



# Introduction to Accounting

An Integrated Approach

Ainsworth

Deines

Plumlee

Larson

Second Edition

# Introduction to Accounting

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An Integrated Approach

**SECOND EDITION**

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## INTRODUCTION TO ACCOUNTING: AN INTEGRATED APPROACH

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*First, and foremost, we dedicate this text to our families without whose love and support we never could have completed this project. To our spouses, Scott Ainsworth, Linda Deines, Marlene Plumlee, and Doug Larson, and to our children, Heather, Dusty, Jennifer, Jeff, Matt, Sarah, Ashley, J. D., and Robyn, we love you and we thank you for your patience. Finally, we would like to thank our development editor, Kelly Lee, our publisher, Jeff Shelstad, and the production and marketing departments at Irwin/McGraw-Hill.*

*Penne Ainsworth*

*Dan Deines*

*R. David Plumlee*

*Cathy Xanthaky Larson*

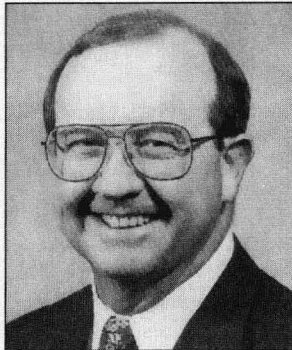


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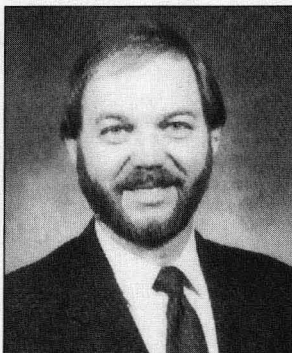
**Penne Ainsworth**  
***University of Wyoming***

Penne Ainsworth, Ph.D., CMA, CIA, and CPA (inactive). Penne received her Ph.D. from the University of Nebraska. She is an associate professor in the accounting department at the University of Wyoming. Penne co-authored the original application for the grant Kansas State University received from the Accounting Education Change Commission (AECC). She won the Kansas State Bank Outstanding Teacher Award in 1993 and the Senior Teaching Award in the College of Business at the University of Wyoming in 1999. Penne's research focuses on managerial accounting and accounting education. Her work has been published in *Issues in Accounting Education* and other journals. She is a member of the AAA, the IMA, and the IIA.



**Dan Deines**  
***Kansas State University***

Dan Deines received his undergraduate degree in history from Fort Hays State University, a Masters in Business from Emporia State University, and his Ph.D. in Accounting from the University of Nebraska. He has been at Kansas State University since 1982 and currently holds the Ralph Crouch, KPMG Peat Marwick Chair. Dan received the College of Business's Outstanding Educator Award in 1987 and in 1994 received the College of Business Outstanding Advising Award. He was the co-coordinator for Kansas State University's accounting curriculum revision sponsored by the Accounting Education Change Commission. He is a member of the AAA, the Kansas Society of CPAs, and the AICPA. Dan was the chairman of the AICPA's Accounting Careers Subcommittee and was a member of the Accounting Education Executive Committee.



**R. David Plumlee**  
***University of Utah***

R. David Plumlee earned both his Bachelors and Masters degrees from the University of Oklahoma, and is a CPA. After receiving his Ph.D. at the University of Florida, David taught at the University of North Carolina and Kansas State University and was the Baird, Kurtz and Dobson Faculty Fellow at the University of Kansas. He also taught at the University of Michigan, before moving to the University of Utah. He has published research in a number of scholarly journals including *Journal of Accounting Research* and *The Accounting Review*. David has earned teaching awards at the Universities of Kansas and Utah.



**Cathy Xanthaky Larson**  
***Middlesex Community College***

Cathy Xanthaky Larson, CPA, received her BS in Business Administration from Salem State College and her MBA from Bentley College. Cathy is a tenured professor at Middlesex Community College and an adjunct professor at Salem State College. She is a member of the AICPA, AAA, Massachusetts Association of Accounting Professors, and Teachers of Accounting at Two Year Colleges (TACTYC). She served as vice president of TACTYC for 5 years and was elected as Union Treasurer of the Massachusetts Community College Council in 1998. Cathy received Middlesex's Faculty Member of the Year Award in 1985 and 1990 and was recently listed in the Who's Who among America's Teachers. Cathy also is the recipient of the 1999 Northeast Regional Faculty Member Award given by the Association of Community College trustees (ACCT) and has been nominated for the William H. Meardy Faculty Member Award.



