

*F*INANCIAL *A*CCOUNTING

LIBBY

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SHORT

FINANCIAL ACCOUNTING

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IRWIN



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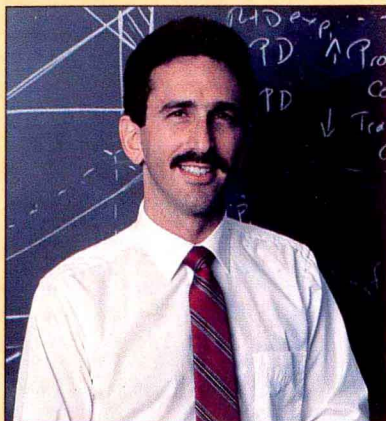
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FINANCIAL ACCOUNTING

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About the Authors



Robert Libby is the David A. Thomas Professor of Management at the Johnson Graduate School of Management at Cornell University. Bob teaches the introductory financial accounting course. He previously taught at the University of Illinois, Pennsylvania State University, the University of Texas, the University of Chicago, and the University of Michigan. He received his B.S. from Pennsylvania State University and his M.A.S. and Ph.D. from the University of Illinois; he is also a CPA. Bob is a widely published author specializing in behavioral accounting. His prior text, *Accounting and Human Information Processing* (Prentice Hall, 1981), was awarded the AICPA/AAA Notable Contributions to the Accounting Literature Award. He has published numerous articles in the *Journal of Accounting Research*, *The Accounting Review*, *Accounting, Organizations, and Society*, and other accounting journals. He is an active member of the American Accounting Association and the American Institute of CPAs, and is a member of the editorial boards of the *Journal of Accounting Research*; *The Accounting Review*; *Accounting, Organizations, and Society*; *Journal of Accounting Literature*; and *Journal of Behavioral Decision Making*.



Patricia Libby is Associate Professor of Accounting at Ithaca College where she teaches the undergraduate financial accounting course. She previously taught graduate and undergraduate financial accounting at Eastern Michigan University and the University of Texas. Before entering academe, she was an auditor with Price Waterhouse and a financial administrator at the University of Chicago. She received her B.S. from Pennsylvania State University, M.B.A. from DePaul University, and Ph.D. from the University of Michigan; she is also a CPA. Pat conducts research on how to use cases in the introductory course and in other parts of the accounting curriculum. She has published articles in *The Accounting Review*, *Issues in Accounting Education*, and *The Michigan CPA*. She also conducts seminars nationally on active learning strategies, including cooperative learning methods, and is the chair of the Collaborative Learning at Ithaca College faculty support group.



Dan Short is Dean of the Richard T. Farmer School of Business at Miami University. Previously, Dan was dean of the College of Business at Kansas State University and before that associate dean at the University of Texas at Austin, where he taught the undergraduate and graduate financial accounting courses. He also taught at the University of Chicago. He received his undergraduate degree from Boston University and his M.B.A. and Ph.D. from the University of Michigan. Dan has won numerous awards for his outstanding teaching abilities and has published articles in *The Accounting Review*, the *Journal of Accounting Research*, *The Wall Street Journal*, and other business journals. He has worked with a large number of Fortune 500 companies, commercial banks, and investment banks to develop and teach executive education courses on the effective use of accounting information.

To our parents:

Herman and Doris Hargenrater

Oscar and Selma Libby

Bob and Mary Ann Short

and our daughters:

Laura Libby

Heather and Jenni Short

Instructor Summary: Why This Book?

We wrote this book in the belief that the subject, financial accounting, is inherently interesting, but financial accounting textbooks often are not. Furthermore, the typical texts do not demonstrate that accounting is an exciting major field or important to future careers in marketing, finance, and other areas of management. As a consequence, we approached the writing of this text with **career relevance** as our guide to selection of material and the need to **engage the student** as our guide to style and pedagogy. Our experience, probably similar to yours, suggests that if we fail to engage students, many of them will ignore the text as a worthwhile course resource. In every aspect of writing and designing this book, we have been mindful of this challenge to capture the students' interest; based on what our reviewers and the students who've read and class-tested the manuscript have told us, we've succeeded.

