

FINANCIAL

S i x t h E d i t i o n



Belverd E. Needles, Jr.
Marian Powers

ACCOUNTING

Financial Accounting

Sixth Edition

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DePaul University

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Northwestern University

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*To Annabelle and Abigail Needles
To Mrs. Belverd E. Needles, Sr.
In memory of Mr. Belverd E. Needles, Sr.,
and Mr. and Mrs. Benjamin E. Needles
To Mr. and Mrs. Thomas R. Powers*

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The Toys "R" Us Annual Report (excerpts and complete) for the year ended February 3, 1996, which appears at the end of Chapter 1, pages 63–85, is reprinted by permission. The cartoon characters in the margins of the Supplement to Chapter 1: How to Read an Annual Report, pages 53–59, are reprinted by permission from the Toys "R" Us Annual Report for the year ended January 28, 1995.

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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About the Authors

Belverd E. Needles, Jr., Ph.D., CPA, CMA

Dr. Needles received his BBA and MBA degrees from Texas Tech University and his Ph.D. degree from the University of Illinois. Dr. Needles teaches auditing and financial accounting at DePaul University, where he is the Arthur Andersen LLP Alumni Distinguished Professor and is an internationally known expert in international auditing and accounting education. He has published in leading journals in these fields and is the author or editor of more than twenty books and monographs.

Dr. Needles is active in many academic and professional organizations. He is president of the International Association for Accounting Education and Research and past president of the Federation of Schools of Accountancy. He has served as the elected U.S. representative to the European Accounting Association and chair of the International Accounting Section of the American Accounting Association. He has served as director of Continuing Education of the American Accounting Association. He serves on the Information Technology Executive Committee of the American Institute of CPAs. For the past five years he has served as the U.S. representative on the Education Committee of the International Federation of Accountants.

Dr. Needles has received the Distinguished Alumni Award from Texas Tech University, the Illinois CPA Society Outstanding Educator Award, the Joseph A. Silvano Faculty Award of Merit from the Federation of Schools and Accountancy, the Ledger & Quill Award of Merit, and the Ledger & Quill Teaching Excellence Award. In 1992, he was named Educator of the Year by the national honorary society Beta Alpha Psi. In 1996, he received from the American Accounting Association the award of Outstanding International Accounting Educator.

Marian Powers, Ph.D.

Marian Powers earned her Ph.D. in accounting from the University of Illinois at Urbana. She has served on the accounting faculty of the Kellogg Graduate School of Management at Northwestern University, the University of Illinois at Chicago, and the Lake Forest Graduate School of Management. Since 1987, she has been a professor of accounting at the Allen Center for Executive Education at Northwestern University, specializing in teaching financial reporting and analysis to executives. She is also co-author of several successful in-depth cases on financial analysis, and her research has been published in *The Accounting Review*, *The International Journal of Accounting*, *Issues in Accounting Education*, *The Journal of Accountancy*, *The Journal of Business, Finance, and Accounting*, and *Financial Management*, among others.

Dr. Powers has received recognition and awards for her teaching and is part of a team that developed and delivers The Conference on Accounting Education, an annual conference now in its thirteenth year, which teaches accounting professors how to be more effective facilitators of student learning.

Dr. Powers has been active in several professional organizations, including the Illinois CPA Society, the American Accounting Association, the European Accounting Association, the International Association of Accounting Education and Research, the American Society of Women Accountants, and the Education Foundation for Women in Accounting. She is currently serving as secretary of the Education Foundation for Women in Accounting. She is past president of the Chicago chapter and past national officer of the American Society of Women Accountants.

Goals for FINANCIAL ACCOUNTING, Sixth Edition

Our goal 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.

Our goal is to provide the opportunity for the development in students of a wide skill set essential to success in business today.

Our goal, beginning with the Fifth Edition and continuing with the Sixth Edition, is to place more emphasis throughout the book on the use and analysis of accounting information by management and on decisions that management makes regarding accounting information.

