

# FINANCIAL ACCOUNTING

S E V E N T H E D I T I O N



N E E D L E S P O W E R S



# Financial Accounting

SEVENTH EDITION

Belverd E. Needles, Jr., Ph.D., C.P.A., C.M.A.  
DePaul University

Marian Powers, Ph.D.  
Northwestern University

Houghton Mifflin Company    Boston    New York

*To Annabelle and Abigail Needles*

*In memory of Mr. and Mrs. Belverd E. Needles, Sr., and  
Mr. and Mrs. Benjamin E. Needles*

*To Mr. and Mrs. Thomas R. Powers*

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This book is written to provide accurate and authoritative information concerning the covered topics. It is not meant to take the place of professional advice.

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# Preface

FINANCIAL ACCOUNTING, Seventh Edition, recognizes that a majority of the students who take the financial accounting course are business and management majors who will read, analyze, and interpret financial statements throughout their careers. We feel that the fundamental purpose of accounting is to provide information for decision making, and, while not neglecting topics important for accounting majors, our mission is for all students to become intelligent users of financial statements and to understand that financial information, when interpreted and analyzed, will be useful to them in making critical business decisions throughout their careers.

FINANCIAL ACCOUNTING, Seventh Edition, is a first course in financial accounting for students with no previous training in accounting or business. This textbook is intended for use at both the undergraduate and graduate level. It has proven successful in a traditional one-quarter or one-semester course and has been used equally well in a two-quarter course in financial accounting.

The revision of FINANCIAL ACCOUNTING focuses on these major themes:

- Technology for classroom and distance learning environments
- Strong user approach that features financial statements and principal business activities
- Real-world relevance
- Comprehensive and flexible assignment material

## Technology for Classroom and Distance Learning Environments

New technologies are a driving force behind business growth and accounting education today. The technologies we have developed for use by students and teachers in the traditional classroom, and those we have created to aid students and educators in the distance education environment, reflect state-of-the-art software and Web-based applications as well as the most current learning approaches.

### Internet Web Site

The Needles Accounting Resource Center (visit <http://college.hmco.com> and select "Accounting") provides a wealth of resources for instructors and students. For example, the web site contains links directly to the financial statements (not just to the home pages) of companies cited as examples in the text and assignments. An Ace It icon in the margin next to the Chapter Review section of each chapter of the text reminds students to access ACE, a self-testing program that allows them to take sample quizzes and check their mastery of the chapter material. Other student resources include relevant readings from leading business and accounting periodicals (such as *Business Week*, *Forbes*, *The Wall Street Journal*, and *The Journal of Accountancy*), which examine current business issues, the accounting profession, and career options in a broad context; research activities, which present extended investigations of topics covered in the text; Toys "R" Us annual report activities, which make use of the latest Toys "R" Us financial



statements; and Excel templates, designed so that students can work homework problems electronically.

For instructors, the Needles Accounting Resource Center contains a variety of resources designed to facilitate instruction, both within the traditional classroom and outside of it. Text previews detail new features of FINANCIAL ACCOUNTING and provide demonstrations of the supplements package. Sample syllabi show how your colleagues organize and teach the financial accounting course. The Accounting Instructors' Report newsletter explores a wide range of contemporary teaching issues. Faculty Development Programs' online training provides suggestions for integrating new technologies into the classroom. PowerPoint slides contain classroom presentation materials, discussion questions, figures from the text, and supplemental material, designed to support your classroom teaching. Electronic solutions, available both on the web site and on a CD-ROM, are fully functioning Excel spreadsheets for all exercises, problems, and alternate problems in the text. These solutions are designed to allow for "what if" analyses and are intended for both classroom use and electronic distribution, should you wish to allow your students access to them.

