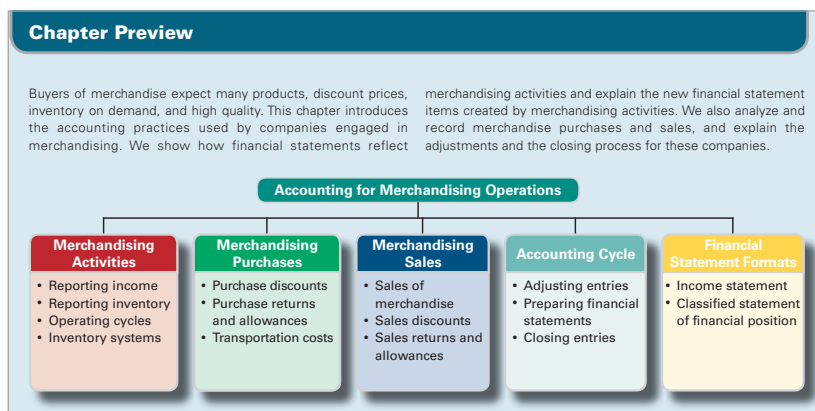
Decision Maker
Answer — p. 205

Financial Officer Your company has a 36% gross margin ratio and a 17% net profit margin ratio. Industry averages are 44% for gross margin and 16% for net profit margin. Do these comparative results concern you?

"Authors do a good job of relating material to real-life situations and putting students in the decision-maker role."
 —Morgan Rockett, Moberly Area Community College

Chapter Preview

Each chapter opens with a visual chapter preview. Students can 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. Learning objective numbers highlight the location of related content.



CAP Model

The Conceptual/Analytical/Procedural (CAP) Model allows courses to be specially designed to meet the teaching needs 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.

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.

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

Key Terms		www.mheducation.asia/olc/wildkwoPFA
Account (p. 51)	Debtors (p. 51)	Posting (p. 56)
Account balance (p. 55)	Debt ratio (p. 69)	Posting reference (PR) column (p. 58)
Balance column account (p. 58)	Double-entry accounting (p. 55)	Source documents (p. 50)
Chart of accounts (p. 54)	General Journal (p. 57)	T-account (p. 55)
Compound journal entry (p. 61)	General ledger (p. 51)	Trial balance (p. 65)
Credit (p. 55)	Journal (p. 56)	Unearned revenue (p. 52)
Creditors (p. 52)	Journalizing (p. 56)	

Key Terms are bolded in the text and repeated at the end of the chapter. A complete glossary of key terms is available online through *Connect Plus Accounting*.

Multiple Choice Quiz		Answers on p. 177	www.mheducation.asia/olc/wildkwoPFA
Additional Quiz Questions are available at the book's Website.			
1. G. Venda, owner of Venda Services, withdrew \$25,000 from the business during the current year. The entry to close the withdrawals account at the end of the year is:			
a. G. Venda, Withdrawals 25,000			
G. Venda, Capital 25,000			
b. Income Summary 25,000			
G. Venda, Capital 25,000			

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

QUICK STUDY		Classify the following adjusting entries as involving prepaid expenses (PE), unearned revenues (UR), accrued expenses (AE), or accrued revenues (AR).
QS 3-1	Identifying accounting adjustments	
P1		
a. _____	To record revenue earned that was previously received as cash in advance.	
b. _____	To record annual depreciation expense.	
c. _____	To record wages expense incurred but not yet paid (nor recorded).	
d. _____	To record revenue earned but not yet billed (nor recorded).	
e. _____	To record expiration of prepaid insurance.	

Quick Study assignments are short exercises that often focus on one learning objective. Most are included in *Connect Plus Accounting*. There are at least 10–15 Quick Study assignments per chapter.

Exercises are one of this book's many strengths and a competitive advantage. There are at least 10–15 per chapter, and most are included in *Connect Plus Accounting*.