## WHY INTEGRATE?

We feel the primary reason “to integrate” financial and managerial accounting is due to the student population most of us serve. Having as many as 85% non-accounting majors in the first-year accounting course is not unusual, with business majors usually making up the majority of students. We need to motivate and better serve these non-accounting students.

*Introduction to Accounting: An Integrated Approach* recognizes that financial and managerial accounting are subsystems of the same accounting information system. While these subsystems serve different user groups, we do not feel one is more important than the other. We instead **emphasize the business event** and analyze it from both an external (financial reporting) and an internal (managerial reporting) perspective. Our students respond positively to this business event focus.

## *Understanding the Integrated Approach*

*Introduction to Accounting: An Integrated Approach* revolves around three major themes. The overriding theme of the text is that **accounting is an information system which serves two diverse sets of users**. Traditionally, accounting has been taught as two separate and distinct segments—financial accounting and managerial accounting. Consequently, many of our students never gain an understanding of accounting as a process of providing information about business to both internal (managerial) and external (financial) users. An understanding of how and why accounting information is used by internal and external stakeholders is vital, regardless of a student’s major.

The second theme is organizational in nature—**operating events followed by financing and investing events**. In order to divide the content of an introductory accounting text into two segments, we have chosen the sequence of information in the cash flow statement as a model. The first half of the textbook examines accounting for operating events while the second half of the book examines accounting for financing and investing events. Operating events are examined first because, in general, these events are easier to understand and require less prerequisite information. This supports the notion of organizing elements from simple to complex. Financing and investing events, which require an understanding of the time value of money, are more complex and require a broader depth of understanding. Our classroom experience has shown that financing and investing activities are more easily understood after learning about business operating activities.

The final theme of the textbook is the business cycle. Businesses operate by **planning activities, then performing (recording) those activities, and finally evaluating/controlling those activities**. Therefore, in this text accounting information is presented in the order in which it is used by businesses. This theme is used to present information in a logical, coherent manner. Information in the first half of the text is organized as follows.

- Introduction to business and accounting
- Planning for operating activities (events)
- Performing (recording) operating events
- Evaluating and controlling operating events



A similar format is adopted for the second half of the text.

Introduction to financing and investing activities

Planning for investing and financing activities (events)

Performing (recording) financing and investing events

Evaluating and controlling business—financing, investing, and operating activities

By concentrating on these three themes, students will learn how and why events are planned, performed (recorded), and evaluated by different user groups. Students will understand why different reporting mechanisms are necessary for different user groups and how these reports are presented and analyzed. And perhaps most importantly, students will gain a greater understanding of business, which will certainly help them whether they choose accounting, business, or something else as their field of study.

## **WHAT ARE THE MAIN OBJECTIVES OF THIS UNIQUE TEXT?**

*Introduction to Accounting: An Integrated Approach* is designed to benefit everyone, again regardless of their chosen major. In designing the text, we incorporated these six objectives.

### **1. To Focus on the Use of Accounting Information by Internal and External Stakeholders**

We maintain a consistent focus throughout this text on the use of accounting information, rather than the preparation of accounting information. As mentioned earlier, the process of recording, adjusting, and closing events and their impact on financial statements is covered, but it is not the primary focus. This more balanced approach will benefit all students. Non-accounting majors will gain an appreciation for the use of accounting information, and accounting majors will better understand what various accounting information users need, while at the same time gaining a complete preparation for future courses in accounting.

### **2. To Integrate Financial and Managerial Accounting**

*Introduction to Accounting: An Integrated Approach* consistently emphasizes the business event and analyzes the event from both an external (financial reporting) and an internal (managerial decision making) perspective. Our approach allows business majors, accounting majors, and all other students to walk away from this first accounting course with an understanding of business and the role of accounting.