### **Distance Education Support Technology**

You may supplement classroom discussion with the Blackboard Course Cartridge and Web CT Courselet for financial accounting or use them as a complete distance learning solution. They include electronic versions of the chapter planning matrices, chapter overviews, check figures for in-text problems, practice quizzes, Internet exercises, PowerPoint slide presentations, links to the Needles Accounting Resource Center, and Excel templates. You may also use the cartridges and courselets to post announcements, course documents, assignments, and quizzes.

Going To Distance in Accounting is a Blackboard-based course that will teach you how to put a course online. The sessions help you learn the basics of creating an online course, experience online learning from a student's perspective, develop teaching strategies, construct learning activities, design outcome assessment, and deliver the course. Tutorials and examples of online platform tools are also included.

### **Other Technology Supplements**

- **Fingraph® Financial Analyst™ CD-ROM:** This CD-ROM program contains two main components: Fingraph® Financial Analyst™ software and a database of actual corporate annual reports. The Fingraph software enables students to prepare financial analyses of real companies in a very short time, analyzing information already in the database or financial data from any other source. The software accommodates a variety of learning styles: analyses are presented in tabular, graphic, and written formats. In addition, each chapter of FINANCIAL ACCOUNTING contains a case designed to be worked in conjunction with the CD-ROM database, in which students analyze balance sheets, income statements, and statements of cash flows of real companies.
- **Accounting Transaction Tutor:** This easy-to-use Windows software program reinforces accounting concepts and procedures through abundant exercises keyed to Learning Objectives. It also includes an online glossary and diagnostic tests that allow students to monitor their progress through the course material.
- **Windows General Ledger Software:** This is a fully operational general ledger program designed to function as a commercial package, containing preliminary data for selected problems in the text. This package offers complete coverage of accounting concepts and procedures in a straightforward, user-friendly Windows environment.

- **Excel Templates:** This Excel-based program contains templates for all Problems and Alternate Problems in the text. Using this program to work the assignments, students learn both accounting and the basic skills required for spreadsheet applications.

## Strong User Approach Featuring Financial Statements and Principal Business Activities

We know that most instructors want to place more emphasis on the analysis and use of accounting information by management, and on decisions that management makes with the help of accounting information. There are many ways the text reflects this emphasis, including the following:

### **Ideal Balance of Conceptual and Technical Content**

Our goal is to provide exactly the right balance between conceptual understanding and technical application and analysis. Because our focus is on the application of concepts, we have substantially revised many chapters to reduce procedural detail by deleting unnecessary topics or by placing procedures that are not essential to conceptual understanding in supplemental objectives at the end of chapters. In the end-of-chapter assignments, we have scrutinized all exercises and problems with a view to reducing the number of journal entries and the amount of posting required; this eliminates unnecessary “pencil pushing” on the part of students completing the assignments.

### **Management Sections**

Reflecting our goal to place more emphasis throughout the book on the use and analysis of accounting information by management and on decisions that management makes using accounting, all chapters now address management’s use of accounting information. In most cases, this discussion can be found in the opening Learning Objective where it focuses students’ attention on the purpose of the chapter; we then expand upon these management issues in the body of the chapter.

### **Performance Measurement**

Beginning with Chapter 1, we integrate the concept of using financial information in performance evaluation and measurement at appropriate points in the text.

### **Cash Flow**

We emphasize the effect of business activities on cash flow throughout the text. Beginning in Chapter 1, we introduce the statement of cash flows and we point out the difference between income measurement and cash flow in various chapters while reinforcing it through assignments. Cash flow discussions are indicated by a cash flow icon in the margin.

### **Key Ratios**

Starting in Chapter 5, we examine financial analysis ratios and integrate them in subsequent chapters at appropriate points. These ratios are usually discussed in the “management issues” section at the beginning of the chapters, and where appropriate, appear as components of the review problems. We bring all the ratios together



in a comprehensive financial analysis of Sun Microsystems, Inc., in Chapter 15. Key ratio presentations are indicated by a Key Ratio icon in the margin.