Our goal is to reflect business practice as it is today in a context that is relevant and exciting to students.

Our goal is to provide exactly the right balance between conceptual understanding and technical application and analysis.

Our goal is to provide the most comprehensive and flexible set of assignments available involving real companies.

Our goal is to provide a complete supplemental learning system—including manual and technology applications for computer, CD-ROM, videotape, and Internet support—that directly facilitates student learning.

Our goal is to provide a complete support system for the instructor.

Preface

FINANCIAL ACCOUNTING, Sixth 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 the undergraduate or graduate level and is designed for both business and accounting majors. It is part of a well-integrated package for students and instructors that includes several manual and computer ancillaries. 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.

Decision Making and the Uses of Accounting Information

FINANCIAL ACCOUNTING recognizes that in the financial accounting course a majority of the students are business and management majors who will read, analyze, and interpret financial statements throughout their careers. We believe the fundamental purpose of accounting is to provide information for decision making, and, while not neglecting topics important for accounting majors,

our goal 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.

Essential to FINANCIAL ACCOUNTING is our conviction that the use of integrated learning objectives can significantly improve the teaching and learning of accounting. This system of learning by objectives enhances the role of the overall package, particularly the textbook, by achieving complete and thorough communication between instructor and student. Basic to this approach are the following objectives, which we have accomplished in this new revision:

- To write for business and management students as well as accounting majors
- To emphasize the role of accounting in decision making
- To make the content authoritative, practical, and contemporary
- To integrate the learning-by-objectives approach throughout the text, assignment material, and ancillaries
- To develop the most complete and flexible teaching-learning system available
- To adhere to a strict system of quality control

The success of the first five editions of FINANCIAL ACCOUNTING has justified our confidence in this fundamental approach. In fact, this approach is being adopted at more and more colleges and universities throughout the country.

New Co-author

Dr. Marian Powers brings significant resources to FINANCIAL ACCOUNTING. With more than fifteen years of teaching experience at the undergraduate and graduate levels in both large and small classes, she is an accomplished instructor who brings various instructional strategies to her financial accounting classes to develop critical thinking, group interaction, communication, and other broadening skills in students. In addition, she has taught thousands of executives how to read, interpret, and analyze corporate financial statements. She is extremely knowledgeable about FINANCIAL ACCOUNTING, having taught from all prior editions.

Essential Student Skills

The Sixth Edition of FINANCIAL ACCOUNTING represents a major expansion of the decision-making approach and extends significantly the changes implemented in the Fifth Edition. The pedagogical system underlying FINANCIAL ACCOUNTING is based on a model that encompasses a growing group of instructional strategies designed to develop and strengthen a broad skill set in students. This model, which includes learning objectives, the teaching-learning cycle, cognitive levels of learning, and output skills, is described in detail in the Course Manual that accompanies this text.

Our goal is to provide the opportunity for the development in students of a wide skill set essential to success in business today.

Applying this model, the Sixth Edition achieves (1) a stronger user approach with a focus on financial statements and principal business activities; (2) maximized real-world coverage; (3) continued reduction of procedural detail; and (4) reorganized and expanded assignment material to increase flexibility and to concentrate on developing students' critical thinking, communication, and financial statement analysis skills.

Stronger User Approach

FINANCIAL ACCOUNTING continues to emphasize the use of accounting information in decision making, especially by external users. This edition's direct focus on financial statements and principal business activities will help students understand financial information and make sound business decisions as a result.

Our goal, beginning with the Fifth Edition and continuing with the Sixth Edition, is to place more emphasis throughout the book on the use and analysis of accounting information by management and on decisions that management makes regarding accounting information.