### **3. To Stimulate Interest in the Field of Accounting**

Classroom experience has shown that the approach of *Introduction to Accounting: An Integrated Approach* will serve as the greatest way to motivate interest in the discipline of accounting. As students gain an understanding and appreciation of the broader role of accounting in the business world, they are more likely to express interest in accounting as a field of study. Dropout rates in the first accounting course at Kansas State declined from approximately 50% to under 20% during the first two years of implementing this new approach. Similarly, accounting student enrollments increased by approximately 15%. Penne Ainsworth is now seeing similar results at the University of Wyoming.

### **4. To Order Content Elements in a Logical Manner**

Learning is obviously enhanced by presenting topics in a logical and coherent sequence. While we realize all text authors attempt to do this, we follow three simple tenets in this text: Simple topics are presented before more complex topics; business events are presented before transactions; and accounting is presented within a business cycle context.



## 5. To Promote Active Learning

Various pedagogical devices are used to stimulate active learning experiences for the student. Most obvious are the Pause and Reflect questions posed at various times throughout each chapter. These questions serve as a checkpoint for the student's understanding of the material, as well as a critical thinking stimulus. Additionally, the Cases, Computer Applications, Critical Thinking, and Ethical Challenge sections at the end of all chapters give the student the opportunity to apply their accounting knowledge to a broader business setting, and virtually always require learning and exploring outside of the text. Active learning promotes retention, and these features will aid student retention.

## 6. To Promote Effective Communication

Again, many of the end of chapter materials can and should be used to help exercise students' written and oral communication skills. Additional classroom activities are provided in the Instructor's Resource Manual, described below. These skills will be necessary tools in a career in accounting or any other field.

## WE WILL HELP YOU IMPLEMENT THE INTEGRATED APPROACH

We provide the following supplements for you in order to ease your transition to *Introduction to Accounting: An Integrated Approach*.

### INSTRUCTOR'S RESOURCE MANUAL: A GUIDE FOR IMPLEMENTING THE INTEGRATED APPROACH W/ CD-ROM, VOLUMES 1 (0-07-030694-X) & 2 (0-07-235670-7)

#### What the basic functions of business and what do these people do?

**Marketing** – determines what to sell, where to sell it, how to get it there, and what price to charge

**Human resources** – determines what jobs are required, where to find the people to fill the jobs, how to pay and reward the people

**Production and operations** – plans, directs, controls and evaluates operations, determines whether operations are efficient

**Finance** – determines where to raise capital and how to raise and what that capital should be used for  
Accounting and information systems' provides the information infrastructure for business, provides useful information to users inside and outside the business

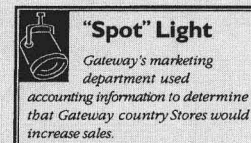
#### How do the basis function use accounting information?

**Marketing** – pricing, distribution costs

**Human resources** – pay and fringe benefits for employees, hiring costs

**Production and operations** – cost to produce a unit, what a unit should cost

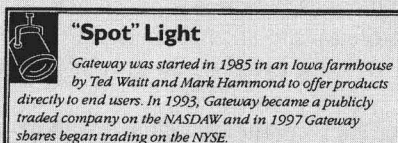
**Finance** – cost of borrowing money, benefits expected from using money



#### In general, how has business evolved?

**Sole proprietorship to partnership to corporation** – as business became more complex and more geographically dispersed

**Merchandising to service to manufacturing** – as business became more specialized



Based on many user comments, and interviews conducted by Penne Ainsworth as she worked with users on their classroom issues, this completely revised manual contains:

- Very detailed teaching notes for each chapter.
- Discussion outlines.



- Penne's own PowerPoint® illustrations.
- Two test/retest quizzes.
- Two in-class cases.
- A unique continuing cooperative learning case following the organization of the text.

### Team Activities

We suggest using team activities in, rather than outside, the classroom. We have found that students today are more likely to commute and have jobs, families, etc. that make meeting outside the class time difficult if not impossible. We have found that team building can occur with in-class activities. The following four activities are offered as possibilities for in-class.