### Organization

The Part and Chapter organization reflects, first, an early introduction of financial statements and, second, the relationship of financial accounting to the major activities of a business. For example, we have positioned a supplement entitled “How To Read An Annual Report” (which includes the entire Toys “R” Us annual report), after Chapter 1 to facilitate the presentation, early in the course, of published financial statements. We introduce performance measurements, cash flow effects, and ratio analysis in **Part One**, making the integration of these key management techniques throughout the text possible. **Part Two** emphasizes operating activities. **Part Three** focuses on investing in long-term assets and long-term financing activities. **Part Four** discusses advanced statements and analyses.

## Real-World Relevance

Our goal is to reflect business practice as it is today in a context that is relevant and exciting to students. To this end, we have taken many steps to increase the real-world emphasis of the text.

### Actual Financial Statements

To enhance students’ appreciation for the usefulness and relevance of accounting information, we include excerpts from annual reports of real companies and articles about them in business journals. In total, we cite more than one hundred publicly held companies in the text as illustrative examples and in the chapter assignments as well. These companies are identified either by a Hot Links to Real Companies icon or by a CD-ROM icon in the margin.

In addition to containing the complete annual report of Toys “R” Us, Chapter 1 shows the interaction of the four basic financial statements of Toys “R” Us; Chapter 5 presents the financial statements of Dell Computer Corporation in graphical form using the Fingraph® Financial Analyst™ CD-ROM software; and the comprehensive financial analysis in Chapter 15 features the financial statements of Sun Microsystems, Inc. These are only a few examples of the scores of other well-known companies we mention as examples throughout the text.

### Decision Points

Every chapter begins with a Decision Point based on excerpts from a real company’s annual report or from articles in the business press. Decision Points present a situation requiring a decision by management and then demonstrate how the decision can be made using accounting information.

### Business Focus Boxes

Business Focus boxes contain short items related to the chapter topics that show the relevance of accounting in four areas:

- Business Focus on Practice
- Business Focus on International
- Business Focus on Technology
- Business Focus on Ethics

### Real-World Graphic Illustrations

We present graphs and tables illustrating how actual business practices relate to chapter topics. Many of these illustrations are based on data from studies of 600 annual reports published in *Accounting Trends and Techniques*. Beginning with Chapter 5, most chapters display a graphic that shows selected ratios for selected industries based on Dun & Bradstreet data. Service industry examples include accounting, bookkeeping, and interstate trucking companies. Merchandising industry examples include auto, home supply, and grocery store companies. Manufacturing industry examples include pharmaceutical and tableware companies.

### International Accounting

In recognition of the global economy in which all businesses operate today, we introduce international accounting examples in Chapter 1 and incorporate them throughout the text. Some examples of foreign companies we point to in the text and assignments are Takashimaya Co. (Japanese), Glaxco-Wellcome (British), Mitsubishi (Japanese), and Groupe Michelin (French).

### Governmental and Not-for-Profit Organizations

Acknowledging the importance of governmental and not-for-profit organizations in our society, we include discussions and examples using governmental and not-for-profit organizations at appropriate points.

## Comprehensive and Flexible Assignment Material

Our goal is to provide the most comprehensive and flexible set of assignments available involving real companies. Whether you favor more traditional assignments, or cases that enhance a broader set of student skills, or a combination of both, we provide ample assignments—clearly identified—to meet your goals.

### Building Your Knowledge Foundation

This section consists of a variety of questions, exercises, and problems designed to develop basic knowledge, comprehension, and application of the concepts and techniques in the chapter.

- Questions (Q): Fifteen to 25 review questions covering the essential topics of the chapter.
- Short Exercises (SE): Ten very brief exercises suitable for classroom use.
- Exercises (E): An average of 15 single topic exercises that stress application.
- Problems (P): Five extensive applications of chapter topics, often covering more than one Learning Objective. Selected problems in each chapter contain writing components.
- Alternate Problems (P): An alternative set of the most popular problems, which we have developed based on feedback from our study of users' syllabi.

