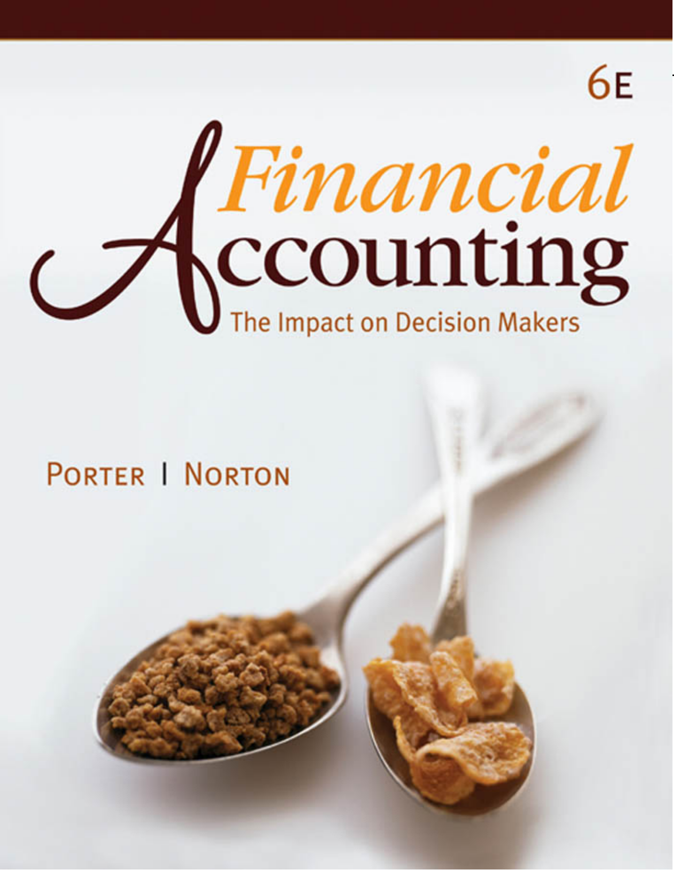
6E
Financial Accounting
The Impact on Decision Makers
PORTER | NORTON

SUMMARY OF SELECTED FINANCIAL RATIOS

RATIO NAME	FORMULA	PAGE REFERENCE*
Liquidity Analysis		
Working capital	Current Assets − Current Liabilities	67, 667
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	68, **79,** 668
Acid-test ratio (quick ratio)	$\frac{\text{Cash + Marketable Securities + Current Receivables}}{\text{Current Liabilities}}$	668
Cash flow from operations to current liabilities ratio	$\frac{\text{Net Cash Provided by Operating Activities}}{\text{Average Current Liabilities}}$	669
Accounts receivable turnover ratio	$\frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$	**344,** 669
Number of days' sales in receivables	$\frac{\text{Number of Days in the Period}}{\text{Accounts Receivable Turnover}}$	670
Inventory turnover ratio	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	254, **255,** 671
Number of days' sales in inventory	$\frac{\text{Number of Days in the Period}}{\text{Inventory Turnover}}$	671
Cash-to-cash operating cycle	Number of Days' Sales in Inventory + Number of Days' Sales in Receivables	671
Solvency Analysis		
Debt-to-equity ratio	$\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}$	672
Times interest earned ratio	$\frac{\text{Net Income + Interest Expense + Income Tax Expense}}{\text{Interest Expense}}$	673
Debt service coverage ratio	$\frac{\text{Cash Flow from Operations before Interest and Tax Payments}}{\text{Interest and Principal Payments}}$	673
Cash flow from operations to capital expenditures ratio	$\frac{\text{Cash Flow from Operations − Total Dividends Paid}}{\text{Cash Paid for Acquisitions}}$	674
Profitability Analysis		
Gross profit ratio	$\frac{\text{Gross Profit}}{\text{Net Sales}}$	**233,** 666
Profit margin ratio	$\frac{\text{Net Income}}{\text{Net Sales}}$	**81,** 666
Return on assets ratio	$\frac{\text{Net Income + Interest Expense, Net of Tax}}{\text{Average Total Assets}}$	676
Return on sales ratio	$\frac{\text{Net Income + Interest Expense, Net of Tax}}{\text{Net Sales}}$	676
Asset turnover ratio	$\frac{\text{Net Sales}}{\text{Average Total Assets}}$	401, 676
Return on common stockholders' equity ratio	$\frac{\text{Net Income − Preferred Dividends}}{\text{Average Common Stockholders' Equity}}$	677
Earnings per share	$\frac{\text{Net Income − Preferred Dividends}}{\text{Weighted Average Number of Common Shares Outstanding}}$	679
Price/earnings ratio	$\frac{\text{Current Market Price}}{\text{Earnings per Share}}$	679
Dividend payout ratio	$\frac{\text{Common Dividends per Share}}{\text{Earnings per Share}}$	536, 680
Dividend yield ratio	$\frac{\text{Common Dividends per Share}}{\text{Market Price per Share}}$	680
Cash flow adequacy	$\frac{\text{Cash Flow from Operating Activities − Capital Expenditures}}{\text{Average Amount of Debt Maturing over Next Five Years}}$	619, **620–621**

