

# FINANCIAL ACCOUNTING

*A Bridge to Decision Making*



INGRAM & BALDWIN



F23

# FINANCIAL ACCOUNTING

*A Bridge to Decision Making, 4E*

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Printed in the United States of America  
1 2 3 4 5 03 02 01 00

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**Library of Congress Cataloging-in-Publication Data**

Ingram, Robert W.

Financial accounting : a bridge to decision making / Robert W. Ingram, Bruce A. Baldwin.—4th ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-324-06955-3 (package: hardcover : alk. paper)

ISBN 0-324-02452-5 (book only: alk. paper)

1. Accounting--Decision making. 2. Managerial accounting. I. Baldwin, Bruce. II.

Title.

HF5635 .I483 2001  
658.15'4--dc21

00-020512

This book is printed on acid-free paper.

# Preface

## How to Do Well in this Course (For Students Only)

We are going to let you in on some trade secrets instructors seldom tell students. That's why this section is labeled "For Students Only." If instructors find out we have revealed these secrets, we'll probably get a lot of mail.

Getting good grades is not a matter of luck. That's not the secret. Also, it is no secret that doing assignments (on time), going to class (regularly), getting enough sleep and exercise, eating properly, and studying throughout the semester (instead of just at exam time) will improve your grades. But this is hard work. So, what you want is a way to get good grades and not work so hard, right? Well, pay attention—the secret is to work smarter! That's not the same as being smarter, which is a matter of luck. Here's how you work smarter.

**Step 1: Determine why this course is important for you.** First, figure out why you're taking this class. What are your goals for the class? Do you care about this course? Do you have a strong motivation to learn about accounting? Perhaps being an accountant comes on your list of career options just below sweeping up at McDonalds. Maybe your goal is to make lots of money. Or, maybe you're just in college to have a good time until you inherit the family fortune. In any case, this course is designed for you. One of the surest ways to have a million dollars is to start with ten million and not know anything about accounting and business management. If you don't inherit wealth, you're not likely to get it without speaking the language of business. Accounting is the language! Maybe you just want to get a good job, but you're pretty sure you don't want to be an accountant. Fine! This course isn't going to make an accountant out of you. It will help you understand some of the "mystical rituals" of accounting that non-accountants often find confusing. Whatever type of management position you have in any organization, you can be pretty sure you're going to have to work with accountants and with accounting information. You should know they can have a major effect on your life. Many organizations use accounting information to evaluate their employees for salary and promotion decisions. You should understand how to interpret this information. You may even learn accounting isn't what you think. Whether you grow to love or hate accounting, decide what you can get out of this course that will be useful to you.

**Step 2: Find out what your instructors expect of you in this course.** Next, check out your instructor. If you're lucky, your instructor is sensitive, warm, caring, has a good sense of humor, is witty, loves teaching, and wants you to do well in the course. If instead your instructor is more normal (and less perfect), remember, the instructor is still the instructor. And as the instructor, she has power over your life. So, find out what she expects from you. What are her goals for the course? What does she want you to know or be able to do once you complete the course? Perhaps she will tell you (good sign), but



if not, ask. You should say: “Professor Whatever-Your-Name-Is (it would be wise to use the right name), what’s the lowdown on the layout for this course?” This is education jargon for “what are your goals for this course?” This may catch her off guard, so give her a minute or two to think. You may even have to wait until the next class meeting to get your answer. Make sure you and your instructor understand each other’s goals. Some accounting instructors expect all their students to become accountants. If you have one of these, make it clear. Tell your instructor: “I don’t plan to be no accountant!” (Make sure you add the *ant*, or you may get fast agreement.) Find out what’s in this course for you.

**Step 3: Find out how you will be graded.** Now, find out how you will be graded. How does the instructor test? Is he one of the picky types: “What is the third work on the fifth line on page 211?” Or, does he go for the broader, thought questions: “Explain how accounting was instrumental in negotiating the third treaty of Versailles in 1623.” Does he go for multiple guess, or are short answers his cup of tea? Whatever the method, you need to know what is expected of you and how these expectations translate into grades. Occasionally, you’ll find an instructor whose stated expectations don’t agree with how he tests and grades. That’s why you need to find out about both expectations and grades. If they don’t seem to be consistent, you’ll have to determine what the instructor really expects.