The assignments that are most suitable for computer applications are marked with the following icons:



Ledger icons indicate problems that can be solved using the Windows General Ledger Software program.





Spreadsheet icons indicate problems that can be solved using the Excel Templates program.

### Expanding Your Critical Thinking, Communication, and Interpersonal Skills

The Accounting Education Change Commission, the American Accounting Association, The American Institute of CPAs, and the Institute of Management accountants have all called for the development of a broader set of skills among business and accounting graduates. The assignments in this section of each chapter address this need by providing skills development (SD) cases and financial reporting analysis (FRA) cases. These sections each contain five or more cases, the majority of which are based on real companies. All of these cases require critical thinking and communication skills in the form of writing: at least one assignment in each chapter requires students to practice good business communication skills by writing a business memorandum, reporting their results and explaining their recommendations. All of the cases are suitable for development of interpersonal skills through group activities, but for those that are especially appropriate for teamwork, we provide specific instructions for applying an appropriate group teaching/learning methodology. So that you can see at a glance which content area, skills, and technological component each case addresses, we display the following icons in the margins:



Ace It icons prompt students to visit the Needles Accounting Resource Center web site and access ACE, a self-testing quiz program.



Cash Flow icons indicate text discussion of cash flow and assignments dealing with cash flow.



CD-ROM icons in the text discussion identify companies whose annual reports are provided on the Fingraph® Financial Analyst™ CD-ROM. In the end-of-chapter materials, these icons indicate assignments that are designed to be worked with the CD-ROM.



Communication icons identify assignments that are designed to help students develop their ability to understand and communicate accounting information successfully.



Critical Thinking icons indicate assignments intended to strengthen students' critical thinking skills.



Ethics icons identify assignments that address ethical issues.



Group Activity icons identify assignments appropriate for groups or teamwork.



Hot Links to Real Companies icons indicate companies whose annual reports can be accessed by direct link from the Needles Accounting Resource Center web site.



International icons indicate international company cases.



Internet icons designate assignments featuring use of the Internet.



Key Ratio icons indicate the presence of financial analysis ratios in the text and assignments.



Memorandum icons point to problems and cases that require students to write short business memorandums.

Each case has a specific purpose as described in the following paragraphs:

**CONCEPTUAL ANALYSIS** Designed so that a written solution is appropriate, these short cases are based on real companies and address conceptual accounting issues.

**ETHICAL DILEMMA** In recognition of the need for accounting and business students to be exposed to ethical considerations, every chapter contains a short case, often based on a real company, in which students must address an ethical dilemma directly related to the chapter content.

**RESEARCH ACTIVITY** These exercises are designed to foster greater learning by acquainting students with business periodicals, the use of annual reports and business references, and the use of the library. Some are designed to improve students' interviewing and observation skills through field activities at actual businesses. An icon in the margin indicates which activities can be researched on the Internet.

**DECISION-MAKING PRACTICE** In the role of decision maker, students are asked to extract relevant data from a case, make computations as necessary, and arrive at a decision. The decision maker may be a manager, an investor, an analyst, or a creditor.

**INTERPRETING FINANCIAL REPORTS** These short cases, abstracted from business articles and annual reports of well-known corporations and organizations such as Kmart, Sears, IBM, Toys "R" Us, Chrysler, and UAL (United Airlines), require students to extract relevant data, make computations, and interpret the results.

**INTERNATIONAL COMPANY** These cases involve a company from a foreign country that has had an accounting experience compatible with chapter content.

**TOYS "R" US ANNUAL REPORT** The reading and analysis of the actual annual report of Toys "R" Us, contained in the Supplement to Chapter 1, forms the basis of these cases.

**FINGRAPH® FINANCIAL ANALYST™** These cases make use of the Fingraph® Financial Analyst™ annual report database software. The annual reports of more than 20 well-known companies are included in the database.


