



FINANCIAL ACCOUNTING

MILLER-NOBLES • MATTISON • MATSUMURA
BEST • KEENE • TAN • WILLETT

EDITION

9

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Preface

This ninth edition of *Financial Accounting* continues to provide accounting students with a complete learning resource. It is focused on current accounting theory and practice in Australia and New Zealand. The new edition covers all the requirements of introductory financial accounting courses. The text and accompanying learning and teaching packages provide both students and lecturers with the most effective tools available for learning the fundamentals of accounting.

Business context of accounting

Financial Accounting provides students with a *business approach* to the study of accounting by emphasising how financial decision making is based on accurate and complete accounting information. A running case, Smart Touch Learning, is used throughout the text to illustrate, in a practical way and with gradually increasing complexity, the topics covered in each chapter. Similarly, a Continuing Exercise and a Continuing Problem are included in the assignment material for each chapter so that students can follow how accounting concepts and techniques develop. The text also develops student awareness of the ethical issues facing the accounting profession. Chapter 1 includes a discussion of ethics in business and the accounting profession today. The end-of-chapter Focus on Ethics provides students with the opportunity for in-depth discussion and analysis.

Accuracy and currency

Financial Accounting is accurate and up to date. We have been guided in writing this new edition by extensive feedback from students and lecturers, including in-depth chapter reviewing and technical editing. We have also included the very latest, most *up-to-date* information in line with the latest developments in Australian and New Zealand accounting standards. These developments are referenced throughout the text. They include updates to incorporate the new conceptual framework (*Conceptual Framework for Financial Reporting*) issued by the Australian Accounting Standards Board in May 2019. This conceptual framework incorporates the new *Conceptual Framework for Financial Reporting* issued by the International Accounting Standards Board in May 2018.

Responding to user needs

Our survey of users is an important part of the effort to effectively meet the needs of students and lecturers. We value the positive comments that enable us to identify those aspects of the book that users find most helpful, and we recognise and respond to areas of concern for our readership. End-of-chapter questions have been updated. Topical issues like big data have been incorporated and are highlighted in boxes in various chapters. Chapter 7 has been thoroughly updated to reflect the contemporary use of accounting software systems and Chapter 8 is updated to reflect increased electronic cash transactions.

Clear, straightforward approach

Financial Accounting continues to provide a clear, straightforward approach to the study of accounting. Great care has once again been taken in writing this new edition to ensure that the text is easier than ever for students to read and understand. We believe it is, for students, the most accessible text available, with clear explanations of both how and why accepted accounting concepts and techniques are used.



Guided tour

Financial Accounting 9e features

The 9th edition preserves the classic, solid foundation of the previous editions, while also including a modern and fresh teaching approach that helps students understand the complexities of accounting.

THE ROLE OF ACCOUNTING IN DECISION MAKING 1

Do you know how to use the financial statement results to analyze a company?

SMART TOUCH LEARNING LTD
— BALANCE SHEET
as at 30 June 2021

Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	4 800	Accounts payable	48 700
Accounts receivable	2 800	Salary payable	700
Inventory	50 500	Interest payable	100
Supplies	400	Unearned service revenue	100
Prepaid rent	2 000	Total current liabilities	50 100
Total current assets	60 500	Non-current liabilities:	
Non-current assets:		Leases payable	20 000
Land	10 000	Total liabilities	70 100
Lease Accumulated depreciation—Furniture	200		
Building	48 000	Owner's equity	
Lease Accumulated depreciation—Building	200	Owner's capital	50 000
Total non-current assets	68 000	Total liabilities and owner's equity	138 100
Total assets	128 500		

THINK ABOUT A DECISION YOU HAVE MADE RECENTLY. While many of your decisions are routine and can be made without reference to detailed information such as which telephone to use or whether to purchase other decisions are more important and have longer-lasting effects, such as choosing a mobile phone network and contract type. The longer the decision, the more information you will want before making it. In the course of which type of mobile phone do you use in order to make the best decision you would want to know what each option provides (for example, the number of minutes included and the amount of air allowed), as well as the cost of each plan. What you are doing is weighing up the costs and benefits of each option.

In the world of commerce and beyond, organisations use accounting information to inform their year-to-year investment decisions. For example, if the retail giant H&M considered a bid to purchase rival Zara, how much should it pay? The answer depends partly on what the accounting information on Zara's books is worth.

