

Introduction to Financial Accounting



Horngren

Sundem

Elliott

Eighth Edition



INTRODUCTION TO FINANCIAL ACCOUNTING

Eighth Edition

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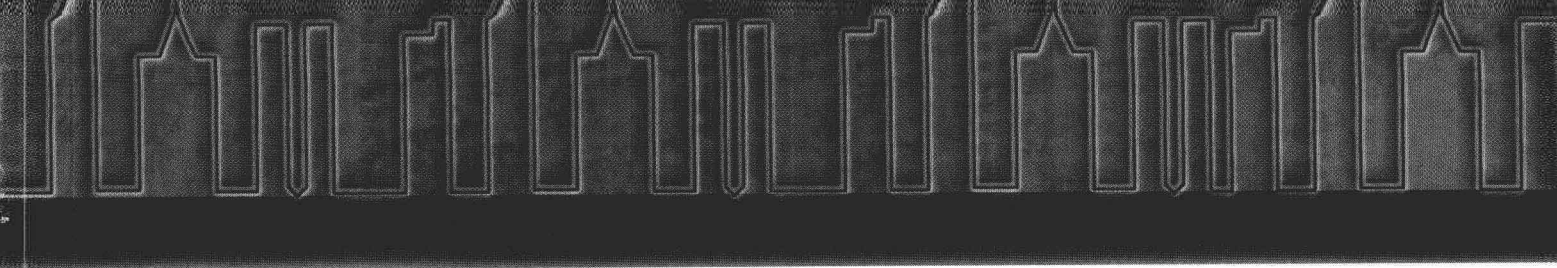
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*To Joan, Scott, Mary, Susie,
Cathy, Liz, Garth, Jens,
Laura, Dawn, and Jesse*

Charles T. Horngren is the Edmund W. Littlefield Professor of Accounting, Emeritus, at Stanford University. A graduate of Marquette University, he received his MBA from Harvard University and his Ph.D. from the University of Chicago. He is also the recipient of honorary doctorates from Marquette University and DePaul University.

A Certified Public Accountant, Horngren served on the Accounting Principles Board for six years, the Financial Accounting Standards Board Advisory Council for five years, and the Council of the American Institute of Certified Public Accountants for three years. For six years, he served as a trustee of the Financial Accounting Foundation, which oversees the Financial Accounting Standards Board and the Government Accounting Standards Board.

Horngren is a member of the Accounting Hall of Fame.

A member of the American Accounting Association, Horngren has been its President and its Director of Research. He received its first annual Outstanding Accounting Educator Award.

The California Certified Public Accountants Foundation gave Horngren its Faculty Excellence Award and its Distinguished Professor Award. He is the first person to have received both awards.

The American Institute of Certified Public Accountants presented its first Outstanding Educator Award to Horngren.

Horngren was named Accountant of the Year, Education, by the national professional accounting fraternity, Beta Alpha Psi.

Professor Horngren is also a member of the Institute of Management Accountants, where he received its Distinguished Service Award. He was a member of the Institute's Board of Regents, which administers the Certified Management Accountant examinations.

Horngren is the author of these books published by Prentice-Hall: *Cost Accounting: A Managerial Emphasis*, Tenth Edition, 2000 (with George Foster and Srikant Datar); *Introduction to Management Accounting*, Twelfth Edition, 2002 (with Gary L. Sundem and William O. Stratton); *Introduction to Financial Accounting*, Eighth Edition, 2002 (with Gary L. Sundem and John A. Elliott); *Accounting*, Fifth Edition, 2002 (with Walter T. Harrison, Jr. and Linda Bamber); and *Financial Accounting*, Fourth Edition, 2001 (with Walter J. Harrison, Jr.).