**INTERNET CASE** Each chapter of the text now features an Internet case, which asks students to research a topic on the Internet, answer critical and analytical thinking questions, then prepare either a written or oral report on their findings.

### The Annual Report Project

Because the use of real companies' annual reports is the most rapidly growing type of term project in the financial accounting course, we provide an annual report project that we have used in our own classes for several years. Depending on how comprehensive you want the project to be, we have developed four assignment options, including the use of the Fingraph® Financial Analyst™ CD-ROM software.



### Video Cases

 To provide more real world opportunities to reinforce key concepts and techniques, we have integrated five videos cases into the text, indicated by the video icon on the left. These five-minute videos may be used with groups and include written critical thinking assignments:

- Intel Corporation (Chapter 1) introduces the business goals of liquidity and profitability and the business activities of financing, investing, and operating.
- Office Depot, Inc. (Chapter 6) discusses the merchandising company, the merchandising income statement, and the concept of the operating cycle.
- Fermi National Accelerator Laboratory (Chapter 10) demonstrates the importance of long-term assets to a unique scientific laboratory.
- Lotus Corporation (Chapter 12) tells the history of the company from its beginning as a small start-up through its growth to one of America's most successful companies and finally to its sale to IBM. The case analyzes Lotus's equity financing needs along the way.
- Ben & Jerry's Homemade, Inc. (Chapter 14) examines Ben & Jerry's struggle to maintain its unique character while achieving adequate income and cash flows.

### Financial Analysis Cases

Also available is a series of comprehensive financial analysis cases that may be integrated throughout the course after Chapter 5 or may be used as capstone cases for the course. The first, *General Mills, Inc., Annual Report: A Decision Case in Financial Analysis*, uses the actual financial statements of General Mills Corporation. The other cases, *Heartland Airways, Inc.* and *Richland Home Centers, Inc.*, present complete annual reports for an airline company and a home improvements retailing chain, respectively, and guide students through a complete financial analysis. These cases may be assigned individually, but also provide excellent groupwork opportunities.

### Supplementary Learning Aids for Students

Study Guide  
 Working Papers for Exercises and Problems  
**NEW!** Ready Notes  
 Fingraph® Financial Analyst™ CD-ROM  
 Accounting Transaction Tutor  
 Windows General Ledger Software  
 Excel Templates  
 Internet Web Site  
**NEW!** Houghton Mifflin Brief Accounting Dictionary  
 Soft-Tec Practice Case  
 General Mills, Inc., Annual Report: A Decision Case in Financial Analysis  
 Heartland Airways, Inc.  
 Richland Home Centers, Inc.

### Instructor's Support Materials

Instructor's Solutions manual  
 Electronic Solutions  
 Course Manual  
 Test Bank with Answers

Computerized Test Bank  
 Teaching Transparency Masters  
 Solutions Transparencies  
 PowerPoint Classroom Presentation Slides  
 Video Cases  
 Master Teacher Videos  
 Business Bulletin Videos  
 Internet Web Site  
 Soft-Tec Practice Case Instructor's Solutions Manual  
 General Mills, Inc., Annual Report: A Decision Case in Financial Analysis Instructor's  
 Solutions Manual  
 Heartland Airways, Inc. Instructor's Solutions Manual  
 Richland Home Centers, Inc. Instructor's Solutions Manual

## Readable, Accessible Text

Today's business and accounting students are learning the skills that will help them succeed in business. FINANCIAL ACCOUNTING helps students acquire and integrate these skills by combining authoritative, practical, and contemporary content with an efficient and effective pedagogical approach.

### English as a Second Language Reviews

Growing numbers of students who take the financial accounting course are from foreign countries, and English is a second language for them. To meet their needs fully, we as instructors must be aware of how the complexities and nuances of English, particularly business English, might hinder these students' understanding.

