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财务与会计系列

财务会计

(第四版)

FINANCIAL ACCOUNTING

(FOURTH EDITION)

MICHAEL A. DIAMOND



世界财经与管理教材大系



东北财经大学出版社

世界财经与管理教材大系
财务与会计系列·英文版

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Financial Accounting
Fourth Edition

迈克尔·A. 戴尔蒙德 著

Michael A. Diamond

东北财经大学出版社

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出版者的话

但凡成事，均缘于势。得势则事成，失势则事不顺。顺势而行，如顺水行舟；借势而动，如假梯登高；造势而为，如太空揽月。治学、从政、经商、置业，均不可一日失势。势者，长处、趋势也。

今日中国，是开放的中国；当今世界，是开放的世界。改革开放，大势所趋，势不可挡。经济开放、文化开放、政治开放，世界需要一个开放的中国，中国更要融入开放的世界。借鉴国际惯例，学习他人之长，已经到了不可不为之时。

借鉴国际惯例，学习他人之长，已属老生常谈，但学什么、如何学、以何为蓝本为众多志士仁人所关注。可喜的是，由赤诚图文信息有限公司精心策划，ITP、McGraw-Hill及Simon & Schuster等国际出版公司特别授权，东北财经大学出版社荣誉出版的“世界财经与管理教材大系”现已隆重面世！她以“紧扣三个面向，精选五大系列，奉献百部名著，造就亿万英才”的博大胸襟和恢弘气势，囊括经济学、管理学、财务与会计学、市场营销学、商务与法律等财经、管理类主干学科，并根据大学教育、研究生教育、工商管理硕士（MBA）和经理人员培训项目（ETP）等不同层次的需要，相应遴选了具有针对性的教材，可谓体系完整，蔚为大观。所选图书多为哈佛、斯坦福、麻省理工、伦敦商学院、埃维商学院等世界一流名校的顶尖教授、权威学者的经典之作，在西方发达国家备受推崇，被广为采用，经久不衰，大有“洛阳纸贵”之势。

借鉴国际惯例，毕竟只是因势而动；推出国粹精品，才是造势而为。在借鉴与学习的同时，更重要的是弘扬民族精神，创建民族文化。“民族的，才是国际的”。我们提倡学他人之长，但更希望立自己之势。

势缘何物，势乃人为。识人、用人、育人、成人，乃人本之真谛。育人才、成能人，则可造大势。育人、成人之根本在教育，教育之要件在教材，教材之基础在出版。换言之，人本之基础在书本。

凡事均需讲效益，所谓成事，亦即有效。高效可造宏基，无效难以为继，此乃事物发展之规律。基于此，我们崇尚出好书、出人才、出效益！

东北财经大学出版社

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PREFACE

Financial Accounting is designed to be used in first-year accounting courses that cover one or two quarters or one semester. It presumes that the student has had no previous exposure to accounting. Because of the book's flexible organization, it can be used in introductory accounting at either the undergraduate or graduate level.

The fourth edition of *Financial Accounting* continues a major revision in both structure and content that was begun in the third edition. The revisions started in the third edition and enhanced in this edition were prompted by (1) the need to keep the text current in its content and, more important, (2) the significant changes that are now taking place in accounting education. These changes are best summarized by the following excerpt from the Accounting Education Change Commission's (AECC) Position Statement on the "First Accounting Course."

The two primary objectives of the first course in accounting are (1) to make clear the ways in which accounting is an information development and communication function that supports economic decision-making and (2) to prepare students to obtain additional knowledge. The knowledge and skills provided by the first course in accounting should facilitate subsequent learnings even if the student takes no additional academic work in accounting or directly related disciplines. For example, the course should help those who complete it in performing financial analysis;

*in deriving information for personal or organizational decisions; and in understanding business, governmental, and other organizational entities.*¹

The two premises on which *Financial Accounting* is based reflect the viewpoint expressed in the AECC position statement. First, knowledge of accounting is important for *all* members of today's complex international business community, whether they are in industry, government, or the professions. Therefore, this book is written to meet the needs of students in general as well as of those who are prospective accounting majors. In designing and writing this textbook, I am well aware that it must meet the needs of a wide range of students with varying interests and goals. For those who are potential accounting majors a solid foundation in accounting concepts and practices is important so that they can apply that knowledge in their various careers. Those choosing nonaccounting majors need a basic knowledge of accounting to assist them in the many financial decision-making situations that they will encounter in their future professional positions. To meet the needs of these diverse groups, I have chosen the goal that after completing their study of this text all students should be able to read, understand, and reasonably interpret financial statements contained in the annual reports of major companies.

