Management Decisions *and financial accounting reports*

SECOND EDITION 2

Baginski Hassell

MANAGEMENT DECISIONS AND FINANCIAL ACCOUNTING REPORTS

Second Edition

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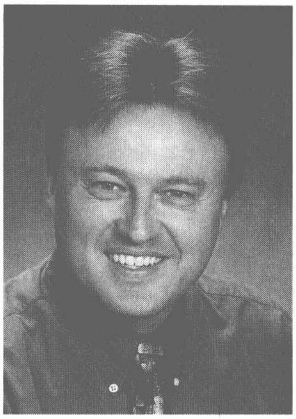
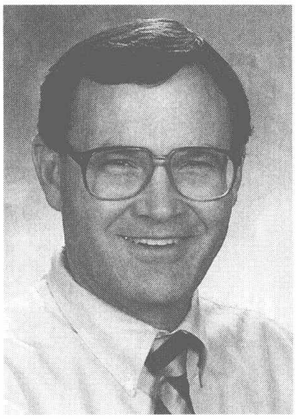


Stephen P. Baginski

Steve Baginski is Professor and Herbert E. Miller Chair in Financial Accounting at The J. M. Tull School of Accounting, Terry College of Business, University of Georgia, where he teaches MBA Financial Statement Analysis and other courses dealing with financial accounting topics. Prior to his University of Georgia appointment, Professor Baginski taught at Indiana University, Florida State University, Illinois State University, and the University of Illinois. In addition, he has had visiting professor appointments at Northeastern University, the Swiss Banking Institute at the University of Zurich, the University of St. Galen, and INSEAD. During his career, he has taught nearly every offering in both financial and managerial accounting at both the undergraduate and masters levels. In addition, he currently teaches MBA Financial Accounting in the Executive Education Program at Washington University in St. Louis. He has won several teaching awards including the Teaching Excellence Award given annually to the top 12 teachers at Florida State University as determined by alumni, students, and colleagues.

Professor Baginski has published articles in a variety of journals including *The Accounting Review, Journal of Accounting Research, Contemporary Accounting Research, The Journal of Risk and Insurance, Quarterly Review of Finance and Economics, Review of Quantitative Finance and Accounting,* and *Advances in Accounting.* His research primarily deals with the causes and consequences of voluntary management disclosures of earnings forecasts, but also examines a variety of issues related to the usefulness of financial accounting reports.

Professor Baginski enjoys playing basketball and golf and loves to attend college athletic events and youth sports, especially boys baseball and girls fast-pitch softball.



John M. Hassell

John Hassell is Professor of Accounting at Indiana University's Kelley School of Business, Indianapolis. Prior to his Kelley School of Business appointment, Professor Hassell taught at Florida State University, The University of Texas at Arlington, and the University of Utah. Professor Hassell's primary teaching emphasis is financial accounting. During his career, he has taught at the undergraduate, masters, and doctoral levels, and he primarily teaches intermediate accounting.

Professor Hassell has published articles in a wide variety of journals, including *The Accounting Review; Contemporary Accounting Research; Accounting, Organizations and Society; European Journal of Operational Research; Review of Quantitative Finance and Accounting; Journal of Accounting Education;* and *Advances in Accounting.* His research interests deal primarily with the topics of voluntary management disclosures and accounting education issues.

In their free time, Professor Hassell and his wife enjoy reading, movies, Indiana University and Indianapolis Colts football games, the theater, and daily walks with their two black Labrador retrievers.

To Our Families

Lynn, Drew, and Kelly

Steve

Barbara, Geoff, and Matt

John

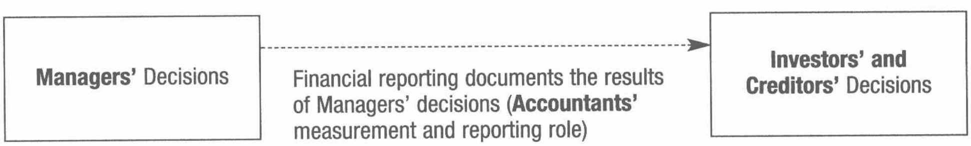
Preface

The past decade has witnessed a great deal of change in the way in which accounting educators instruct business students in the accounting discipline. Less emphasis is placed on the detailed mechanics of accounting and more emphasis is placed on analytical and interpretive skills. In addition, the relationships between business decisions and accounting and between accounting and investment decisions have taken on increased importance as professional firms broaden the scope of their services and corporations break down traditional job definitions, replacing accountants, finance professionals, and other functional job definitions with "business problem solvers."