***boldface = Ratio Decision Model**

IFRS UPDATE 6E

Financial Accounting

The Impact on Decision Makers

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Gary A. Porter, Curtis L. Norton

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To those who really "count":
Melissa
Kathy, Amy, Andrew

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Start Them Off Right with Porter/Norton!

OUR GOAL has been consistent from day one: A student finishing a financial accounting course needs to understand how to read and comprehend a simple annual report. Even more, that student needs to be able to discern what information is needed to make sound business decisions. This is why, from the very first edition, we have pursued a careful balance between a preparer perspective and a user focus. From our experience, students need to understand both how transactions are recorded and statements are prepared, and also how accounting information is used and why it is important to decision-making.

What is new for the sixth edition is our increased emphasis on study materials written and focused on how students actually learn and prefer to study. Extensive feedback from both students and educators reveals the need to keep students motivated by offering a number of opportunities to review and test their knowledge. Frequent reinforcement and instant feedback builds confidence and success.

> "If I need help and there is no professor around, the instant feedback from the textbook is like your own personal tutor."
>
> —Tia Pinkelton, Northern Kentucky University

From our balanced perspective to our focus on how students actually learn, we invite you to discover why Porter/Norton will Start Your Students Off Right!

REVISION GOALS

For the sixth edition, we stayed true to our goals by focusing our innovation on how we support students' learning styles:

89.2% of students want immediate feedback

A Book Should Motivate and Focus Students. The sixth edition continues our effort to adopt a more streamlined approach that emphasizes key points. Extensive focus groups and surveys on student learning behavior reveal that a majority of students prefer to have their book broken up into readily mastered segments. That's why we offer frequent in-text opportunities for review and feedback in the form of our innovative new **Portable On-Demand (POD) Reviews**.

> "Instant feedback helps me understand where I went wrong before finishing it and having to start over."
>
> —Karalyn Schierberg,
> Northern Kentucky University

POD REVIEW 1.2

LO2 *Distinguish among the forms of organization.*

- Some entities are organized to earn a profit while others are organized to serve various segments of society.
- The three forms of business entities are sole proprietorships, partnerships, and corporations.

QUESTIONS

1. *Kellogg's is organized as which of the following business entities?*
   a. sole proprietorship
   b. partnership
   c. corporation
   d. none of the above

2. *One of the advantages of the corporate form of organization is*
   a. the ease of transfer of ownership.
   b. the limited liability of the stockholder.
   c. the ability to raise large amounts of capital in a relatively brief period of time.
   d. all of the above are advantages of the corporate form of organization.