Revised Organization

The new Part and Chapter organization reflects, first, an earlier introduction of financial statements and, second, the relationship of financial accounting to the major activities of a business. For example, we have inserted after Chapter 1 a supplement entitled "How To Read an Annual Report," which includes the entire Toys "R" Us Annual Report, to facilitate the presentation early in the course of published financial statements. We introduce accounting conventions and financial statement analysis in Part One so that ratio analysis can be integrated throughout the text. Part Two is now organized to emphasize the operating cycle, and Part Four, expanded to include a chapter on the corporate income statement and the statement of stockholders' equity, focuses on investing in long-term assets and long-term financing.

New Management Sections

In the Fifth Edition, new sections on management's use of accounting information appear at or near the beginning of Chapter 1 and Chapters 6–11. We have extended this change in the Sixth Edition to all appropriate chapters.

Financial Ratios

Beginning with Chapter 5, we introduce financial analysis ratios and we then integrate them in subsequent chapters. These ratios are usually discussed in the “management issues” section at the beginning of the chapters and when feasible become a component of the review problems. Further, we bring all the ratios together in a comprehensive financial analysis of Sun Microsystems, Inc., in Chapter 15.

Performance Measurement

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

Visual Interest

To show visually the relevance of accounting to business, attractive four-color photographs appear in every chapter. We employ additional contemporary graphics, often featuring visualizations of concepts, throughout. Most illustrations depicting concepts and relationships have been redrawn, and we have added many new illustrations to make the concepts easier to understand and the book more visually appealing.

Maximized Real-World Coverage

We have taken many steps to increase the real-world emphasis of the text.

Our goal is to reflect business practice as it is today in a context that is relevant and exciting to students.

Periodically, we conduct interviews of business people to ascertain current business practices. For example, material in Chapter 7, *Short-Term Liquid Assets*, and Chapter 9, *Current Liabilities and the Time Value of Money*, is based on interviews with officials in the banking industry. In addition, we use information from annual reports of real companies and articles about them in business journals, such as *Business Week*, *Forbes*, and *The Wall Street Journal*, to enhance students' appreciation for the usefulness and relevance of accounting information. In total, more than 100 publicly held companies are offered in the text as illustrative examples.

Actual Financial Statements

We have incorporated examples from the annual reports of or articles about real companies extensively in the text and assignment material. 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 Oneida, Inc., in graphical form using the Fingraph® Financial Analyst™ CD-ROM software that accompanies this book; 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 use as examples throughout the text.

Decision Points

Every chapter contains at least one Decision Point. Based on excerpts from real companies' annual reports or from articles in the business press, Decision Points present a situation requiring a decision by management or other users of accounting information and then demonstrate how the decision can be made using accounting information.

Business Bulletins We have added more Business Bulletins to every chapter of this edition. Business Bulletins are short items related to the chapter topics that show the relevance of accounting in four areas:

- Business Practice
- International Practice
- Technology in Practice
- Ethics in Practice

Real Companies in Assignments We have substantially increased the number of real companies appearing in the assignment materials.

International Accounting In recognition of the global economy in which all businesses operate today, we introduce international accounting examples in Chapter 1 and integrate them throughout the text. A small sampling of foreign companies mentioned in the text and assignments includes Takashimaya Co. (Japanese), Glaxco-Wellcome (British), Philips Electronics, N. V. (Dutch), and Groupe Michelin (French).

Real-World Graphic Illustrations We offer, as a regular feature of the book, graphs or tables illustrating the relationship of actual business practices 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 and bookkeeping and interstate trucking companies. Merchandising industry examples include auto and home supply and grocery store companies. Manufacturing industry examples include pharmaceutical and tableware companies.

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

Reduction of Procedural Detail

This edition furthers our efforts to reduce the procedural detail in the chapters and to decrease the amount of “pencil pushing” on the part of students completing the assignments.

