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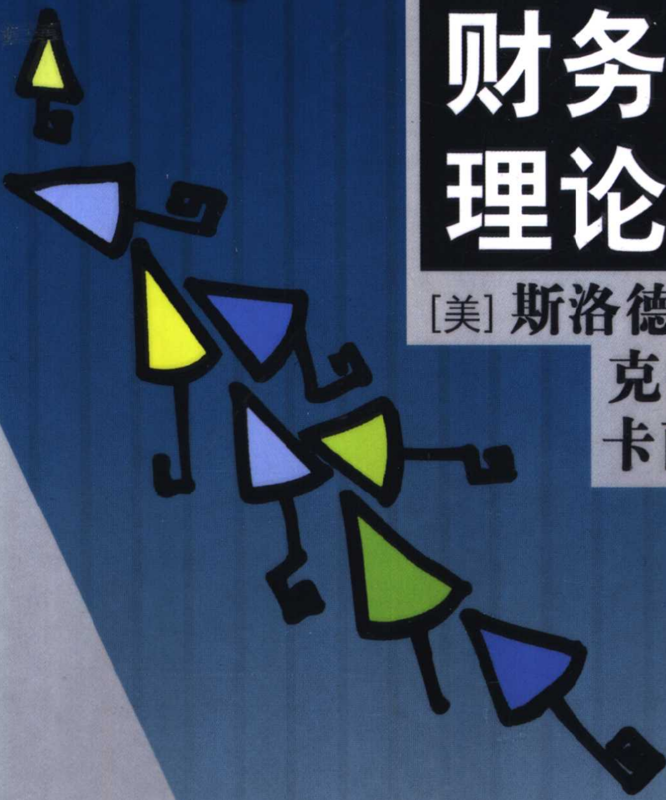
财务会计理论与分析

第7版



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财务会计理论与分析

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序

随着世界经济一体化进程的加快，会计信息作为国际通用商业语言的功能越来越强化。在中国加入WTO之后，中国经济正以更快的速度融入世界经济大潮之中。与此相适应，中国的会计标准必将进一步向国际标准靠拢。举世公认，由于多方面的原因，在会计标准国际化的过程中，美国的公认会计准则（GAAP）是最具影响力的。因此，更多地了解美国的GAAP，对于推动我国会计改革的进一步深化，加速中国会计标准的国际化，具有很重要的意义。在此背景下，中信出版社引进美国著名出版社出版的有重大影响的英文原版会计教科书，是一件很有意义的事情。

这套英文教科书，内容全面，架构完备，既包括基本的会计学原理、财务会计和管理会计，也包括高层次的专题会计、财务报告和报表分析。其中，《会计学原理》、《财务会计》、《管理会计》和《中级会计》的作者均是美国久负盛名的会计学教授，无论杰利·J·韦安特博士、唐纳德·E·基索博士，还是保罗·D·金

梅尔博士、特里·D·沃菲尔德博士，在美国会计学界都具有重大影响和权威性。他们都是美国会计协会、美国注册会计师协会的成员，并曾服务于财务会计准则委员会（FASB）的重要部门，对于GAAP的修订及改革发展具有相当的影响。这些书是他们总结多年教学经验和专业研究经验精心编写而成，一经出版便备受瞩目和欢迎，并且已经成为美国高校会计教学中的必选书籍。尤其是《中级会计》一书，自1965年首次出版，至今已出版到第10版，每个版本都受到执烈欢迎，目前的第10版不仅增加了光盘，更增加了网上相关辅导和练习，使其成为更加完善的教学用书。

另外，《高级会计》、《会计信息系统》、《国际会计与跨国企业》和《财务会计理论与分析》等书的作者也是颇具盛名的专家权威，这些作者既有多年教学经验，又有长期实际从业经验，其编写的书籍既适合普通高校会计专业本科生学习，也适用于广大实际工作者，其中《财务会计》（*Financial Accounting*）一书特别适合非会计专业的读者了解美国会计。

我衷心祝愿这套英文教科书的出版，能给广大读者带来便利。

戴德明

2002年5月8日于中国人民大学宜园

Preface

Accounting education has experienced many dramatic changes over the life of this accounting theory text. The publication of the Seventh Edition represents over 20 years of evolution. At its inception, much of what was then considered theory was in reality rule memorization. In recent years, the impact of globalization of the world economy has impacted the skills necessary to be a successful accountant and has caused accounting educators to develop new methods of communicating accounting education. Emphasis is now being given to the incorporation of ethics into the curriculum, the analysis of a company's quality of earning and sustainable income, the use of the World Wide Web as a source of information, and increased emphasis on the international dimension of accounting, the development of critical thinking skills, the development of communication skills, and the use of group projects to develop cooperative skills.