**Step 4: Emphasize learning what’s important.** Figure out what you need to do to accomplish your goals and meet the instructor’s expectations. A major lesson you should learn, if you haven’t already, is “what you take from a course (and almost anything else) depends on what you bring to it.” Your attitude is important. If you decide something is worth learning, you’ll probably find a way to learn it. Not because you’re supposed to learn it, but because you want to. “Wanting to” is the biggest part of working smarter. Wanting to learn will go a long way toward helping you get a good grade. Unfortunately, it may not be enough unless what you want to learn is also what your instructor wants you to learn. Therefore, you need to make sure you and your instructor are on the same wavelength. If you’re not, talk it over. Find out why the instructor has a different outlook. You may change your opinion about what’s important. Determine how to focus your efforts. Not everything in this book or course is equally important. Focus on what’s most important to you and to your instructor.

**Step 5: Communicate with your instructor.** Try to remember your instructor is a person. Even the authors of this book are people. We have wives, children, and pets. Most instructors really want to see you do well, but we need your help. Instructors don’t know everything. In particular, we can’t read your mind. You need to let your instructor know if you’re having problems understanding the material you’re expected to learn, figuring out what the instructor expects of you, or figuring out how to prepare for tests and other assignments. Talk with your instructor about problems you’re having with the class. Remember, your instructor really is human.

This is your class. You paid for it. OK, maybe it was your parents, or somebody else who put out cold, hard cash for you to take this course. Don’t let anybody keep you from getting your money’s worth. Working smarter means determining what’s important and focusing your attention and efforts on these things. Then, don’t be distracted from your goals. If you run into problems, deal with them. If you don’t understand something in class or in the book, ask questions. If you’re afraid of asking dumb questions in class, remember: looking dumb in class is better than looking dumb on an exam. If you think you may be missing key points, talk with your instructor. If you want to learn, you can.

That’s it. Give it try. We think you’ll find the course more enjoyable and the experience more rewarding. Of course, you might also try doing assignments, going to class, getting enough sleep and exercise, eating properly, and studying throughout the semester. They usually help, even though they are hard work.

Best wishes to you, not only in this course, but throughout life.

Rob Ingram  
Bruce Baldwin

A side note:

To aid you in the learning process, the following icons appear throughout the text.



A new managerial foreshadowing icon flags the information that prepares you for understanding managerial accounting and links financial and managerial accounting together.



Excel™ activities are integrated throughout the text. The *Excel in Action* problems, found at the end of the chapters, create a continuing case problem throughout the book. Also, additional information about the real-world use of spreadsheet software is explained in the *Using Excel* boxes.



One more icon lets you know there's a related Internet hotlink connected to the text's World Wide Web site. Visit our site and follow the directions.

<http://www.ingram@swcollege.com>



## To the Instructor

**Students are the business decision-makers of tomorrow . . .  
This text will prepare them for that role today.**

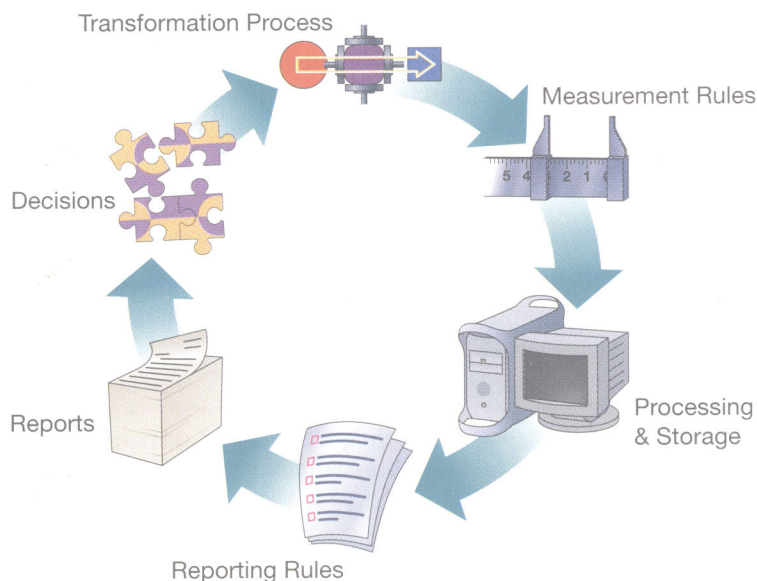
From the largest global conglomerates to smaller local companies, there's a revolution of sorts taking place at a business near you. No longer confined to the walls of one department, accounting information and personnel are taking a visible and important role in day-to-day business decision making. Accounting, going far beyond its traditional role of collecting data and creating information, is now in the business of sharing information with the rest of the management team and sharing in the decision-making process.