The balance sheet above shows one of the most important and useful financial statements prepared by accountants. Accounting information enables people and organisations to make better decisions.

LEARNING OBJECTIVES

LO 1 Explain why accounting is important

LO 2 Describe the accounting equation and different types of financial statements

LO 3 Use the accounting equation to analyse transactions

LO 4 Prepare financial statements

LO 5 Use financial statements and signs of success to evaluate business performance

LO 6 Describe the organisation and principles of the accounting profession

LO 7 Identify the three main types of business organisation

LO 8 Explain the role of ethics and sustainability in accounting

18 FINANCIAL STATEMENT ANALYSIS

Do you know how to use the financial statement results to analyze a company?

SMART TOUCH LEARNING LTD
— BALANCE SHEET
as at 30 June 2021

Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	4 800	Accounts payable	48 700
Accounts receivable	2 800	Salary payable	700
Inventory	50 500	Interest payable	100
Supplies	400	Unearned service revenue	100
Prepaid rent	2 000	Total current liabilities	50 100
Total current assets	60 500	Non-current liabilities:	
Non-current assets:		Leases payable	20 000
Land	10 000	Total liabilities	70 100
Lease Accumulated depreciation—Furniture	200	Shareholders' equity	
Building	48 000	Share capital	30 000
Lease Accumulated depreciation—Building	200	Retained earnings	5 100
Total non-current assets	68 000	Total shareholders' equity	35 100
Total assets	128 500	Total liabilities and shareholders' equity	105 200

LEARNING OBJECTIVES

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LO 2 Describe the accounting equation and different types of financial statements

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LO 5 Use financial statements and signs of success to evaluate business performance

LO 6 Describe the organisation and principles of the accounting profession

LO 7 Identify the three main types of business organisation

LO 8 Explain the role of ethics and sustainability in accounting

NOW THAT YOU HAVE LEARNED SOME OF THE 'HOW-TO' OF FINANCIAL STATEMENT PREPARATION, YOU ARE ASKING: How can I use financial statements in a meaningful way to help me manage my company better? How can I compare my company's results with competitors that do what I do?

In this chapter, you will learn what the above asks to see beyond the 'raw' numbers on the financial statements and consider them from a meaningful analysis. We will start by analysing the statements of Smart Touch Learning and finish the chapter by analysing Greg's Team.

Getting off to the right start: Chapter openers

The chapter openers in this edition are focused on preparing you for the reading. They include a visual of a **balance sheet** that highlights what will be covered within the chapter.

Put the concepts in context: Try It! boxes

Each *Try It!* gives students opportunities to apply the concept they've just learned by reflecting on or completing an accounting problem.

Illustrate the concepts: Decision guidelines

Decision guidelines explain why the accounting concepts addressed in the chapter are important to making decisions in a business setting. The left-hand side of the *Decision guidelines* table explains in simple terms the decision or action asked of the student, while the right-hand side shows the accounting topics that will help facilitate those decisions.

TRY IT! 11.1

O'Connor guarantees its vacuums for four years. Prior experience indicates that warranty costs will be approximately 6% of sales. Assume that O'Connor made sales totalling \$200 000 during 2021. Record the warranty expense for the year.

DECISION GUIDELINES 16.1

Using cash flow and related information to evaluate investments

Ann Browning is a private investor. Over the years she has devised some guidelines for evaluating investments. Here are some of her guidelines.

QUESTION	FINANCIAL STATEMENT	WHAT TO LOOK FOR
INVESTORS		
Where is most of the company's cash coming from?	Cash flow statement	Operating activities → Good sign Investing activities → Bad sign Financing activities → Okay sign
Do high sales and profits translate into more cash?	Cash flow statement	Usually, but cash flows from operating activities must be the main source of cash for long-term success.
If sales and profits are low, how is the company generating cash?	Cash flow statement	If investing activities are generating the cash, the business may be in trouble because it is selling off its long-term assets. If financing activities are generating the cash, that cannot go on forever. Sooner or later, investors will demand cash flow.

Keep it consistent: Consistent examples

Rather than learn about a new company each time an example is presented, this text provides two sets of company data (for Smart Touch and Greg's Tunes) that are carried through the in-chapter examples. As a result, you gain a sense of familiarity with the context of these examples and can focus your energy on learning the accounting principles in question.