Accounting teachers have taken many approaches to retain the rigor of technical accounting, while achieving integration of accounting education with a more general business education. These efforts include a custom design of courses beyond principles of accounting for nonaccounting majors, both at the undergraduate and graduate (MBA) levels, and a relatively recent move at some schools to shorten the intermediate accounting sequence (at the undergraduate level) from two semesters to one semester, both for accounting majors and nonmajors. **Our purpose is to assist educators and students by providing a text that will allow an exploration of intermediate accounting topics in a one-semester course. The following sections describe how we achieve this goal.**

Linking Internal and External Decision Makers

As illustrated in the following diagram, financial reporting represents the link between managers' decisions and investor and creditor decisions:



External parties such as investors and creditors are interested in the current and future financial condition of a firm. However, these investors and creditors are separated from management and thus do not observe the day-to-day decisions of managers. **Our presentation helps students understand that accounting is the communication link between managerial decisions and these external parties.** This textbook has been created to support the study of financial reporting from the viewpoint of one or more of the three parties represented in the diagram: managers, accountants, and investors and creditors.

Focusing on Management Decisions that Affect Financial Statements

We have written this text primarily from the point of view of *managers who wish to understand how their decisions are reflected in financial statements.* We take the cash-based financing, investing, and operating decisions made by management and transform them into financial statements through the accountant's measurement and communication process. For example, the following illustrates the financial statement effects of a sale where the salesperson is compensated by a commission and a warranty accompanies the product.

EXHIBIT 2 Example 7. Mulvaney Co. Financial Statements

MULVANEY CO.
Statement of Cash Flows
December 31, 2003

Operating Activities*	
Receipts from customers	$1,300,000
Commissions and delivery charges	(75,000)
Warranty repairs	(35,000)
Cash flows from operations	$1,190,000

Balance Sheet

Assets		**Liabilities**	
Current assets:		Estimated obligation under warranty	$ 65,000 ↑
Cash	$1,190,000 ↑	**Owners' Equity**	
Inventory	700,000 ↓	Retained earnings (through effect on net income)**	$425,000 ↑

Income Statement

Sales revenue	$1,300,000
Cost of goods sold	(700,000)
Gross margin	$ 600,000
Delivery expense	(10,000)
Sales commissions	(65,000)
Warranty expense	(100,000)
Net income**	$ 425,000

Statement of Owners' Equity

Net income**	$ 425,000

*Under the indirect method: Net income of $425,000 + $700,000 decrease in inventory + $65,000 increase in estimated obligation under warranty = $1,190,000.
**Ignores effect of income taxes.

See Chapter 10, page 397.

Our presentation is built around management decisions related to three types of activities: financing activities, investing activities, and operating activities. The text starts with an introduction section, Section I (Chapter 1 and Module A), From Decisions to Financial Statements, which reviews basic information from an accounting principles course (more review is provided in Appendices A and B). The remaining sections are organized around the three types of managerial decisions: Section II (Chapters 2–5 and Module B), How *Financing Decisions* Are Reflected in Financial Statements; Section III (Chapters 6–8 and Module C), How *Investment Decisions* Are Reflected in Financial Statements, and Section IV (Chapters 9–12 and Modules D and E), How *Operating Decisions* Are Reflected in Financial Statements.

Focusing on Investor and Creditor Points of View

Students interested in studying financial reporting from the investor and creditor point of view are provided with links between financial statements and underlying business decisions throughout the text. In addition, financial statement analysis modules follow each major section. External parties who wish to understand the effects of managerial decisions of a particular company do not have access to the company's detailed, internal data. However, external parties do have access to publicly available financial statements, which aggregate and report the effects of thousands of managerial decisions. Financial statement analysis tools are used by external parties to help understand and assess the effects of the collective decisions made by managers. The modules introduce ratio analysis, selected pro forma adjustments by analysts, and models relating to valuation and credit extension.