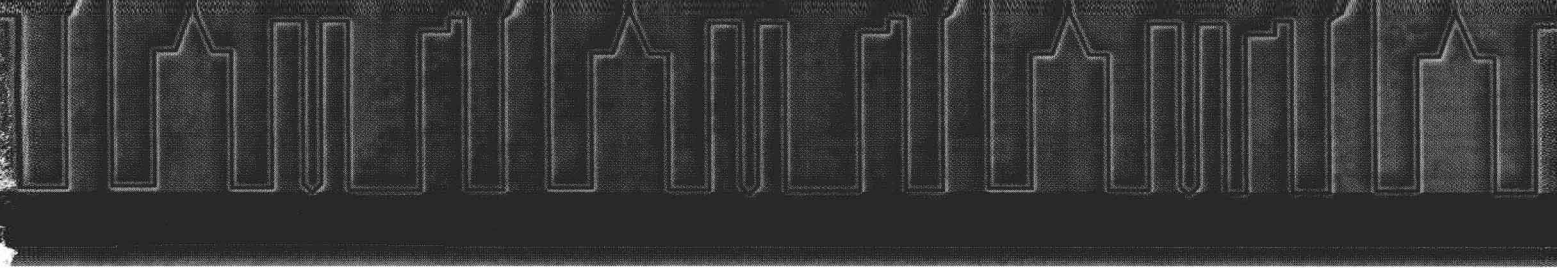
Horngren is the Consulting Editor for the Charles T. Horngren Series in Accounting.

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Professor Sundem was the 1992–93 President of the American Accounting Association. He was Executive Director of the Accounting Education Change Commission, 1989–91, and served as Editor of *The Accounting Review*, 1982–86.

A member of the National Association of Accountants, Sundem is past president of the Seattle chapter. He has served on NAA's national Board of Directors, the Committee on Academic Relations, and the Research Committee.

Professor Sundem has numerous publications in accounting and finance journals including *Issues in Accounting Education*, *The Accounting Review*, *Journal of Accounting Research*, and *The Journal of Finance*. He was selected as the Outstanding Accounting Educator by the American Accounting Association in 1998 and by the Washington Soci-



ety of CPAs in 1987. He has made more than 150 presentations at universities in the United States and abroad.

John A. Elliott is Associate Dean and Professor of Accounting at the Johnson Graduate School of Management at Cornell University. He received his B.S. and MBA degrees from the University of Maryland and his Ph.D. degree from Cornell University.

A certified public accountant, Elliott worked for Arthur Andersen & Co. and for Westinghouse before returning for his advanced degrees. He currently teaches financial accounting and international accounting at the Johnson School. Prior teaching experience has included auditing and taxation as well as intermediate accounting and financial statement analysis. With over 25 years as an educator, Professor Elliott has taught at the University of Maryland, St. Lawrence University, Central Washington State College, and the University of Chicago. In addition to executive teaching for Cornell, he has conducted various corporate training programs in the United States and internationally.

As a member of the American Accounting Association, he was the founding president of the Financial Accounting and Reporting Section. As a member of the Financial Accounting Standards Committee he frequently responded to FASB exposure drafts and worked to integrate academic study with practice. His research has been published in accounting and economics journals and deals primarily with the use of accounting information to assess the financial condition of an enterprise.

Professor Elliott served on the Hangar Theatre Board of Trustees for nine years, and was president for four of those years. He also served on the Board of the Cayuga Medical Center at Ithaca for nine years and was president for the final three years.



PREFACE

“You have to know what something is before you know how to use it.”

Introduction to Financial Accounting, 8/E, describes the most widely used accounting theory and practice with an emphasis on what accounting is rather than on what it should be.

IFA, 8/E, takes the view that business is an exciting process and that accounting is the perfect window through which to see how economic events affect businesses. Because we believe that accounting aids the understanding of economic events and that accounting builds on simple principles, this book introduces a number of concepts earlier than other textbooks. These early introductions are at the simplest level and are illustrated with carefully chosen examples from real companies.

OUR PHILOSOPHY

Introduce the simple concepts early, revisit concepts at more complex levels as students gain understanding, and provide appropriate real-company examples at every stage—that’s our philosophy.

We want students to view accounting as a tool that enhances their understanding of economic events. Students should be asking, “After this transaction, are we better or worse off?”

One of our colleagues, Hal Bierman, often focuses on an economic event by asking, “Are you happy or are you sad?” We believe that accounting provides a way to understand what is happening and to answer that question. You might think of the basic financial statements as scorecards in the most fundamental economic contests. Each year the financial statements help you answer the most important questions: Are you happy or sad? Did you make or lose money? Are you prospering or just surviving? Will you have the cash you need for the next big step?

WHO SHOULD USE THIS BOOK?