### Test/Retest (T/R)

A test/retest quiz is a short, 5-point, typically multiple choice, closed-book quiz given at the beginning of class when a new chapter is started. The student takes the quiz individually and hands it in. Then, the same quiz is retaken in the student learning team. The average of the individual and team score is recorded. This avoids the "slacker" problem because of the individual earns a 0 and the team earns a 5, the individual receives only a 2.5 as a recorded score. Test/retest quizzes are excellent motivation devices to encourage students to read the assigned materials BEFORE coming to class. Although test/retest quizzes consume class time to administer (typically 5 - 10 minutes), overall, they save class time because the instructor can focus on the issues in the chapter rather than the definitions of key terms. The instructor's materials contain 2 test/retest quizzes for each chapter.

### Homework Review (HR)

We believe that homework is an integral part of the learning experience. Recall, the old proverb that states:

**I hear, I forget  
I see, I remember  
I do, I understand**

This manual, consisting largely of handouts, is provided loose-leaf with three-hole drills to allow you to easily store materials in a binder and duplicate them as needed. You are also provided with a CD-ROM of these same materials to allow you the opportunity to alter the materials as needed.

## ADDITIONAL INSTRUCTOR SUPPLEMENTS

You may order *Introduction to Accounting: An Integrated Approach* to come to you and your students in a variety of ways. The following text options can be packaged with any of the student supplements listed in the "To the Student" at a considerable cost savings for your students.

- Volume Options
- The complete text, Chapters 1–26, (0-07-030676-1)
- Volume 1, Chapters 1–13, (0-256-26902-5)
- Volume 2, Chapters 14–26, (0-07-303316-2)

**Solutions Manual w/ CD-ROM, Volumes 1 (0-07-303321-9) & 2 (0-07-235786-X)** Prepared by the authors and verified for accuracy by Cathy Xanthaky Larson, this manual contains detailed solutions to all end-of-chapter material. The Solutions Manual is also provided to you on CD-ROM to assist you in your classroom presentations.

**Solutions Transparencies Volumes 1 (0-07-030674-5) & 2 (0-07-030675-3)** Exercises and problems from the Solutions Manual are reproduced in acetate format for maximum instructor efficiency.

**Ready Shows (PowerPoint® Presentations), Volumes 1 (0-07-561560-6) & 2 (0-07-561559-2)** Prepared by Jayne Maas of Towson University, these electronic slides consist of approximately 45 slides per chapter. Accompanied by an Instructor's Manual demonstrating how

to use them, these initial slides give you great freedom to build a more lively and modern classroom presentation.

**Ready Slides (Teaching Transparencies), Volumes 1 (0-07-303322-7) & 2 (0-07-303323-5)**

These color acetates taken from the Ready Shows will help you in your classroom presentation. There are roughly ten color-ready slides per chapter chosen to help you demonstrate the most important concepts covered in each chapter.

**Presentation Manager CD-ROM (0-07-235141-1)** This is your all-in-one resource. It contains the Instructor's Manual, Test Bank, and PowerPoint presentations organized by chapter. Thanks to the Presentation Manager, you can create a multimedia presentation that incorporates video, PowerPoint and Lecture Outlines into one presentation.

**Online Learning Center, Volumes 1 (0-07-236485-8) & 2 (0-07-236486-6)** Within the book's Web site, there is a password-protected Online Learning Center. As an adopter of this text, you and your students will have full access to graphics, PowerPoint slides, exercises, as well as online testing and grading. This McGraw-Hill content is so comprehensive that you needn't change a thing. But you can still customize if you wish. You can delete content, add a personal course syllabus, provide Internet links, or integrate your own material.

**Test Bank, Volumes 1 (0-07-030693-1) & 2 (0-07-235673-1)** Prepared by Lola Dudley of Eastern Illinois University, this manual consists of approximately 1,100 questions, exercises, and problems.

**Computerized Test Bank (0-07-561562-2)** Available in Windows and developed using Diploma—a new and easy to use software—this option provides you more flexibility in designing assessment tools.

**Financial and Managerial Accounting Video Series** Developed by Dallas County Community College District, these short, action-oriented videos provide the impetus for lively classroom discussion. The focus is on the use of accounting information for decision making in contemporary business environments. Video segments emphasize the impact of transactions on financial statements.