This edition of the text is a further extension of the refocusing of the material to suit the needs of accounting professionals in the twenty-first century. Among the changes in this edition that were designed to accomplish this objective are:

- The expanded use of the World Wide Web by including articles, cases, and updates on the book's web page.
- The inclusion of new material to emphasize the financial analysis of the major topics.
- Discussion of the Business Reporting Research Project in Chapter 1.
- Discussion of fundamental analysis in Chapter 2.
- Discussion of the concept of earning quality in Chapter 3.
- Discussion of the value of corporate earnings in Chapter 4.
- Now included in Chapter 6 is a discussion of the International Accounting Standards Committee's "Framework for the Preparation and Presentation of Financial Statements", a discussion of the IASC's proposed restructuring, a discussion of the FASB's report "International Accounting Standard Setting: A Vision for the Future," and the G4 + 1.
- Updating of the coverage of the 40 International Accounting Standards in each of the appropriate text chapters including the updating of the FASB's evaluation of each of these standards.
- Updating the coverage of the Financial Accounting Standards Board's "Statement of Financial Accounting Standards".

- Addition of new cases to the assignment material including financial analysis cases and cases involving the use of the World Wide Web.
- Inclusion of classroom debate topics to the assignment material in each chapter.

As with earlier editions, each chapter begins with a discussion of the relevant theoretical issues associated with each chapter topic. Next, in this edition, we have incorporated financial analysis of the chapter material. Several readings have been added on the text's web page that address a controversial or confusing issue contained in the chapter. These cases are designed to improve student critical thinking skills, and may be used as group projects. We have also included a financial analysis case and one or two "Room for Debate" cases in each chapter. Finally, each chapter contains an extensive bibliography.

The World Wide Web cases frequently require the student to address questions that involve actual company financial statements. The financial statements of many companies are available through the SEC Edgar form pick page that is found at: www.sec.gov/edaux/formlynx.htm. It contains reports such as forms 10-K and 8-K filed electronically with the SEC by public companies. Many of these forms contain annual reports, including financial statements and the footnote disclosures thereto.

The publication of this text would not be possible without the assistance of many individuals. We are extremely indebted to our colleagues whose comments and criticisms have contributed to the development of the Seventh Edition including Howard Felt, Temple University; Marge O'Reilly-Allen, Rider University; Allen Bizzell, Southwest Texas State University; Larry Watkins, Northern Arizona State University, and Michael Welker, Drexel University. We would also like to single out for special thanks our editor Mark Bonadeo who patiently guided us through a major change of focus for this edition. We are also indebted to our copy editor Betty Pessagno, Patricia McFadden of John Wiley & Sons, and to the staff at Hermitage Publishing Services for their work on this project.

Contents

CHAPTER 1

The Development of Accounting Theory

In its simplest form theory may be just a belief, but in order for a theory to be useful it must have wide acceptance. Webster defines theory as "a systematic statement of principles" and as "a formulation of apparent relationships or underlying principles of certain observed phenomena which has been verified to some degree."[1] The objective of theory is to explain and predict. Consequently, one of the basic goals of the theory of a particular discipline is to have a well-defined body of knowledge that has been systematically accumulated, organized, and verified well enough to provide a frame of reference for future actions.

Theories may be described as normative or positive. *Normative theories* explain what should be, whereas *positive theories* explain what is. Ideally, there should be no such distinction because a well-developed and complete theory encompasses both what should be and what is.