Each chapter of FINANCIAL ACCOUNTING has been reviewed by Business instructors who teach English as a second language (ESL) courses and English for Special Purpose courses, as well as by students taking these courses. With their assistance and advice, as well as with our own experience of teaching classes with a high degree of cultural diversity, we have taken the following measures to ensure that the text is accessible:

- **Word Choice:** We replaced words and phrases that were unfamiliar to ESL students with ones they more readily recognize and understand. For instance, we substituted "raise" for "bolster," "require" for "call for," and "available" for "on hand."
- **Length:** Because short, direct sentences are easier to comprehend than sentences containing multiple clauses, we paid strict attention to the length and grammatical complexity of our sentences.
- **Examples:** Examples reinforce concepts and help to make the abstract concrete. We have added simple, straightforward examples for further clarity.

### Student Annotations

In this edition of FINANCIAL ACCOUNTING we have added two types of marginal annotations to help students excel in their study of accounting.

**PEDAGOGICAL ANNOTATIONS** These annotations appear in Chapter 1 only, and they introduce each pedagogical element of the text—Learning Objectives, Decision Points, Content Annotations, and Chapter Reviews, to name a few—to students. They describe the purpose of the pedagogy and provide usage suggestions so that students can derive maximum benefit when reading and studying the text.

**CONTENT ANNOTATIONS** These marginal annotations appear throughout the text, offering material that enriches the text discussion as well as strategies and tips for mastering text content. Content Annotations fall into the following categories:

- **Key Point:** Key Point annotations briefly summarize main concepts or ideas.
- **Enrichment Note:** These annotations offer interesting insights—such as historical perspectives—to heighten students' appreciation of the material.
- **Terminology Note:** Terminology Notes provide succinct definitions of key terms and concepts used in the text discussion.
- **Business-World Example:** These short anecdotes are drawn from real businesses and help students see the day-to-day relevance of accounting in real companies.
- **Critical Thinking Question:** Intended to sharpen students' critical thinking skills, these annotations pose at least one critical thinking question and provide a sample answer.
- **Ethical Consideration:** Ethical Consideration annotations highlight practices or behaviors that might engender ethical concern.
- **Study Note:** These annotations provide useful strategies and tips to help students avoid common pitfalls.

## Acknowledgments

Preparing a financial accounting text is a long and demanding project that cannot really succeed without the help of one's colleagues. We are grateful to a large number of professors, other professional colleagues, and students for their many constructive comments on the text. Unfortunately, any attempt to list those who have helped means that some are slighted by omission. An attempt, however, must be made to mention those who have been so helpful.

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 Queensborough Community College  
 DePaul University  
 Northeastern University  
 University of Pittsburgh  
 Queensborough Community College  
 DeVry Institute  
 University of Oregon

Tulsa Junior College  
 Tulsa Junior College

B.N. and M. P.



# To the Student

## How to Study Accounting Successfully

Whether you are majoring in accounting or in another business discipline, your introductory accounting course is one of the most important classes you will take, because it is fundamental to the business curriculum and to your success in the business world beyond college. The course has multiple purposes because its students have diverse interests, backgrounds, and purposes for taking it. What are your goals in studying accounting? Being clear about your goals can contribute to your success in this course.

Success in this class also depends on your desire to learn and your willingness to work hard. And it depends on your understanding of how the text complements the way your instructor teaches and the way you learn. A familiarity with how this text is structured will help you to study more efficiently, make better use of classroom time, and improve your performance on examinations and other assignments.

To be successful in the business world after you graduate, you will need a broad set of skills, which may be summarized as follows:

**TECHNICAL/ANALYTICAL SKILLS** A major objective of your accounting course is to give you a firm grasp of the essential business and accounting terminology and techniques that you will need to succeed in a business environment. With this foundation, you then can begin to develop the higher-level perception skills that will help you to acquire further knowledge on your own.

An even more crucial objective of this course is to help you develop analytical skills that will allow you to evaluate data. Well-developed analytical and decision-making skills are among the professional skills most highly valued by employers and will serve you well throughout your academic and professional careers.