> "Introductory accounting students are often overwhelmed and need assistance in understanding major topics of importance. POD Reviews help students understand what is most vital in the chapter information."
>
> —Dori Danko,
> Grand Valley State University

> "POD Reviews will help students with test preparation. Quizzing at regular intervals should lead to better exam performance."
>
> —Christopher Denstel,
> Louisiana State University

Students Succeed When They Know Why Accounting Is Important. Using real-world, relevant flagship companies like Nike, Apple, Starbucks, and Coca-Cola helps show why accounting is important to a business. Experience has shown that knowing the why helps students succeed.

Getting an 'A' in Accounting Is Still About Homework. Experience shows that student success is still largely a measure of doing homework. That is why this book contains a range of problems and exercises—including A & B problems, review problems, warm-up exercises, and more—that are designed to motivate and build skills in a systematic, step-by-step manner. The addition of **Brief Exercises** enhances this important success tool.

BRIEF EXERCISES

LO1 **Brief Exercise 4-1** Measurement in Financial Statements

What are two possible attributes to be measured when an item is to be included in financial statements? What unit of money is used to measure items in the United States?

LO2 **Brief Exercise 4-2** Accrual Basis of Accounting

For the following situations, indicate the date on which revenue would be recognized, assuming the accrual basis of accounting.

_______ a. On June 10, a customer orders a product over the phone. The product is shipped to the customer on June 14, and the customer pays the amount owed on July 10.

_______ b. On March 15, a law firm agrees to draft a legal document for a client. The document is completed and delivered to the client on April 5, and the client pays the amount owed on May 2.

_______ c. A homeowner signs a contract on August 6 to have a company install a central air conditioning system. The work is completed on August 30, and the homeowner pays the amount owed on September 25.

LO3 **Brief Exercise 4-3** Revenue Recognition

Explain whether a company must have an inflow of an asset to be able to recognize revenue. Also give two examples of situations in which revenue is earned continuously over a period of time.

Solutions to brief exercises appear in the solutions manual.

93% of instructors consider completing homework to be either very or critically important to student success in accounting

47% of students consider completing homework to be either very or critically important to success in accounting

KEY FEATURES IN THIS EDITION

START THEM OFF RIGHT!

NEW! Portable On-Demand (POD) Reviews provide opportunities to review and test students' knowledge after each learning outcome. The POD Reviews, consisting of learning outcome, key points for the section just read, and two or three short multiple-choice questions, give instant feedback to students to help them master key concepts. Found after each chapter outcome, the POD Reviews combine a conceptual overview with a quick quiz to engage students in the content.

"The POD Reviews are an excellent idea. Placing them after every learning objective creates immediate feedback and affirmation of their understanding."

—Benjamin W. Bean, Utah Valley State College

POD REVIEW 3.1

LO1 *Explain the difference between an external and internal event.*

- Both of these different types of events affect an entity and are usually recorded in the accounting system as a transaction.
  - External events are interactions between an entity and its environment.
  - Internal events are interactions entirely within an entity.

QUESTIONS

1. *Which of the following events is not an external event?*
   a. a sale to a customer
   b. a purchase of inventory from a supplier
   c. payment to the newspaper for advertising
   d. recognition of the use of equipment by the recording of depreciation

2. *Which of the following is necessary to recognize an event as a transaction?*
   a. It must be subject to measurement.
   b. It must be an external event.
   c. It must be an internal event.
   d. It must be an event that recurs regularly.

Answers to POD Reviews appear at the end of the chapter.

Enhanced Journal Entry Model. Students need to understand how transactions affect the financial statements. The sixth edition, like previous editions, supplements nearly all journal entries with the accounting equation. The sixth edition enhances this feature to include a **transaction-effects equation** that reflects how each transaction affects the income statement and balance sheet. This more conceptual approach helps students see both the preparation of journal entries and debits and credits and the impact of decisions on the balance sheet and income statement.

