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PREFACE

This eighth edition of Horngren's *Financial Accounting* continues to provide accounting students with a complete learning resource. It is focused on current accounting theory and practice in Australia. The new edition covers all the requirements of introductory 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 financial accounting.

Business context of accounting

Horngren's *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. Chapter 1 in this edition has also been completely rewritten, bringing the reader back to basics by chunking material into manageable bite-size portions.

Accuracy and currency

Horngren's *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 accounting standards. These developments are referenced throughout the text.

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.

Clear, straightforward approach

Horngren's *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

Horngren's Financial Accounting 8e features

The 8th 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.

Getting off to the right start: Chapter openers

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

THE ROLE OF ACCOUNTING IN DECISION MAKING

1

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

SMART TOUCH LEARNING Balance sheet ← as at 30 June 2016			
Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	\$ 4 800	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	Owners' equity	
Building	48 000	Sherma Bright, capital	35 900
Less: Accumulated depreciation—building	200	Total liabilities and owners' equity	\$106 000
Total non-current assets	47 800		
Total assets	\$106 000		

Learning objectives

- LO 1 Explain why accounting is important
- LO 2 Describe the accounting equation, and explain how assets, liabilities and equity relate to it
- LO 3 Use the accounting equation to analyse transactions
- LO 4 Prepare financial statements
- LO 5 Use financial statements and return on assets (ROA) to evaluate business performance
- LO 6 Describe the organisations and principles that govern accounting
- LO 7 Identify the three main types of business organisations
- LO 8 Explain the role of ethics and sustainability in accounting

Put the concepts in context: Stop&think boxes

Improved *Stop&think* boxes relate accounting concepts to your everyday lives by presenting you with relevant examples of the topic in practice.

STOP&THINK Have you ever walked along the beach and gathered sea shells? Perhaps you had more than one bucket and you put all the shells in one, all the crabs in another, and so on. That separation is essentially what happens in posting. All we are doing is gathering transactions that affect the same account (for example, all the transactions to Cash) and putting them in the T-account. They are placed either on the left or the right side of the T-account based on whether they were on the left or the right side of the journal entry. Posting is merely a sorting process—no change to debits or credits occurs from transaction to posting.

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 the decision or action asked of the student in simple terms, while the right-hand side shows the accounting topics that will help facilitate those decisions.

DECISION GUIDELINES 16.1		
Using cash flow and related information to evaluate investments		
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

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 (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.

SMART TOUCH LEARNING LTD Income statement		
for the year ended 30 June 2016 (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.		

EXHIBIT 16-6
Income statement

Sustainability in action

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

Sustainability in action

Corporate sustainability reporting: Trends

Corporations are facing increasing pressures to be accountable and transparent, and to disclose a wide variety of information about activities, including their sustainability. Sustainability is an emotionally-charged topic and its meaning may differ between individuals and corporations. ... Sustainability reporting [may be defined as] the communications which corporations make concerning their corporate social-responsibility (CSR) activities, including social and environmental impacts in addition to financial performance.

The International Integrated Reporting Council (IIRC) has proposed a revolutionary change in the way that corporations report activities to stakeholders, essentially by replacing current financial statements with integrated reports that contain financial information, operational data and sustainability information.

Master the material: Review/Assess/Apply

Review

Read the *Accounting Vocabulary* and *Student Success Tips* to ensure 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.

CHAPTER 16 THE CASH FLOW STATEMENT

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Continuing problem

P16-9 Preparing the cash flow statement—indirect method [25-35 min]
This problem continues the Draper Consulting Ltd situation from Problem 15-7 of Chapter 15.
Refer to the comparative balance sheet for Draper Consulting:

DRAPER CONSULTING LTD Comparative balance sheet		
	as at 31 December 2017 and 2016	
	2017	2016
Assets		
Cash	\$514 936	\$16 350
Accounts receivable	37 500	1 750
Supplies	2 200	200
Equipment	16 000	1 800
Furniture	5 700	4 200
Building	125 000	0
Accumulated depreciation	(2 753)	(100)
Total assets	\$698 583	\$24 200
Liabilities		
Accounts payable	\$ 10 000	\$ 4 650
Salary payable	4 100	685
Unearned service revenue	0	700
Interest payable	10 667	0
Bills payable	40 000	0
Debentures payable	400 000	0
Discounted debentures payable	(36 184)	0
Shareholders' equity		
Ordinary share capital	130 000	18 000
Retained earnings	140 000	165
Total liabilities and shareholders' equity	\$698 583	\$24 200

Requirement
Assume profit for 2017 is \$141235. Prepare the statement of cash flows using the indirect method.

APPLY

Decision cases

Case 16-1
The following is the income statement of the 2016 comparative income sheet of Col Australia Ltd have just been distributed at a meeting of the company's board of directors. The members of the board of directors raise a fundamental question: why is the cash balance so low? This question is especially troublesome to the board members because 2016 showed record profits. As the controller of the company, you must answer the question.