Inspired by a vision of creating the most innovative, contemporary, and relevant book for the course, *Financial Accounting: A Bridge to Decision Making, Fourth Edition* imparts to students the importance of accounting as a source of real business intelligence. Written to address the needs of both non-accounting and accounting majors, this timely book emphasizes the use of accounting in everyday business activities.

## Students learn to be the leaders in making key business decisions.

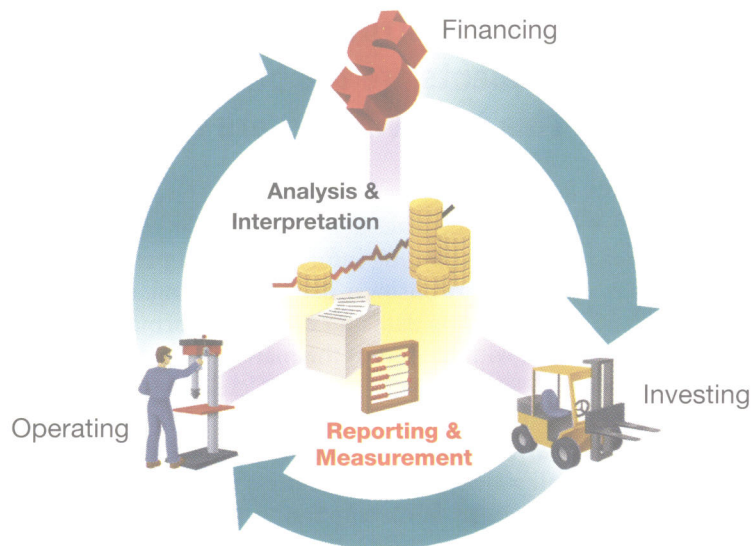
As future managers and business professionals, students need the accounting tools that will help them analyze and interpret critical information. Their ability to make smart decisions is a valuable skill as they strive for success in today's competitive business environment. *Financial Accounting: A Bridge to Decision Making* vividly illustrates how accounting is essential for reaching that goal through having a clear understanding of the accounting information system and the impact of business activities.

The Accounting  
Information System



Transformation of resources and timing of events are introduced and explained in the first section and provide a primer for the examination of accounting information and decisions that make up the remainder of the text. Chapters F1–F6 open with a clarifying graphic of the accounting information cycle to visually assist students with each chapter's theme. The early presentation of key financial statements—the balance sheet, the income statement, the statement of cash flows, and the statement of stockholders' equity—allows students to see how they impact one another and are interrelated.

## The Activities of a Business



Chapters F7–F13 open with this visual depiction of the activities of the firm cycle. Beginning in Chapter F7, students learn about the time value of money—an important issue as they build an understanding of the dynamics of business activities over time. Presentation in this chapter is tied to situations students easily understand. Chapters F8–F13 examine accounting for business activities—financing, investing, and operating.

## The real world is the best teacher.

Throughout the book, consistent attention is paid to what real companies actually do. *Financial Accounting: A Bridge to Decision Making* brings reality to students with dynamic examples of actual corporate information.

Journal		
Account	Debit	Credit
Interest Expense	17,300	
Bonds Payable		1,300
Cash		16,000

Financial Statement Effect			
A	= L	+E	+NI
			–
	+		
–			

Easy-to-understand journal entries demonstrate how the transaction impacts on the accounts and the financial statement.

\* From page F335



Mary spoke next, "OK, we know we have great potential. We have a unique product that meets the needs of a large market. Our immediate question is how do we finance our production and start-up costs? I think we might want to use as much debt as possible. Jake, your former employer, Family Clothing, used 50% debt in its capital structure, and the company was very successful. What do you think?"

Vijay interrupted, "What do you mean by capital structure?"

