Financial Accounting: Making the Connection
Financial Accounting: Making the Connection

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Dedicated to:

David’s wife Charlene, daughters Denise and Jessica, and three sons Michael David, Michael, and David

Wayne’s wife Julee, daughter Olivia, and three sons Jake, Eli, and Luke

Don’s wife Mary, daughter Rachel, and three sons David, Nathan, and Micah
About the Authors

DAVID SPICELAND

David Spiceland is professor of accounting at the University of Memphis, where he teaches intermediate accounting and other financial accounting courses at the undergraduate and master’s levels. He received his BS degree in finance from the University of Tennessee, his MBA from Southern Illinois University, and his PhD in accounting from the University of Arkansas.

Professor Spiceland’s primary research interests are in earnings management and educational research. He has published articles in a variety of journals including The Accounting Review, Accounting and Business Research, Journal of Financial Research, and Journal of Accounting Education. David has received university and college awards and recognition for his teaching, research, and technological innovations in the classroom. David is lead author of McGraw-Hill’s best-selling Intermediate Accounting text.

David is the Memphis Tigers’ No. 1 basketball fan. He enjoys playing basketball, is a former all-state linebacker, and an avid fisherman. Cooking is a passion for David, who served as sous chef for Paula Deen at a Mid-South Fair cooking demonstration.

WAYNE THOMAS

Wayne Thomas is the John T. Steed Chair in Accounting at the University of Oklahoma, where he teaches introductory financial accounting to nearly 600 students per year. He received his bachelor’s degree in accounting from Southwestern Oklahoma State University, and his master’s and PhD in accounting from Oklahoma State University.

Professor Thomas’s primary research interests are in markets-based accounting research, financial disclosures, financial statement analysis, and international accounting issues. He currently serves as an editor of The Accounting Review and has published articles in a variety of journals including The Accounting Review, Journal of Accounting and Economics, Journal of Accounting Research, Review of Accounting Studies, and Contemporary Accounting Research. He has won several research awards, including the American Accounting Association’s Competitive Manuscript Award. Professor Thomas has won teaching awards at the university, college, and departmental levels, and has received the Outstanding Educator Award from the Oklahoma Society of CPAs.

Wayne enjoys playing sports (basketball, tennis, golf, and ping pong), solving crossword puzzles, and coaching little league sports. He has participated in several adventure races, like you’ll read about in the Great Adventures continuing problem at the end of each chapter.

DON HERRMANN

Don Herrmann is the Deloitte Professor of Accounting at Oklahoma State University, where he teaches financial accounting, intermediate accounting, and a doctoral-level course in financial accounting research. He received his bachelor’s degree in business from John Brown University, his master’s degree in accounting from Kansas State University, and his PhD in accounting from Oklahoma State University.

Professor Herrmann’s research interests are in earnings forecasts, segment reporting, financial statement analysis, and international accounting issues. He is past president of the American Accounting Association International Section and has served on the editorial and review board of the top research journal in the field of accounting, The Accounting Review. He has published articles in a variety of journals including The Accounting Review, Journal of Accounting Research, Accounting Horizons, Journal of Business, Finance, and Accounting, and the Journal of Accounting and Public Policy. Don Herrmann and Wayne Thomas often work together, having co-authored over 15 research articles. Professor Herrmann has received many teaching awards at the department, college, and university levels, including Professor of the Year in the University Greek System.

Don, like his co-authors, is a big sports fan. He played tennis on scholarship in college and enjoys playing soccer, basketball, running, biking, and swimming. He also coaches soccer, basketball, and little league baseball in his home town.
MAKING THE CONNECTION

Have you experienced those moments in your course when students became fully engaged? When the “Aha!” revelations are bursting like fireworks? David Spiceland, Wayne Thomas, and Don Herrmann have developed a unique textbook based on over 50 collective years of experience in the classroom. Building on the tremendous success of the authors’ previous works, they’ve brought together best practices like highlighting Common Mistakes, offering frequent Let’s Review exercises, integrating the course with a running Continuing Problem, demonstrating the relevance of the course to nonmajors with a Career Corner, and communicating it all in a student-friendly conversational writing style.

Financial Accounting: Making the Connection also provides study materials and explanations through short tutorial videos and practice activities that can be accessed via smartphones or tablets by scanning the Quick Response (QR) codes in the margin. All the text’s brief exercises, exercises, and problems are housed solely in McGraw-Hill Connect® Accounting, where students can submit their homework online and receive immediate feedback on their assignments. Connect Accounting also allows students to reinforce concepts by connecting them with additional study and practice resources such as Interactive Presentations, Guided Example videos, LearnSmart modules, and Self-Quiz and Study. As the old adage goes, “practice makes perfect;” Financial Accounting: Making the Connection provides students the tools to: Learn, Practice, and Succeed.
WITH FIVE DISTINGUISHING FEATURES

1. **Conversational Writing Style** The authors took special care to write a textbook that fosters a friendly dialogue between the text and each individual student. The tone of the presentation is intentionally conversational—creating the impression of *speaking with the student*, as opposed to *teaching to* the student.