EXERCISES		Use the March 31 financial year-end information from the following ledger accounts (assume that all accounts have normal balances) to prepare closing journal entries and then post those entries to the appropriate ledger accounts.
Exercise 4-1	Preparing and posting closing entries	
P2		
Check	M. Mallon, Capital ending balance, \$38,900	

General Ledger															
M. Mallon, Capital				Acct. No. 301				Salaries Expense				Acct. No. 622			
Date	PR	Debit	Credit	Balance	Date	PR	Debit	Credit	Balance	Date	PR	Debit	Credit	Balance	
Mar. 31	G2			42,000	Mar. 31	G2			21,000						
M. Mallon, Withdrawals				Acct. No. 302				Insurance Expense				Acct. No. 637			
Date	PR	Debit	Credit	Balance	Date	PR	Debit	Credit	Balance	Mar. 31	G2			4,500	
Mar. 31	G2			25,000											
Services Revenue				Acct. No. 401				Rent Expense				Acct. No. 640			
Date	PR	Debit	Credit	Balance	Date	PR	Debit	Credit	Balance	Mar. 31	G2			9,600	
Mar. 31	G2			74,000											

PROBLEM SET A	
Problem 2-1A	Preparing and posting journal entries; preparing a trial balance
C3 C4 A1 P1 P2	

PROBLEM SET B	
Problem 2-1B	Preparing and posting journal entries; preparing a trial balance
C3 C4 A1 P1 P2	

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 xiii), and Set A is included in *Connect Plus Accounting*.

Helps Students Master Key Concepts

Beyond the Numbers exercises ask students to use accounting figures and understand their meaning. Students also learn how accounting applies to a variety of business situations. These creative and fun exercises are all new or updated and are divided into sections:

- Reporting in Action
- Comparative Analysis
- Ethics Challenge
- Communicating in Practice
- Taking It to the Net
- Teamwork in Action
- Hitting the Road
- Entrepreneurial Decision
- Global Decision

Beyond the Numbers

REPORTING IN ACTION

C1 C2 A1 A2

BTN 3-1 Refer to Adidas' financial statements in Appendix A to answer the following:

1. Identify and write down the revenue recognition principle as explained in the chapter.
2. Search Adidas' notes to discover how it applies the revenue recognition principle. Report what you discover.
3. What is Adidas' profit margin for financial years ended December 31, 2013 and December 31, 2012? Round the percents to one decimal place each.

Fast Forward

4. Access Adidas' latest financial statements for fiscal years ending after December 31, 2013 from its Website (<http://www.adidas-group.com/en/investors/financial-reports/>). Compare and assess the December 31, 2013 financial year profit margin to any subsequent year's profit margin that you compute.

SERIAL PROBLEM
Business Solutions
P2 P3

(This serial problem began in Chapter 1 and continues through most of the book. If previous chapter segments were not completed, the serial problem can begin at this point.)

SP 4 The December 31, 2015, adjusted trial balance of Business Solutions (reflecting its transactions from October through December of 2015) follows.

No.	Account Title	Debit	Credit
101	Cash		\$ 48,372
106	Accounts receivable	5,668	
126	Computer supplies	580	
128	Prepaid insurance	1,665	

[continued on next page]

Serial Problems use a continuous running case study to illustrate chapter concepts in a familiar context. The Serial Problem can be followed continuously from the first chapter or picked up at any later point in the book; enough information is provided to ensure students can get right to work.

"I have used many editions of this text and have been very happy with the text and all of the supplementary materials. The textbook is kept current, and is straightforward, and very usable by students. The online resources get better with each edition."

—Susan Cordes, Johnson County Community College

General Ledger Problems New General Ledger problems enable students to see how transactions post. Students can track an amount in any financial statement all the way back to the original journal entry. Critical thinking components then challenge students to analyze the business activities in the problem.

Using transactions from the following assignments, prepare journal entries for each transaction and identify the financial statement impact of each entry. The financial statements are automatically generated based on the journal entries recorded.

GL 2-1 Transactions from the FastForward illustration in this chapter

GL 2-2 Based on Exercise 2-9

GL 2-3 Based on Exercise 2-12

GL 2-4 Based on Problem 2-1A

Using transactions from the following assignments, record journal entries, create financial statements, and assess the impact of each transaction on financial statements.

GENERAL LEDGER PROBLEM

Available only in Connect Plus

The End of the Chapter Is Only the Beginning Our valuable and proven assignments aren't just confined to the book. From problems that require technological solutions to materials found exclusively online, this book's end-of-chapter material is fully integrated with its technology package.

- Quick Studies, Exercises, and Problems available in *Connect* are marked with an icon.

- Assignments that focus on global accounting practices and companies are often identified with an icon.

- Assignments that involve decision analysis are identified with an icon.