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. We have accomplished this goal 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, and we now employ T accounts more frequently as a form of analysis. The most significantly revised chapters in this regard are:

| | |
|------------|---|
| Chapter 1 | Uses of Accounting Information and the Financial Statements |
| Chapter 5 | Financial Reporting and Analysis |
| Chapter 6 | Merchandising Operations and Internal Control |
| Chapter 10 | Long-Term Assets |

| | |
|------------|---|
| Chapter 11 | Long-Term Liabilities |
| Chapter 12 | Contributed Capital |
| Chapter 13 | The Corporate Income Statement and the Statement of Stockholders' Equity |
| Chapter 14 | The Statement of Cash Flows |

Reorganized and Expanded Assignment Material

In answer to the demand for a more sophisticated skill set in students, coupled with greater pedagogical choice for faculty members, we have reorganized and expanded the end-of-chapter assignments and accompanying materials.

Our goal is to provide the most comprehensive and flexible set of assignments available involving real companies.

In recognition of the fact that our students need to be better prepared to communicate clearly, both in written and oral formats, we provide ample assignments to enhance student writing and interpersonal skills. The assignments and principal accompanying materials are described in the paragraphs that follow.

NEW!

Video Cases

Three new 5-minute video vignettes, each accompanied by an in-text case, provide more real-world opportunities to reinforce key concepts and techniques. The cases work equally well as individual or group assignments, and all three include a written critical thinking component. Each video case serves as an introduction to the chapter in which it is found:

- *Intel Corporation* (Chapter 1) examines 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.
- *Lotus Development Corporation* (Chapter 12) tells the history of Lotus from its beginning as a small start-up company through its growth to one of America's most successful companies and finally to its sale to IBM. The case emphasizes Lotus's equity financing needs along the way.

NEW!

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 with the Supplement to Chapter 1 a suggested annual report project that we have used in our own classes for several years. To allow for projects of varied comprehensiveness, we have developed four assignment options, including the use of the Fingraph® Financial Analyst™ CD-ROM software.

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 twenty-four review questions that cover the essential topics of the chapter.

Short Exercises (SE) Ten very brief exercises suitable for classroom use.

Exercises (E) Approximately fifteen single topic exercises that stress the application of all topics in the chapter.



Problems At least five extensive applications of chapter topics, often covering more than one learning objective, and often containing writing components. All problems may be worked on our Excel Templates Software. Problems that may be solved on our two General Ledger programs are indicated by this icon:



Alternate Problems An alternative set of the most popular problems, which we have selected based on feedback from our study of users' syllabi.

Chapter Assignments: Critical Thinking, Communication, and Interpersonal Skills

This section consists of ten or more Skills Development (SD) cases and Financial Reporting and Analysis (FRA) cases, usually 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 memorandum reporting their results and explaining their recommendations. In addition, all cases are suitable for development of interpersonal skills through group activities. For selected cases that are designated as especially appropriate for group activities, we provide specific instructions for applying a suggested group methodology. We also identify Internet and CD-ROM cases. To provide guidance in the best use of these cases, we display the following icons in the margins:

- International 
- Ethics 
- Communication 
- Video 
- Fingraph® Financial Analyst™ CD-ROM 
- Internet 
- Critical thinking 
- Group Activity 
- Memorandum 
- General Ledger 

Each Skills Development case has a specific purpose:

Conceptual Analysis Designed so a written solution is appropriate, but which may be used in other communication modes, these short cases address conceptual accounting issues and are based on real companies and situations.

Ethical Dilemma In recognition of the need for accounting and business students to be exposed in all their courses to ethical considerations, every chapter has 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 enhance student learning and participation in the classroom 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 longer case, make computations as necessary, and arrive at a decision. The decision maker may be a manager, an investor, an analyst, or a creditor.

Financial Reporting and Analysis cases sharpen students' ability to comprehend and analyze financial data:

Interpreting Financial Reports Abstracted from business articles and annual reports of well-known corporations and organizations such as Kmart, Sears, IBM, Chrysler, and UAL (United Airlines), these cases require students to extract relevant data, make computations, and interpret the results.

International Company These cases involve a company from another country that has had an accounting experience compatible with chapter content.