The adjusting entry for the month of March is as follows:

Mar. 31	Interest Expense	150	
	Interest Payable		150
	To record interest for one month on a 9%, $20,000 loan.		

Balance Sheet						Income Statement
ASSETS	**=**	**LIABILITIES**	**+**	**STOCKHOLDERS' EQUITY**	**+**	**REVENUES − EXPENSES**
		Interest Payable 150				Interest Expense (150)

The same adjusting entry is made at the end of April.

Apr. 30	Interest Expense	150	
	Interest Payable		150
	To record interest for one month on a 9%, $20,000 loan.		

Balance Sheet						Income Statement
ASSETS	**=**	**LIABILITIES**	**+**	**STOCKHOLDERS' EQUITY**	**+**	**REVENUES − EXPENSES**
		Interest Payable 150				Interest Expense (150)

The entry on Granger's books on May 30 when it repays the principal and interest is as follows:

May 30	Interest Payable	300	
	Interest Expense	150	
	Notes Payable	20,000	
	Cash		20,450
	To record payment of a 9%, 90-day, $20,000 loan with interest.		

Balance Sheet								Income Statement	
ASSETS		=	**LIABILITIES**		+	**STOCKHOLDERS' EQUITY**	+	**REVENUES − EXPENSES**	
Cash	(20,450)		Interest Payable	(300)				Interest Expense	(150)
			Notes Payable	(20,000)					

Learning Outcomes Approach. The use of Learning Outcomes throughout the book and supplements, rather than Learning Objectives, reflects a fundamental shift in our philosophy about how instructors should be able to access and use quizzing and testing for pre-testing, post-testing, and assessment.

MAKE SOUND BUSINESS DECISIONS

Financial Decision Framework. Chapter 1 introduces a framework for financial decision making as a process that illustrates how to use financial information to make business and investment decisions.

1. **Formulate the Question**
2. **Gather Information**
3. **Read the Financials**
4. **Analyze the Financials**
5. **Make the Decision**
6. **Assess the Decision**

Using this model, students learn not only what accounting is and who uses financial information, but also how that information is the basis for decision making.

Enhanced Ratio Decision Model. Each time a ratio is introduced, the Ratio Decision Model walks students step-by-step through developing and using a financial ratio from financial statement excerpts that highlight ratio terms. To encourage critical thinking, the model depicts the financial statement line items that actually make up the ratio to help students understand where the numbers come from. Most importantly, the model highlights the interrelationship of the statements and the numbers and emphasizes the importance of comparing the results with both prior performance and industry competitors.

New in the sixth edition, the Ratio Decision Model includes two years of ratios for both the focus company and one of its competitors to allow better comparisons.

USING THE RATIO DECISION MODEL: ANALYZING THE CURRENT RATIO

Use the following Ratio Decision Model to evaluate the current ratio for General Mills or any other public company.

1. Formulate the Question
Managers, investors, and creditors are all interested in a company's liquidity. They must be able to answer the following question:

Is the company liquid enough to pay its obligations as they come due?

2. Gather the Information from the Financial Statements
The current ratio measures liquidity. To calculate the ratio, it is essential to know a company's current assets and liabilities. Current assets are the most liquid of all assets. Current liabilities are the debts that will be paid the soonest.

- Current assets: From the balance sheet
- Current liabilities: From the balance sheet

3. Calculate the Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

General Mills
Partial Balance Sheet

	May 28, 2006
Assets	
Total current assets	$3,176
Liabilities and Stockholders' Equity	
Total current liabilities	$6,138

$$\text{Current Ratio} = \frac{\$3,176}{\$6,138} = 0.52 \text{ to } 1$$

4. Compare the Ratio with Others
Ratios are of no use in a vacuum. It is necessary to compare them with prior years and with competitors.

