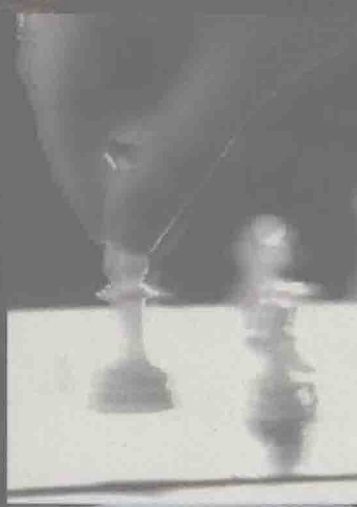


FINANCIAL ACCOUNTING

THE IMPACT ON DECISION MAKERS

GARY A. PORTER CURTIS L. NORTON

	171	\$ 23	\$ 205
	233	247	271
	3	(29)	2
10	(1)	30	10
	-	-	(30)
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85	65	21	10
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	8	5	
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(5)	10		
5	162	(20)	
61	15		
\$ 578	\$ 312		



**FINANCIAL
ACCOUNTING**
THE IMPACT ON DECISION MAKERS

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LOYOLA UNIVERSITY CHICAGO

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Preface

We are all conscious of the dynamic and increasingly complex nature of the business world. Students are under ever-increasing pressure to obtain both functional and analytical skills in order to compete in this very competitive environment. As accounting educators, we must meet the call for the way we teach our students to give them every advantage in their post-academic careers. Because of these external pressures the Accounting Education Change Commission and others have mandated that we must begin by teaching our students to “learn to learn,” emphasizing the development of critical thinking skills necessary to make and understand decisions in the world of business. Much of the reform effort to date has, for good reason, centered on the introductory courses. As authors, our mission in writing this introduction to financial accounting was to address the needs of today’s students as they enter the changing business world and to give them the skills necessary to “learn to learn.”

Throughout the writing and development of this book, four basic philosophies guided our efforts to fulfill this mission:

- **Most students in the first course will be users, not preparers, of accounting information in their careers.** Does this mean that students in a first accounting course should not be asked to record transactions and prepare financial statements? Not necessarily. We feel that the guiding principle should be that preparation of accounting information should be used as a learning tool if it will enhance the student’s understanding of how the information is used.

Although many instructors continue to rely on preparing journal entries as one major route to accounting understanding, we have chosen to adopt a more conceptual approach: linking all journal entries and transactions to the financial statements with the use of the accounting equation. This forces students to think about the impact each transaction has on the financial statements. It also allows flexibility for the instructor who chooses not to cover the debit/credit mechanism and would rather simply present all transactions in terms of the accounting equation.

The design and pedagogical framework of this book were carefully constructed to support the theme that understanding rather than preparation of accounting information is the goal. This includes *integration of ratio analysis* throughout. For example, we present receivable turnover in the chapter on cash and receivables. Meticulous attention to the *integration of conceptual learning objectives* throughout the text material reinforces the decision orientation of the book. **Accounting for Your Decisions** is a unique feature that places the student in a business situation where he or she is asked to role-play as a banker, broker, stockholder, or other real user of accounting information. **Linkages** at the beginning of each chapter draw the student’s attention to the relationships among various topics and concepts in previous, current, and upcoming chapters. In addition, *all exhibits, statements, and business documents are presented in the most clear, real-world fashion possible.*

- **A course emphasizing the use of accounting information should stress financial statements throughout—and whenever possible, the statements of real companies.** It is our hope that when students have completed this textbook they can read

and understand the financial statements of real companies and make business decisions based on those statements. In addition, they should appreciate the value of the information contained in other parts of an annual report. We have used the innovative and entertaining *annual report of Ben & Jerry's Homemade, Inc. in every chapter*, as well as the reports of numerous other highly recognizable corporations, to enhance student interest and learning. A copy of the entire **Ben & Jerry's Annual Report** is packaged with new copies of the textbook, and Appendix 1 features the financial statements and notes from that annual report.

From Concept to Practice marginal assignments, using Ben & Jerry's Annual Report, appear within the chapter as additional references to the statements under discussion. (An index of these assignments appears at the end of this book.) **Reading and Interpreting Financial Statements** cases are at the end of each chapter to apply the concepts therein.