"**Capital structure** is the relative amounts of debt and equity used by a company to finance its assets," Jake answered. "Those are our basic choices. Either we can borrow money, or we can issue stock. Family Clothing was successful using a lot of debt, but our situation is different. I think we should rely primarily on equity."

In the financial analysis chapters, the decision-making environment of Medtex, Inc., is featured through visual presentations and dialogue. These bring difficult topics to life by allowing students to "sit-in" on real business discussions and decision-making meetings.

\* From page F370

## A conceptual basis gives a big picture view.

Many texts become so entrenched in the detailed methods and mechanics of accounting that students lose sight of the final destination. Frustrated and overwhelmed, many students quickly lose their drive to succeed. In contrast, the conceptual basis of *Financial Accounting: A Bridge to Decision Making* links business activities to accounting reports and business decisions. This conceptual basis is a thread running throughout the text that links each chapter to the overall purpose of the book.



A new managerial foreshadowing icon flags the information that prepares students for understanding managerial accounting and links financial and managerial accounting together.

### CASE 6-1 Analysis of Corporate Financial Statements

Obj. 3

The 1998 financial statements for **General Mills, Inc.** are provided in Appendix B near the end of this text. Examine these statements and answer the following questions.

#### Required

- A. What were General Mills' major operating activities during 1998? What were the major differences between the accrual and cash flow effects of these activities?
- B. What were the company's return on total assets (net income  $\div$  total assets) and return on stockholders' equity (net income  $\div$  total stockholders' equity) for 1998? Did these returns

The complete, full-color annual report of General Mills, Inc. is found in Appendix B. End-of-chapter assignments tie to this valuable resource and enhance understanding of financial accounting.

\* From page F291

## Plug in to the computer environment of accounting.

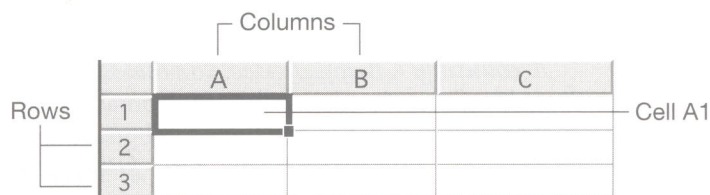
From graphics and discussion that incorporate the latest spreadsheet programs to the inclusion of the rich resources available on the Internet, *Financial Accounting: A Bridge to Decision Making* addresses and helps students incorporate the computer tools that are changing the nature of accounting.

### APPENDIX: A SHORT INTRODUCTION TO EXCEL™

This introduction summarizes some of the primary operations and functions of a spreadsheet. It is intended to get you started if you have not had previous experience with Excel. There are many operations and functions in addition to those mentioned here.

#### Identifying and Selecting Cells

A spreadsheet consists of rows and columns. Rows are identified by numbers, and columns are identified by letters. An intersection of a row and column is a cell. A cell is identified by the column letter and row number that intersect at that cell.



#### New!

*A Short Introduction to Excel™* appears at the end of Chapter F1 and gives students an essential primer on this important electronic tool.

\* From page F24



#### New!

Excel™ activities are integrated throughout the text. The *Excel in Action* problems, found at the end of the chapters, create a continuing case problem throughout the book. Also, additional information about the real-world use of spreadsheet software is explained in the *Using Excel* boxes.



## COMPUTER PROCESSING OF ACCOUNTING DATA

### OBJECTIVE 3

Explain the processing of transactions in a computerized accounting system.

Modern accounting systems rely on sophisticated computer programs for recording and summarizing data. Various components of a company's management information system provide data for the accounting system. As described in Chapter F2, major components of the management information system include sales and distribution, purchasing, human resources (payroll), and (for manufacturing companies) production. To illustrate the processes that occur within an accounting system, we will examine three of these components in this

#### New!

The all-new Chapter F4 places students into the world of a computerized accounting system and helps them understand how transaction data are processed.

\* From page F146

## EXETOR WOOLEN GOODS

Exetor Woolen Goods manufactures and sells wool clothing and blankets to retailers. The database system considers only the revenue cycle for the company. Example transactions are provided for September 2001 to illustrate sales activities: receiving sales orders, shipping goods to customers, updating inventory files, invoicing customers, receiving cash, updating accounting records, and producing summary reports.