General Mills		Kellogg's	
May 28, 2006	May 29, 2005	December 30, 2006	December 31, 2005
0.52 to 1	0.73 to 1	0.60 to 1	0.69 to 1

5. Interpret the Results
In general, the higher the current ratio, the more liquid the company. However, earlier in the chapter you learned that rules of thumb do not always apply. It is necessary to take into account the nature of a company's business when evaluating ratios and other measures of performance. Also, ratios should be compared with those of prior years and with the same ratios of competitors. However, it should be noted that in making comparisons, the year-end is different for General Mills (end of May) and Kellogg's (end of December). Both companies operate with a relatively low current ratio compared to companies in other industries.

Ethical Decision Model. In the wake of accounting and business scandals of the last few years, the sixth edition provides a step-by-step ethical analysis and decision tool that students can rely on to help them base their business decisions on ethical and social principles throughout their careers.

ENGAGE RELEVANT FINANCIAL INFORMATION

NEW Flagship Companies provide relevance and promote critical thinking. Excerpts from both the Kellogg's and General Mills annual reports are included to provide relevance to the role of accounting in business. Also, the inclusion of two reports from companies in the same field allow for comparisons that encourage critical thinking.

REVISED Concentration on Fewer Real-World Financial Statements. Examples are generated from the chapter-opening company to reinforce concepts with clear, easy-to-follow examples. A focus on fewer companies and examples minimizes distracting and complicated alternative financial formats and numbers. Students can concentrate on learning one business or one industry and one set of financial statements that apply to the company example within the chapter.

Coverage of the PCAOB, Sarbanes-Oxley, Auditing Standards for Internal Control, and International Accounting Issues. In response to the accounting and reporting scandals that have occurred in the last few years, the sixth edition introduces the role of Sarbanes-Oxley and the PCAOB in Chapter 1. Chapter 6 devotes an entire section to Sarbanes-Oxley in the context of internal control. Students are exposed to Section 404 of SOX and the new management report on internal control required by this monumental legislation.

The text has provided coverage of international accounting issues where appropriate, and the book's Web site (www.academic.cengage.com/accounting/porter) will be used to update adopters as further developments occur relating to the use of international accounting standards.

CHAPTER-BY-CHAPTER CHANGES

Chapter 1: Accounting as a Form of Communication

- Integrated the "Getting Started in Business" module with Chapter 1 to provide a seamless introduction to the role of accounting in a business.
- Added Kellogg's as the new focus company for Chapter 1. Chosen for its straightforward financial statements and high brand recognition, Kellogg's provides an ideal opportunity to introduce students to the relevance of financial accounting. A portion of Kellogg's 10-K is reproduced in the appendix, allowing for a comparison case with General Mills, Chapter 2's focus company.
- Included the statement of cash flows in Exhibit 1-10 showing the relationships among the financial statements.
- Moved "The Accounting Profession" from Chapter 1 to Appendix A at the end of the book. Based on reviewer feedback, this change allows students to better focus on essential material.
- Added a brief section on the role of auditors in determining whether accounting standards are being followed ahead of the discussion of ethics and the introduction of an ethical decision model.
- Added a fuller discussion of the harmonization of accounting standards, as this convergence of U.S. and international accounting standards and practices is an issue that future business students will likely face.
- Within the section on ethics, added a Hot Topics feature illustrating why Kellogg's was named one of the most ethical companies for 2007.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC1-3; Updated: E1-13, P1-8, P1-8A, P1-9A, DC1-1, DC1-2.