Second, accounting is an interesting subject, and I believe that the time spent in learning its concepts and practices should be enjoyable. For this reason, *Financial Accounting* is written in a highly readable, conversational style that will appeal to students. In addition to being an essential topic, I believe that accounting is fascinating. To complete successfully their first accounting courses, students spend many hours reading the text and preparing class materials. I have gone to considerable lengths to make this process interesting. The text includes extensive quotes from business journals such as *Forbes* and the *Wall Street Journal*, as well as many excerpts from actual financial statements and annual reports, to add realism and spark student interest. The financial statements of Albertson's, a large retail grocery chain, are used as an integrating force throughout the text. Each chapter begins with a short scenario that sets up a situation that students can easily relate to. Further, throughout the book are found several short profiles of individuals who began their careers in the accounting profession and who use accounting information in their current positions. These profiles are meant to kindle student interest in accounting and the use of accounting information in a variety of business and business-related situations.

▼ CHANGES IN THE FOURTH EDITION

As noted, the fourth edition of *Financial Accounting* continues and enhances the significant changes begun in the third edition. Most important, this edition of the text continues the successful organization structure introduced in the third edition, while substantially reducing the amount of procedural material found in previous editions. The combinations of these features allowed for a decrease in the length of the text and a reduction in the number of chapters from 18 to 15. This means that the book can be more easily completed within one semester or two quarters.

Organizational Structure

Traditional introductory accounting texts take a balance sheet approach to organizing the material. That is, after discussing the accounting cycle, the table of contents

1. Accounting Education Change Commission, "The First Accounting Course," Position Statement No. 2, June 1992.

basically works its way down the balance sheet. Students tend to view each chapter as completely independent of those that precede and/or follow. As a result, students often are unable to integrate the material and make logical conceptual connections.

Financial Accounting is organized in a completely different manner. (Please see the Contents on page xvii.) First the student is introduced to the uses and functions of accounting and what information is and is not contained in the basic financial statements. Included in this first part of the book is a unique chapter entitled The Accounting Profession: Ethics, Management Controls, and Fraudulent Financial Reporting (Chapter 4). The four chapters in Part 1 are meant to meet the AECC's view that the first course in accounting should:

*provide students with a broad view of accounting's role in satisfying society's needs for information and its function in business, in government, in other organizations, and in public accounting. This should include an overview of the accounting profession, encompassing its history, its ethics, and its public responsibilities.*²

The accounting information system is covered in Part 2. Students are introduced to the accounting cycle without being burdened with unnecessary procedures. Parts 3, 4, and 5 are organized to match the structure and format of the statement of cash flows. That is, these three parts cover operating, investing, and financing activities, respectively.

Following the introduction to Part 4, a module introduces students to present value techniques and applications, thus allowing ease of inclusion or omission according to the needs of each school's curriculum.

Part 6 concludes the text with the interpretation of financial information. In a sense, the chapters in Part 6 are in the nature of summary and review; the material in this part has been introduced to the student in appropriate places throughout the text. For example, the statement of cash flows was first introduced in Chapter 2 and discussed in more detail in Chapter 3. In a similar manner, international topics are discussed at appropriate places throughout the text. (For example, Chapters 7 and 8 introduce students to foreign currency receivable and payable transactions, while the coverage of inventories in Chapter 9 contains a discussion of international accounting standards related to inventory costing methods. Similarly, Chapters 10 and 11 contain discussions relating to international accounting standards for goodwill and consolidations.) Last, financial statement analysis and the use of accounting information for decision making are stressed through all the chapters. Thus, by the time the student reaches Chapter 14 (The Statement of Cash Flows and Interpreting Financial Data), most of the ratios are familiar.

Reduced Coverage of Procedural Material

The least important procedural material has either been deleted or its coverage reduced substantially. For example, this change is very evident in the discussion of the accounting cycle and related accounting procedures found in Part 2.