The text has five financial statement analysis modules. The first module (A) provides an overview of financial statement analysis. The next three modules (B, C, and D) discuss how financial statement analysis relates to financing, investing, and operating decisions, respectively. The final module (E) integrates the material in the first four modules, relating the information to specific investor and creditor decision contexts. **These modules (as a group) stand alone from the chapters, and an instructor can choose to omit them without sacrificing continuity.** *It should be emphasized that while this is not a financial statements analysis text, the modules help students understand how financial statements are used by investors and creditors to assess the collective results of managers' decisions.*

For an example of how external user points of view are addressed, Chapter 2 discusses management's debt versus equity choice and the results of the choice on financial statements. Module B analyzes the effects of the choice on specific ratios:

> *Long-term solvency risk* assessment is also affected by capital structure. Consider the following key ratios:
>
> $$\text{Long-term debt to equity} = \text{Long-term debt} \div \text{Shareholders' equity}$$
> $$\text{Long-term debt to total assets} = \text{Long-term debt} \div \text{Total assets}$$
> $$\text{Interest coverage} = \frac{(\text{Income before income taxes} + \text{Interest expense})}{\text{Interest expense}}$$
> $$\text{Operating cash flow to total liabilities} = \text{Operating cash flow} \div \text{Average total liabilities}$$
>
> Clearly, the presence of long-term debt in the capital structure increases the long-term debt to equity and long-term debt to assets ratios. This, in turn, increases the credit analyst's assessment of long-term solvency risk. Higher risk is also indicated by . . .

See Module B, page 193.

Each module provides examples of how analysts can use note information to adjust financial statements:

> . . . The amount reported for fiscal 2001, $11,037,000, represents the tax effects of the cumulative excess of tax depreciation (using an accelerated method) over financial statement depreciation (using straight-line) through time. To find the cumulative excess (instead of the tax effect), we divide $11,037,000 by the statutory tax rate (35%) to obtain $31,534,286. This means that if Talbots had used accelerated depreciation over the years rather than straight-line, then accumulated depreciation would be higher and hence the book values of total assets would be lower by more than $31 million.

See Module C, page 335.

Organizing Around Management Decisions: A Unique Approach

Management business decisions lead to accounting measurements and disclosures. Currently, most intermediate accounting texts are organized around a chart of accounts (i.e., cash, receivables, inventory, current liabilities, fixed assets, common stock, etc.) instead of business decisions. The result is a lack of connection between the business decisions that lead to, for example, a repurchase of common stock and the topic of accounting for equity transactions.

Accounting education has been criticized for accounting students' inability to understand what they do in the context of business decisions. **Accordingly, our text is not account-oriented. Instead, the emphasis is on taking cash flow-based management decisions and applying the accountant's measurement and disclosure rules to create financial statements.**

For example, Chapter 6 illustrates a business decision (capital budgeting) and how accountants use accrual financial statements to report the results of that decision through time. The following is a portion of that presentation:

TURNER CORPORATION
Balance Sheets
December 31
(Effects of machinery and patent activities)

	2004	2005	2006	2007	2008
Assets					
Current assets					
Cash	$(677,000)	$(504,000)	$(331,000)	$(158,000)	$245,000
Property, plant and equipment					
Machinery	$ 800,000	$ 800,000	$ 800,000	$ 800,000	
Less accumulated depreciation	(100,000)	(200,000)	(300,000)	(400,000)	
	$ 700,000	$ 600,000	$ 500,000	$ 400,000	
Intangible assets					
Patent (less accumulated amortization)	40,000	30,000	20,000	10,000	0
Total assets	$ 63,000	$ 126,000	$ 189,000	$ 252,000	$245,000
Liabilities and Owners' Equity					
Owners' equity					
Retained earnings	$ 63,000	$126,000	$ 189,000	$ 252,000	$245,000

See Chapter 6, page 237.

We believe that this business decision focus will be useful to the different student groups interested in learning about intermediate accounting topics. Students, both undergraduate and MBA, who primarily have a **management focus** will study how their decisions are communicated to investors and creditors in financial statements. Students whose primary focus is **finance** will obtain both the understanding of how decisions lead to financial statements and how financial statements can be used in financial analysis. Finally, the approach will provide **accounting** students with (1) a broader understanding of business decisions that generate financial reports, thus aiding their ability to measure the effects of these decisions, (2) technical knowledge about accounting measurement and disclosure, and (3) an understanding of how accounting reports are interpreted by the investors and creditors, thus allowing accounting students to understand how their measurement and reporting decisions affect users.