## WE HAVE LISTENED TO YOU

The market research and developmental process employed to ensure the quality of *Introduction to Accounting: An Integrated Approach* was extensive. The Second Edition has been tremendously aided by the comments of the following people, who provided insightful comments/criticisms/enhancements along the way.

### Chapter-by-Chapter Surveys

Lauren Tien (TA) *Kansas State University*  
Jason Ryan (TA) *Kansas State University*  
Casey Carlson (TA) *Kansas State University*  
Lynn Griffin *North Carolina A&T State University*  
Lola Dudley *Eastern Illinois University*  
Leila Kennedy *Greenbrier Community College Center*  
Debbie Luna *El Paso Community College*  
Mary Greenawalt *The Citadel*  
Stan Lindquist *Grand Valley State University*  
Debra McKilskey *Central Michigan University*  
Dave Durkey *Weaver State University*

Joe Colgan *Ft. Lewis College*  
Christine Cring *SUNY—Morrisville*  
Roby Sawyers *North Carolina State University*  
Patricia Williams *Friends University*  
David Collins *Bellarmino College*  
Elizabeth Ammann *Lindenwood College*  
**User Diaries**  
Sherrie Koechling-Andrae *Lincoln University*  
David Rozelle *Western Michigan University*  
Francis Sakiey *Mercer County Community College*  
Melanie Middlemist *Colorado State University*  
Mark Kaiser *SUNY—Plattsburg*  
Michael P. Shapeero *Bloomsburg University*



John Perrier *Towson University*  
 Jayne Maas *Towson University*  
 Suzanne Roe *University of Wyoming*  
 Glenn Owen Alan *Hancock College*  
 Craig Sasse *Rockhurst College*  
 Charles Zlatkovick *University of Texas—El Paso*  
 Maureen Conroy *University of Toledo*  
 Susan Haugen *University of Wisconsin—Eau Claire*  
 Judy Hinman *Spokane Community College*  
 Hossein Nouri *College of New Jersey*  
 Bob Rosaker *University of South Dakota*  
 Karen Walton *John Carroll University*  
 Ken Abramowicz *University of Alaska—Fairbanks*  
 Charles Smith *Millikin University*  
 Fred Smith *Kansas State University*  
 Ken Mark *Kansas City, Kansas Community College*  
 Joyce Griffin *Kansas City, Kansas Community College*

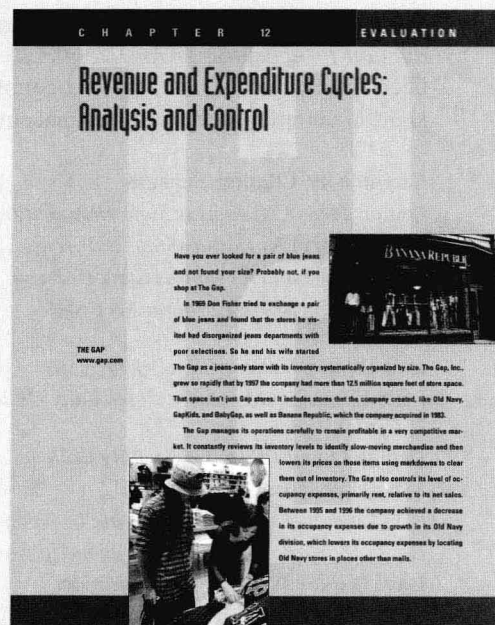
Doug Brown *Montana State University—Billings*  
 Abdus Shahid *College of New Jersey*  
 Alexander Sannella *Rutgers University—Newark*  
 Jayne Fuglister *Cleveland State University*  
 Douglas Frazier *Millersville University*  
 Gil Zuckerman *North Carolina State University*  
 Cindy Seipel *New Mexico State University*  
 Alan McNamee *Lyon College*  
 Renee Rigoni *Monroe Community College*  
 Dave Hancock *Northwest Missouri State University*  
 Leonard Stokes *Siena College*  
 Russell Hardin *Pittsburgh State University*  
 William Tignanelli *Towson University*  
 Scottie Barty *Northern Kentucky University*  
 Carol Buchl *Northern Michigan University*  
 Rebecca Phillips *University of Louisville*  
 Robert Bloom *John Carroll University*

We would also like to thank Suzanne Roe for accuracy-checking the IRM. In addition, we thank all the students who used previous versions of these materials and gave us valuable suggestions for improvement. We would also like to thank the students of Kansas State University who used previous drafts of this textbook and gave us valuable suggestions for improvement.