#### New!

Following Chapter F4, a new module, *The Database Environment: A Demonstration Case*, gives students exposure to the purpose and use of a basic database system. Provided with the text are the database files for working through this case using Microsoft® Access 97 or higher. The instructor may either assign the case or work through the case in class.

\* From page F190

## IN POINT

### CASE



<http://www.ingram@swcollege.com>

Learn more about  
PepsiCo's financial  
information

PepsiCo Inc. reported the following income statement items in its 1998 annual report:

(in millions)	1998	1997	1996
Income from continuing operations	1,993	1,491	942
Discontinued operations, net of income taxes	—	651	207

Numerous *On the Internet* features link students to a wide range of Internet resources that expand their understanding of chapter topics. These links are indicated in select *Case In Point* boxes and elsewhere.

\* From page F200

## Practice makes perfect.

Carefully prepared end-of-chapter materials reinforce chapter objectives, with emphasis on using accounting information to make key business decisions. This practical approach builds critical thinking and analytical skills that are essential to the career success of students. A significant amount of new assignment material provides an abundance of coverage closely tied to chapter content.

### Review

SUMMARY of

IMPORTANT CONCEPTS

1. Financial statements report activities in the transformation process.
  - a. Financial statements include the balance sheet, the income statement, the statement of cash flows, and the statement of stockholders' equity.
  - b. The income statement reports on the accrual basis the results of a company's operations for a fiscal period. It reports information about the creation and consumption

- A *Review* provides a summary in outline form of each chapter's important concepts.

\* From page F218

### Define

TERMS and CONCEPTS

DEFINED in This CHAPTER

accounting changes (F201)

amortization (F207)

articulation (F210)

attestation (F214)

audit report (audit opinion) (F214)

gross profit (F199)

historical cost (F212)

income from operations (F200)

intangible assets (F207)

liquid assets (F205)

- Key terms and concepts are highlighted in the *Define* section, along with page references for definitions.

\* From page F218

### Self-Study Problem SOLUTIONS

1 (Answers in millions)

1. Revenue from sale of computers	\$35,419
2. Other operating revenue:	
Services	\$28,916
Software	11,863
Financing and other	5,469
Total	<u>\$46,248</u>

- Each chapter features three comprehensive self-study problems that encourage students to stop and review what they have learned so far. The *Solutions* section at the end of the chapter allows students to evaluate how well they understand the chapter content.

\* From page F219



## Questions

**5-1** How do the purpose of the income statement, the purpose of the balance sheet, and the purpose of the statement of stockholders' equity differ?  
*Obj. 1*

**5-2** Why are account balances summarized into financial statements? Why don't companies simply distribute a list of year-end account balances?  
*Obj. 1*

### New!

- Students can further hone their skills with *Questions* specifically designed to stimulate in-class discussion of each chapter's most important concepts.

\* From page F221

## Exercises

**8-6** Linfield Company sold 20-year bonds having a face value of \$200,000 at a price of \$180,364. The bonds pay annual interest at 7% and were priced to yield an effective return of 8%. Using the format presented in this chapter, record:  
*Obj. 1*

- The issuance of the bonds.
- The first payment of interest.
- The repayment of principal at maturity. Assume that the last payment of interest has already been made and recorded.

- Short assignments found in *Exercises* focus on computations and are excellent for in-class demonstration and discussion.

\* From page F353

## Problems

### PROBLEM 8-12 Determining Whether a Liability Exists

*Obj. 1, 2, 3*

Determine if a liability should be recorded in each of the following cases involving the Teng Software Manufacturing Company. If there is no liability, explain how the item should be recorded.

- The company has an agreement to repair any product that is defective.
- The company estimates that some customers will not pay for merchandise purchased on credit.
- The company obtains an asset and signs a long-term lease which extends for half of the useful life of the asset.

- Problems* provide for a more complex learning experience, taking students' learning further by focusing on analysis of data. Problems are frequently tied to real companies.

\* From page F361

## Cases

### CASE 9-2 Evaluating Capital Structure Decisions

Objs. 4, 5

At year end 2001, the capital structure of Hard Luck Casino, Inc. was as follows.