The goal of accounting theory is to provide a set of principles and relationships that provide an explanation for observed practices and predict unobserved practices. That is, accounting theory should be able to explain why business organizations elect certain accounting methods over other alternatives and predict the attributes of firms that elect various accounting methods. Accounting theory should also be verifiable through accounting research.

The development of a general theory of accounting is important because of the role accounting plays in our economic society. We live in a capitalistic society, which is characterized by a self-regulated market that operates through the forces of supply and demand. Goods and services are available for purchase in markets, and individuals are free to enter or exit

[1] *Webster's New Universal Unabridged Dictionary*, 2nd ed. (New York: Simon & Schuster, 1983).

the market to pursue their economic goals. All societies are constrained by scarce resources that limit the attainment of all individual or group economic goals. The role of accounting in our society is to report how organizations utilize scarce resources and to report on the status of resources and claims to resources.

As discussed in more detail in Chapter 2, there are various "theories of accounting", including the fundamental analysis model, the efficient markets hypothesis, the capital asset pricing model, the human information processing model, positive accounting theory, and the critical perspective model. These often competing theories exist because accounting theory is still in its developmental stage.

Accounting research is needed to attain a more general theory of accounting and in this regard the various theories of accounting that have been posited must be subjected to verification. A critical question concerns the usefulness of accounting data to users. That is, does the use of a theory help individual decision makers make more correct decisions? Various suggestions on the empirical testing of accounting theories have been offered.[2] As theories are tested and either confirmed or discarded, we will move closer to a general theory of accounting.

The goal of this text is to provide a user perspective on accounting theory. To this end, we first review the development of accounting theory in an effort to illustrate how investor needs have been perceived over time. Next we review the current status of accounting theory with an emphasis on how investors and potential investors use accounting and other financial information. Finally, we illustrate current disclosure requirements for various financial statement items and show how various companies are complying with these disclosure requirements.

The Early History of Accounting

Accounting records dating back several thousand years have been found in various parts of the world. These records indicate that at all levels of development people desire information about their efforts and accomplishments. For example, the Zenon papyri, which were discovered in 1915, contain information about the construction projects, agricultural activities, and business operations of the private estate of Apollonius for a period of about 30 years during the third century B.C.

According to Hain, "The Zenon papyri give evidence of a surprisingly elaborate accounting system which had been used in Greece since the fifth century B.C. and which, in the wake of Greek trade or conquest, gradually spread throughout the Eastern Mediterranean and Middle East."[3] Zenon's accounting system contained provisions for responsibility accounting, a written record of all transactions, a personal account for wages paid to employ-

[2] See, for example, Robert Sterling, "On Theory Structure and Verification," *The Accounting Review* (July 1970), pp. 444–457.

[3] H. P. Hain, "Accounting Control in the Zenon Papyri," *The Accounting Review* (October 1966), p. 699.

ees, inventory records, and a record of asset acquisitions and disposals. In addition, there is evidence that all the accounts were audited.[4]

Later, the Romans kept elaborate records, but since they expressed numbers through letters of the alphabet, they were not able to develop any structured system of accounting. It was not until the Renaissance, approximately 1300–1500, when the Italians were vigorously pursuing trade and commerce, that the need to keep accurate records arose. Italian merchants borrowed the Arabic numeral system and the basis of arithmetic, and an evolving trend toward the double-entry bookkeeping system we now use developed.

In 1494 an Italian monk, Fra Luca Pacioli, wrote a book on arithmetic that included a description of double-entry bookkeeping. Pacioli's work, *Summa de Arithmetica Geometria Proportioni et Proportionalita,* did not fully describe double-entry bookkeeping; rather, it formalized the practices and ideas that had been evolving over the years. Double-entry bookkeeping enabled business organizations to keep complete records of transactions and ultimately resulted in the ability to prepare financial statements.

Statements of profit and loss and statements of balances emerged in about 1600.[5] Initially, the primary motive for separate financial statements was to obtain information regarding capital. Consequently, balance sheet data were stressed and refined in various ways, while expense and income data were viewed as incidental.[6]

As ongoing business organizations replaced isolated ventures, it became necessary to develop accounting records and reports that reflected a continuing investment of capital employed in various ways and to periodically summarize the results of activities. By the 19th century, bookkeeping expanded into accounting, and the concept that the owner's original contribution, plus or minus profits or losses, indicated net worth emerged. However, profit was considered an increase in assets from any source, as the concepts of cost and income were yet to be developed.