Demonstrating the Effects of Management Decisions on Several Accounting Periods

A key feature of our text is that it illustrates how a management decision affects financial statements of current and subsequent accounting periods. In other intermediate books, the focus is almost always on the current period only because the material is presented as transaction-based rather than decision-based. **Our examples and end-of-chapter problems provide sets of financial statements that illustrate multi-year effects of decisions.** The following, for example, reflects the multi-year income statement effects of bonds payable:

. . . of the effective interest rate. The accrual financial statements are able to reflect these situations through use of the elements of accrual accounting. The balance sheet disclosures appear as follows:

EXHIBIT 9 Example 3. December 31 Balance Sheet

WORTHY CO.
Balance Sheet

	2004	2005	2006	2007	2008	2009
Assets						
Current assets						
Cash (net cumulative cash effect of bond transaction only)	$ 881,857	$ 791,857	$ 701,857	$ 611,857	$ 521,857	$(568,143)
Other assets						
Bond issue costs	9,333	7,333	5,333	3,333	1,333	0
Liabilities						
Current liabilities						
Interest payable	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 0
Bonds payable					$1,000,000	0
Less discount					(17,857)	
					$ 982,143	
Long-term liabilities						
Bonds payable	$1,000,000	$1,000,000	$1,000,000	$1,000,000		
Less discount	(102,469)	(84,765)	(64,937)	(42,730)		
	$ 897,531	$ 915,235	$ 935,063	$ 957,270		
Owners' Equity						
Retained earnings (through cumulative effect on net income, ignoring income taxes)	$ (36,341)	$ (146,045)	$ (257,873)	$ (372,080)	$ (488,953)	$(568,143)

See Chapter 3, page 107.

Providing an income statement, balance sheet, and cash flow statement that reflect the full effects of a decision allows students to gain a deeper understanding of what information about business decisions will be communicated over time. A key feature of using examples that reflect the results of a decision over several periods is that it allows us to help the student reconcile the cash flow and accrual accounting models by clearly demonstrating that the two models lead to the same overall results over time but differ with respect to how the two models report the effects of decisions in particular years.

Providing Maximum Flexibility

Disagreement exists currently among accounting educators about how big a role journal entries should have in the accounting education process. While many accounting educators believe that journal entries are necessary for accounting majors, others believe that it is not necessary to use journal entries to teach accounting to nonaccounting majors. Almost all current intermediate texts use the pedagogical technique of simultaneously discussing a transaction and illustrating the journal entry to record it. **In contrast, we first discuss the measurement and disclosure of the effects of management decisions, and then, in a shaded box following each example, we show the journal entries and selected key ledger accounts.**

EXAMPLE 3 Journal Entries

1/1/04 investment purchase:		
Investment in Pond	500,000	
Cash		500,000
2004 dividends:		
Cash	12,000	
Investment in Pond		12,000
12/31/04 recognition of pro rata share of Pond's earnings:		
Investment in Pond	20,000	
Investment Revenue*		20,000

*Alternatively, Equity in Subsidiary Income.

12/31/04 depreciation of excess allocated to the depreciable assets:		
Investment Revenue	3,200	
Investment in Pond		3,200

Key Ledger Account

Investment in Pond

1/1/04 purchase	500,000	Share of dividends	12,000
Share of earnings	20,000	Depreciation	3,200
12/31/04 balance	504,800		

See Chapter 8, page 308.

Separating the discussion of the financial statement effects of management decisions from the illustration of journal entries permits the instructor to tailor the text to the desired audience by either including or excluding coverage of journal entries. Additional flexibility is provided by formatting end-of-chapter problems with a journal entry option so that journal entries may be included or omitted. Therefore, the course can be presented with no emphasis on journal entries or can include the use of journal entries to record accounting information. As illustrated below, students are required to understand the effects of managerial decisions, and providing journal entries is optional.

1. **Investments in Common Stock.** On January 1, 2004, Sohn Co. purchased 100,000 shares of Benard Co. $5 par common stock at $30 per share. On January 1, 2004, Benard had 800,000 shares of common stock outstanding, and the fair market value of Benard's net assets equaled the book value of the net assets. During 2004, Benard reported net income of $50,000,000 and declared and paid dividends of $4,000,000. At December 31, 2004, Benard's common stock sold for $32 per share.
   a. *Assuming that the purchase did not give Sohn significant influence,* describe the financial statement effects of (1) the purchase, (2) Benard's reporting net income, (3) Benard's declaration and payment of dividends, and (4) the December 31, 2004, increase in market value of stock.

