



# Financial Accounting

Information for Decisions

John J. Wild

fifth edition



## Students...

Q Want to make **better grades**? (Who doesn't?)

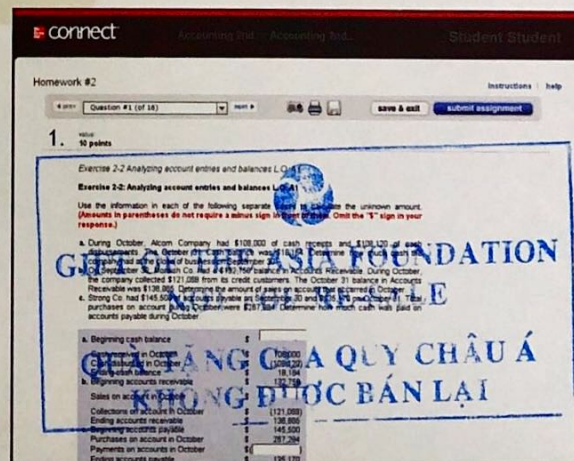
Ready to do your **homework online**? (After all, you're online anyway...)

Need to **quiz yourself** before the big test?  
(A little peace of mind is a good thing...)

A With **McGraw-Hill Connect™ Accounting**,

### STUDENTS GET

- **Plenty of practice.**
- **Problems from every chapter of the book online.** (Many problems can be refreshed so you can practice over and over with new numbers.)
- **Immediate feedback** on how you're doing. (No more wishing you could call your instructor at 1 a.m.)
- **Quick access** to lectures, practice materials, eBooks, and more. (All the material you need to be successful is right at your fingertips.)
- A **Personal Learning Plan** that recommends specific reading from the text, supplemental study material, and practice work. (No more wondering, "Where do I begin?")





# Connect™ Accounting

## Instructors...

**Q** Want to **streamline** lesson planning, student progress reporting, and assignment grading? (Less time planning means more time teaching...)

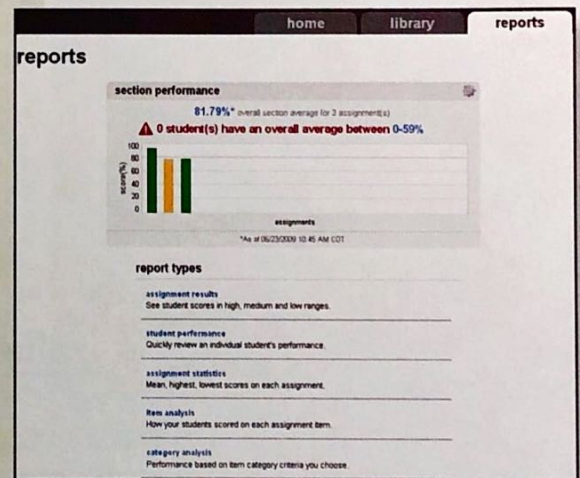
Need to **collect data and generate reports** required by accreditation organizations, such as AACSB and AICPA? (Say goodbye to manually tracking student learning outcomes...)

Want an **instant view** of student or class performance relative to learning objectives? (No more wondering if students understand...)

**A** With **McGraw-Hill Connect™ Accounting**,

### INSTRUCTORS GET

- The ability to **post assignments** and other communication between students and instructors.
- Simple **assignment management**, allowing you to spend more time teaching.
- **Auto-graded homework**.
- **Customized course gradebook** where grades are automatically posted.
- **Online testing capability**.
- A **progress-tracking** function that allows you to easily assign materials that conform to AACSB and AICPA standards.



The screenshot shows the 'assignment builder' interface in Connect Accounting. The title is 'Homework 001'. Below the title, there are tabs for 'add questions', 'organize assignment', and 'review & assign'. The 'add questions' tab is selected. On the left, there is a sidebar with 'PRINCIPLES OF ACCOUNTING' and a list of topics: 'Business', 'Difficulty', 'AACSB', 'Topic', and 'Learning Objective'. The main area shows a list of questions with columns for 'question', 'type', and 'algorithm'. The questions are listed in a table with checkboxes for selection.

question	type	algorithm
E2.2 Identifying Account Types LO1	Worksheet	yes
E2.4 Determining Financial Statement Effects of Several Transactions LO1, 2	Worksheet	yes
E2.5 Determining Financial Statement Effects of Several Transactions LO1, 2	Worksheet	yes
E2.6 Recording Activities LO3	Worksheet	yes
E2.7 Recording Activities LO3	Worksheet	yes
E2.8 Analyzing the Effects of Transactions in T-Accounts LO3	Worksheet	yes
E2.9 Inferring Investing and Financing Transactions and Preparing a Balance Sheet LO1	Worksheet	yes
E2.10 Sustaining Business and Financial	Worksheet	yes





Want an online, **searchable version** of your textbook?