Sustainability in action

Sustainability in action boxes in most chapters show that sustainability issues are integral aspects of accounting. The companies profiled illustrate the kinds of change that are occurring in managing sustainability. Each example is accompanied by relevant questions.

EXHIBIT 16-6 Income statement

SMART TOUCH LEARNING LTD Income statement for the year ended 30 June 2021 (amounts in thousands)		
	\$	\$
Revenues		
Sales revenue		284
Interest revenue		12
Dividend revenue		9
Gain on sale of non-current assets*		8
Total revenues		313
Expenses		
Cost of sales	150	
Salary and wage expense	56	
Depreciation expense	18	
Interest expense	16	
Other operating expense	17	
Total expenses		257
Profit before income tax		56
Income tax expense		15
Profit		41

*Net of proceeds less carrying amount.

Sustainability in action

Corporate sustainability movement

"Sustainable companies don't just make the world a better place, they offer higher returns and longer lifespans." Mike Scott, Corporate Knights.

In Australia, businesses are increasingly taking the position that climate change brings with it economic and social risks in addition to the more obvious environmental challenges. Thus, more and more companies are trying to reduce their greenhouse gas emissions and working towards a low carbon economy. The 2019 list of the world's 100 most sustainable companies included two Australian companies: Westpac and National Australia Bank.

A review of the approaches in dealing with climate change and sustainability by these top performers shows the need for comprehensive focus that includes engaging employees and the community, working on and (with

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REVIEW

Accounting vocabulary

accounting policies (p. 730)
change in accounting estimate (p. 730)
change in accounting policy (p. 730)
comparability (p. 724)
cost versus benefit (p. 723)
due process (p. 717)
events after the reporting period (p. 730)
faithful representation (p. 720)
general purpose financial reports (p. 721)
materiality (p. 724)

objective of financial reporting (p. 722)
qualitative characteristics of useful financial information (p. 722)
relevance (p. 722)
subsidiary event (p. 731)
timeliness (p. 721)
understandability (p. 721)
verifiability (p. 721)

Student success tips

The following are hints on some common trouble areas for students in this chapter:

- Keep in mind that there are a number of different bodies involved in setting accounting standards; some are Australian and some are international.
- Remember that the overall objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.
- Recall that the general principles of reporting are intended to help in achieving that overall objective.
- Remember that some subsequent events result in changes to the financial statements but others are simply noted.
- Recall that a lot of information is given in the notes to the financial statements. Some notes set out the accounting policies and practices of the business and some provide more details for items already included in the statements.

ASSESS

Quick check

- Accounting standards in Australia are issued by:
 - the Australian Securities and Investments Commission
 - the Financial Accounting Standards Board
 - the Australian Accounting Standards Board
 - the International Accounting Standards Board
- Due process in setting accounting standards is followed so as to:
 - improve the credibility of the standards
 - gain general support for the standards
 - comply with legal requirements
 - all of the above
- According to the IASB Conceptual Framework, the objective of general purpose financial reporting is to provide financial information:
 - that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity

CHAPTER 16 RETAILING OPERATIONS 255

APPLY

Decision case

Party Time T-shirts sells T-shirts for parties at the local college. The firm completed the first year of operations, and the owner is generally pleased with operating results as shown by the following income statement.

PARTY TIME T-SHIRTS Income Statement for the year ended 31 December 2020	
Net sales revenue	\$50,000
Cost of sales	(210,000)
Gross profit	140,000
Operating expenses:	
Selling expense	(40,000)
General expense	(25,000)
Net profit	75,000

Bill Hildebrand, the owner, is considering how to expand the business. He proposes two ways to increase profits to \$100,000 during 2021:

- Hildebrand believes he should advertise more heavily. He believes that additional advertising costing \$20,000 will increase net sales by 20% and have general expense unchanged. Assume that one of sales will remain at the same percentage of net sales as in 2020, so if net sales increase in 2021, cost of sales will increase proportionately.
- Hildebrand proposes selling higher-margin merchandise, such as party dresses, in addition to the existing product line. An importer can supply a minimum of 1,000 dresses for \$40 each. Party Time can mark these dresses up 100% and sell them for \$80. Hildebrand estimates that he will have to advertise the new merchandise, and this advertising will cost \$5,000. Party Time can expect to sell only 80% of these dresses during the coming year.