We have met this challenge by

1. *Integrating real-world business and accounting practices by building each chapter around the operations and financial statements of its own "focus company" (e.g., Harley-Davidson in Chapter 7) through which the key concepts in the chapter material are examined.* Learning accounting and financial reporting in real business contexts naturally creates interest for students, demonstrates career relevance, and illustrates management and external uses of financial statements. This can't be accomplished effectively by inserting disjointed vignettes or colorful short features into a traditional preparer-oriented text. We wrote our chapters from scratch around our realistic focus companies, and our financial analysis, international, and ethics features are integrated into the chapters.
2. *Choosing material for its managerial significance and relevance to using real financial statements.* Actual company practices and decisions made by our focus companies
- and "contrast companies" illustrate the variety in real-world situations. More importantly, they guided our choice of material toward that which would be more interesting and relevant to users of financial statements in finance, marketing, and management, as well as to future accountants. Chapter 5, which illustrates the complete financial reporting process in the information environment of modern financial markets, is unique.
3. *Choosing examples and explaining material in a manner appropriate for the introductory student.* To ensure accessibility of the material, we employ a building block approach; we carefully cover the basics before we address more complex issues. As the students' sophistication develops throughout the term, so does the sophistication of the focus company and contrasting company illustrations. Smaller, single industry companies with simple operations, capital structures, and disclosures were selected for the early chapters. The examples increase in sophistication as a student's knowledge grows, both within chapters (e.g., Chapter 7's coverage of LIFO) and between chapters (e.g., Chapter 1 versus Chapter 5 versus Chapter 14).
4. *Including active-learning features that engage the student, provide interactive feedback, and promote critical thinking skills.* Our unique Self-Study Quizzes reinforce key concepts and provide important feedback before students move to the next part of each chapter. Many of the quizzes and end-of-chapter materials rely on real statements and require students to make judgments, search for additional information, and think backward from outputs to inputs, thereby giving students exposure to and practice managerial thinking.

Preface

We wrote this book in the belief that the subject, financial accounting, is inherently interesting, but financial accounting textbooks often are not. Furthermore, the typical texts do not demonstrate that accounting is an exciting major field or important to future careers in marketing, finance, and other areas of management. As a consequence, we approached the writing of this text with **career relevance** as our guide to selection of material and the need to **engage the student** as our guide to style and pedagogy. Our experience, probably similar to yours, suggests that if we fail to engage students, many of them will ignore the text as a worthwhile course resource. In every aspect of writing and designing this book we have been mindful of this challenge to capture the students' interest; based on what our reviewers and the students who've read and class-tested the manuscript have told us, we've succeeded. However, in the final analysis it is you and your students who will determine the true worth of our efforts.

This text is aimed at students with career interests in marketing, finance, banking, manufacturing, and human resources, as well as accounting, but with no prior exposure to accounting and financial statements, and often little exposure to the business world. We have carefully designed the scope and depth of the text so that most or all of it can be covered in a single term.

GOALS OF TEXT

To truly engage readers and stimulate their interest in the subject matter is an obvious, yet often overlooked, goal of a textbook. Only you can tell us if we've succeeded in **motivating the reader** and **increasing concept retention** where so many

others haven't. Again, our reviewers and students think so, and if you and your classes are at all like them, investing the time to read a chapter, we believe, will ultimately make a big difference to you and your students! Other key goals we had in mind when writing the text were

- To convey the importance of financial accounting and financial statements to managers.
- To help students learn how investing, financing, and operating decisions of different **real** merchandising, manufacturing, and service businesses are reflected in their **financial statements**.
- To help students understand how these statements are used in **real business decisions**.
- To encourage and develop critical thinking by incorporating a strong decision-making orientation.

Besides meeting our overall objective of stimulating an interest in the subject matter to improve learning, these goals are in accordance with the recommendations of the Accounting Education Change Commission **to teach students more effectively the relevance and use of accounting information**.

DEVELOPMENT STORY

Meeting the ever-changing needs of instructors and students, many of which are driven by continued change in the accounting profession and the dynamic business environment of the 1990s,

requires input from many people. The development process that provided that input to this project was extensive and, we believe, instrumental in making this text and package truly market-driven. In virtually every instance where preferences were at stake, we deferred to the suggestions of our colleagues and their students. In our acknowledgments we will attempt to thank everyone involved, but first we wanted to provide a brief overview of the market-driven process that guided the development of this book.