Chapter 2: Financial Statements and the Annual Report

- Added General Mills as the focus company for Chapter 2. General Mills is a well-known industry competitor to Chapter 1's Kellogg's and is used as a comparison company in the Ratio Decision Model on the current ratio and profit margin in this chapter. Like Kellogg's, General Mills's financial statements are very straightforward.
- Changed the chapter company examples to focus on a hypothetical retail business from the service company used in the fifth edition. Based on reviewer feedback, this chapter employs Dixon Sporting Goods to introduce the financial statements. Instructors indicated that they prefer to cover inventories and cost of goods sold early in the book.
- Reinstated coverage of the operating cycle in connection with a return to a focus on product companies rather than service companies. This key coverage was suggested by reviewers' desire for early treatment of inventories and cost of goods sold.
- Included General Mills's complete balance sheet to give students a full picture of this statement. (In the fifth edition, the balance sheet for the chapter focus company was a condensed version.)
- Added a Hot Topics feature on Kraft Foods' search for a buyer for its Post® cereals: Would the buyer General Mills or Kellogg's?
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC2-1; Updated: P2-10, P2-10A, DC2-2.

Chapter 3: Processing Accounting Information

- Added Southwest Airlines as the focus company for Chapter 3. The operation of an airline is easy for students to understand, and they can easily relate to how an airline generates revenue and the types of expenses it incurs.
- Introduced a new transaction format at the end of the chapter, which is used in the remainder of the text. The new format includes both the journal entry and a **transaction-effects equation** showing the effect of the entry on the financial statements.
- Replaced the term *owner's equity* with *stockholders' equity* to reflect the public-corporation focus of the book, starting in the transaction analysis equation and carried through elsewhere in the chapter.
- Added a Hot Topics feature on Southwest Airlines teaming up with PayPal to make buying its tickets online safer. This allows instructors to link online purchases with revenues on Southwest's income statement featured in the chapter.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC3-1; Updated: DC3-2, DC3-3.

Chapter 4: Income Measurement and Accrual Accounting

- Added Nordstrom, Inc. as the focus company for Chapter 4. Students buy products from retailers such as Nordstrom and can easily understand the nature of their business. For example, a new section was added to illustrate how Nordstrom recognizes revenue and reports liabilities arising from the use of gift cards.
- Began using the new transaction-effects equation as an element with all journal entries to provide a conceptual basis for recording transactions.
- Added a Hot Topics feature on Nordstrom's announced return of $1.5 billion to stockholders. Generation of excess cash comes in the context of the chapter opener's discussion of accruals, deferrals, and accounts receivable for the company, introduced in this chapter.
- Added explanation of the receivables that arise from two different forms of credit Nordstrom extends to customers. One is from the company's own private label card and the other from its co-branded VISA® credit card.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC4-1; Updated: E4-23, DC4-2, DC4-3.

Chapter 5: Inventories and Cost of Goods Sold

- Added Gap Inc. as the focus company for Chapter 5. Gap's brands are highly recognized, particularly with college students.
- Moved the operating cycle coverage to Chapter 2 for better and earlier integration of a business that sells a product.
- Added a Hot Topics feature on Gap Inc.'s closing of its Forth & Towne stores and the accounting implications shown in the 2007 financial statements.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC5-1, DC5-3; Updated: E5-16, P5-2, P5-6, P5-9, P5-15, P5-16, P5-2A, P5-6A, P5-9A, P5-15A, DC5-2.

Chapter 6: Cash and Internal Control

- Added Sears Holdings Corp. as the focus company for Chapter 6. Focusing on cash and cash equivalents is graphically illustrated in the opener using the first line of Sears' balance sheet.
- Added a Hot Topics feature on the merger of Sears and K-Mart that focuses on cash flows and the management of excess cash as a key to the success of the combined companies.
- Revised the Sarbanes-Oxley coverage around Sears' management report on its internal controls and on its auditors' report on internal control.
- In addition to the new Brief Exercises, the following end-of-chapter material is new: DC6-1.