- **The emphasis should be on concepts rather than procedures** in a course aimed at users of financial statements. After many months of intensive market research with almost 300 accounting instructors, we found that most of you have shifted the focus of your course to emphasize the conceptual framework of accounting from the more traditional method of teaching and learning mechanics. In general, highly procedural topics such as specialized journals and subsidiary ledgers are simply not covered. Certain other relatively procedural topics like reversing entries and payroll accounting are placed in appendixes at the end of the chapters to allow instructors the flexibility to cover as they see fit.

The first four chapters set the tone for the balance of concepts and procedures. Important accounting concepts such as the nature of business activities, as well as accounting's role within the firm, are introduced in Chapter 1. The conceptual framework of accounting is presented in Chapter 2 as an overview of financial statements (both hypothetical and real) found in the remainder of the chapter. Adjusting entries are illustrated in Chapter 4, but only after a thorough discussion of the accrual accounting system. *This theme—presenting traditional methods and procedures within a conceptual context—recurs throughout the book.*

The conceptual focus of the book is evident in the treatment of two important topics in a course aimed at users: *cash flows* and *statement analysis*. Both are covered, where appropriate, throughout the book as each major category of assets, liabilities, and owners' equity is discussed. The final two chapters of the book (Chapter 14 on cash flows and Chapter 15 on financial statement analysis) then serve to draw together many of these ideas introduced earlier.

- **“Why” is more important than “how” if the focus is on using accounting information to make decisions.** An emphasis on the use rather than the preparation of accounting information, and a focus on concepts as opposed to procedure, demands a book that stresses the why rather than the how. A number of elements throughout the book give the reader an appreciation of why accounting is important in decision making. Every chapter opens with a **Focus on Financial Results**, which highlights the role of accounting information in a real company. **Accounting for Your Decisions** boxes are placed strategically throughout all chapters and require the reader to think about why accounting information is important in making decisions. The end-of-chapter material goes beyond the how and requires analysis, thought, and response.

Supplements and Teaching Materials That Emphasize Integration and Flexibility

It is critical to the success of any accounting textbook that it be accompanied by a supplements and teaching package as functional and innovative as the narrative and problems in the book. It is also critical that all of these components are thoroughly integrated, both conceptually and practically, for the enhancement of the student and the ease of use for the instructor. With these goals in mind, The Dryden Press introduces a package to accompany our textbook that is just as strongly researched and developed—and just as flexible—as the book itself.

Planning for the package began with rigorous market research and concept testing of each component. Authors were chosen generally from among those who had reviewed and understood the aims of the textbook, and we benefited from their synergies during a special supplements author team meeting held for final concept approval and to verify plans for articulation among the package components.

Supplements authors continue to communicate with one another to refine their common goals of maximum integration, enhancement of learning, and teaching flexibility. For students we provide traditional supplements (study guides, working papers, and practice sets); however, the student and instructor may want to innovate in how they use these materials, depending on the instructor's focus in the course. For the instructor, we provide new and exciting software and visual supplements that complement all of the more traditional items.

For the Instructor

Instructor's Resource Kit, by Patricia Doherty (Boston University) is a complete toolbox for easing the instructor's transition to a less procedural, more financial statement-oriented and interactive course. The Package Integrator is a roadmap of the entire textbook and supplement package. Other key components of the kit include the Financial Statement Resource (also available in the Student Resource Kit), Chapter Outlines (with Integrated Lecture Suggestions), Projects and Activities (including In-Class Discussions, Outside Assignments, Food for Thought, and Ethical Dilemmas), and a Bibliography of Readings. Together, these components will provide ideas, suggestions, and resources for a variety of classroom styles across the spectrum of instructors within a department. *Available printed and on a computer diskette.*

Financial Statement Resource, a component of the Instructor's Resource Kit, gives instructors and students access to the financial statements of the companies discussed in the textbook. The complete annual reports of three of the companies are reprinted in the Instructor's Resource Kit and the remaining eleven reports are available on disk.

Solutions Manual, prepared by the textbook authors for complete consistency with the textbook, has been carefully reviewed and exhaustively checked for accuracy. Over 50 class test sites have also used the Solutions Manual successfully, along with the Test Bank and the textbook, as a further validation of the authors' efforts.