Current liabilities	\$ 2,400,000
Long-term debt (9% bonds)	5,000,000
Preferred stock, \$100 par	1,000,000
Common stock, no par value	15,000,000
Retained earnings	2,600,000
Total liabilities and equity	<u>\$26,000,000</u>

During 2001, the company earned net income of \$3 million. It paid the required preferred dividends of \$80,000 and paid dividends to common stockholders of \$750,000.

**Required** For each of the following independent scenarios, assume it occurred or was true during year 2001. Explain the effect the scenario would have had on the company's net income,

- More challenging than *Exercises* and *Problems*, *Cases* encourage thinking and analytical skills. In several of the financial chapters the *Cases* tie specifically to the General Mills 1998 statement that appears in the Appendix B.

\* From page F404

## Bring content alive through the Internet.

**The South-Western Accounting Resource Center** *Financial Accounting: A Bridge to Decision Making* goes beyond simple mention of the Internet. The text's own dedicated web site ([ingram.swcollege.com](http://ingram.swcollege.com)) provides students and instructors with valuable and engaging resources that you won't find anywhere else.

*For Students:*

- Hot links tied to text chapters
- Internet-based projects
- Links to helpful and interesting accounting-related web sites
- Online chapter self-tests
- Downloadable PowerPoint™ slides that follow each chapter's core information
- Hot links tied to the Annual Report Project
- Check figures

*For Instructors:*

- Solutions Manual
- Cooperative Learning Techniques and Instructor's Guide
- Downloadable PowerPoint slides that follow each chapter's core information
- Internet-based and other projects
- Excel template solutions
- Annual Report Project Manual

**WebTutor** This interactive, web-based student supplement is available for the first time. The instructor can incorporate WebTutor as an integral part of the course, or the students can use it on their own as a study guide. It includes audio lectures that follow the PowerPoint slides, chapter reviews, tips and hints for selected text assignments, and more.



## Unleash the full power of your classroom instruction with outstanding supplementary materials.

*Financial Accounting: A Bridge to Decision Making* is accompanied by multimedia and printed ancillaries that take teaching and learning to a new level.

### For Instructors:

**Solutions Manual (0-324-02464-9)** Author-prepared and carefully verified solutions to all exercises, problems, and cases are presented in this manual.

**Solution Transparencies (0-324-02465-7)** Where appropriate, solutions to the end-of-chapter assignments have been printed, in large type, on easy-to-read acetate transparencies for use in classroom presentations.

**Test Bank (0-324-02466-5)** Extensively revised by Lydia Schleifer of Clemson University, this thorough test bank has been carefully written and verified. It provides testing materials for key points covered in each chapter.

**Thomson Learning Testing Tools (0-324-02467-3)** This microcomputer version of the test bank allows for random selection of questions and, if desired, generation of multiple tests. Instructor-created items may be imported in ASCII format for more customized testing.

**Cooperative Learning Techniques and Instructor's Guide (0-324-02486-X)** Contained in this supporting item are chapters explaining cooperative learning techniques for use in the classroom and matrices that suggest application of techniques to specific end-of-chapter items. Philip Cottell, Jr. of Miami University has prepared this information. In addition, there are outlines of each chapter, teaching notes, and descriptions of the exercises, problems, and cases to assist in class preparation.

**Cooperative Learning Workshop Video** This workshop video features Philip Cottell, Jr., who explains a number of cooperative learning techniques for use in the teaching of accounting.

**PowerPoint Presentations (0-324-02468-1)** These totally new PowerPoint slides have been creatively developed by Doug Cloud of Pepperdine University. Each chapter's core content is covered to assist instructors in classroom presentation and students in their review. This product has a built-in PowerPoint viewer program.

**BusinessLink Video (0-538-87335-3)** Six video segments cover key financial accounting topics. Real companies are featured.

**BusinessLink Video Instructor's Manuals** These manuals assist instructors in the use of the BusinessLink Videos and student workbooks.

**Annual Report Project Manual (0-324-02474-6)** Prepared by Bruce Baldwin, Arizona State University West, this manual provides guidance in using the Annual Report Project and Readings.

### For Students:

**Study Guide and Forms (0-324-02470-3)** This guide reinforces and enhances student understanding of the topics covered in the text. It is a thorough, value-adding book, prepared by Stephen Senge and George Sanders, both of Western Washington University. Included are working paper forms for selected text assignments.