Wish your textbook could be available online while you're doing your homework?

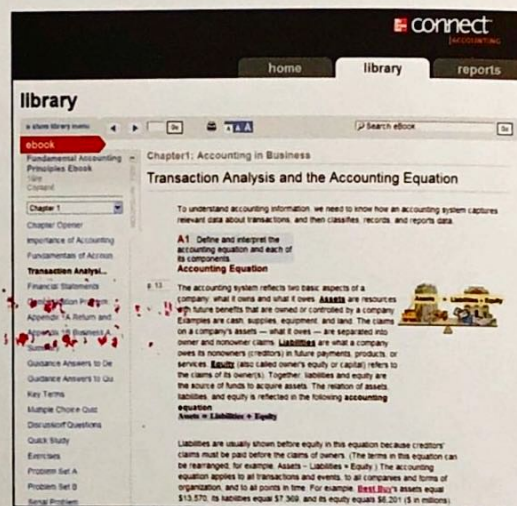


### Connect™ Plus Accounting eBook

If your instructor has chosen to use *Connect™ Plus Accounting*, you have an affordable and searchable online version of your book integrated with your other online homework tools.

### Connect™ Plus Accounting eBook offers features like:

- topic search
- adjustable text size
- jump to page number
- print by section



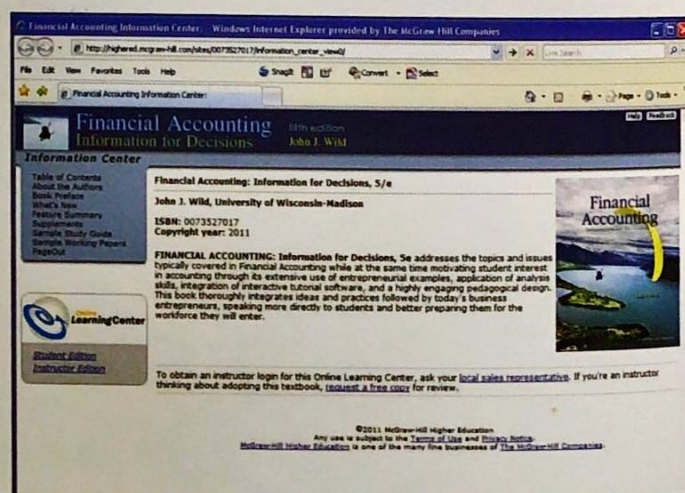
Want to get more **value** from your textbook purchase?

Think learning accounting should be a little bit more **interesting**?



### Check out the companion website for this textbook [www.mhhe.com/wildFA5e](http://www.mhhe.com/wildFA5e)

We put it there for you. Go online for test tips and practice problems whenever you study. The companion website for this book includes **quizzes, PowerPoints, and Internet activities** to help you study. Get more from your textbook – use the Online Learning Center.





5

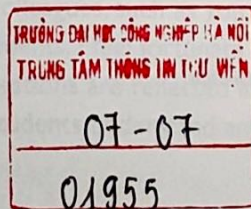
edition

# Financial Accounting

Information for Decisions

John J. Wild

University of Wisconsin at Madison



GIFT OF THE ASIA FOUNDATION  
NOT FOR RE-SALE

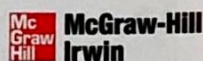
QUÀ TẶNG CỦA QUỸ CHÂU Á  
KHÔNG ĐƯỢC BÁN LẠI



**McGraw-Hill  
Irwin**



To my wife **Gail** and children, **Kimberly, Jonathan, Stephanie, and Trevor.**



**FINANCIAL ACCOUNTING: INFORMATION FOR DECISIONS**

Published by McGraw-Hill/Irwin, a business unit of The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY, 10020. Copyright © 2011, 2008, 2005, 2003, 2000 by The McGraw-Hill Companies, Inc. All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