   Journal Entry Option: Prepare the annual 2004 journal entries to reflect these effects.

See Chapter 8, page 321.

Connecting Students with Actual Financial Statements

Traditional intermediate books are transaction-based and typically may include one set of actual financial statements. Frequently, these financial statements are not used throughout the text, but rather, they stand alone. **To focus students on actual financial statements, we use the annual reports of three major companies on an ongoing basis and also provide excerpts from many other company annual reports.**

- Early on, we use the financial statements of Talbots, Inc., to illustrate basic financial statements.

Income Statement Elements

Talbots uses the income statement elements (revenues, expenses, gains, and losses) to compute net income in the comparative income statements (i.e., "statements of earnings") for fiscal 1999 (year ended in January 2000) through fiscal 2001 (year ended in February 2002). Fiscal 2001 "revenues" are net sales of $1,612,513,000. Examples of "expenses" include the cost of sales, buying, and occupancy ($967,163,000), and selling, general, and administrative expenses ($435,334,000). Talbots also reports interest expense from borrowing, interest revenue from lending, and more than $77 million in income tax expense. The revenues, expenses, gains, and losses are totaled to yield $127,001,000 in fiscal 2001 net income.

See Chapter 1, page 14.

- At the end of each chapter, we use Southwest Airlines' annual report to illustrate how management decisions discussed in the chapter are reflected in financial statements.

Leasing and Southwest Airlines' Liabilities

It is evident that leasing has a significant effect on Southwest Airlines' financial statements. On the liability side, capital leases, including current maturities, constituted 7.9% of Southwest's long-term debt in 2001 ($109,268,000 ÷ $1,375,828,000), see Note #7, and 13.4% in 2000 ($117,083,000 ÷ $871,326,000). Further, using the balance sheet and information in Note #7, capital leases were 2.2% of total liabilities in 2001 ($109,268,000 ÷ $4,983,088,000) and 3.7% in 2000 ($117,083,000 ÷ $3,128,252,000). Also, accrued aircraft rental liabilities related to operating leases were $120,554,000 and $117,302,000 in 2001 and 2000, respectively (see Note #5).

See Chapter 4, page 153.

- We use actual notes from various companies throughout the text to illustrate financial statement disclosures related to specific decisions.

The following partial notes for Hasbro, Inc., and GenCorp, Inc., (slightly modified) illustrate the conversion of convertible debt.

Hasbro, Inc., Note 7 Long-Term Debt:

Substantially all of Hasbro's 6% Convertible Subordinated Notes were converted into 7,636,562 shares of common stock during the year.

GenCorp, Inc., Note L (In Part): Long-Term Debt and Credit Lines

During the second quarter, the Company called its $115,000,000, 8% Convertible Subordinated Debentures. In the third quarter, substantially all the Debentures were tendered for conversion into GenCorp common stock at a conversion rate of approximately 62.247 shares of common stock per $1,000 principal amount of debentures.

See Chapter 3, page 115.

- Often, we note information about the frequency with which particular items appear in annual reports (e.g., how many companies use the LIFO costing method for inventories).

6. Of 600 companies surveyed, the 2001 *Accounting Trends & Techniques* indicates that 283 companies used LIFO for at least some inventories, while 317 did not use LIFO for any inventories. The following companies reported using the different methods (the number is greater than 600 because firms may use different methods for certain inventories): FIFO, 386; LIFO, 283; weighted-average, 180; other, 38. Firms reported using LIFO for all inventories, 23; 50% or more of inventories, 148; 50% or less of inventories, 82; not determinable, 30; total, 283.

See Chapter 9, page 355.

- In each set of end-of-chapter problems, a comprehensive problem asks the students to use the 2001 annual report of Eli Lilly (found on our Web site, http://baginski.swlearning.com) to answer a series of questions.

http://

15. **Eli Lilly.** Eli Lilly's 2001 financial statements appear at our Web site (http://baginski.swlearning.com). Review the income statement (income taxes and extraordinary item), balance sheet (deferred income taxes in current asset sections), Note #11—Income taxes, Note #7—Borrowings (extraordinary item information). After reading this information, answer the following questions for 2001. When you answer the questions, use the financial statement amounts, which are in millions of dollars.
    a. **Deferred income tax assets and liabilities.** What are the ending deferred income tax balances on the balance sheet? What are the total gross amounts (not netted) of total deferred income tax assets and of total deferred income tax liabilities? What is the amount, if any, of the deferred income tax valuation account? Several items are listed as creating deferred income tax assets or liabilities. Explain why the following have deferred income tax consequences: compensation and benefits, property and equipment, and prepaid employee benefits.