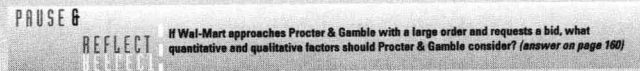
## HOW HAVE WE RESPONDED WITH THE SECOND EDITION?

### GENERAL REVISIONS

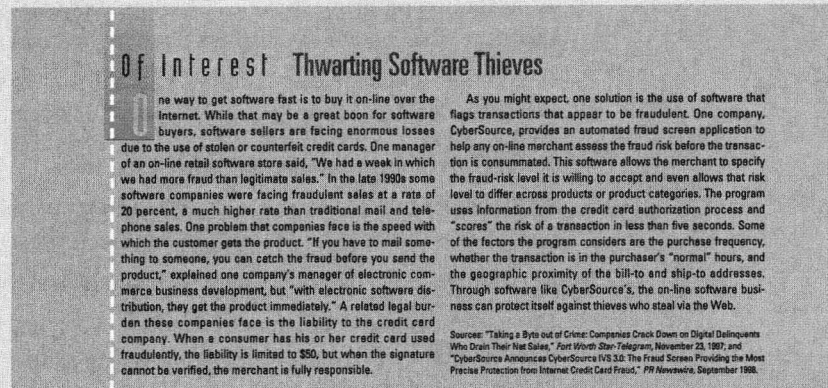
- New chapter opening vignettes in every chapter to get students interested in concepts discussed throughout the chapter. We asked reviewers to consider what companies would interest students the most and based on reviewer response, we have chosen the following exciting organizations: Intel, Burger King, The GAP, Microsoft, Ben & Jerry's, PepsiCo, Reebok, and Dell Computers.



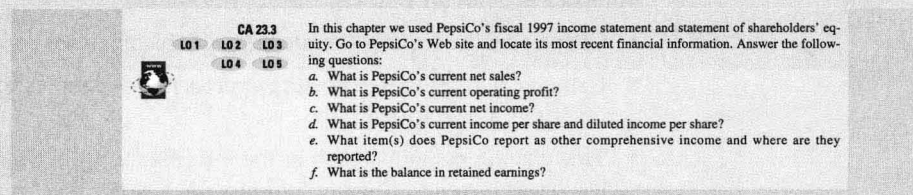
- Three to five Pause & Reflect boxes get students thinking about concepts in the chapter. Suggested solutions are referenced in each box and are found in the end-of-chapter material for each chapter.



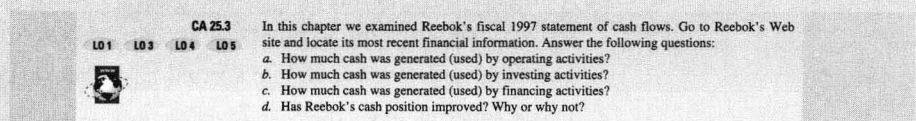
- Of Interest features, which were well received in the First Edition, have been completely revised and selected Of Interests feature technology applications! Professors can use these to get students talking about current issues in Accounting. Additional, up-to-date Of Interests will be added to the text's web site regularly to help keep class discussions current.



- To help students learn how to use the Internet and make them aware of the kind of information the Internet can provide, we have created Internet exercises for each chapter. Internet Exercises have been added to the Computer Applications section in the End-of-Chapter Material for every chapter. Internet addresses for vignette companies are also included with each vignette to encourage students to visit each company's Web site.



- The Annual Report Booklet has been eliminated. Students are encouraged to seek out financial information for each company directly from the companies' Web sites. Students can link directly to this information through the Ainsworth home page. This keeps the annual report information current and allows students to respond to new questions posted to the Web site each semester. Suggested solutions will be posted in a password protected section on the Web site for instructors.