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

ISBN 978-0-07-352701-7

MHID 0-07-352701-7

Vice president and editor-in-chief: *Brent Gordon*  
 Editorial director: *Stewart Mattson*  
 Publisher: *Tim Vertovec*  
 Senior sponsoring editor: *Dana L. Woo*  
 Director of development: *Ann Torbert*  
 Senior development editor: *Christina A. Sanders*  
 Vice president and director of marketing: *Robin J. Zwettler*  
 Marketing director: *Sankha Basu*  
 Marketing manager: *Kathleen Klehr*  
 Vice president of editing, design and production: *Sesha Bolisetty*  
 Managing editor: *Lori Koettters*  
 Lead production supervisor: *Carol A. Bielski*  
 Lead designer: *Matthew Baldwin*  
 Senior photo research coordinator: *Lori Kramer*  
 Photo researcher: *Sarah Evertson*  
 Lead media project manager: *Brian Nacik*  
 Cover design: *Matthew Baldwin*  
 Interior design: *Matthew Baldwin*  
 Cover image: © *Getty Images*  
 Typeface: *10.5/12 Times Roman*  
 Composer: *Aptara®, Inc.*  
 Printer: *R. R. Donnelley*

**Library of Congress Cataloging-in-Publication Data**

Wild, John J.

Financial accounting : information for decisions / John J. Wild.—5th ed.  
 p. cm.

Includes index.

ISBN-13: 978-0-07-352701-7 (alk. paper)

ISBN-10: 0-07-352701-7 (alk. paper)

1. Accounting. I. Title.

HF5635.W695 2011

657—dc22

2009043318





Dear Friends/Colleagues,

These are exciting times in accounting education. Technology advancements are enhancing our instructional capabilities, international accounting standards are on the horizon, and our students and their skills are in demand. This new edition of *Financial Accounting* reflects these exciting developments through several key revisions. Our new *Connect Plus* offers an innovative way for students to learn and assess their accounting skills. Our new *Global View* section at the end of each chapter promotes international accounting skills suited to our increasingly global accounting system. And, specific chapter-by-chapter learning enhancements further expand the instructional model of our best-selling accounting textbook.

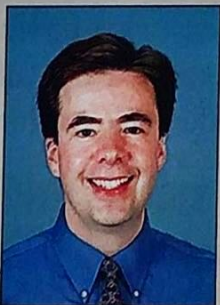
These changes are in many ways due to your teaching commitment and constructive feedback. I thank each of you who provided suggestions and ideas to enrich this textbook. As teachers, we know how important it is to select the right book for our course. This new edition reflects the advice and wisdom of many dedicated reviewers, focus group participants, students, and instructors. Together, we have created the most readable, concise, current, accurate, and innovative accounting book available today.

Throughout the writing process, we steered this book in the manner you directed. This path of development enhanced this book's technology and content and guided its clear and concise writing. Reviewers, instructors, and students say this book's leading-edge technology caters to different learning styles and helps students better understand accounting. *Connect Plus* offers new features to improve student learning and to assist in the assessment of that learning. Our *iPod* content lets students study on the go, while our enhanced *Algorithmic Test Bank* provides an infinite variety of exam problems. You and your students will find all these tools easy to apply.

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

With kindest regards,

*John J. Wild*



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

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

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

Professor Wild, his wife, and their four children enjoy travel, music, sports, and community activities.





## Achieving New Heights

### *Financial Accounting, 5e*

This book helps **students achieve new heights** in their education by providing leading accounting content that engages students with enhanced learning tools and innovative technology.

One of the greatest challenges students confront in a financial accounting course is seeing its relevance. This book tackles this issue head on with **engaging content** and a **motivating style**. Students are motivated when content is **clear and relevant**. This book leads the pack in captivating students. Its chapter-opening features showcase dynamic, successful, entrepreneurial individuals and companies guaranteed to **interest and excite readers**. This edition's featured companies (Best Buy, RadioShack, GOME, and Apple) engage students with their annual reports, which are great vehicles for learning financial statements.