See Chapter 11, page 467.

We believe that after taking the course, students will have meaningful exposure to actual financial statements.

Providing Experience with CFA® Exam Questions

Many students who use this textbook will be interested in pursuing finance careers, and many students who use this textbook will eventually decide to pursue the CFA designation. **Accordingly, we provide a Chartered Financial Analyst (CFA) Exam section in the problems at the end of each chapter to help students understand how the material covered in the text may be tested on the CFA exam.** This section contains actual CFA exam questions or questions written by the authors that are similar to CFA exam questions.

CFA® Exam Problems

19. On January 1, a company entered into a capital lease resulting in an obligation of $10,000 being recorded on the balance sheet. The lessor's implicit interest rate was 12%. At the end of the first year of the lease, the cash flow from financing activities section of the lessee's statement of cash flows showed a use of cash of $1,300 applicable to the lease. The amount the company paid the lessor in the first year of the lease was *closest* to: (CFA, 2003)
    a. $1,200
    b. $1,300
    c. $2,500
    d. $10,000

See Chapter 4, page 161.

The following information has been provided by the AIMR:

The CFA Program was first administered by the Institute of Chartered Financial Analysts (ICFA), one of AIMR's predecessor organizations. First awarded in 1963, the CFA charter has become known as the designation of **professional excellence** within the global investment community. Around the world, employers and investors recognize the CFA designation as the definitive standard for measuring competence and integrity in the fields of portfolio management and investment analysis.

Forty years later, the CFA charter has grown far beyond what any members of the inaugural class could have predicted. In 2002, AIMR—which was formed by the merger of the ICFA and the Financial Analysts Federation in 1990—received more than 100,000 enrollments for the June 2002 examinations. Since 1963, AIMR has administered over 400,000 CFA examinations and more than 50,000 investment professionals have earned the right to use the CFA designation.

The **dramatic growth** of candidates and charterholders is a tribute to the CFA Program's focus on candidate learning and the desire among investment professionals to achieve and maintain high standards. Successful completion of each of the three levels of the program represents a significant achievement in professional career development.

The CFA Program's **self-study curriculum** allows even the busiest investment professional to participate. The curriculum develops and reinforces a fundamental knowledge of investment principles. The three levels of examination verify a candidate's ability to apply these principles across all areas of the investment decision-making process. And the program's professional conduct requirements demand that both CFA candidates and charterholders adhere to the highest standards of ethical responsibility.

The CFA Program is comprised of three levels, each culminating in an examination. You must pass each level sequentially, and fulfill other requirements of the program, before earning the right to use the CFA designation. In general, each level of the program requires 250 hours of preparation, although time will vary from candidate to candidate based on familiarity with the material. The Level I examination has a multiple-choice format. Both the Level II and Level III examinations are 50 percent essay and 50 percent item set (multiple-choice questions based on a common vignette).

The CFA Program's curriculum is designed to reflect a **Body of Knowledge™** that keeps pace with the ever-changing dynamics of the global investment community. This Body of Knowledge, developed through an extensive survey of practicing CFA charterholders, consists of 10 general topic areas that are shown in the list below and provides a framework for making investment decisions.

The Level I curriculum and examination focus on tools and concepts that apply to investment valuation and portfolio management. Level I also includes an overview of the processes of asset valuation and portfolio management. Candidates are expected to display a working knowledge of:

- financial statement analysis,
- macro- and micro-economics,
- quantitative methods of investment analysis and management,
- financial markets and instruments, and
- corporate finance.

The Level I curriculum also emphasizes basic concepts regarding securities laws and regulations and the AIMR *Code of Ethics and Standards of Professional Conduct.*

The Level II curriculum and examination focus on asset valuation. Candidates must apply the tools and concepts emphasized at Level I in analyzing and valuing investments and should have a thorough understanding of industry and company analysis. Candidates must demonstrate the ability to:

- analyze specific equity and fixed-income securities and other investments,
- estimate expected investment return and risk,
- compare alternative investment choices and make investment recommendations, and
- apply the AIMR *Code of Ethics and Standards of Professional Conduct* in practical situations.