Another factor that influenced the development of accounting during the 19th century was the evolution of joint ventures into business corporations in England. The fact that many individuals, external to the business, needed information about the corporation's activities created the necessity for periodic reports. In addition, the emerging existence of corporations created the need to distinguish between capital and income.

The statutory establishment of corporations in England in 1845 stimulated the development of accounting standards, and laws were subsequently passed that were designed to safeguard shareholders against improper actions by corporate officers. Dividends were required to be paid from profits, and accounts were required to be kept and audited by persons other than the directors. However, initially anyone could claim to be an accountant, for there were no organized professions or standards of qualifications.

[4] Ibid., pp. 700–701.

[5] A. C. Littleton, *Accounting Evolution to 1900* (New York: AICPA, 1933).

[6] John L. Cary, *The Rise of the Accounting Profession* (New York: AICPA, 1969), p. 5.

The Industrial Revolution and the succession of Companies Acts in England also served to increase the need for professional standards and accountants. In the later part of the 19th century, the Industrial Revolution arrived in the United States, and with it came the need for more formal accounting procedures and standards. This period was also characterized by widespread speculation in the securities markets, watered stocks, and large monopolies that controlled segments of the U.S. economy.

In the 19th century the progressive movement was established in the United States, and in 1898 the Industrial Commission was formed to investigate and report on questions relating to immigration, labor, agriculture, manufacturing, and business. Although no accountants were either on the Commission or used by the Commission, a preliminary report issued in 1900 suggested that an independent public accounting profession should be established in order to curtail observed corporate abuses.

Although most accountants did not necessarily subscribe to the desirability of the progressive reforms, the progressive movement conferred specific social obligations on accountants.[7] As a consequence, accountants generally came to accept three general levels of progressiveness: (1) a fundamental faith in democracy, a concern for morality and justice, and a broad acceptance of the efficiency of education as a major tool in social amelioration; (2) an increased awareness of the social obligation of all segments of society and introduction of the idea of the public accountability of business and political leaders; and (3) an acceptance of pragmatism as the most relevant operative philosophy of the day.[8]

The major concern of accounting during the early 1900s was the development of a theory that could cope with corporate abuses that were occurring at that time, and capital maintenance emerged as a concept. This concept evolved from maintaining invested capital intact to maintaining the physical productive capacity of the firm to maintaining real capital. In essence, this last view of capital maintenance was an extension of the economic concept of income (see Chapter 3) that there could be no increase in wealth unless the stockholder or the firm were better off at the end of the period than at the beginning.

During the period 1900–1915, the concept of income determination was not well developed. There was, however, a debate over which financial statement should be viewed as more important, the balance sheet or the income statement. Implicit in this debate was the view that either the balance sheet or the income statement must be viewed as fundamental and the other residual, and that relevant values could not be disclosed in both statements.

The 1904 International Congress of Accountants marked the initial development of the organized accounting profession in the United States, although there had been earlier attempts to organize and several states had state societies. At this meeting, the American Association of Public Accoun-

[7] Gary John Previts and Barbara Dubis Merino, *A History of Accounting in America* (New York: Ronald Press, 1979), p. 136.

[8] Richard Hofstadter, *Social Darwinism in American Thought* (Philadelphia: University of Pennsylvania Press, 1944).

tants was formed as the professional organization of accountants in the United States. In 1916, after a decade of bitter interfactional disputes, this group was reorganized into the American Institute of Accountants (AIA).

The American Association of the University Instructors in Accounting was also formed in 1916. Initially, this group focused on matters of curriculum development, and it was not until much later that it attempted to become involved in the development of accounting theory.

World War I changed the public's attitude toward the business sector. Many people believed that the successful completion of the war could at least partially be attributed to the ingenuity of American business. As a consequence, the public perceived that business had reformed and that external regulation was no longer necessary. The accountant's role changed from protector of third parties to protector of business interests.