This book also delivers **innovative technology** to help students achieve success. **Connect Accounting™** provides students with instant grading feedback for assignments that are completed online. **Connect Accounting Plus™** integrates an online version of the textbook with our popular Connect system. An enhanced **algorithmic test bank** in Connect offers infinite variations of numerical text bank questions. This book also offers accounting students portable **iPod-ready content**. Each of these tools is user-friendly and encourages our students to better learn financial accounting.

We're confident you'll agree that Wild's **Financial Accounting (FA)** will help you and your students achieve new heights.







## Innovative Content

FA content continues to set the standard in the financial accounting course. Take a look at Chapters 1, 2, and 3 and you'll see how FA leads with the best coverage of the accounting cycle. We are the first book to cover equity transactions the way most instructors teach it and students learn it—by introducing the separate equity accounts upfront and not waiting until a chapter or two later. Chapter 2 has the time-tested 4-step approach to analyzing transactions: [1] Identify, [2] Analyze, [3] Record, and [4] Post. Chapter 3 offers a new 3-step process to simplify adjusting accounts (see excerpt to the side). FA also motivates students with engaging chapter openers. Students identify with them and can even picture themselves as future entrepreneurs who successfully use accounting methods.

### Prepaid Insurance

We use our 3-step process for this and all accounting adjustments.

**Step 1:** We determine the current balance of FastForward's prepaid insurance as equal to its \$2,400 payment for 24 months of insurance benefits beginning on December 1, 2009.

**Step 2:** With the passage of time, the benefits of the insurance gradually expire and a portion of the Prepaid Insurance asset becomes expense. For instance, one month's insurance coverage expires by December 31, 2009. This expense is \$100, or 1/24 of \$2,400, which leaves \$2,300.

**Step 3:** The adjusting entry to record this expense and reduce the asset, along with T-account postings, follows:

Adjustment (a)			
Dec. 31	Insurance Expense	100	
	Prepaid Insurance		100
	To record first month's expired insurance.		
Dec. 31	Insurance Expense	100	
			Dec. 31 2,400
			Balance 2,300
Before Adjustment			
Prepaid Insurance = \$2,400	Deduct \$100 from Prepaid Insurance	Prepaid Insurance = \$2,300	
Reports \$2,400 policy for 24-months' coverage.	Add \$100 to Insurance Expense		
	Record current month's \$100 insurance expense and \$100 reduction in prepaid amount.		Reports \$2,300 in coverage for remaining 23 months.



## International Coverage

A Global View section has been added to the end of each chapter to highlight international accounting practices, including the similarities and differences for financial reporting under IFRS versus U.S. GAAP. Many chapters also include IFRS boxes showcasing relevant international accounting concepts.

### Income Statement Presentation

We explained that net income, profit, and earnings refer to the same (bottom line) item. However, IFRS tends to use the term profit more than any other term, whereas U.S. statements tend to use net income more than any other term. Both U.S. GAAP and IFRS income statements begin with the net sales or net revenues (top line) item. Further, for merchandisers and manufacturers, this is followed by cost of goods sold. The presentation is similar for the remaining items with a few differences.

- U.S. GAAP offers little guidance about the presentation or order of expenses. IFRS requires separate disclosures for financing costs (interest expense), income tax expense, and some other special items.
- Both systems require separate disclosure of items when their size, nature, or frequency are important for proper interpretation.
- IFRS permits expenses to be presented by their function or their nature. U.S. GAAP provides no direction but the SEC requires presentation by function.
- Neither U.S. GAAP nor IFRS define operating income; this means classification of expenses into operating or nonoperating reflects management discretion.
- IFRS permits alternative measures of income on the income statement; U.S. GAAP prohibits disclosure of alternative income measures in financial statements.

## State-of-the-Art Technology

FA offers the most advanced and comprehensive technology on the market in a seamless, easy-to-use platform. As students learn in different ways, FA provides a technology smorgasbord that helps students learn more effectively and efficiently. Connect Accounting, eBook options, and iPod content are some of the options. Connect Accounting Plus takes learning to another level by integrating an online version of the book with all the power of Connect. Technology offerings follow:

- Connect Accounting
- Connect Accounting Plus
- iPod content
- Algorithmic Test Bank
- Online Learning Center
- ALEKS for Accounting Cycle and Financial Accounting