In the fourth edition the emphasis on the accounting cycle has shifted from learning procedures to using transaction analysis and journals as tools in understanding and analyzing economic events and their effect on the financial statements. Chapter 5, The Accounting Information System and Transaction Analysis, introduces students to the basics of the accounting system, how to analyze and record journals as an analytical tool, and the effect of economic transactions on a firm's financial statements.

2. Ibid.

Chapter 6, Income Measurement and the Accrual Basis of Accounting, focuses students' attention on the accrual basis of accounting as the foundation for financial reporting and then discusses why adjusting journal entries are an essential ingredient of accrual accounting. The why and how of accrual-basis accounting, including revenue and expense recognition issues, are highlighted in this chapter. Although various types of adjusting journal entries are discussed and illustrated, the focus is not solely on how to make these entries but also on why adjusting entries are necessary.

Part 2 contains an accounting cycle module that explains in more detail the various steps in the accounting cycle. This module is self-contained and could be omitted without loss of continuity; the remaining chapters of the textbook can be easily understood if the instructor decides not to assign this module.

Further in the text, essential procedures are presented in a concise and relevant manner. They often are used to enhance student understanding of a particular concept and standard. For example, in Chapter 10, the business decisions related to the purchase of operating assets and the important accounting concepts relating to these assets are fully explained before depreciation methods are illustrated. Also, only the two most popular depreciation methods, straight-line and declining-balance, are discussed. The introductory student is not burdened with learning seldom-used methods such as sum-of-the-years digits depreciation.

The coverage of such details as sales and purchase discounts, certain methods of calculating bad debts, and debt and equity conversions and retirements has been substantially reduced or eliminated. Further, the discussion of topics such as investments, consolidations, bonds, pensions, and leases has been refocused to a level more appropriate to the introductory accounting student. The discussion of these topics is written so that students understand the major issues surrounding them and why and how they effect a firm's financial statements. Detailed procedures and methods that do not aid in this overall understanding have been eliminated from the textbook.

FEATURES

The fourth edition of *Financial Accounting*, like its predecessor, has several features that aid student learning and understanding: (1) emphasis on the use of accounting information in decision making; (2) contemporary theory and practice; (3) integration of selected managerial decision topics; (4) organizational flexibility; and (5) a complete and integrated learning package.

Emphasis on Using Accounting Information in Decision Making

In this text, I consistently approach accounting as an information system that provides useful financial data for decision making. This concept of accounting emphasizes its purpose in providing information for decisions rather than solely for its measurement procedures in recording, classifying, and summarizing information. This view is in line with the AECC's statement that the first course in accounting should "make clear the ways in which accounting is an information development and communication function that supports economic decision-making."³

This emphasis on decision making is reflected in many of the features incorporated in the fourth edition of *Financial Accounting*. Ratios and other analytical tools are introduced at appropriate points in the specific chapter dealing with the related

3. Ibid.

accounting concept. Chapter 14, The Statement of Cash Flows and Interpreting Financial Data, then draws all these ratios and tools together.

At the end of each chapter, in addition to a wide variety of other assignment material, I have included a section entitled Discussion and Interpretation Problems. The problems in this section are of six types:

- Understanding Financial Statements
- Financial Decision Cases
- Research Assignments
- Electronic Research Assignments⁴
- Ethical Issues
- Group Assignments

Problems in *Understanding Financial Statements* ask students to interpret and analyze information from the financial statements of actual domestic and, where appropriate, foreign companies. *Financial Decision Cases* place students in the role of decision makers and ask them to analyze and interpret financial and other quantitative and qualitative data.

Research assignments and electronic research assignments are unique and important features of this textbook. *Research Assignments* are short cases that require students to use outside sources available in university or college libraries. They ask students to extend the material introduced in the text and are ideal for individual and group written and oral presentations. *Electronic Research Assignments* are a new feature of the fourth edition. These problems ask students to access electronic data bases such as EDGAR, LEXIS, and NEXIS and gather certain information. They are meant to provide students with introductory skills at accessing the various electronic data bases whose understanding and use is becoming essential to the business or accounting professional.

Ethical Issues are problems and cases that ask students to face realistic ethical dilemmas and develop a response. Many of these cases do not have one “correct” solution. Again, these cases are ideal for individual and group written and oral presentations.

Group Assignments are another important new feature of the fourth edition. These are cases and problems that are particularly developed for group work. They ask a group of students to extend the material in the text by doing additional research and then report either orally or in written form. They often do not have a “correct” answer but ask the group to take a position and defend it.