Exhibit A

HARLEY-DAVIDSON, INC. CONSOLIDATED BALANCE SHEET	
<i>(In thousands, except per share amounts)</i>	
December 31	1993
Assets	
Current assets:	
Cash and cash equivalents	\$44,122
Accounts receivable, net of allowance for doubtful accounts	93,178
Inventories	94,428
Total Current Assets	265,465

HARLEY-DAVIDSON, INC. CONSOLIDATED STATEMENT OF INCOME	
<i>(In thousands, except per share amounts)</i>	
Year ended December 31	1993
Net sales	\$1,105,284
Cost of goods sold	808,871
Gross profit	296,413

As we wrote the first draft, we had 15 accounting educators provide detailed chapter-by-chapter feedback on the entire first draft manuscript. We then had a between-drafts reviewer conference, where seven of our reviewers discussed in detail their recommendations and preferences for treatment of different topics. While this gave us a strong focus and direction for writing the second draft, we did not stop asking for input and advice from you. Twenty individuals gave us additional detailed information on a chapter-by-chapter basis as they read from our second draft manuscript. At this point, over 60 students who read from chapters of our book completed questionnaires that allowed us to directly incorporate student feedback as well. We were able to use all of this extensive and extremely helpful input in shaping a final draft that we feel best meets the needs of our intended audience.

The tremendous feedback provided by this process helped us develop the numerous differences and advantages we believe distinguish our text and allow us to meet our goals. The four features listed below are ones that you have told us are the most important.

WHAT'S DIFFERENT AND WHY: KEY FEATURES

1. *Integration of real-world business and accounting practices into the material by building each chapter around the operations and financial statements of an interesting "focus company" (e.g., Harley-Davidson, see Exhibit A).*

The major topics of each chapter are integrated around a single focus company, its operations, and its financial statements and related disclosures. Focus companies were selected from Forbes' Best Small Companies in America as well as the Fortune 1,000. They include well-known and exciting companies such as Timberland, Harley-Davidson, Callaway Golf, Sbarro Restaurants, Showboat, and Delta Air Lines. Each accounting and reporting issue raised is discussed in the context of the focus company and its financial statements and other disclosures. In addition, each chapter emphasizes a different aspect of management, including marketing strategy, human resources, financing strategy, manufacturing, corporate communication, and mergers and acquisitions. (See the inside front cover for a listing.) This directly demonstrates the relevance of the material to a variety of future careers. Integration as opposed to add-on, disjointed vignettes distinguishes our approach from that of other texts; it is also the key to demonstrating career relevance and conveying the excitement of real accounting and reporting problems. For example, in Chapters 2–4 typical transactions from Sbarro, Inc., a family-style Italian restaurant chain, are shown to demonstrate this firm's investing, financing, and operating decisions.

We also regularly integrate "contrast company" examples where appropriate to illustrate the variety in real-world practices, and the effect of a company's particular circumstances on its accounting and reporting practices. Our selection of focus and contrast companies provides the proper balance of merchandising, manufacturing, and service companies.

We also regularly integrate "contrast company" examples where appropriate to illustrate the variety in real-world practices, and the effect of a company's particular circumstances on its accounting and reporting practices. Our selection of focus and contrast companies provides the proper balance of merchandising, manufacturing, and service companies.

For example, Harley-Davidson is the focus company for Chapter 7, "Measuring Inventory and Cost of Goods Sold." We first examine the inventory accounting issues faced by Harley's motorcycle and motorclothes product lines to demonstrate differences between inventory accounting for manufacturing and merchandising operations. We then focus on its growing manufacturing operations where Harley faces rising costs and compare it to

three contrast companies that face very different inventory accounting issues: Deere & Co., which is a shrinking manufacturer; Compaq Computer which is a declining-cost manufacturer; and the housing division of Asahi Chemicals (of Japan), which produces valuable, distinguishable inventory items.

By the time students complete the semester, they have examined a wide variety of company situations and real financial disclosures. Just as important, these examples are appropriate for the introductory student. For example, in Chapter 5, where we discuss the communication of accounting information using Callaway Golf as the focus company, we take time to define acronyms such as CEO and CFO and terms like institutional investor to be sure that the introductory student has an understanding of common business terminology. The reviewers of our text have unanimously endorsed our superior use of real company examples and believe as we do that they will maintain students' interest in the material.

2. Material selected for its managerial significance and its relevance to understanding and using real company financial statements—a true user orientation.

The material included in this text was selected for its relevance to understanding real companies, financial statements and real management decisions. Unrealistic topics and practices have been eliminated. For example, LIFO applied on a perpetual basis was eliminated because it is rarely used in practice. Further, in keeping with the financial statement focus of the text, pure record-keeping functions have been included in appendixes or reserved for future coursework. We replace these topics with often-omitted material that is fundamental to understanding financial statements. By eliminating the recordkeeping emphasis, we can use basic transaction analysis, journal entries, and T-accounts to provide the structure for understanding the interplay between management decisions and financial statements and the analysis of financial statements. We demonstrate how this structure is as important to future financial statement users as it is to accountants.