IFA, 8/E, presupposes no prior knowledge of accounting and is suitable for any undergraduate or MBA student enrolled in a financial accounting course. It deals with important topics that all business students should study. Our goals have been to choose relevant subject matter, and to present it clearly and accessibly.

This text is oriented to the user of financial statements but gives ample attention to the needs of potential accounting practitioners. *IFA*, 8/E, stresses underlying concepts yet makes them concrete with numerous illustrations, many taken from recent corporate annual reports. Moreover, accounting procedures such as transaction analysis, journalizing, and posting are given due consideration where appropriate.

NEW AND RETAINED FEATURES

- NEW and revised Chapter Opening vignettes, many with corresponding “On Location!” videos

Chapter openers help students understand accounting’s role in current business practice. “On Location!” video segments, specially produced for this text, reinforce and expand upon chapter openers. New segments include Three Dog Bakery, Nantucket Nectars, Oracle, and Teva Sandals.

- NEW Cisco Annual Report

Based on reviewer feedback, the annual report from a leading technology company is packaged with all new text copies. Cases at the end of each chapter help students analyze Cisco’s financial position.

- NEW “Take 5’s”

Study Breaks appear throughout each chapter and encourage students to stop and think about material just read. Answers immediately follow.

- NEW Cognitive Exercises

Based on focus group feedback, short cognitive exercises serve as critical-thinking “warm-ups” to more complex case material.

- NEW Business First Boxes

Provide insights into operations at well-known domestic and international companies, including technology and E-Commerce companies.

- Updated material includes simple, straightforward presentation of the Statement of Cash Flows in Chapter 1 and new material on EVA and MVA added to Chapter 13.

- *Introduction to Financial Accounting, 8/E*, and its companion text, *Introduction to Management Accounting, 12/E*, provide a seamless presentation for any first year accounting course. Please ask your Prentice Hall representative about cost-saving discounts when you adopt and package both books together.

ONLINE AND TECHNOLOGY SOLUTIONS

- myPHLIP offers FREE one-click, personalized access to free Web resources for faculty and students. Resources include chapter-by-chapter current events, Internet resources and hotlinks, online study guide, online tutor, and much more! Go to www.prenhall.com/myphilip and register today.
- NEW Online courses available in WebCT, Blackboard and Pearson Course Compass, Prentice Hall’s nationally hosted distance learning solution.
- NEW Student CD-ROM contains PH Re-Enforcer tutorial software, PHAS General Ledger software, Spreadsheet Templates, and Powerpoints.
- NEW Instructor Resource CD-ROM contains all print and technology supplements so that instructors can provide seamless classroom presentations.
- NEW Getting Started Series provides fundamental instruction on how to use Peachtree, Quickbooks, or Simply Accounting.

- NEW Mastering Accounting CD-ROM

Students watch professionally written, acted, and filmed videos about a fictional Internet start-up company to see how accounting concepts are related to workplace events and challenges.

- Accounting Made Easy CD-ROM

SUPPLEMENTS FOR INSTRUCTORS

NEW INSTRUCTOR'S RESOURCE CD-ROM (see description under "Online and Technology Solutions")

INSTRUCTOR'S RESOURCE MANUAL BY SCOTT YETMAR (DRAKE UNIVERSITY)

Contains the following elements for each chapter of the text: chapter overviews, chapter outlines organized by objectives, teaching tips, chapter quiz, transparency masters derived from textbook exhibits, and suggested readings.

SOLUTIONS MANUAL AND SOLUTIONS TRANSPARENCIES BY TEXT AUTHORS

Special thanks to Thomas Hoar, Houston Community College, and Jerry D. Siebel, University of South Florida, for their technical reviews.

TEST ITEM FILE BY ALICE B. SINEATH (FORSYTH TECHNICAL COMMUNITY COLLEGE)

The Test Item File includes multiple choice, true/false, exercises, comprehensive problems, short answer problems, critical thinking essay questions, etc. Each test item is tied to the corresponding learning objective, has an assigned difficulty level, and provides a page reference. Special thanks to Beth Woods for her reviewing, which contributed to the accuracy of the tests.

PRENTICE HALL WINDOWS CUSTOM TEST MANAGER, BY ENGINEERING SOFTWARE ASSOCIATES (ESA), INC.