The different types and varieties of discussion and interpretation problems and cases are a response to the AECC’s view that beginning accounting students should have experience in solving unstructured problems. Again, in Position Statement No. 2, the AECC states that the first course in accounting should “enhance students’ analytical skills by presenting them with unstructured problems that yield to decision-making skills—that is, problems with more than one defensible solution.”⁵

Management’s role in the selection of accounting principles and in the preparation of the firm’s financial statements is emphasized throughout the text. For example, the chapters that cover inventory methods, depreciation methods, leases, and purchase versus pooling all discuss the various effects that different methods may have on a firm’s financial statements. These are realistic considerations that management must take into account when choosing among the different approaches.

4. These begin in Chapter 5.

5. Ibid.

Six accounting professionals, each in a position of responsibility, are profiled at selected locations throughout the text. These professionals are featured to assist students in visualizing themselves as decision makers using financial information.

Contemporary Theory and Practice

The fourth edition of *Financial Accounting* is contemporary in all respects. Where appropriate, selected current official pronouncements of authoritative accounting bodies are referenced. Because of its predominance in our economic system, the corporate form of business is the focus of this text. The globalization of our economic environment is reflected throughout. In addition to a separate chapter on financial accounting issues facing multinational corporations, international accounting practices are introduced in various chapters, such as the chapters on receivables and payables, inventories, property, plant, and equipment and intangibles, and investments.

Students are briefly introduced to some of the most important financial accounting issues facing U.S. and foreign companies not normally discussed in introductory texts. For example, such topics as financial instruments, post-retirement benefits, and accounting for income taxes are addressed in appropriate chapters. These topics, however, are covered with the full understanding of both their complex nature and the fact that this is an introductory textbook. Thus, students will gain an understanding of the importance of these topics to financial reporting and management decision making without becoming overburdened by detail more appropriate to intermediate and advanced texts.

The treatment of corporate income taxes is an excellent example of how these topics are introduced to the beginning accounting student. The effects of taxes on the firm's financial statements are discussed in the various chapters in which relevant accounting principles are presented. An overview of the concept of interperiod income tax allocation is presented in Chapter 8 with payable generation, recognition, and measurement. The effects of income taxes on management decisions are discussed again along with coverage of inventories (Chapter 9) and of operating assets (Chapter 10). The appendix to Chapter 3 (Corporate Income Statements) presents a brief overview of intraperiod income tax allocation. This treatment reflects my view that income tax considerations play an important role in management decisions and should be discussed when those decisions are covered, not isolated in a separate chapter.

Examples in the text and end-of-chapter materials all reflect our current economic environment, with emphasis on global service and technology companies. Where appropriate, reference is made to current economic events such as the recession of the early 1990s and the recovery in 1993 and 1994.

Integration of Selected Managerial Decision Topics

Traditionally, introductory accounting textbooks have made a clear distinction between financial and managerial accounting topics. In doing so, they have reinforced the idea of functional silos (that is, a clear separation between different accounting topics such as audit, tax, financial, and managerial) as well as creating artificial barriers between financial accounting and managerial decision making. This book begins to break down those silos by integrating selected managerial decision topics at appropriate points in the text.

This integration is accomplished in several ways. First, the idea constantly is reinforced that management has choices in the design of the accounting system and the selection of appropriate accounting practices and methods. It often is pointed out to the student that potential conflicts exist between appropriate finan-

cial reporting and the use of accounting information for managerial decisions. Examples include the selection of inventory costing methods and depreciation methods.

Second, this textbook includes the selected discussion of cash budgeting that previously has been reserved for managerial accounting texts. Students are introduced to budgeting for cash receipts in Chapters 7 and 8. The discussion of cash budgeting naturally flows from the discussion of cash, receivables, and payables management and helps students see the relationship between such topics as the aging of accounts receivable and planning for future cash disbursements.

Organizational Flexibility

The fourth edition of *Financial Accounting* is written with the full understanding and appreciation that accounting instructors have various teaching styles and different approaches to the subject. Also, even over a short time, the makeup of individual classes changes, and a text must have the flexibility to meet such changes.