An equal part of this feature is the integration of discussions of the decisions made by management

Judging Advertising Strategy Based on the 10-K

In its description of the business included in the 10-K, Callaway discloses that it spent approximately \$6.5 million, \$10.7 million, and \$21 million on advertising and promotional expenditures over the last three years. The difference between these three numbers and those disclosed on the schedule of advertising costs printed above is the amount spent each year on promotional and endorsement-related expenditures including compensation to professional golfers.

While both numbers have been rising along with sales, Callaway increased its spending on promotional and endorsement-related expenditures in the current year at a much faster rate than spending on other types of advertising. Promotional activities grew in one year from 22% [$(\$10.7 - \$8.4) \div \$10.7$] to 30% [$(\$21.0 - \$14.8) \div \21.0] of the total advertising and promotion budget. This increasing emphasis on professional endorsements represents a change in strategy for Callaway which is probably related to its new product introductions planned for the coming year.

and financial statement users in our focus and contrasting companies. Our financial analysis features, shown above, along with the international and ethics features, relate directly to the decisions faced by managers and financial statement users at our focus and contrasting companies. For example, the focus company in Chapter 5, "The Communication of Accounting Information," is Callaway Golf. Here we trace the decisions of Ely Callaway (chairman and CEO), Carol Kerley (CFO) and her accounting staff, as well as the auditors at Price Waterhouse, bankers at First Interstate Bank of California, investment bankers at Merrill Lynch, and the managers at Sumitomo Corporation (which exports and sells Callaway's golf clubs in Japan), as Callaway develops the necessary financial statements and related reports needed to obtain both private and public financing for the growing company. This decision-making focus encourages and develops critical thinking. At the same time, we cover the highly technical requirements for financial reporting format and content within a context that literally makes some of the most technical accounting material come alive. As a consequence, students will better remember the technical material and better understand its importance.

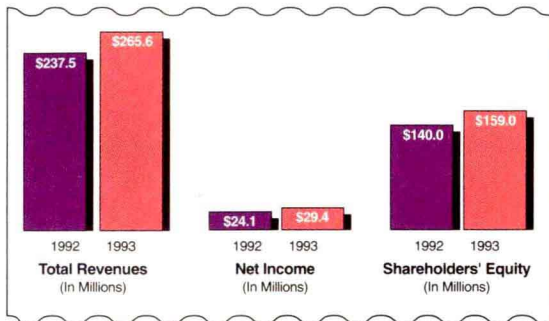
3. Choosing examples and explaining material in a manner appropriate for the introductory student.

The pace, depth of coverage, and level of difficulty of the material and examples are carefully matched to the needs and abilities of introductory students. To ensure accessibility of the material, we employ a building block approach; we carefully cover the basics before we address more complex issues. As the students' sophistication develops throughout the term, so does the sophistication of the focus company and contrasting company illustrations. Smaller, single industry companies with simple operations, capital structures, and disclosures were selected for the early chapters. The

examples increase in sophistication as a student's knowledge grows, both within chapters (e.g., Chapter 7's coverage of LIFO) and between chapters (e.g., Chapter 1 versus Chapter 5 versus Chapter 14).

The technical material is conveyed with clear step-by-step presentations within the realistic examples. For example, Chapters 2, 3, and 4 follow Sbarro, Inc. (a chain of Italian fast-food restaurants) through each step of the basic accounting process, ensuring that students are prepared for the later material. The emphasis on contrasting company practices is conveyed through side-by-side illustrations that punctuate the effects of differences in financial statement presentations and accounting methods. Numerous exhibits and other visual aids are included to enhance comprehension and learning (see Exhibit B). To further increase comprehension, we define unfamiliar

Exhibit B



Sbarro also uses graphs to communicate key financial data.

terminology (including terms that develop general business knowledge rather than strictly accounting terminology) within the text material, in marginal definitions, and in a glossary of key terms at the end of the book. We also list key terms with page references at the end of each chapter.