CHAPTER 16 THE CASH FLOW STATEMENT

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REVIEW

Accounting vocabulary

cash equivalents (p. 678)	indirect method (p. 681)
cash flow statement (p. 677)	investing activities (p. 678)
cash flows (p. 677)	non-cash financing and investing activities (p. 700)
direct method (p. 681)	operating activities (p. 678)
financing activities (p. 679)	free cash flow (p. 701)

Student success tips

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

- Keep in mind that the cash flow statement explains why the change in the cash balance isn't the same as the profit or loss for the period.
- Remember that the cash flow statement has three sections: operating, investing and financing.
- Remember that Cash is an asset, so changes in other asset accounts have the opposite effect on Cash (when other asset account increases, Cash decreases). Changes in liability and equity accounts have the same effect on Cash (when liability or equity account increases, Cash increases).

ASSESS

Quick check

- 1 The purpose of the cash flow statement are to:
 - a evaluate management decisions
 - b determine ability to pay liabilities and dividends
 - c predict future cash flows
 - d all of the above
- 2 The main categories of cash flow activities are:
 - a direct and indirect
 - b current and non-current
 - c non-cash financing and investing
 - d operating, investing and financing
- 3 Operating activities are most closely related to:
 - a non-current assets
 - b current assets and current liabilities
 - c non-current liabilities and owners' equity
 - d dividends and shares
- 4 Which item does not appear on a cash flow statement prepared by the indirect method?
 - a collections from customers
 - b depreciation
 - c profit
 - d gain on sale of land

MyAccountingLab

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.

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.

Study Plan Builder

Homework and Tests: Quizzes & Tests

Study this Section next: 0.1 Math Review for Accounting

Show All Homework Quizzes & Tests Chapter

All Quizzes and Tests

Due	Assignment	Time Limit	Attempts	Gradebook Score
	Chapter 1 Study Plan Builder		0 of ∞	

Sample Tests and Quizzes

Sample tests and quizzes can be taken for practice or to build your study plan. Sample tests and quizzes do not affect your grade.

Assignment	Attempts	Gradebook Score
Chapter 2 Study Plan Builder	0 of ∞	
Chapter 3 Study Plan Builder	0 of ∞	
Chapter 4 Study Plan Builder	0 of ∞	
Chapter 5 Study Plan Builder	0 of ∞	
Chapter 6 Study Plan Builder	0 of ∞	
Chapter 7 Study Plan Builder	0 of ∞	
Chapter 8 Study Plan Builder	0 of ∞	
Chapter 9 Study Plan Builder	0 of ∞	
Chapter 10 Study Plan Builder	0 of ∞	
Chapter 11 Study Plan Builder	0 of ∞	
Chapter 12 Study Plan Builder	0 of ∞	
Chapter 13 Study Plan Builder	0 of ∞	
Chapter 14 Study Plan Builder	0 of ∞	
Chapter 15 Study Plan Builder	0 of ∞	

Unlimited practice

MyAccountingLab 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.

Dynamic Study Modules

Test Your Knowledge

Choose a module and work through groups of questions to check your understanding. As you work through the questions, the Dynamic Study Modules will assess your knowledge and only show questions you still need to practice. Dynamic Study Modules, created for fast learning and long-term retention, will ensure you are prepared for your tests and exams.

Work the Dynamic Study Modules on-the-go by downloading the free app "MyLab / Mastering Dynamic Study Modules" on your Android smartphone and iPhone and iPod Touch devices.

QUESTION

Mega Metal Corp. has provided the following information for the year:

Budgeted production for the year	10,000 units
Estimated machine hours required	8,000 hours
Estimated labor hours required	12,000 labor-hours
Variable Overhead Costs	\$75,000

If Mega Metal Corp. believes that machine-hours is the only cost driver of variable overhead, what will be the budgeted variable overhead cost rate per unit?

ANSWER

\$6.25
\$37.50
 \$9.38
\$7.5
I DON'T KNOW YET

I am unsure

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.

EDUCATOR RESOURCES

A suite of resources is provided to assist with delivery of the text, as well as to support teaching and learning.

Solutions Manual

The Solutions Manual provides educators with detailed, accuracy-verified solutions to all the in-chapter and end-of-chapter problems in the book.

Test Bank

This Test Bank has been uniquely enhanced for sophisticated testing functionality. It includes accuracy-verified testing material that contains algorithmically generated values to expose students to a variety of problem scenarios. Updated for the new edition, each chapter offers a wide variety of questions, arranged by learning objective and tagged by AACSB standards.

Every question is available in TestGen® software for both Windows® and Macintosh® computers. This easy-to-use testing software is a valuable test preparation tool that allows educators to customise, save and generate classroom tests.

PowerPoint lecture slides

A comprehensive set of PowerPoint slides can be used by educators for class presentations or by students for lecture preview or review. They include key figures and tables, as well as a summary of key concepts and examples from the text.

Digital Image PowerPoint slides

All the diagrams and tables from the text are available for lecturer use.