



**Financial Accounting, 5<sup>th</sup> ed.**  
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**New in the 5th edition:**

We've incorporated an enormous amount of feedback from over 700 reviewers, focus group, and symposium participants. The list of changes and improvements on the next few pages is testament to the many hours that reviewers spent thinking about and analyzing our earlier editions, helping us to make *Financial Accounting* the best book of its kind.

**Overall Updates in the Fifth Edition**

- Updated content to reflect latest FASB pronouncements including terminology related to changes in Revenue Recognition, Inventory, Goodwill, Investments, and Leases.
- Feature stories, real-world examples, and ratio analyses were updated to include the most recent year of company data available.
- Financial Analysis Cases for American Eagle and Buckle are assignable and gradable in Connect for each chapter.
- Ethics Cases are assignable and gradable in Connect for each chapter.
- Earnings Management Cases are assignable and gradable in Connect for each chapter.

- Chapter Highlights illustrations have been added to the end of chapters to give students a succinct overview of the chapter's primary topics.
- Applying Excel problems added to all 12 chapters.
- Self-Study Questions were revised to include 15 per chapter.
- Continuing Problem for Great Adventures adds content from each successive chapter to build a comprehensive set of financial statements.
- Revised illustrations in the new edition to continue to offer clear and visual learning tools for students.
- Added content and new illustrations in Chapters 1–3 to build students' understanding of the framework of financial accounting and the accounting cycle activities during the year versus the end of the year.
- Usage data from SmartBook and Connect were used in developing changes to the 5th Edition.

## Chapter by Chapter Changes

### CHAPTER 1

- Expanded discussion of the definition and meaning of retained earnings.
- Added discussion of the statement of retained earnings.
- Updated AP1–2, AP1–3, and AP1–4 for American Eagle and The Buckle's most recent financial information.

### CHAPTER 2

- Added brief discussion of the role of aggregation in calculating account balances to more efficiently communicate measurements to users of financial statements.
- Updated AP2–2, AP2–3, and AP2–4 for American Eagle and The Buckle's most recent financial information.

### CHAPTER 3

- Streamlined the discussion of accrual-basis accounting versus cash-basis accounting.
- Added discussion of the asset/liability approach for revenue and expense recognition.
- Revised the discussion of the primary description of the four types of adjusting entries.
- Added Illustrations 3–4A and 3–4B.
- Revised Illustration 3–11 to illustrate the link between the adjusted trial balance and financial statements.
- Expanded discussion of the income statement and its components.
- Created new P3–4A and P3–4B.
- Updated AP3–2, AP3–3, and AP3–4 for American Eagle and Buckle's most recent financial information.

### CHAPTER 4

- Added new Illustration 4–5 to demonstrate separation of duties.

- Linked Illustrations 4–8 and 4–9 to better demonstrate the need for a bank reconciliation.
- Added more illustrations comparing the bank statement to the company’s cash records.
- Accounting for employee purchases are separated into credit card transactions and petty cash transactions.
- Revised Cash Analysis section to focus on the link between cash reporting in the balance sheet and statement of cash flows.
- Updated AP4–2, AP4–3, and AP4–4 for American Eagle and Buckle’s most recent financial information.

## **CHAPTER 5**

- Added basic journal entry for cash received on account in Part A.
- Revised example of transactions affecting net revenues.
- Added discussion and illustration of sales returns and the effect on net revenues.
- Eliminated the term net realizable value when referring to net accounts receivable.
- Revised discussion of the allowance method to first discuss establishing the allowance account.
- Moved the aging of accounts receivable method to follow writing off bad debts.
- Expanded discussion on the interpretation of the receivables turnover ratio.
- Added Exercise 5–22 as additional General Ledger problem.
- Converted AP5–1 Great Adventures to be used as a General Ledger problem.
- Updated AP5–2, AP5–3, and AP5–4 for American Eagle and Buckle’s most recent financial information.

## **CHAPTER 6**

- Rearranged introduction to first talk about manufacturing companies and then merchandising companies.
- Revised LIFO discussion and illustration to make clear that in practice LIFO is calculated only as a year-end adjusting entry (periodic method).
- Added Kroger’s balance sheet in Illustration 6–11 to better demonstrate FIFO versus LIFO for a real-world company.
- Added discussion and illustration of the effects of inventory errors on net income and retained earnings.
- Converted AP6–1 Great Adventures to be used as a General Ledger problem.
- Updated AP6–2, AP6–3, and AP6–4 for American Eagle and Buckle’s most recent financial information.

## **CHAPTER 7**

- Added some discussion of the financial statement impact of incorrectly capitalizing rather than expensing a material expenditure.
- Revised discussion of estimates used in determining depreciation in each year.
- Clarified discussion of gain and loss on sale of assets.
- Added Decision Maker’s Perspective on understanding gains and losses.
- Added discussion to the Analysis section of the impact on financial ratios of estimating residual values and service lives.
- Updated discussion of impairment for intangible assets with indefinite useful lives based on ASU No. 2017-04.
- Added five new Brief Exercises.

- Converted AP7–1 Great Adventures to be used as a General Ledger problem.
- Updated AP7–2, AP7–3, and AP7–4 for American Eagle and Buckle’s most recent financial information.

## **CHAPTER 8**

- Modified discussion and example of warranty liability.
- Added small discussion and assignment material for gift card breakage.
- Revised discussion of accounting for warranties.
- Add two Brief Exercises and two Exercises.
- Converted AP8–1 Great Adventures to be used as a General Ledger problem.
- Updated AP8–2, AP8–3, and AP8–4 for American Eagle and Buckle’s most recent financial information.

## **CHAPTER 9**

- Added discussion of reclassifying the current portion of a long-term installment note as a current liability.
- Revise discussion of leases to include advantages over installment notes.
- Revised discussion of leases for ASU 2016-02.
- Added journal entry to record a lease.
- Revised Part B and Part C so that instructors can easily choose whether to cover bonds with or without having to calculate the issue price.
- Added three new Brief Exercises, three new Exercises, and two new Problems for installment notes and leases.
- Converted AP9–1 Great Adventures to be used as a General Ledger problem.
- Updated AP9–2, AP9–3, and AP9–4 for American Eagle and Buckle’s most recent financial information.

## **CHAPTER 10**

- Added new Feature Story.
- Revised Illustrations 10–3 and 10–6.
- Revised discussion of preferred stock to clarify its distinguishing features.
- Converted AP10–1 Great Adventures to be used as a General Ledger problem.
- Updated AP10–2, AP10–3, and AP10–4 for American Eagle and Buckle’s most recent financial information.

## **CHAPTER 11**

- Separated investing activities and financing activities into separate Learning Objectives.
- Revised Illustration 11–4 to show relationship between income statement and operating cash flows.
- Added Illustration 11–27 to convert income statement items to their operating cash flows.
- Added five new Brief Exercises and five new Exercises.
- Updated AP11–2, AP11–3, and AP11–4 for American Eagle and Buckle’s most recent financial information.

## **CHAPTER 12**

- Revised discussion of discontinued operations and other revenues and expenses.
- All ratios for Nike and Under Armour updated to include the most recent year of company data available.
- Updated AP12–2, AP12–3, and AP12–4 for American Eagle and Buckle’s most recent financial information.

## **APPENDIX D**

- Updated for ASU 2016-01 which eliminates available-for-sale classification for equity investments.
- Revised discussion of equity securities to follow four critical events.
- Revised discussion of debt securities to follow four critical events.
- Added discussion to explain the effect of interest rate on the fair value of debt investments.