4. *Active-learning features engage the student, provide interactive feedback, and promote critical thinking skills.*

Active learning creates attention and promotes retention. The integration of technical material in the real-world context produces major advantages here. A unique feature, Self-Study Quizzes (see Exhibit C), stops the student at strategic

points throughout each chapter to make sure that key points are well understood. These quizzes reinforce key points and help students avoid reading the text in the same fashion as they do a novel; to understand accounting, students must be able to work with the numbers. Students who class-tested the book commented that in anticipation of a quiz, they think about what they are reading, which improves learning. The quizzes often require that students prepare or use financial statement disclosures based on actual companies to reinforce the usefulness of what they are learning. For example, in Chapter 5 students actually determine whether Callaway's senior management had earned their bonuses. The quizzes are part of our integrative approach. These are followed by Demonstration Cases presented at the end of the chapter. Students who have carefully worked with these two types of learning aids are ready to work the end-of-chapter homework assignments.

The material within chapters is followed by an extensive selection of end-of-chapter questions, exercises, problems, and cases that examine single concepts or integrate multiple concepts presented in the chapter. To maintain the real-world flavor of the chapter material, they are often based on other real domestic and international companies, and require analysis as well as conceptual thought, and calculation as well as written communication. Assignments suitable for individual or group written projects and oral presentations are included in strategic locations.

TREATMENT OF DIFFICULT TOPICS

Among the myriad of topics that are covered in an introductory financial accounting course, a number were identified by our reviewers as difficult ones for students to comprehend. A listing of some

Exhibit C

Self-Study Quiz

Callaway executives will receive bonuses if sales growth and pretax earnings as a percent of sales meet or exceed target amounts (35.1% and 21.1%, respectively). Use Exhibit 5-5 to see if Callaway executives earned their bonuses in the most recent year.

Computations:

Discuss why Callaway might choose to pay executives based on performance and why they use the same accounting numbers used in reports to shareholders to measure the executives' performance.

of these follows along with a brief discussion of some strengths of our approach to these areas:

- **Bonds:** Our primary coverage of bonds, in Chapter 10, begins with a strong discussion of the uses and nature of bonds, presented in context with the Showboat, Inc., company example. This allows students to understand the relevance of this material better. At one point in the chapter, KC Southern's amortization policy is contrasted with Showboat's to point out a financial analyst's potential interpretation of the two policies.
- **Time Value of Money:** Our reviewers clearly feel that a key strength of our discussion of the time value of money (Chapter 9) is the practical illustration of its applications to accounting through short cases with General Mills, Inc., as the focus company.
- **Inventory:** We clearly took a user-oriented approach to the discussion of this material in Chapter 7 with a goal of providing an understanding of what accountants do with inventory and why. Throughout the entire chapter the focus is on the key concepts of inventory valuation and their effects on financial statements without placing undue emphasis on recordkeeping.
- **Adjusting Entries:** Again, we start with a premise that students will better understand the *how* behind this concept if we first illustrate through a real-company example *why* adjusting entries are necessary. To an introductory student, adjusting entries are often not intuitive and our reviewers unanimously endorsed our walk-through of the Sbarro, Inc., analysis as an effective tool for presenting this hard-to-grasp concept.

KEY FEATURES IN EACH CHAPTER

Chapter 1: Financial Statements and Business Decisions

- Students are introduced immediately to the four basic financial statements through the use of an interesting company example, based on an actual case. At the same time, interindustry differences in financial

reporting are illustrated to begin building critical thinking skills for the student.

- Financial Analysis discussions are introduced throughout this chapter (and then carried through all chapters) to show students how useful accounting knowledge can be in making economic decisions.

Chapter 2: The Accounting Model and Transaction Analysis

- Exhibit 2–1 illustrates a unique presentation of the Conceptual Framework that becomes the building block for the transaction analysis approach to follow.
- Balance sheet concepts are examined and reinforced before the income statement concepts are presented in Chapter 3.
- As an active-learning feature for better comprehension, students must complete the transaction analysis illustration following the process discussed in the chapter.
- Debit-credit and T-account concepts are presented clearly in context with the ongoing Sbarro, Inc., focus company case. Students thus see the relevance and use of these often confusing procedural topics.
- Financial Analysis discussions emphasize financing and investing decisions.