Electronic Lectures in Powerpoint, by Jay LaGregs (Tyler Junior College), provides visual enhancement for a course that stresses the impact of accounting practices on financial statements. It is designed in a Windows environment for schools with access to computer screens projected with an LCD monitor. Included here are detailed lecture outlines of every chapter in the textbook. Also included are many of the projected images in the Teaching Transparencies. Electronic Lectures in Powerpoint makes it easier for instructors to create an interactive presentation focusing on

what-if analysis and decision-making. Although use with Powerpoint allows instructors to customize and even create their own lecture enhancements, viewer files are included for non-Powerpoint classrooms.

Teaching and Solutions Transparencies, by Jay LaGregs (Tyler Junior College), Kathy Horton (University of Illinois at Chicago), and the textbook authors, enhance classroom presentations with acetates of approximately 100 of the Electronic Lectures as well as solutions to end-of-chapter material. Teaching Transparencies, selected by Patricia Doherty (Boston University), are available in electronic format as well as in these overhead acetates. Solutions Transparencies for selected exercises, problems, and cases have been chosen by Kathy Horton for maximum classroom usefulness. Specially designed enlarged-type transparency masters are included for all remaining end-of-chapter exercises, problems, and cases.

Test Bank, by David Fetyko (Kent State University) and Jane Park (California State University at Los Angeles), includes questions that reflect the changes in the course focus. Test items focus on real financial statements provided as data. Procedural problems are followed by a few multiple-choice, short answer and/or essay questions that test understanding, require analysis and interpretation, or ask “why” or “what if.” All short problems and several other questions in each chapter are based on *real-company financial statements*.

All problems have been carefully reviewed for consistency with the textbook—both the narrative and end-of-chapter material. Each solution was checked by at least two instructors. The Test Bank has also been used successfully at class test sites along with the textbook and Solutions Manual.

EXAMASTER + Computerized Test Bank, the computerized testing software, is almost as important as the bank of test items itself. By way of its easy-to-use editing and scrambling functions, EXAMASTER+ software allows instructors to customize their tests by selecting items according to criteria meaningful to the changing course focus. In addition, Dryden’s **RequesTest** service allows instructors to call a toll-free number to order custom test masters. A fax service is also available. RequesTest service and software support are available Monday through Friday, 9 AM to 4 PM (Central Time) for questions, guidance, or other help.

Lecture Launching Videos are based on the chapter-opening vignettes. These brief clips (ten minutes or less) use real-company examples to show why accounting is needed, how accounting decisions are made, and the business implications of these decisions. Many of the videos are based on material that is culled from CBS News reports, some are shot on location. These videos can be used as mini-cases or ethical dilemmas to provoke classroom discussion. Notes and suggestions on using the videos appear in the Package Integrator portion of the Instructor’s Resource Kit.

For the Student

Student Resource Kit, by Diana Adcox (University of North Florida), Kathy Horton (University of Illinois at Chicago), and Mary Nisbet (University of California at Santa Barbara), allows an instructor to design student support material for his or her specific course by providing an array of options for either limited or complete review of each concept and procedure discussed in the textbook. All of the materials in the kit will enable instructors to focus on the “how to,” the “why,” or both. The potential components of the Student Resource Kit include the Procedural Review, Study Guide, Working Papers, Checklist of Key Figures, and Financial Statement Resource.

Study Guide, by Mary Nisbet (University of California—Santa Barbara), mirrors the text in style and presentation. The Study Guide focuses on helping students set

priorities (focusing on the key concepts), review terms and concepts, and practice for taking tests.

Procedural Review, by Diana Adcox (University of North Florida), allows instructors to concentrate less on procedures in lectures and discussion while assigning students to practice procedures outside of class. Based on a procedural audit of the textbook by the authors, the Procedural Review guides students through procedures applicable to each textbook chapter. Each procedure is clearly labeled and keyed by Learning Objective; then an exercise-style example provides annotated steps for the calculations. Solutions and approaches to each example are provided, along with useful tips and student exercises with solutions. Flexible custom options allow the instructor to choose the procedures that will be included in the Procedural Review for his or her own classes. The Procedural Review does not duplicate the Study Guide.

Working Papers, selected by Kathy Horton (University of Illinois at Chicago), allow instructors to select from among partially filled-out or blank working papers for every procedural problem in the book for inclusion in the Student Resource Kit.

Computerized Study Guide, based on the Test Bank and the Study Guide, prepares students to take tests and drills them on concepts and procedures.