Requirements

- Help Hildebrand determine which plan to pursue. Prepare a "by nature" income statement for 2021 to show the expected net profit under each plan.

Focus on ethics

Dobbie Wholesale Acquires makes all sales under terms of FOB delivery point. The company usually ships inventory to customers approximately one week after receiving the order. For orders received late in December, Kathy Dobbie, the owner, decides when to ship the goods. If profits are already at an acceptable level, Dobbie ships shipment until January. If profits for the current year are lagging behind expectations, she ships the goods during December.

Requirements

- Under Dobbie's FOB policy, when should the company record a sale?
- Do you approve or disapprove of Dobbie's manner of deciding when to ship goods to customers and record the sales revenue? If you approve, give your reasons. If you disapprove, identify a better way to decide when to ship goods. (There is no accounting rule against Dobbie's practice.)

Master the material: Review/Assess/Apply

Review

Read the *Accounting vocabulary* and *Student success tips* to ensure that you remember and understand the key terms and concepts from the chapter.

Assess

Tackle the *Quick check* and *Starter* questions, then jump to the more comprehensive and challenging *Exercises* and *Problems* to master the technical aspects of the chapter.

Apply

It's time to pull everything together! Apply your skills to decision-making, ethics and fraud cases.

MyLab Accounting

A guided tour for students and educators

Study plan

A study plan is generated from each student's results on a pre-test. Students can clearly see which topics they have mastered and, more importantly, which ones they need to work on.

MyLab Accounting

Study Plan

Recommendations Progress All Chapters

Practice the learning objectives, then take a Quiz Me to prove mastery and earn mastery points (MP).

Recommended learning objectives

- 1.2 What is the Accounting Equation? Practice Quiz Me
- 2.2 Debits, Credits and Double-entry Accounting Practice Quiz Me
- 3.5 The Financial Statements Practice Quiz Me
- 4.4 Post-closing Trial Balance Practice Quiz Me
- 8.3 Internal Controls for E-commerce Practice Quiz Me

Learning resources

To further reinforce understanding, study plan and homework problems link to the following learning resources:

- The relevant section of the eText, so that students can review key concepts
- Help Me Solve This, which walks students through the problem with step-by-step help and feedback without giving away the answer.

Chapter 1: The Role of Accounting in Decision Making

1 The Role of Accounting in Decision Making

SMART TOUCH LEARNING
Balance sheet
as at 30 June 2016

As you'll learn in this chapter, the accounting equation (Assets = Liabilities + Equity) is the balance sheet.

Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	\$ 4 000	Accounts payable	\$ 48 700
Accounts receivable	2 600	Salary payable	900
Inventory	30 500	Interest payable	100
Supplies	600	Unearned service revenue	400
Prepaid rent	2 000	Total current liabilities	50 100
Total current assets	\$ 40 500	Non-current liabilities:	
Non-current assets:		Loans payable	20 000
Furniture	\$18 000	Total liabilities	70 100
Less: Accumulated depreciation—furniture	300		
Building	48 000	Owners' equity	
Less: Accumulated depreciation—building	200	Sheena Bright, capital	35 900
Total non-current assets	65 500	Total liabilities and owners' equity	\$106 000
Total assets	\$106 000		

THINK ABOUT A DECISION YOU HAVE MADE RECENTLY. While many of your decisions are routine and can be made without reference to detailed information, such as which clothes to wear in the morning, other decisions are more infrequent and have longer-lasting effects, such as

Click to select your answer and then click Check Answer.

All parts showing Clear All Check Answer

4.1 The Accounting Worksheet

Exercise 4-1

Data for the unadjusted trial balance of Planet Beach Tanning Salon at 30 June 2015 follows. (Click the icon to view the unadjusted balances.) (Click the icon to view the Lex Noonan, the owner, has received an offer to sell the business. He needs to know these data.

Requirements

- Prepare the worksheet for Planet Beach Tanning Salon.
- How much was the profit or loss for June?

**Planet Beach Tanning Salon
Worksheet
for the month ended 30 June 2015**

Account	Trial balance		Adjustments	
	Debit	Credit	Debit	Credit
Cash	\$ 13 400			
Accounts receivable				
Supplies	1 200			
Equipment	66 700			
Accumulated depreciation		\$ 19 100		
Accounts payable		3 100		
Salary payable				
Noonan, capital		11 500		

Unlimited practice

MyLab Accounting comes with preloaded assignments covering end-of-chapter questions, all of which are automatically graded. Many study plan and educator-assigned exercises contain algorithmically generated values to ensure that students get as much practice as they need.