Chapter 3: Income Measurement and Operating Decisions

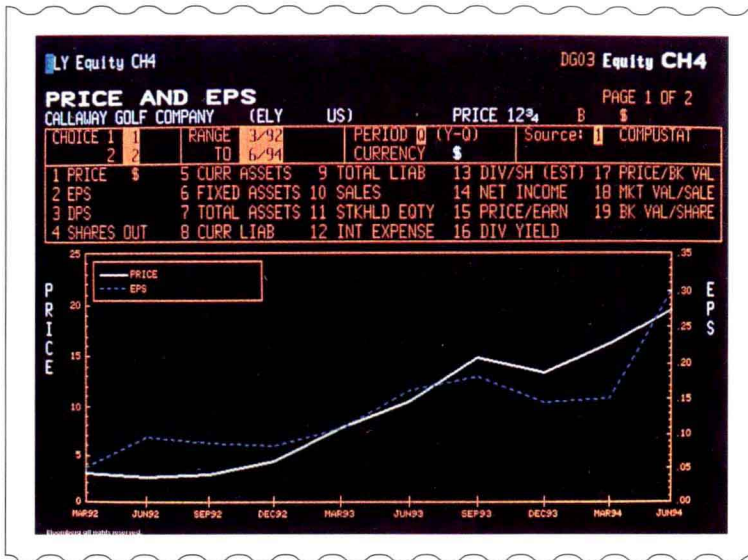
- Income statement concepts and their relationships to balance sheet concepts are examined and reinforced in their own separate chapter.
- Transaction Analysis model as illustrated through the Sbarro, Inc., example is continued to allow students to build upon concepts presented in Chapter 2.
- Financial Analysis discussions emphasize operating decisions.
- Strong conceptual development of the principles related to revenue recognition and the matching concept are introduced in this chapter, including a conceptual discussion of accruals and deferrals. Timelines are presented as useful analytical tools for providing visual representations of transactions or series of transactions.

Chapter 4: The Adjustment Process and Financial Statement Preparation

- After first showing students the *why* behind adjusting entries, we show them the *how* through a consistent three-step process that can be applied to analyze any situation requiring an adjusting journal

- An often overlooked item, footnotes to financial statements, which were first presented in Chapter 1, are discussed in greater detail here with actual corporate examples used to illustrate these important components of the reporting process.

Chapter 6: Accounting for Sales Revenue, Cash, and Receivables



entry. The focus is on understanding versus rote memorization.

- The statement of cash flows, its importance and where it comes from, is discussed here so that students can keep cash effects in mind through later chapters without being overburdened with technical details.
- Formal recordkeeping formats and reversing entries are included as optional chapter supplements.

Chapter 5: The Communication of Accounting Information

- This unique chapter clearly and concisely presents how financial statements are disseminated and used, emphasizing not just the output, but the people and process involved. Exhibits 5-1 and 5-2 are truly innovative (5-2 is shown above).
- Through a presentation of financial information sources, electronic information services, and actual reports used by companies, we help the students redefine the uses behind the process presented in the previous three chapters.

- To improve student understanding, receivable issues are linked with revenue recognition.
- Issues related to discounts, returns, and bad debts are presented as part of marketing strategy and financial management at Timberland, Inc., not as pure recordkeeping functions.
- The concept of bad debt expense is presented clearly with an emphasis on analyzing the effects of this expense on actual financial statements; students work with actual statements and footnotes.
- Recognizing revenue in unusual circumstances is covered at a level appropriate for the introductory student.

Chapter 7: Measuring Inventory and Cost of Goods Sold

- The influence of choice of inventory method on financial statement information is presented through examples of choices facing Harley-Davidson, Inc., a company with which most students can readily identify.
- Harley-Davidson's inventory method choices are compared to those of other companies in different circumstances.
- In the discussion of periodic versus perpetual inventory systems, the focus is on the usefulness of perpetual inventory systems for managerial decisions rather than heavy coverage of recordkeeping.

Chapter 8: Operational Assets—Property, Plant, and Equipment; Natural Resources; and Intangibles

- The depreciation methods are presented in a decision-making framework that

minimizes procedure and emphasizes how methods are chosen.

- The discussion of residual value and estimated useful life is strengthened by the continued use of examples from Delta Air Lines, Inc.
- The chapter develops student interest in a potentially dry topic by showing how planning productive capacity is an essential management responsibility.

Exhibit D

Real World Excerpt
Wal-Mart Stores, Inc.
Dividend Declaration

Dateline: Bentonville, Ark., June 2, 1994

The Board of Directors of Wal-Mart Stores, Inc. today declared a quarterly cash dividend on common stock of four-and-one-quarter cents (\$0.0425) a share, payable July 8, 1994, to shareholders of record June 13, 1994.