Chapter 7: Receivables and Investments

- Updated the Apple chapter opener with the most current information available and replaced the financial statements for Apple, Inc. as the focus company for Chapter 7. Apple has high name recognition among students, and the company has been in the spotlight recently with the introduction of its new iPhone.
- Chapter 7 has undergone significant revision and reorganization:
  - Receivables is placed at the start of the chapter, prior to investments. This order is more logical, as companies often invest excess cash from the collection of their receivables. Thus, investments follow receivables.
  - Coverage of investments has been consolidated into the body of the chapter with the elimination of the appendix in the fifth edition. In doing so, the coverage has been streamlined considerably, with the elimination of any discussion of the distinction between trading securities and available-for-sale securities.
- Added a Hot Topics feature covering Apple's record-setting third-quarter 2007 revenues.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC7-3; Updated: E7-3, P7-3, P7-3A, DC7-1, DC7-2.

Chapter 8: Operating Assets: Property, Plant, and Equipment, and Intangibles

- Updated the Nike chapter opener with the most current information available and replaced the financial statements for Nike as the focus company for Chapter 8.
- Eliminated coverage of natural resources as a result of reviewer comments.
- Added a Hot Topics feature on Nike's introduction of it ZOOM footwear, depending on Nike's brand identity as a valuable intangible asset.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC8-1, DC8-2; Updated: P8-11, P8-11A.

Chapter 9: Current Liabilities, Contingencies, and the Time Value of Money

- Added Starbucks as the focus company for Chapter 9.
- Included new information on Starbucks and its competitors to allow for clean industry-specific comparisons. Also new is supporting end-of-chapter material to engage students.
- Deleted material on the use of the calculator for time value of money. This allows the instructor to focus on the two preferred methods: use of time value tables and the use of Excel®. Both of these methods appear at the end of the chapter.
- Updated Exhibit 9-1 on current and quick ratios to focus only on Starbucks and its industry competitors, based on reviewer comments.
- Added a Hot Topics feature that focuses on a possible contingent liability: lawsuits targeting Starbucks' use of milk having artificial growth hormone.
- Deleted the appendix on payroll accounting as a result of reviewer feedback.
- In addition to the new Brief Exercises, the following end-of-chapter material is new: P9-2, P9-3, P9-2A, P9-3A, DC9-1, DC9-2, DC9-3, DC9-4.

Chapter 10: Long-Term Liabilities

- Updated the Coca-Cola chapter opener with the most current information available and replaced the financial statements as the focus company for Chapter 10. Focuses on Coke's long-term growth plans needing long-term investments to support that growth.
- Deleted material on the use of the calculator to calculate present value of bonds. This change was made for consistency with the elimination of calculators for time value in Chapter 9.
- Deleted the appendix on pensions, as reviewers indicated that it was beyond the scope of the introductory financial accounting course.
- Added a separate Learning Outcome (and related Brief Exercise) to support the chapter's ratio coverage.

- Added a Hot Topics feature comparing Coca-Cola and PepsiCo for product introductions and how much these companies depend on long-term financing.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC10-1, DC10-2; Updated: P10-10, P10-10A, DC10-3.

Chapter 11: Stockholders' Equity

- Added Southwest Airlines as the focus company for Chapter 11. Southwest's performance is key to building shareholder value, shown by its stockholders' equity section.
- All exhibits that include actual company information were replaced with new companies for continued relevance.
- Shortened and made more concise the section on preferred stock for easier review by students.
- Added a Hot Topics feature on Southwest's 124th consecutive dividend in the face of a number of future challenges found in its 2006 annual report.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC11-1, DC11-2; Updated: P11-7, 11-7A.

Chapter 12: The Statement of Cash Flows

- Updated the chapter opener with the most current information available and replaced the financial statements from Best Buy as the focus company for Chapter 12. Best Buy increased its cash and cash equivalents by 60% in 2006, and an updated cash flows analysis is continued in the chapter.
- Updated Exhibit 12-1 comparing cash flows of various companies to include Best Buy competitor Circuit City.
- Added a Hot Topics feature on Best Buy's 2007 statement of cash flows that reported expenditure of $733 million on additions to property and equipment.
- In addition to the new Brief Exercises, the following end-of-chapter material is new: DC12-1, DC12-2, DC12-3.