PEARSON return Student

Student Demo Module

QUESTION

Click once if you are unsure.

Click twice if you are sure.

You can submit up to two choices if you are unsure of your answer.

continue

ANSWER

I AM UNSURE
It strengthens the synaptic signals needed for long-term memory.

As your confidence grows, you become more likely to recall information you already knew.

Having to choose between three different answers can cause you to guess the correct answer which will help to cement your choice in your synaptic neurons.

I DON'T KNOW YET

submit

Dynamic Study Modules

Using a highly-personalised process, Dynamic Study Modules continuously assess students' performance and provide additional practice in the areas where they struggle the most. Students can then review material and retest themselves until they 'master' the information. Each Dynamic Study Module—accessed by computer, smartphone or tablet—promotes fast learning and long-term retention.

Data Analytics Projects

Data Analytics Projects offer students hands-on practice in mining, analysing, and reporting on data. Each project contains a list of requirements, a dataset, a tutorial video, and instructions for obtaining and using software such as Excel, Power BI, or Tableau. Using these tools, students learn how to extract and examine key information about a company related to its products, operations, and/or consumer buying habits. With this experience and knowledge, students make smarter business decisions and are better prepared for the workforce.

All cases include multiple data sets with video tutorials and algorithmic automatically graded questions.

The screenshot shows a web-based homework assignment titled "Homework: DA Projects: Tableau". At the top right, there is a "Save" button and a checkbox for "Show completed problem". The score is "0 of 1 pt" and the progress is "1 of 2 (0 complete)". The assignment is for "Ins Co FA-Tableau".

Instructions include:

- View a video for a quick overview.
- Steps to follow:
 - Review the video and/or the scripted PDFs.
 - Download the Excel data file. (After you download the file, YOU NEED TO "SAVE" YOUR ASSIGNMENT BY CLICKING THE SAVE BUTTON IN THE UPPER RIGHT HAND CORNER BEFORE YOU EXIT. If you do not save your assignment, the next time you enter, you may see a different company and set of data.)
 - Perform the requirements on the data file using the video or pdfs.
 - Check your work in the Tableau file with these check figures.
 - Use your Tableau file to answer the six multiple choice questions below. (You will have to scroll down to see all of the questions.)

Resources listed:

- A) Information on how to obtain Tableau for Windows or a Mac.
- B) Information on how to save a Tableau file.
- C) Information on data columns and headings.
- D) Information on data table descriptions.

A note states: "This project only has one attempt. Review the check figures with your data file results before answering the questions. If your check figures do not match, do not proceed with answering the questions until you have asked for assistance from your instructor." It also specifies to use the data set for Requirement 2 for YES Insurance.

Two questions are shown:

- What was the average amount of sales in North Dakota?
 - A. \$654.28
 - B. \$673.36
 - C. \$663.72
 - D. \$674.89
- What was the sum of sales in South Dakota?

At the bottom, there are buttons for "All parts showing", "Clear All", and "Final Check".

Excel Projects

Using proven, field-tested technology, auto-graded Excel Projects let you seamlessly integrate Microsoft® Excel® content into your course without having to manually grade spreadsheets. Within minutes of submitting your Excel Projects in MyLab, students get detailed personalised feedback. This helps students build their understanding of the key topics in the course while also building their confidence with Excel.

The screenshot shows a four-step workflow for an Excel project:

- Download Starting Materials:** "You must download the starting files available below. The file for this project will be unique to you, so make sure to save it where you know you can retrieve it easily." Button: "Download Materials".
- Work Project on your Computer:** "Follow the instructional steps to finish the project (point values can also be seen using the link below)." Button: "Preview Steps".
- Upload Completed Document:** "All done? Now upload the project file in preparation for our automatic grading and reporting process." "No File Selected." Button: "Choose File...".
- Submit Project for Grading:** "Detailed feedback and grades on the submitted project are added to your submission and will be made available via the gradebook and submission report screen." Button: "Submit for Grading".

A note at the top states: "Microsoft Office Required: This activity requires students to submit a project that they have completed in Microsoft Office."