   It offers a very readable presentation, with easy-to-follow pedagogy. The writing is clear and crisp—not boring.—Al Hartgraves, Emory University

2. **Innovative Pedagogy** Reviewers enthusiastically embraced the innovative pedagogy used throughout the book, including *Common Mistake* boxes that help students avoid common pitfalls of beginning students and *Flip Side* problems and scenarios that show students the two sides of various accounting transactions.

   This text has a logical layout and incorporates tools to keep the student’s attention. It makes the student think about the impact on the financials based upon the different principles and estimates selected.—Victor Stanton, University of California–Berkeley

3. **Real-World Focus** Students learn best when they see how concepts are applied in the real world. For that reason, real-world examples from companies, such as Dell and Apple, are used extensively and routinely to enhance the presentation. The real-world focus adds realism to discussions and serves as the foundation for exercises, problems, and cases.

4. **Decision Maker’s Perspective** Each chapter includes one or more distinctive *Decision Maker’s Perspective* sections, which offer insights into how the information discussed in the chapters affects decisions made by investors, creditors, managers, and others. Each chapter also contains *Decision Points* highlighting specific decisions in the chapter that can be made using financial accounting information.

5. **A Strong Supplements Package** The authors write all of the major supplements for *Financial Accounting*, including the Testbank, Solutions Manual, and the Instructor’s Manual. *Connect Accounting* provides a rich array of online materials for various types of learners with LearnSmart, Interactive Presentations, Guided Examples, and the Self-Quiz and Study. Quick Response codes in the margin allow students to access additional study materials and explanations directly through their smartphones while they are on the go. With narrated PowerPoints and online quizzing, Spiceland’s *Financial Accounting: Making the Connection* provides the cutting-edge technology demanded by today’s accounting instructors and students.
McGraw-Hill Connect® Accounting

LESS MANAGING. MORE TEACHING. GREATER LEARNING.

McGraw-Hill Connect Accounting is an online assignment and assessment solution that connects students with the tools and resources they’ll need to achieve success.

McGraw-Hill Connect Accounting helps prepare students for their future by enabling 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. The assignment management function enables you to:

• Create and deliver assignments easily with selectable end-of-chapter questions and testbank items.
• Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.
• Assign algorithmic brief exercises, exercises, or problems so each student has a different problem to work on.

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.
LEARNSMART

Students can make the best use of their study time, with the LearnSmart adaptive self-study technology within Connect Accounting. LearnSmart provides a seamless combination of practice, assessment, and remediation for every concept in the textbook. LearnSmart’s intelligent software adapts to each student by supplying questions on a new concept when he or she is ready to learn it. With LearnSmart, students will spend less time on topics they understand and practice more on those they have yet to master.

NARRATED GUIDED EXAMPLES

The Guided Examples in Connect Accounting provide a step-by-step walk-through of an exercise similar to one which the student is working. These short presentations provide reinforcement when students need it most.

INTERACTIVE PRESENTATIONS

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

SELF-QUIZ AND STUDY

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

The Connect Accounting Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The Connect Accounting Instructor Library includes:

- eBook
- PowerPoint® slides
- Online quizzes

STUDENT PROGRESS TRACKING

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 progress-tracking 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.

MCGRAW-HILL CONNECT® PLUS

McGraw-Hill reinvents the textbook learning experience for the modern student with Connect Plus. A seamless integration of an eBook and Connect Accounting, Connect Plus provides all of the Connect Accounting features plus the following:

- An integrated eBook, allowing for anytime, anywhere access to the textbook.
- Dynamic links between the problems or questions you assign to your students and the location in the eBook where that problem or question is covered.
- A powerful search function to pinpoint and connect key concepts in a snap.

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 connect.mcgraw-hill.com, or contact your local McGraw-Hill sales representative.
Common Mistakes made by financial accounting students are highlighted throughout each of the chapters. With greater awareness of the pitfalls the average student will find in a first accounting class, students can avoid making the same mistakes and gain a deeper understanding of the chapter material.

Accounting is not a number-crunching desk job. Many business professionals call accounting the “language of business”; a solid understanding of accounting can lead to a wide variety of job opportunities. The Career Corner boxes highlight the exciting career opportunities in accounting and the important role that accountants play. These boxes also discuss how nonaccountants use accounting information in their business functions.

Because of the widespread adoption of international financial reporting standards issued by the International Accounting Standards Board (IASB), differences between international standards and U.S. GAAP are highlighted throughout the text in International Financial Reporting Standards boxes.