In this and the previous edition, the material on the accounting information system and the recording of selected transactions is not introduced until Part 2. Within this part is the accounting cycle module that provides students with an introduction to the various steps in the accounting cycle. As noted, this module can be omitted without any loss of continuity. This discussion of the accounting information system and accounting cycle follows the complete discussion of financial statements and concepts behind those statements contained in Part 1. However, if desired, the material in Chapters 3 and 4 containing in-depth discussion of financial statements and the accounting profession can be delayed until after the accounting cycle is covered.

Depending on the preference of the instructor and the amount of time available, some or all of the topics in Part 6 can be omitted. As noted, relevant discussions of ratio analysis and international accounting are contained in other chapters. Further, the statement of cash flows is introduced in Chapters 2 and 3. Therefore, if there is not enough time available to cover these last two chapters, the student still will have been introduced to many of the topics contained in them.

A COMPLETE AND INTEGRATED LEARNING PACKAGE

The text and the complete student's and instructor's support packages have been designed as an integrated unit.

Pedagogical Features

I have gone to great lengths to design a pedagogically sound textbook. Each of the chapters contains a set of learning objectives at the beginning and a summary of these objectives at the end along with a list of Key Terms, Problem or Problems for Your Review, Questions, Exercises, Problems, and Discussion and Interpretation Problems. At the end of each part a set of Comprehensive Problems has been included.

LEARNING OBJECTIVES

Each chapter is preceded by a concise set of learning objectives. These objectives clearly indicate to the students what they should be able to accomplish after studying

the chapter. Each of these objectives is summarized in paragraph form at the end of the chapter.

KEY TERMS AND GLOSSARY

Following the summary is a list of key terms discussed in the chapter. These terms are highlighted in boldface where they are introduced in the chapter. At the end of the book, Appendix D is a complete glossary of these key terms, arranged alphabetically for easy use.

PROBLEMS FOR YOUR REVIEW

At the end of each chapter one or more review problems emphasize key points in the chapter. These problems are followed by detailed solutions, so that the students can compare their solutions with the correct one. Many review problems contain notes that anticipate student questions or problem areas.

END-OF-CHAPTER ASSIGNMENT MATERIALS

This text contains a varied set of end-of-chapter assignment materials. *Questions* relate to the major concepts and key terms introduced in the chapter. *Exercises* involve single concepts and provide the student with practice in applying those concepts. Throughout the text, and easily identified by the Albertson's logo, are exercises related to that company's financial statements. The end-of-chapter problems are more complex and usually cover several related topics. The exercises, the questions, and generally the problems are arranged to follow the order in which material is introduced in the chapter.

As noted, each chapter now contains a section called Discussion and Interpretation Problems. These are less structured problems that can be used for individual and group written and oral presentations.

COMPREHENSIVE PROBLEMS

At the end of each part, comprehensive problems highlight significant elements the students have covered. In alignment with the theme of this text, those problems focus on understanding the role of accounting information in decision making.

The Student's Support Package

The student's support package contains a *Study Guide* and *Working Papers*.

STUDY GUIDE

Prepared by Lawrence A. Klein and Elliott Levy of Bentley College, the *Study Guide* helps students develop the ability to apply concepts and techniques discussed in the main text. Each chapter corresponds to a text chapter and contains an extensive chapter review as well as fill-in-the-blanks, multiple choice, and short answer problems that students can use to test their knowledge of text topics. The answers to all these questions and exercises, with explanations, are provided for the student.

WORKING PAPERS

Partially completed *Working Papers* are provided where appropriate. They are designed to reduce the amount of nonproductive pencil work required of the student.

The Instructor's Support Package

The instructor's support package includes an *Instructor's Manual*, a *Test Bank* (in book and microcomputer forms), *Transparencies*, updated *Annual Reports*, and *Videos*. *Check Figures* are now located at the end of the text.

INSTRUCTOR'S MANUAL

Prepared by myself and Sheila Viel, University of Wisconsin-Milwaukee, the *Instructor's Manual* contains several features designed to aid the instructor. First, the manual contains detailed solutions to the questions, exercises, problems, and other end-of-chapter materials. Complete solutions, including the intermediate calculations, are provided. The solutions manual has been verified by an independent accounting professor for accuracy. In addition, this person reviewed each of the exercises and problems to ensure that language and content are consistent with material in the body of the chapter.