**COMMUNICATION SKILLS** Another skill highly prized by employers is the ability to express oneself in a manner that is understood correctly by others. This can include writing skills, speaking skills, and presentation skills. Communication skills are developed through particular tasks and assignments and are improved through constructive criticism. Reading skills and listening skills support the direct communication skills.

**INTERPERSONAL SKILLS** Effective interaction between two people requires a solid foundation of interpersonal skills. The success of such interaction depends on empathy, or the ability to identify with and understand the problems, concerns, and motives of others. Leadership, supervision, and interviewing skills also facilitate a professional's interaction with others.

**PERSONAL/SELF SKILLS** Personal/self skills form the foundation for growth in the use of all other skills. To succeed, a professional must take initiative, possess self-confidence, show independence, and be ethical in all areas of life. Personal/self skills can be enhanced significantly by the formal learning process and by peers and mentors who provide models upon which you can build. Accounting is just one course in your entire curriculum, but it can play an important role in your development of the above skills. Your instructor is interested in helping you gain both a knowledge of accounting and the more general skills you will need to succeed in

the business world. The following sections describe how you can get the most out of this course.

### The Teaching/Learning Cycle™

Both teaching and learning have natural, parallel, and mutually compatible cycles. This teaching/learning cycle, as shown in Figure 1, interacts with the basic structure of learning objectives in this text.

**THE TEACHING CYCLE** The inner (tan) circle in Figure 1 shows the steps an instructor takes in teaching a chapter. Your teacher *assigns* material, *presents* the subject in lecture, *explains* by going over assignments and answering questions, *reviews* the subject prior to an exam, and *assesses* your knowledge and understanding using examinations and other means of evaluation.

**THE LEARNING CYCLE** Moving outward, the next circle (green) in Figure 1 shows the steps you should take in studying a chapter. You should *preview* the material, *read* the chapter, *apply* your understanding by working the assignments, *review* the chapter, and *recall* and *demonstrate* your knowledge and understanding of the material on examinations and other assessments.

**INTEGRATED LEARNING OBJECTIVES** Your textbook supports the teaching/learning cycle through the use of integrated learning objectives. Learning objectives are simply statements of what you should be able to do after you have completed a chapter. In Figure 1, the outside (blue) circle shows how learning objectives are integrated into your text and other study aids and how they interact with the teaching/learning cycle.