The Level III curriculum and examination explore in greater depth the discipline of portfolio management. Candidates must demonstrate a working knowledge of the entire portfolio management process and must be capable of applying the concepts learned at Levels I and II to the portfolio management process. Candidates also must demonstrate a thorough understanding of:

- performance presentation standards and measurement techniques, and
- the *AIMR Code of Ethics and Standards of Professional Conduct* from an organizational and compliance perspective.

To be awarded the CFA charter, a candidate must:

- Sequentially pass the Level I, Level II, and Level III examinations,
- Have at least three years of acceptable professional experience working in the investment decision-making process, and
- Fulfill AIMR membership requirements and apply concurrently for membership in an AIMR Member Society or Chapter (if a Member Society or Chapter is located within 50 miles [80 km] of candidate's place of business).

As part of the application for AIMR membership, a candidate must:

- Provide current completed sponsor forms,
- Sign and complete the Professional Conduct Statement,
- Sign and agree to comply with the terms of the Member's Agreement, and
- Exhibit a high degree of ethical and professional conduct.

Once a candidate becomes a CFA charterholder, he or she must comply with the requirements set forth in the AIMR Articles, Bylaws, rules, regulations, and policies, which govern such matters as the submission of an annual Professional Conduct Statement and the payment of AIMR membership dues. Failure to comply with AIMR's conditions, requirements, policies, and procedures can result in disciplinary sanctions, including suspension or revocation of the right to use the CFA designation.

For more information on the CFA Program, please visit **www.aimr.org/cfaprogram.**

Providing a Comprehensive Instructor Support Package

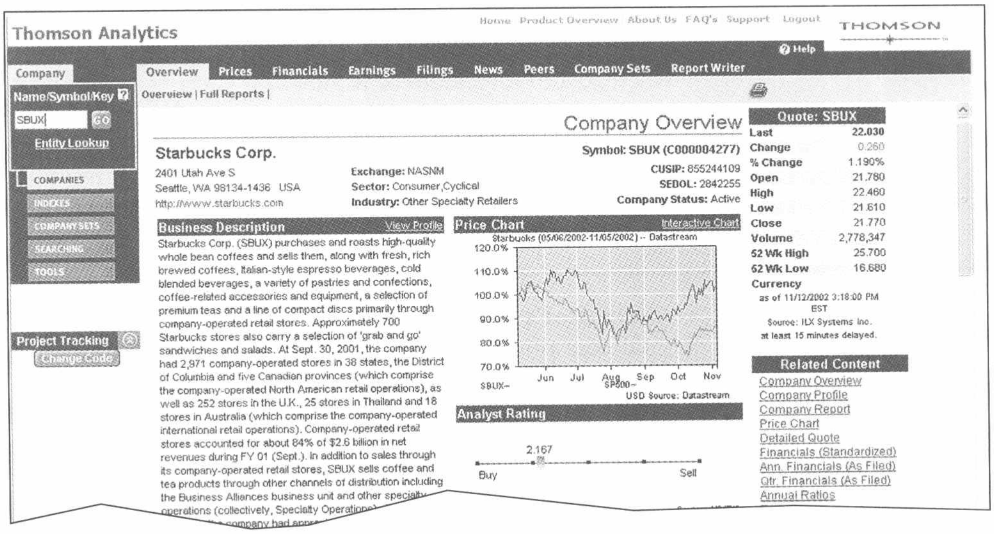
- **Instructor's Manual and Test Bank** (0-324-18826-9). The author-created manual contains guidance, check figures, chapter and module outlines, and a guide tying the learning objectives to the assignments. The test bank contains verified multiple-choice items and short problems for all chapters and modules. The test items are coded for difficulty level and tie to learning objectives.
- **Solutions Manual** (0-324-18829-3). This manual contains author-prepared and independently verified solutions to all of the assignments in the text.
- **Solution Transparencies** (0-324-18828-5). Key solutions to problems have been enlarged and reproduced for in-class presentations.
- **Instructor's Resource CD** (0-324-019220-7). This "IRCD" contains the Microsoft® Word files for the Instructor's Manual and the Solutions Manual, the PowerPoint® presentation slides, and the electronic test bank files formatted for use with the ExamView® software, which is provided. ExamView is a very easy-to-use software that allows for editing of existing items and addition of new ones. Items may be selected in a number of ways and randomized as needed. Requires Windows® 3.1 or higher or Windows® NT 4.0 or higher.
- **Web Site** (**baginski.swlearning.com**). At our Web site, in the password-protected Instructor Resources section, you will find all files that are on the IRCD except for test bank files and software. In addition, there are sample syllabi and updates, as needed, for new content information and corrections. Also, the Eli Lilly 2001 annual report is provided.
- **WebTutor® Advantage on Blackboard®** (0-324-20258-X) or on **WebCT™** (0-324-20259-8). As an instructor resource, this product provides course management tools as well as assistance in providing content support and enrichment for students.