The Key Points provide quick synopses of the critical pieces of information presented throughout each chapter.

Similarly, students will be acquainted with ethical implications of topics under discussion by the inclusion of short Ethical Dilemma boxes. The need to discuss ethics in accounting has become evident in light of recent accounting scandals.

A financial transaction always involves two parties—the Flip Side feature demonstrates how various transactions are viewed by each participant. Including the “flip side” of a transaction—in context—enhances the student’s understanding of both the initial and the related transaction. Selected homework in the end-of-chapter materials also includes the Flip Side transactions for students to reinforce their understanding of this concept.
Each chapter contains one or more Let’s Review sections that test students’ comprehension of key concepts. These short review exercises, with solutions, are intended to reinforce the students’ understanding of specific chapter material and allow them to apply concepts and procedures learned in the chapter prior to attempting their homework assignment.

Use your web-enabled, camera smartphone or tablet to scan the Quick Response (QR) codes you see throughout the book to access Guided tutorial videos and practice activities.

Getting started with QR codes is easy:
1. Use your smartphone to download any two-dimensional or QR-enabled barcode reader from your provider’s marketplace.
2. Focus your smartphone’s camera on any code in the book.
3. From the list that appears, select the tutorial you’d like to see.
Self-Study Questions consist of 10 multiple-choice questions in each chapter. Answers appear at the end of the respective chapters. Students also are directed to the course website, where these same questions are available in the form of self-grading online quizzes with a more detailed analysis of correct and incorrect answers.

Review Questions are provided for the major concepts in each chapter, providing students with an opportunity to review key parts of the chapter and answer evocative questions about what they have learned.

**SELF-STUDY QUESTIONS**

1. Accounts receivable are best described as:
   a. Liabilities of the company that represent the amount owed to suppliers.
   b. Amounts that have previously been received from customers.
   c. Assets of the company representing the amount owed by customers.
   d. Amounts that have previously been paid to suppliers.

2. On March 17, Fox Lumber sells materials to Whitney Construction for $12,000 terms 2/10, n/30. Whitney pays for the materials on March 23. What amount would Fox record as revenue on March 17?
   a. $12,400.
   b. $11,760.
   c. $12,000.
   d. $12,240.

3. Refer to the information in the previous question. What is the amount of net revenues (sales minus sales discounts) as of March 23?
   a. $0.
   b. $11,760.

**REVIEW QUESTIONS**

1. When recording a credit sale, what account do we debit? Describe what account is reported in the financial statements.

2. What is the difference between a trade receivable and a nontrade receivable?

3. Explain the difference between a trade discount and a sales discount. Describe how sales discounts reported in the income statement?

4. Briefly explain the accounting treatment for sales returns and allowances. Are these accounts reported in the income statement?

5. Revenue can be earned at one point or over a period. Provide an example. Explain.

6. Explain the correct way companies should account for uncollectible receivable (bad debts).

For the following, please visit your instructor’s website for online resources.

**BRIEF EXERCISES 1-11**

**EXERCISES 1-16**

**PROBLEMS: SET A 1-7**

**PROBLEMS: SET B 1-7**

**GREAT ADVENTURES**

All Brief Exercises, Exercises, and Problem Set A and B are housed solely in Connect Accounting. Access your homework assignments online anytime and receive immediate feedback.

**Brief Exercises** address single concepts from a single perspective.
Exercises typically add one or more additional dimensions to the same topics covered with Brief Exercises. An additional set of Exercises can be found on the book’s website.

Problems typically address multiple concepts from the chapter or multiple levels of analytical perspective within the given scenarios. Where feasible, problems are built around real companies and business situations.

Each chapter provides twin sets of problems to offer instructors flexibility in presentation and assignment. The material in Problem Set A is similar in format to the material in Problem Set B, and each set reinforces the other. An additional set of Problems can be found on the book’s website.
The Additional Perspectives section, located in Appendix F at the end of the book, offers the most distinctive variety of case material available in financial accounting textbooks. Cases and activities are designed to allow students to apply the knowledge and skills they’ve learned in provocative, real, or realistic situations. Students are placed in the role of decision maker, presented with a set of information, and asked to draw conclusions that test their understanding of the issues discussed in the chapters. Each chapter offers an engaging mix of activities and opportunities to perform real-world financial accounting analysis:

**Continuing Problem**—The story of Great Adventures progresses from chapter to chapter, encompassing the accounting issues of each new chapter as the story unfolds. This problem allows students to see how each chapter’s topics can be integrated into the operations of a single company; this problem is also available in McGraw-Hill Connect.

**Financial Analysis: American Eagle Outfitters, Inc.**—Students are asked to gather information from the annual report of American Eagle, located in Appendix A.

**Financial Analysis: The Buckle, Inc.**—Students are asked to gather information from the annual report of The Buckle, located in Appendix B.