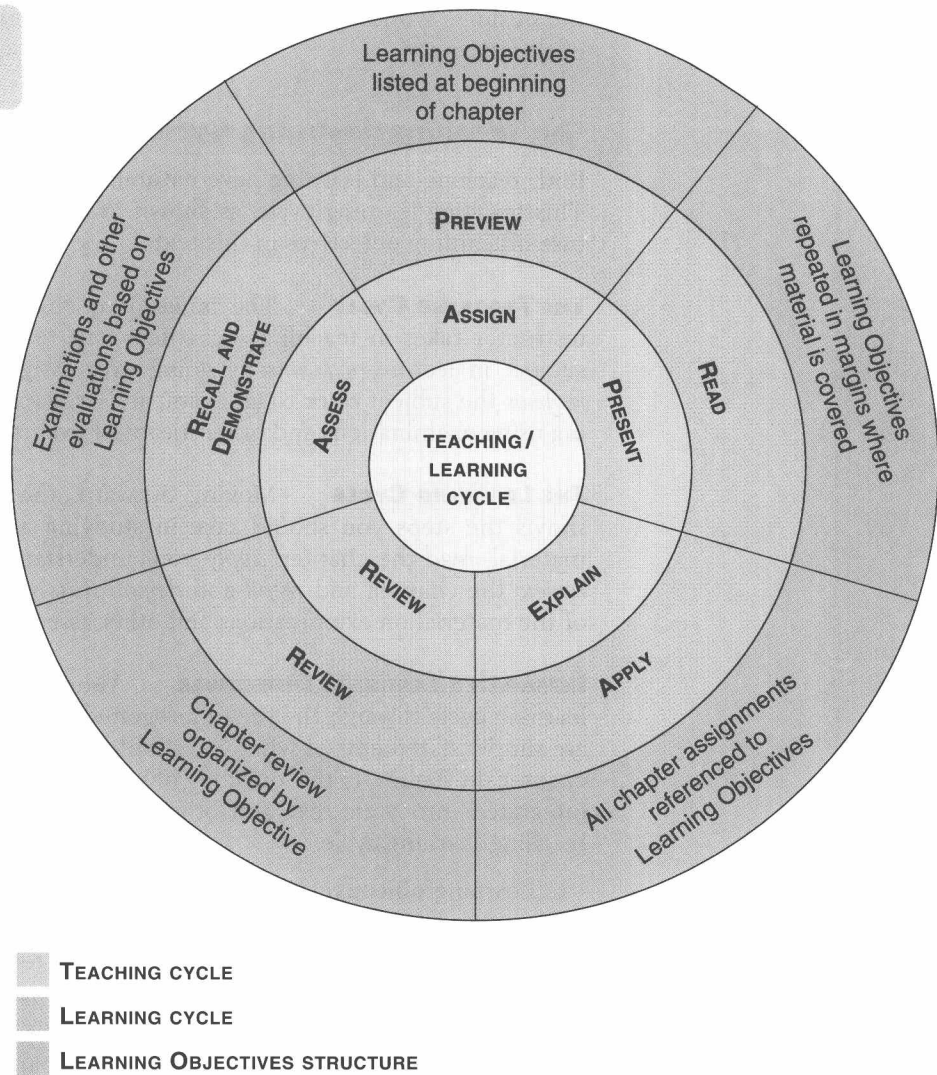
1. Learning objectives appear at the beginning of the chapter, as an aid to your teacher in making assignments and as a preview of the chapter for you.
2. Each learning objective is repeated in the text at the point where that subject is covered to assist your teacher in presenting the material and to help you organize your thoughts as you read the material.
3. Every exercise, problem, and case in the chapter assignments shows the applicable learning objective(s) so you can refer to the text if you need help.
4. A summary of the key points for each learning objective, a list of new concepts and terms referenced by learning objectives, and a review problem covering key learning objectives assist you in reviewing each chapter. Your Study Guide, also organized by learning objectives, provides for additional review.

**WHY STUDENTS SUCCEED** Students succeed in their accounting course when they coordinate their personal learning cycle with their instructor's cycle. Students who do a good job of previewing their assignments, reading the chapters before the instructor is ready to present them, preparing homework assignments before they are discussed in class, and reviewing carefully will ultimately achieve their potential on exams. Those who get out of phase with their instructor, for whatever reason, will do poorly or fail. To ensure that your learning cycle is synchronized with your instructor's teaching cycle, check your study habits against these suggestions.

### Previewing the Chapter

1. Read the learning objectives at the beginning of the chapter. These learning objectives specifically describe what you should be able to do after completing the chapter.

**Figure 1**  
**The Teaching/Learning Cycle™ with**  
**Integrated Learning Objectives**



2. Study your syllabus. Know where you are in the course and where you are going. Know the rules of the course.
3. Realize that in an accounting course, each assignment builds on previous ones. If you do poorly in Chapter 1, you may have difficulty in Chapter 2 and be lost in Chapter 3.

### Reading the Chapter

1. As you read each chapter, be aware of the learning objectives in the margins. They will tell you why the material is relevant.
2. Allow yourself plenty of time to read the text. Accounting is a technical subject. Accounting books are so full of information that almost every sentence is important.
3. Strive to understand why as well as how each procedure is done. Accounting is logical and requires reasoning. If you understand why something is done in accounting, there is little need to memorize.