This easy-to-use computerized testing program can create exams, evaluate, and track student results. The PH Test Manager also provides on-line testing capabilities. You may *call 1-800-550-1701, our Test Paper Preparation Center*, to have a hardcopy of your custom test created to suit your classroom needs.

ON LOCATION! A CUSTOM VIDEO LIBRARY BY BEVERLY AMER (NORTHERN ARIZONA UNIVERSITY)

Highlighted companies include Three Dog Bakery, Oracle, Teva Sport Sandals, and Nantucket Nectars. A Video Guide in the Instructor's Resource Manual helps integrate the videos into your classroom lectures.

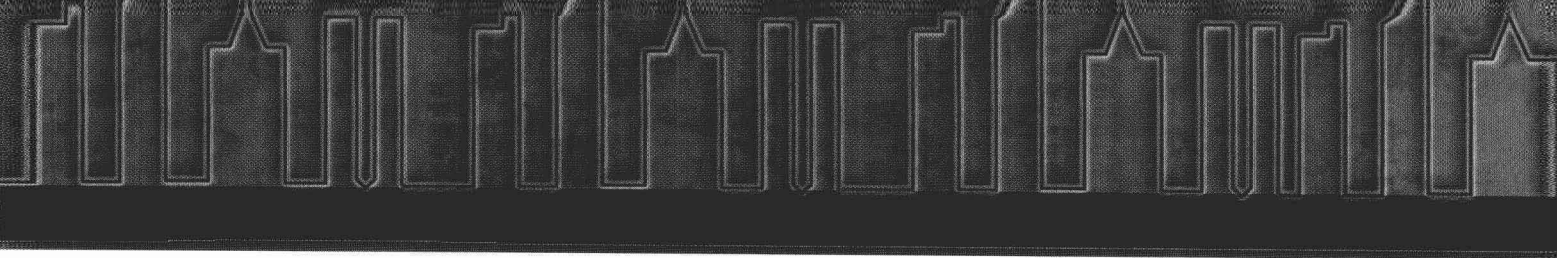
SUPPLEMENTS FOR STUDENTS

WORKING PAPERS BY LYNN MAZZOLA (NASSAU COMMUNITY COLLEGE)

This supplement includes tear-out forms to solve all the end-of-chapter assignments in the text. Forms are numbered and arranged in the same order as the textbook.

STUDY GUIDE BY LYNN MAZZOLA (NASSAU COMMUNITY COLLEGE)

For each chapter of the text, the study guide contains a pretest, a chapter overview, a detailed chapter review including study tips, practice test questions and demonstration problems with worked-out solutions.



NEW STUDENT RESOURCE CD-ROM (see description under “Online and Technology Solutions”)

ADDITIONAL RESOURCES

NEW “GETTING STARTED” SERIES OF MANUALS ON PEACHTREE COMPLETE 8.0, QUICKBOOKS PRO 2001, AND SIMPLY ACCOUNTING 8.0 Package your choice of one of these brief manuals free with new copies of the student text. In addition, you can package your choice of the full software for Peachtree Complete Release 8.0 (a \$200.00 value) or Simply Accounting 8.0 (a \$150.00 value) for only \$10.00 net with new copies of the student text.

INTERPRETING AND ANALYZING FINANCIAL STATEMENTS, SECOND EDITION BY KAREN P. SCHOENEBECK

New WALL STREET JOURNAL Offer: 10 weeks for \$10.00 net with new student texts.

ACTIVITIES IN FINANCIAL ACCOUNTING BY MARTHA DORAN (SAN DIEGO STATE UNIVERSITY) This workbook contains interactive learning assignments designed to help students see beyond the technical aspects of accounting through active learning. In addition, these group activities fulfill the AECC recommendations by providing students with the chance to practice and improve their writing, speaking, and reasoning skills. An Instructor’s Guide provides an overview of each activity, highlights important content and process objectives, and provides step-by-step instructions for running each activity.

MOVIESDOORTODOOR.COM BY MARK S. BEASLEY AND FRANK A. BUCKLESS (NORTH CAROLINA STATE UNIVERSITY)

Free eBIZ FOR ACCOUNTING Booklet may be packaged with new student texts.

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Comments from users are welcome.

*Charles T. Horngren
Gary L. Sundem
John A. Elliott*

chapter

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ACCOUNTING: THE LANGUAGE OF BUSINESS

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