Chapter 9: Measuring and Reporting Liabilities

- As in other chapters, ratios (e.g., current ratio) are discussed as the accounts used in computations are covered, allowing students to more clearly see the linkages and understand the importance of ratio analysis.
- Topics were selected based on a review of hundreds of financial statements. To provide relevance, students are exposed to liabilities that they will see on most statements. Complex issues are introduced without excessive details.

Chapter 10: Measuring and Reporting Bonds

- Student interest is maintained by following an actual bond issuance for Showboat, Inc., from the prospectus stage through sale, concluding with a vote by bondholders to amend bond covenants.
- Based on reviewer feedback, material was added on bond investments held to maturity, which briefly illustrates why certain companies choose this as an investment strategy and how they report it in their financial statements. By combining bond liabilities and bond investments, students develop a better understanding of these instruments.

Chapter 11: Measuring and Reporting Owners' Equity

- Through the primary use of examples from Wal-Mart, a corporate success story all students can appreciate and understand, the focus is on comprehending the

relationships among dividends, cash, and retained earnings. Students are shown real-world examples such as notice of an annual meeting, a vote to amend a corporate charter, a dividend declaration (see Exhibit D), and a stock repurchase.

- Material on initial public offerings (IPOs) is presented here with a discussion of the reasons why a company might want to go public and examples of formerly small start-up operations that are now corporate giants (e.g., Dell Computers and Microsoft, Inc.).

Chapter 12: Measuring and Reporting Investments in Other Corporations

- By illustrating actual examples from American Brands, McDermott Corporation, and others, the student is shown the strategies behind a company's decision to invest in other companies.
- As in other chapters, the approach focuses on presenting the business environment that drives transactions and then developing the accounting treatments necessary to capture and present properly the information in financial statements.
- The chapter discussion uses a modular approach that permits the instructor to cover as much or as little of intercorporate investments as is deemed appropriate.

Chapter 13: Statement of Cash Flows

- Financial Analysis sections, a feature that appears in all chapters, are inserted frequently here to show the use and importance of cash flow so students are able to view the statement of cash flows as an analytical tool to help convey new information about a company.
- A spreadsheet approach is utilized to show in a more intuitive way how the statement of cash flows can be prepared. The indirect method, the one most com-

monly used in actual practice, is presented first and with greater emphasis.

- The chapter effectively bridges from a simplified example used to introduce concepts to the actual statement of cash flows for Home Shopping Network to illustrate how concepts are applied in practice.

Chapter 14: Using and Interpreting Financial Statements

- Financial ratios are used to compare Home Depot with leading competitors Grossman's, Hechinger, and Lowe's to illustrate the uses and potential shortcomings of ratio analysis.
- To increase understanding of actual practices, students are briefly introduced to how information is used in an efficient market.
- Financial analysis is integrated with Home Depot's business strategy and operating decisions to allow students to see the types of strategic and other decisions facing business managers.

END-OF-CHAPTER MATERIAL

For success in the business world in general and in accounting, students must possess strong written and oral communication skills and be able to deal with ambiguity, solve unstructured problems, gather information from human and electronic sources,

use critical thinking skills to make good judgments, and work effectively in groups. The AECC and the Big 6 firms stress a broad liberal arts foundation with an understanding of business and organizations as being more important than specific accounting or auditing knowledge. We have responded to these needs by framing each chapter in a business setting so as to enhance students' understanding of accounting in the context of various businesses. Although the material within the chapters provides varied resources for students to use in developing the necessary skills, we have also in-

cluded numerous end-of-chapter items that (1) incorporate a writing component, (2) drill students on key concepts, (3) require students to search for information by contacting companies, searching libraries, and utilizing computerized services (see especially Chapter 5), (4) require students to make judgments without having access to additional information, often necessitating thinking backward from outputs to inputs, and (5) can be structured by the instructor as group learning experiences.

The end-of-chapter material consists of four types of items: questions, exercises, problems, and cases. The questions and exercises usually cover single topics and require less time and effort to complete than the problems and cases that typically integrate more than one concept and require more analytical and critical-thinking skills. The material follows the topical coverage as outlined in the chapter, includes multiple items on each topic, and moves from easy to more challenging with very challenging items noted. We carry through the user orientation in the end-of-chapter material by including examples from small business settings, problems that deal with real financial statement excerpts, international company examples (see Exhibit E), and ethical issues examples. To allow maximum instructor flexibility and ample student practice, each of the key topics is covered by at least two items (i.e. questions, exercises, problems, and cases).