The instructor's manual also has been designed as a useful teaching and resource guide. It provides the instructor with an overview of each chapter along with resources referred to in selected discussion assignments. A schedule of end-of-chapter material, organized by learning objective, is included for each text chapter. Included in the schedule are all questions, exercises, and problems, with their estimated level of difficulty and time required for completion.

TEST BANK

Prepared by Donna Ulmer of Southern Illinois University-Edwardsville, the Test Bank contains approximately 1,200 test items, including fill-in-the-blanks, multiple-choice, matching, short problems, and short essay questions. Detailed solutions to all questions are included, along with explanations and computations where applicable.

COMPUTERIZED TEST BANK

The same test material appearing in the printed Test Bank is available on disk.

TRANSPARENCIES

Acetate transparencies for selected problems are in oversized type for easy readability and are available from the publisher to adopters of the text.

ANNUAL REPORTS

Copies of Albertson's annual reports for fiscal years 1994 and 1995 are free to adopters who request them from South-Western Publishing Co. These reports are expected to be available in late spring, 1995 and 1996, respectively.

VIDEOS

Following closely the approach of the profiles, the videos feature professionals who are involved in the creation and/or application of accounting information. The videos are free to adopters.

ACKNOWLEDG- MENTS

The fourth edition of this text would not have been completed successfully without the help of many of my colleagues and friends. Although it is impossible to list all who have made contributions, I would like to acknowledge those who have provided so much help and insight.

Appreciation is extended to Mark DeFond of the University of Southern California, who developed many of the financial decision cases found in the discussion and interpretation section of the end-of-chapter materials. A special thanks is extended to Sheila Viel for help in preparing the *Instructor's Manual*, to Donna Ulmer for her conscientious revision of the *Test Bank*, and to Larry Klein and Elliot Levy for their quality *Study Guide*. I would also like to thank Jim Marchica who provided much needed help during the production phase of this book.

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Finally, this project would never have been completed without the assistance of the outstanding accounting team of South-Western College Publishing.

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Notwithstanding the assistance of all of these individuals, I am solely responsible for the final product. Any suggestions for improvement would be greatly appreciated.

MICHAEL A. DIAMOND



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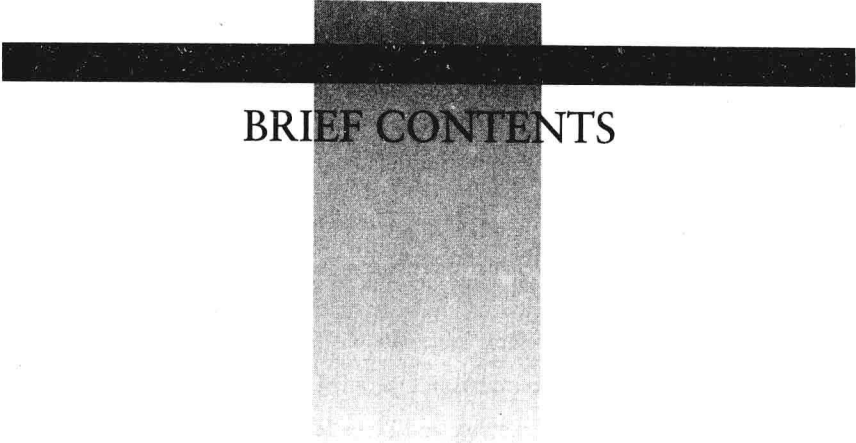
Michael A. Diamond was dean of the School of Accounting at the University of Southern California and director of the School's SEC and Financial Reporting Institute until March 31, 1994. He served in that capacity for over six years. In July 1994 Mike began a one-year consulting term with The Strategic Planning Partnership, an initiative of the Ernst & Young Foundation, which assists business schools in strategic planning and change-management processes. In July 1995 Mike began a term as Vice Provost for Planning and Budget at the University of Southern California.

Mike is a leader in the accounting education reform movement. Under his direction, the School of Accounting at the University of Southern California is recognized as the pace-setter in accounting education change. He has lectured throughout the United States and in Europe and Asia on accounting curriculum revision. Mike has recently been elected as Director of Education of the American Accounting Association. He is actively involved in international accounting research and has served in several capacities with the International Section of the American Accounting Association. His articles have appeared in *Accounting Horizons*, *The Journal of Accounting*, and *Harvard Business Review*. Mike has conducted several research projects sponsored by international accounting firms and the Financial Research Foundation. He is the author of two major accounting textbooks.

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