## **SPECIFIC CHAPTER REVISIONS:**

### **PART 1: INTRODUCTION**

#### **Chapter 1: Accounting Information and Business**

- Discussion of cash versus accrual accounting has been added.
- FASB Concepts Statements are discussed in greater detail.
- This chapter now contains a more formal introduction to the basic accounting elements: assets, liabilities, owners' equity, revenue, and expenses.

#### **Chapter 2: Operating Cycles and Internal Control**

- Expanded coverage of internal controls. This coverage was formerly in Chapter 3 of the first edition.
- A discussion of business cycles is helpful before discussing the financial statements; therefore, the content of Chapters 2 and 3 has been switched from the first edition.
- In addition, since the discussion of internal control is a central theme, this chapter discusses the cash controls formerly found in Chapter 11 in the first edition.

#### **Chapter 3: Accounting and Its Role in Business**

- This chapter introduces event analysis and focuses on the identification of assets, liabilities, owners' equity, revenues, and expenses.
- The impact of accounting events on financial statements is stressed.
- Based on reviewers' comments, detailed event analysis is postponed until Chapter 7. This chapter merely introduces event analysis and shows how the results of events are linked to the financial statements.

### **PART 2: PLANNING**

#### **Chapter 4: Revenue, Costs, and Profit Planning**

- The majority of content from the first edition has been retained.
- Based on reviewers' comments, the discussion of regression analysis has been simplified.

#### **Chapter 5: Short-Term Operating Decisions**

- Chapter 5 now focuses on relevant variable analyses for decision making.
- Using an activity-based costing approach, this chapter shows how short-term operating decisions are analyzed.
- This chapter contains much of the information from Chapter 6 in the first edition. It has been moved to Chapter 5 to provide a better link between cost behavior and estimation in Chapter 4 to decision making in Chapter 5.

#### **Chapter 6: Planning and Budgeting**

- Retains coverage from Chapter 5 in the previous edition with greater emphasis on pro forma financial statements including the statement of cash flows.
- This chapter has been moved from Chapter 5 to Chapter 6 to provide a stronger link between pro forma financial statements and actual financial statements.
- A primary focus of this chapter is sales versus cash receipts versus accounts receivable and purchases versus cash disbursements versus accounts payable.
- This chapter provides a link to accrual-based accounting in Chapters 7–11.
- This chapter includes the cash management issues from Chapter 11 in the first edition.

## **PART 3: RECORDING**

### **Chapter 7: Accounting: Event Analysis**

- Chapter 7 from the previous edition has been divided into two chapters (Chapters 7 and 8).
- The new Chapter 7 focuses on transaction analysis in an increase/decrease format.
- Based on reviewers' comments, this new chapter has been added to focus on event analysis in detail, before debits and credits are introduced.

### **Chapter 8: Recording and Communicating in the Accounting Cycle**

- This new Chapter 8 focuses on the accounting cycle, including adjusting and closing entries.
- This chapter adds debits and credits to the discussion in Chapter 7 and examines adjusting and closing entries.

### **Chapter 9: Recording and Communicating in the Expenditure Cycle**

- A new vignette featuring Unitog Company has been added to this chapter. Unitog provides uniforms for companies, such as Anheuser-Busch, Priority Mail, and CITGO. This vignette helps students understand how to account for the events that occur in the expenditure cycle, including the acquisition and use of goods and services involved in a firm's operations.

### **Chapter 10: Recording and Communicating in the Revenue Cycle**

- Boeing Company is featured in this chapter's opening vignette. This vignette helps students understand how the successful employment of goods and services yields corresponding benefits that increase the income and net worth of a company.
- The new Of Interest feature for this chapter discusses companies that have been caught manipulating their books to make operations look more profitable.

### **Chapter 11: Recording and Communicating in the Conversion Cycle**

- This chapter uses Anheuser-Busch Companies to explain how a company analyzes events that occur during the conversion cycle. Anheuser-Busch offers a good example of a diversified company with significant activities devoted to its manufacturing processes (conversion activities).
- The new Of Interest feature for this chapter discusses backflush costing.