Technology Support for Students

- **WebTutor® Advantage on Blackboard®** (0-324-20258-X) or on **WebCTTM** (0-324-20259-8). As a student resource, this product provides many helpful learning tools - for example, a tutorial, quizzing, videos on key topics, and a Spanish dictionary of key accounting terms.
- **Xtra! CD** (0-324-20169-9). This CD-ROM provides access to several resources, including tutorials, videos, and interactive quizzes, so that students can reinforce and expand their understanding of course topics. Free when bundled with a new text.
- **Web Site** (**baginski.swlearning.com**). As a student resource, this free Web site contains many study aids to reinforce vocabulary and content, including check figures and the Eli Lilly 2001 annual report. Hotlinks to resources indicated in the text are also provided.

Other Valuable Resources Available

Thomson Analytics—Business School Edition. Included with each new copy of the text, Thomson Analytics is a Web-based portal product that provides integrated access to Thomson Financial content for the purpose of financial analysis. Thomson Analytics Business School Edition offers the same features and functionality found in the full Thomson Analytics product, but for a subset of 500 companies. Content sets include the IBES Consensus Estimate which provides consensus estimates,



analyst-by-analyst earnings coverage, and analysts forecasts; Worldscope, which includes company profiles, financials and accounting results, market per-share data and annual information, and monthly prices going back to 1980; and Disclosure Sec Database which includes company profiles, annual and quarterly company financials, pricing information, and earnings.

An Introduction to Accounting, Business Processes, and ERP (0-324-19161-8) (by Phil Reckers, Julie Smith David, and Harriet Maccracken, all of Arizona State University). ERP comes to the Classroom! Utilizing JD Edwards software demos, an industry leading ERP company, your students will learn about ERP software for accounting and business processes. Students will not only learn the advantages of technology in accessing business information, but will learn to apply it in three different business models. After each module, quizzing reinforces student learning. Class tested and easy-to-use, this CD will equip your students to meet the ever-changing challenges of business and technology!

Accounting Ethics in the Post-Enron Age, 1e (0-324-19193-6) (by Iris Stuart, of California State University—Fullerton, and Bruce Stuart). With the Enron/Andersen debacle, ethics is becoming an increasingly important (and interesting) part of accounting education. Ethics coverage is also required by the AACSB for accreditation purposes. Most texts include some limited ethics coverage, but many instructors would like to include more. This timely supplement contains ethics cases based on real situations in the business world. Examples include cases tied to Enron, Global Crossing, and Boston Market. Identifying ethical dilemmas and projecting their resolution will allow students to develop essential skills for success in their future careers. In each section of the textbook, the problems will be labeled according to subject matter (i.e. bad debt expense, revenue recognition). This allows the instructor to select problems consistent with the needs of the course.

GAAP Guide on CD (0-324-20266-0). This useful CD contains all the Generally Accepted Accounting Principles in order to give students valuable experience researching accounting standards.

INSIDE LOOK: Analysis From All Angles (0-324-18836-6). Accounting is in the news and the classroom with access to this new Web site from South-Western. The Access Card allows the instructor and the student to utilize information related to Enron, Andersen, and other "names in the news" that involve accounting-related concerns. Also included for instructors are discussion notes for the article and critical thinking questions, with some tips on additional information and exercises. For a Demo, go to: **http://www.swcollege.com/acct/insidelook/insidelook.html.**

http://

NewsEdge. This resource offers the flexibility of delivering news and information that meet the individual needs of your classroom. The content is derived from the world's premier news and information sources. Editorial experts sift through