Critics of accounting practice during the 1920s suggested that accountants abdicated the stewardship role, placed too much emphasis on the needs of management, and permitted too much flexibility in financial reporting. During this time financial statements were viewed as the representations of management, and accountants did not have the ability to require businesses to use accounting principles they did not wish to employ.

The result of this attitude is well known. In 1929 the stock market crashed and the Great Depression ensued. Although accountants were not initially blamed for these events, the possibility of governmental intervention in the corporate sector loomed.

Accounting in the United States Since 1930

One of the first attempts to improve accounting began shortly after the inception of the Great Depression with a series of meetings between representatives of the New York Stock Exchange (NYSE) and the American Institute of Accountants. The purpose of these meetings was to discuss problems pertaining to the interests of investors, the NYSE, and accountants in the preparation of external financial statements.

Similarly, in 1935 the American Association of University Instructors in Accounting changed its name to the American Accounting Association (AAA) and announced its intention to expand its activities in the research and development of accounting principles and standards. The first result of these expanded activities was the publication, in 1936, of a brief report cautiously titled "A Tentative Statement of Accounting Principles Underlying Corporate Financial Statements." The four-and-one-half-page document summarized the significant concepts underlying financial statements at that time.

The cooperative efforts between the members of the NYSE and the AIA were well received. However, the post–Depression atmosphere in the United States was characterized by regulation. There was even legislation introduced that would have required auditors to be licensed by the federal government after passing a civil service examination.

Two of the most important pieces of legislation passed at this time were the Securities Act of 1933 and the Securities Exchange Act of 1934, which established the Securities and Exchange Commission (SEC). The SEC was created to administer various securities acts. Under powers provided by Congress, the SEC was given the authority to prescribe accounting principles and reporting practices. Nevertheless, because the SEC has acted as an overseer and allowed the private sector to develop accounting principles, this authority has seldom been used. However, the SEC has exerted pressure on the accounting profession and has been especially interested in narrowing areas of difference in accounting practice. (The role of the SEC is discussed in more detail in Chapter 16.)

By 1937 the prevailing view was that if accountants did not come up with answers to issues the SEC would. The profession was also convinced that it did not have the time needed to develop a theoretical framework of accounting. As a result, the AIA agreed to publish the study by Sanders, Hatfield, and Moore titled *A Statement of Accounting Principles.* The publication of this work was quite controversial in that it was simply a survey of existing practice that was seen as telling practicing accountants, "do what you think is best." Some accountants also used the study as an authoritative source that justified current practice.

In 1937 the AIA merged with the American Society of Certified Public Accountants, and a new, larger organization later named the American Institute of Certified Public Accountants, (AICPA) was formed. This organization has had increasing influence over the development of accounting theory.

Over the years, the AICPA established several committees and boards to deal with the need to further develop accounting principles. The first was the Committee on Accounting Procedure (CAP). It was followed by the Accounting Principles Board (APB), which was replaced by the Financial Accounting Standards Board (FASB). Each of these bodies has issued pronouncements on accounting issues, which have become the primary source of generally accepted accounting principles that guide accounting practice today.

Committee on Accounting Procedure

Professional accountants became more actively involved in the development of accounting principles following the meetings between members of the New York Stock Exchange and the AICPA and the controversy surrounding the publication of the Sanders, Hatfield, and Moore study. In 1938 the AICPA's Committee on Accounting Procedure was formed. This committee had the authority to issue pronouncements on matters of accounting practice and procedure in order to establish generally accepted practices. The works of the committee were published in the form of *Accounting Research Bulletins (ARBs);* however, these pronouncements did not dictate mandatory practice and received authority only from their general acceptance.

The *ARBs* were consolidated in 1953 into *Accounting Terminology Bulletin No. 1,* "Review and Resume"[9] and *ARB No. 43.*[10] From 1953 until 1959 *ARBs*

[9] *Accounting Terminology Bulletin No. 1,* "Review and Resume" (New York: AICPA, 1953).

[10] *Accounting Research Bulletin No. 43,* "Restatement and Revision of Accounting Research Bulletins" (New York: AICPA, 1953).