## **PART 4: EVALUATION**

### **Chapter 12: Revenue and Expenditure Cycles: Analysis and Control**

- The GAP is used in this chapter's opening vignette which will help students understand how companies evaluate how well they are performing their operating activities (how much inventory to buy, how to price products, etc.).

### **Chapter 13: Conversion Cycle: Analysis and Control**

- This chapter has been revised to feature quality and time-management issues up front and contains an overview of overhead variance analysis.
- This chapter discusses nonfinancial as well as financial measures of performance and provides a link that can be traced back to Chapter 1.

## **PART 5: PLANNING AND DECISION MAKING IN THE INVESTING AND FINANCING CYCLES**

### **Chapter 14: The Time Value of Money: A Tool for Decision Making**

- This chapter uses Paine Webber in the opening vignette to help students understand how internal and external stockholders use the concept of the time value of money.



### **Chapter 15: Planning for Investing Activities**

- This coverage, formally in Chapter 17, has been moved to Chapter 15 to provide a more realistic flow of thought. First, assets must be needed, then capital must be raised to purchase the assets.

### **Chapter 16: Managing Human Resources and Other Noncapitalized Assets**

- This chapter has been revised to have a stronger focus on managing noncapitalized assets and includes a discussion of the Balance Scorecard Approach to provide a more contemporary approach to employee evaluation and motivation.

### **Chapter 17: Planning for Equity Financing**

- Chapter 17 contains expanded coverage of planning for equity financing.

### **Chapter 18: Planning for Debt Financing**

- As with Chapter 17, Chapter 18 has been developed out of Chapter 15 in the previous edition and contains expanded coverage of planning for debt financing.

## **PART 6: RECORDING**

### **Chapter 19: Recording and Communicating Equity Financing Activities**

- Stone Container Corporation, an industry leader in packaging products, is used in this chapter's opening vignette to help students understand how and why equity financing is unique to different forms of organizations.
- The Of Interest feature for this chapter discusses the merger Stone Container made with Jefferson Smurfit Corporation and how this merger will increase profitability and generate greater operating cash flows.

### **Chapter 20: Recording and Communicating Long-Term Debt Financing Activities**

- This chapter uses Wal-Mart in the opening vignette to help students understand how long-term debt can be used to finance a company's operational infrastructure and generate higher returns for its stockholders.
- The Of Interest feature for this chapter discusses how to use Spreadsheets for Bond Payments.

### **Chapter 21: Recording and Communicating Operational Investment Activities**

- This chapter uses American Skiing Company to help students understand how companies use long-term investments to acquire facilities necessary to conduct basic business activities.
- The Of Interest feature for this chapter discusses how to use Excel® for Depreciation.

### **Chapter 22: Recording and Communicating Nonoperational Investment Activities**

- This chapter now begins with coverage of equity investments and discusses investments in debt securities at the end of the chapter.
- How these investments are communicated on financial statements is stressed.
- The authors separate equity securities from debt securities to help students understand the difference since the financial press often blurs the distinction.

## **PART 7: EVALUATION**

### **Chapter 23: Firm Performance: Profitability**

- Based on reviewers' comments, coverage of financial versus physical capital has been eliminated from this chapter and discussion of absorption versus variable versus throughput has been added to create more of a managerial flavor.

#### **Chapter 24: Firm Performance: Financial Position**

- This chapter uses the firm of Quaker Oats to help students understand how the balance sheet is used, along with its related disclosures, to show the resources a company has and where it might use operating profits. Students will also learn how to use accounting information to predict how profitable a company might be, how easily a company can pay debts, and how likely stockholders are to receive dividends.

#### **Chapter 25: Firm Performance: Cash Flows**

- Expanded examples on how to calculate cash flows have been added to this chapter.
- The direct method is illustrated to aid students' understanding of the indirect method. Internal users need the details provided by the direct method.

#### **Chapter 26: Firm Performance: A Comprehensive Evaluation**

- Expanded discussion of inter-firm comparisons have been added to this chapter so that students understand how financial statements can be analyzed to make investment decisions.

#### **ACKNOWLEDGMENTS:**

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