**Annual Report Project and Readings (0-324-02473-8)** This popular project, by Bruce Baldwin, Arizona State University West, can be used by either learning teams or individual students. It is tailored to reinforce the concepts presented in the financial accounting chapters of the text. Students work with annual reports of real companies to understand, interpret, and analyze the information. The project guides them through this process. Interesting readings from publications like *The Wall Street Journal* along with supporting Questions for Consideration provide additional material for discussion.

**Financial Accounting Communications (0-324-02820-2)** Students will become actively involved in the learning process by using this new guide. They will integrate Excel with Word and PowerPoint to work on class presentations and other assignments tied to the Ingram/Baldwin text. Created by Roger Gee, San Diego Mesa College.

**INTACCT ([rama.swcollege.com](http://rama.swcollege.com))** This software and on-line tutorial by Dasaratha Rama reviews each major step in the accounting cycle in a short, user-friendly manner that is easily integrated into classroom use. It is designed for use in a financial accounting course or any course where a review of the accounting cycle is desired. For more information please see the [rama.swcollege.com](http://rama.swcollege.com) web site.

**BusinessLink Video Workbook (0-538-87336-1)** These student workbooks enrich student understanding of the BusinessLink videos through questions and activities.

## Related Products:

**Using QuickBooks Pro® 99 for Accounting (0-324-02831-8)** Written by Glenn Owen of Alan Hancock College, this new book provides a self-paced environment where students use commercial software to analyze, interpret, and investigate accounting information to make business decisions.

**Hazzard Travel (0-538-86552-0)** With this computerized simulation, students maintain an accounting system for the first two months of operation of Hazzard Travel, a small service business. Created by Donna Ulmer, St. Louis Community College at Meramec, and M. Robert Carver, Southern Illinois University-Edwardsville, this practice set familiarizes students with basic accounting documents, procedures, and concepts. Students make investing, financing, and operating decisions that may result in a different financial outcome from their classmates. The problems are unstructured, encouraging creativity and individual judgment.

**The Accounting System (0-538-88597-1)** A Self-Study Primer for Introductory Accounting: William Ruland, CUNY-Baruch College, has designed this self-paced workbook to help financial statement users who may have had little or no exposure to the accounting system understand accounting procedures.

**Excel Applications for Accounting Principles (0-538-88887-3)** This text-workbook, by Gaylord Smith, Albion College, include a software tutorial and accounting application with an accompanying template disk. Preprogrammed problems require students to develop formulas and enter data to complete partially constructed spreadsheet models. Model-building problems give students experience in developing their own spreadsheet models.

**Writing, Ethics, and Group Projects for Financial Accounting (0-538-86286-6)** Iris and Bruce Stuart, both of Concordia College, have written an ideal supplement for the financial accounting course. This casebook emphasizes communication skills, problem-solving, critical thinking, and ethics while challenging students to make real-world decisions.



# Acknowledgments

We thank the following reviewers for their helpful feedback. Many of their thoughtful ideas and suggestions have been incorporated into this edition.

Patricia B. Abels, Miami University  
Roderick S. Barclay, Texas A & M University, Commerce  
Laurel A. Barfitt, Delta State University  
Kathleen R. Bindon, University of Alabama  
Joyce Boatsman, Arizona State University  
Arthur S. Boyett, Francis Marion University  
Stan Davis, University of Alabama  
Martha Doran, San Diego State University  
William H. Dresnack, State University of New York at Brockport  
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Hugh Hoyt, Miami University  
Laura L. Ilcisin, University of Nebraska, Omaha  
Wayne C. Ingalls, University of Maine, Orono  
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John E. Karayan, California State Polytechnic University, Pomona  
David Karmon, Central Michigan University  
Janice Klimek, Missouri Western State College  
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T. Sterling Wetzel, Oklahoma State University  
Katherine A. Wilson, Embry-Riddle Aeronautical University  
Gloria Worthy, State Technical Institute, Memphis

In addition, we wish to acknowledge the contributions of Jane Park, University of California–Los Angeles, and Lydia Schleifer, Clemson University. They provided creative input for the new assignment material for the fourth edition.