**Comparative Analysis**—In addition to separately analyzing the financial information of American Eagle and The Buckle, students are asked to compare financial information between the two companies.
END-OF-CHAPTER CASES

**Ethics**—Encourage consideration of ethical issues as they pertain to accounting decisions, including the outcome of those decisions on various stakeholders.

**Internet Research**—Allow students to develop and practice research skills by requiring them to locate and extract relevant information from available resource material such as financial reports or official standards on the Internet, perhaps identifying the appropriate resources to support a decision.

**Written Communication**—Provide the opportunity not only to apply analysis and judgment skills but also to express information or persuade by means of a writing assignment.

**Earnings Management**—Provide challenging earnings management situations in which students analyze the implications of their accounting decisions on a company’s earnings.

This book has the largest quantity of exercises and problems of any text that I’ve reviewed. I think it is very important for students to work incrementally on some of the more difficult concepts. I usually don’t have such an impressive quantity from which to select.—Kathleen M. Metcalf, Muscatine Community College
The textbook is well organized and noticeably written by individuals who have an excellent understanding of accounting, the accounting profession, and the issues confronting the accounting profession. A large number of supplements for students and instructors are available, including high-tech supplements.—Richard A. Moellenberndt, Washburn University

INSTRUCTOR’S RESOURCE MANUAL
This manual provides for each chapter: (a) a chapter overview; (b) a comprehensive lecture outline; (c) a variety of suggested class activities (real world, ethics, annual report, professional development activities including research, analysis, communication and judgment, and others); and (d) an assignment chart indicating topic, learning objective, and estimated completion time for every question, exercise, problem, and case.

SOLUTIONS MANUAL
The Solutions Manual includes detailed solutions for every question, exercise, problem, and case in the text.

TESTBANK
Written by the authors, this comprehensive Testbank contains over 1,800 problems and true/false, matching, multiple-choice, problems, and essay questions.

AUDIO-NARRATED SLIDES
The Audio-Narrated Slides include an accompanying audio lecture with notes and are available on the Online Learning Center (OLC). Separate sets of PowerPoints are available for instructors and students.

ONLINE LEARNING CENTER (OLC)
Our OLC requires no building or maintenance on your part, and is ready to go the moment you and your students type in the URL. As your students study, they can access the OLC website for such benefits as:

• Self-grading quizzes
• Student PowerPoint Tutorials
• Alternate exercises and problems
• Check figures
• Excel templates
• QuickBooks templates

Additional Resources for Your Students

ALTERNATE EXERCISES AND PROBLEMS
This manual is available on the OLC. It includes exercises and problems for each chapter in the text.

EXCEL TEMPLATES
Selected end-of chapter exercises and problems can be solved using these Microsoft Excel templates, located on the OLC.

QUICKBOOKS TEMPLATES
QuickBooks Templates are available for selected problems in the end-of-chapter material for Financial Accounting: Making the Connection. As the premier accounting software in use today, students will get a head start on learning how accounting is done in the real world!
THE TECHNOLOGY INSTRUCTORS NEED

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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.

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ALEKS®

Available online in partnership with McGraw-Hill/Irwin, ALEKS is a unique program that uses artificial intelligence and adaptive questioning to precisely assess a student’s knowledge in accounting and provide personalized instruction on the exact topics the student is most ready to learn. ALEKS targets gaps in student skills and enables students to master course content quickly and easily within an environment tailored to each student’s level of preparedness. By providing comprehensive explanations, practice, and feedback, ALEKS dramatically improves student performance and retention.

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

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

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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: Making the Connection is designed specifically to support your assurance of learning initiatives with a simple, yet powerful solution.

Each Testbank question for Financial Accounting maps to a specific chapter learning objective listed in the text. You can use our Testbank software, EZ Test Online, or Connect Accounting to easily query for learning objectives that directly relate to the learning objectives for your course. You can then use the reporting features of EZ Test 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 text and the Testbank 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 within Financial Accounting labeled selected questions according to the six general knowledge and skills areas.

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A HEARTFELT THANKS TO THE MANY VOICES

The version of Financial Accounting: Making the Connection you are reading would not be the same book without the valuable suggestions, keen insights, and constructive criticisms of the list of reviewers below. Each reviewer listed here contributed in substantive ways to the organization of chapters, coverage of topics, and selective use of pedagogy. We are grateful to them for taking the time to read each chapter and offer their insights:

Randall P. Bandura, Craig Bain, Janice Ammons, The version of read each chapter and offer their insights:


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Lisa Banks, Mott Community College

Joyce Barden, DeVry University

Cheryl Bartlett, Central New Mexico Community College

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Stephen Benner, Eastern Illinois University

Amy Bentley, Tallahassee Community College

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Sincerely,

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