Exhibit E

C5-4 An International Perspective

Grand Metropolitan is a major international company that is located in London. A recent annual report contained the following information concerning its accounting policies.

Accounting convention:

The financial statements of the group are prepared under the historical cost convention. They have been drawn up to comply in all material respects with U.K. statements of standard accounting practice in force at the relevant time.

Grand Metropolitan



UNIQUE, REAL-WORLD OFFERING

Financial Accounting, The Wall Street Journal Edition, (ISBN: 0-256-21586-3). The price of this version of the text includes a 10-week subscription to *The Wall Street Journal*, the leading business daily newspaper. The *Journal's* coverage of accounting, financial, and general business topics, both domestic and global, is unparalleled by any other business periodical. Your Irwin sales representative can provide you more information on this unique offering.

SUPPLEMENTS FOR THE INSTRUCTOR

Instructor's Resource Guide, by Betty McMechen (Mesa State College), contains the following items by chapter to provide additional support for the instructor: Chapter Outline, Chapter Summary, Chapter Lecture Notes (cross-referenced to Learning Objectives), Problem Assignment Grid, Guide to Other Chapter Features, Supplemental Enrichment Activities (**including suggestions for group or collaborative exercises for both inside and outside the classroom**), Suggested Reading List, and Transparency Masters. In addition an electronic version of this manual is available.

Solutions Manual, prepared by the textbook authors and carefully reviewed for accuracy by outside sources, contains solutions to all assignment material and is available in electronic format as well.

Solutions Transparencies are set in large, bold-face type to maximize their effectiveness in large classrooms.

Ready Shows, Ready Slides are teaching enhancement packages prepared by Jon A. Booker, Charles W. Caldwell, Susan C. Galbreath, and Richard S. Rand, all of Tennessee Technological University.

Ready Shows. This is a package of multimedia lecture enhancement aids that uses PowerPoint® software to illustrate chapter concepts.

Ready Slides. These selected four-color teaching transparencies are printed from the PowerPoint® Ready Shows. (See also "Ready Notes" under Student Supplements.)

Test Bank, by Harry Dickenson (University of Richmond), contains multiple-choice, true-false, matching and completion questions, and short problems requiring analysis and written answers. The testing material is coded by type of question and level of difficulty.

Computest is a computerized version of the manual testbank for more efficient use, available in Macintosh, Windows, or DOS versions. The extensive features of this test generator program include random question selection based on the user's specification of learning objectives, type of question, and level of difficulty.

Teletest allows users to call a toll-free number, specify the content of desired exams, and have a laser-printed copy of the exams mailed to them.

Lecture Enhancement Video Series are short, action-oriented videos that provide the impetus

for lively classroom discussion. The *Financial Accounting Video Library* includes videos with the Financial Accounting Standards Board, Ben & Jerry's, and a video with Art Wyatt discussing the impact of the International Accounting Standards Committee.

SUPPLEMENTS FOR THE STUDENT

Study Guide, by Patricia Doherty (Boston University), contains a number of useful references for the student. Each chapter includes Overview of Chapter, Restatement of Learning Objectives, Chapter Outline, Questions and Exercises (multiple-choice, true-false, matching, short answer, and group exercises), and a word search puzzle of key terms to build critical thinking skills.

Active Learning Workbook: Student Learning Tools, by Barbara Chiappetta (Nassau Community College) contains material for students' use in an active learning environment. It is designed to facilitate a concept approach with a user emphasis and the development of interpersonal skills. The Introduction is aimed at motivating the student to participate by developing an understanding of the need for and the value of active learning. Functional aspects of learning teams are explained, and forms for team use are provided. The material is divided into three sections: class activities, team presentation assignments, and writing assignments. For instructors who address procedural issues, accounting forms (journal paper, two- and three-column paper, and T-accounts) are provided for reproduction.

Ready Notes is a booklet of Ready Show screen printouts that enables students to take notes during Ready Show or Ready Slide presentations.

Room Zoom: The CPA Source Disc is a multimedia, interactive CD-ROM that provides an exciting guide to a CPA career. Students will be able to experience a day in the life of a CPA, review salary statistics, learn about scholarships and internships, understand the technology inherent in the profession, learn about the CPA exam, and much more. Available to your students for a nominal charge when purchased with *Financial Accounting* from Irwin, this innovative technology component would also be perfect for the first day of class.

Working Papers, selected and prepared by the authors, contain all the forms necessary for completing the end-of-chapter materials.