Toys “R” Us The reading and analysis of the actual Toys “R” Us annual report, contained in the Supplement to Chapter 1, forms the basis of these cases.

Fingraph® Financial Analyst™ These cases are worked in conjunction with the Fingraph® Financial Analyst™ annual report database software. The annual reports of more than twenty well-known companies are included in the database, which students utilize to analyze financial statements.

Business Readings Accompanying the text is a booklet of forty readings from business and accounting periodicals such as *Business Week*, *Forbes*, *The Wall Street Journal*, *The Journal of Accountancy*, and *Management Accounting*. These readings, which are coordinated to chapter topics, highlight the relevance of accounting to business issues for real companies. In addition, they address ethical issues, international accounting considerations, not-for-profit applications, and historical perspectives. Several readings provide guidance to students in skills development areas such as good business memorandum writing.

Financial Analysis Cases Also accompanying the text are a series of comprehensive financial analysis cases that may be integrated throughout the course after Chapter 5 or may be used as a capstone case for the entire 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 and guide students through a complete financial analysis. These cases may be assigned individually and also constitute excellent group assignments.

Readable, Accessible Text

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 Purposes courses, as well as by students taking these courses. With their assistance and advice, 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 more easily comprehended than sentences containing multiple clauses, we paid strict attention to the length and grammatical complexity of our sentences.
- **Examples:** Examples reinforce concepts discussed and help to make the abstract concrete. We have added examples that are simple and straightforward for further clarity.

Supplementary Support Materials

Supplementary Learning Aids

Our goal is to provide a complete supplemental learning system—including manual and technology applications for computer, CD-ROM, videotape, and Internet support—that directly facilitates student learning.

Working Papers for Exercises and Problems

Study Guide

Business Readings in Financial Accounting

Accounting Transaction Tutor

General Ledger Software

NEW! Simply Accounting General Ledger Software

NEW! Excel Templates

NEW! Fingraph® Financial Analyst™ CD-ROM

NEW! Internet Web Site

Soft-Tec, Inc., Practice Case

General Mills, Inc., Annual Report: A Decision Case in Financial Analysis

Heartland Airways, Inc.

Richland Home Centers, Inc.

Instructor's Support Materials

Our goal is to provide a complete support system for the instructor.

Instructor's Solutions Manual

NEW! Electronic Solutions

NEW! Course Manual

Test Bank with Answers

Computerized Test Bank

Teaching Transparencies

Solutions Transparencies

NEW! Powerpoint Classroom Presentation Software

NEW! Video Vignettes

Master Teacher Videos

Business Bulletin Videos

NEW! Internet Web Site

Soft-Tec, Inc., 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

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We express our thanks and admiration to our colleagues Henry R. Anderson of the University of Central Florida; James C. Caldwell of Andersen Consulting, Dallas, Texas; and Sherry Mills of New Mexico State University for their support. The learning-by-objectives system in this text is based on the one developed by the author team and used in all of our texts.

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 who have contributed would be slighted by omission. Some attempt, however, must be made to mention those who have been so helpful.

We wish to express our deep appreciation to our colleagues at DePaul University, who have been extremely supportive and encouraging.

The thoughtful and meticulous work of Edward H. Julius (California Lutheran University) is reflected not only in the Study Guide but also in many other ways. We would also like to thank Marion Taube (University of Pittsburgh) for her contribution to the Working Papers, and Mark Dawson (Duquesne University) for editing the Test Bank.

Also very important to the quality of this book is the supportive collaboration of our senior sponsoring editor, Anne Kelly. We further benefited from the ideas and guidance of our associate sponsoring editor, Peggy Monahan.

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Schoolcraft College
American Ways
Queensborough Community College
DePaul University
Northeastern University
University of Pittsburgh
Queensborough Community College
University of Oregon
Tulsa Junior College
Tulsa Junior College

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 *tests* 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.