FS/CASE (Financial Statement Case) Software, by Tom McLaughlin (Monmouth College), consists of a series of mini-cases, with real financial statements, that enable students to review both the procedural and conceptual aspects of the course. Students perform an analysis in a case format, interacting with computerized data to strengthen their understanding of the text by Learning Objectives. For example, a unit on inventories would ask students to use the LIFO method with company data. It would query them on what the data tells them, how it impacts financial statements, and whether it would have been more appropriate to use FIFO (and why). The package will include master disks to be provided to schools with a file for each textbook chapter and a separate instructor's disk with solutions to all problems.

Spreadsheet Templates Problem Solver (STPS), by Paul Bayes (East Tennessee State University), consists of Lotus templates for relevant textbook problems and exercises. Many templates include separate what-if questions that ask students about financial statement relationships. Separate "instructor-only" templates provide a fresh source for template test assignments or classroom demonstration material.

General Ledger Problem Solver (GLPS) by Leon Hanouille (Syracuse University) and Jay Joseph Cappy, is a computerized general ledger program to help students solve selected exercises and problems in the textbook. The graphical user interface, pull-down menus, context-sensitive help, and program tour make this DOS-based program easy to use. Special computerized instructions replace the manual requirements for each problem included here. Available in network and stand-alone versions.

Tamije Garden Supply, Inc.: A Service and Merchandising Practice Set by Leon Hanouille (Syracuse University), is a service and merchandising corporate practice set covering one month of operations and focusing on the accounting cycle. The emphasis is on analyzing transactions and preparing financial statements, including the statement of cash flows. Transactions are representative of those in actual situations, and excess clerical detail has been eliminated to concentrate on the entire cycle. Useful coaching tips and techniques follow selected transactions. Optional requirements for thought and analysis are included in the manual version. Estimated completion time is 18 hours.

Tamije Garden Supply, Computerized Version by Leon Hanouille (Syracuse University) and Jay Joseph Cappy. This computerized version of Tamije Garden Supply uses the same DOS-based graphical user interface software that drives the General Ledger Problem Solver.

Introduction to Business, by Louis E. Boone (University of South Alabama) and David L. Kurtz (University of Arkansas). This booklet, available to adopters, provides background in business concepts, activities, and terminology for business and nonbusiness majors alike to give students a springboard for this first business course. Dryden's research among financial accounting instructors indicates that many schools do not offer any introduction to business courses. Thus the authors of Dryden's best-selling business book help make the introductory accounting course doubly meaningful to business and nonbusiness majors alike.

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To develop, write, and publish a book to meet the changing needs of students and instructors in the 1990s truly requires a team effort. We recognize the sincere and devoted work of these individuals.

From initial concept to finished book, exhaustive research has been the hallmark of our efforts. Professionally conducted regional focus groups were a major factor in identifying the key goals of instructors as they face the transition. We are grateful to these participants for sharing their vision for the future with us: Mark Bettner, Bucknell University; Frank Biegbeder, Rancho Santiago Community College; John Blahnik, Lorain County Community College; Jim Cashell, Miami University; Mayer Chapman, California State University at Long Beach; Judith Cook, Grossmont College; Henry H. Davis, Eastern Illinois University; Kathy Dunne, Rider College; Alan Falcon, Loyola Marymount University; Charles Fazzi, Robert Morris College; Howard Felt, Temple University; David Fetyko, Kent State University; J. Patrick Forrest, Western Michigan University; Veronique Frucot, Rutgers University—Camden; Don E. Giacomino, Marquette University; Marilyn Greenstein, Lehigh University; Robert E. Holtfreter, Ft. Hays State University; William Jones, Seton Hall University; Lucille E. Lammers, Illinois State University; Susan Lightle, Wright State University; Margaret McCrory, Marist College; Thomas D. McLaughlin, Monmouth College; E. James Meddaugh, Ohio University; Priscilla O'Clock, Xavier University; Joseph Ragan, St. Joseph's University; Mary Rolfes, Mankato State University; Edward Schwan, Susquehanna University; Don Schwartz, National University; Anita Stel-lenwerf, Ramapo College; Linda Sugarman, University of Akron; Vicki Vorell, Cuyahoga Community College; Robert Zahary, California State University at Los Angeles.

Based on the responses from these focus groups, we conducted follow-up telephone surveys that tracked national trends in content, procedures, software, and supplement needs among financial accounting instructors across the spectrum of change. We relied on their input, and that of the focus groups, when we developed the topical approaches and pedagogical features in the book and package. We continue to rely on individual respondents in a number of important ways. Thanks go to these respondents for the invaluable information they provided:

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