Chapter 13: Financial Statement Analysis

- Updated the chapter opener with the most current information available and replaced the financial statements from Wm. Wrigley Jr. Co. as the focus company for Chapter 13.
- Added a Hot Topics feature on how Wrigley's financed its purchase of a Russian premium chocolate maker.
- In addition to the new Brief Exercises, the following end-of-chapter material is new or updated: New: DC13-3; Updated: E13-3, E13-4, E13-5, E13-6, DC13-1, DC13-2, DC13-4.

Appendix A: The Accounting Profession

- Based on reviewer feedback, this topic was moved from Chapter 1.

Appendix B: Excerpts from Kellogg's Form 10-K for 2006

- New for this edition is Kellogg's, the focus company used in Chapter 1.

Appendix C: Excerpts from General Mills's Form 10-K for 2006

- New for this edition is General Mills, the focus company used in Chapter 2.

SUPPLEMENTS

CengageNOW™ for Porter/Norton, *Financial Accounting: The Impact on Decision Makers* is an **online teaching and learning resource** that gives you **more control in less time** and **delivers better outcomes**—NOW. CengageNOW offers all of your teaching and learning resources in one place to help teach an accounting course. CengageNOW satisfies students who prefer to use digital resources to study. CengageNOW includes:

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- Personalized Study Plans
- Integrated eBook
- Assessment Options
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Instructor's PowerPoint® Slides. Located on the Instructor's Resource CD-ROM and on the text's Web site, these colorful slides, by Catherine Lumbattis (Southern Illinois University), reinforce chapter content and provide a rich tool for in-class lectures and out-of-class reviewing.

Assessment Tools. The testing materials accompanying the sixth edition were revised to accommodate your need to accurately assess student performance outcomes and measure progress towards achieving departmental and college objectives.

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Gary A. Porter
Curtis L. Norton
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Dr. Porter's professional activities include experience as a staff accountant with Deloitte & Touche in Denver, a participant in KPMG Peat Marwick Foundation's Faculty Development program, and a leader in numerous bank training programs. He has won an Excellence in Teaching Award from the University of Colorado and Outstanding Professor Awards from both San Diego State University and the University of Montana. He served on the Illinois CPA Society's Innovations in Accounting Education Grants Committee, the steering committee of the Midwest region of the American Accounting Association, and the board of directors of the Chicago chapter of Financial Executives International.

Curtis L. Norton is a Professor Emeritus at Northern Illinois University in DeKalb, Illinois, where he has taught since 1976. He currently is teaching in NIU's highly acclaimed CPA Review program. He is also a Visiting Professor at Arizona State University at the West Campus. He earned his Ph.D. from Arizona State University, his M.B.A. from the University of South Dakota, and his B.S. from Jamestown College, North Dakota. His extensive list of publications include articles in *Accounting Horizons*, *The Journal of Accounting Education*, *Journal of Accountancy*, *Journal of Corporate Accounting*, *Journal of the American Taxation Association*, *Real Estate Review*, *The Accounting Review*, *CPA Journal*, and many others. In 1988–1989, Dr. Norton received the University Excellence in Teaching Award, the highest university-wide teaching recognition at NIU. He is also a consultant and has conducted training programs for governmental authorities, bank, utilities, and other entities.

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BRIEF CONTENTS

CONTENTS

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Each chapter contains some or all of the following end-of-chapter material:

• Ratio Review • Accounts Highlighted • Key Terms Quiz • Alternate Terms • Warmup Exercises & Solutions • Review Problem & Solution • Appendix Review Problem & Solution • Questions • Brief Exercises • Exercises • Multiconcept Exercises • Problems • Multiconcept Problems • Alternate Problems • Alternate Multiconcept Problems • Decision Cases • Solutions to Key Terms Quiz • Answers to POD Review

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