

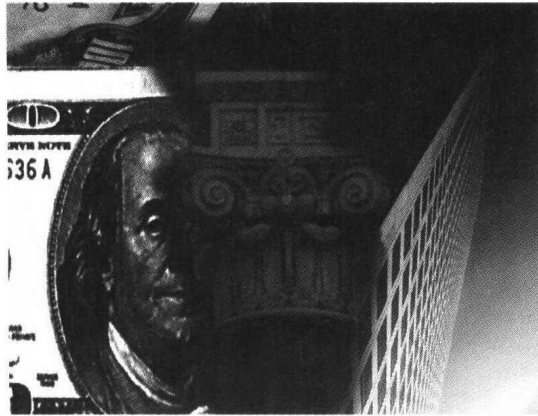
STICKNEY & WEIL



FINANCIAL ACCOUNTING

**AN INTRODUCTION TO CONCEPTS,
METHODS, AND USES**

EIGHTH EDITION



FINANCIAL ACCOUNTING
AN INTRODUCTION TO CONCEPTS,
METHODS, AND USES

EIGHTH EDITION

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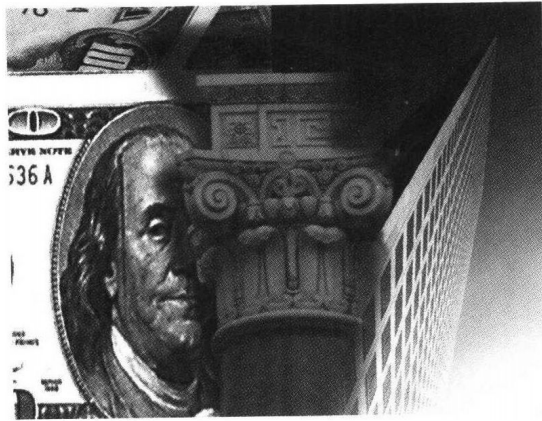
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FOR OUR STUDENTS, WITH THANKS

Whatever be the detail with which you cram your students, the chance of their meeting in after-life exactly that detail is almost infinitesimal; and if they do meet it, they will probably have forgotten what you taught them about it. The really useful training yields a comprehension of a few general principles with a thorough grounding in the way they apply to a variety of concrete details. In subsequent practice the students will have forgotten your particular details; but they will remember by an unconscious common sense how to apply principles to immediate circumstances.

Alfred North Whitehead

The Aims of Education and Other Essays

FOR SIDNEY AND SYDNEY, WITH THANKS.

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PREFACE

The eighth edition of this book has the same principal objectives as the previous editions. The introductory course in financial accounting has two main purposes:

- To help students develop a sufficient understanding of the basic concepts underlying financial statements so that they can apply the concepts to new and different situations.
- To train students in accounting terminology and methods so that they can interpret, analyze, and evaluate financial statements currently published in corporate annual reports.

Most introductory financial accounting textbooks share these, or similar, objectives. The critical differences among textbooks would be the relative emphases on concepts, methods, and uses.

- 1. Concepts** This book emphasizes the rationale for, and implications of, important accounting concepts. To learn accounting, the student must develop the ability to conceptualize the transactions which accounting summarizes and the process of summarization. Without such conceptualization, students will have difficulty focusing on relevant issues in new and different situations. Accordingly, each chapter begins by identifying important accounting concepts. Several numerical examples illustrating their application then follow. The end-of-chapter material includes numerous short exercises to check the students' ability to apply the concepts to different problem situations.
- 2. Methods** We place sufficient emphasis on accounting procedures so that students can interpret, analyze, and evaluate published financial statements. The text does not emphasize procedures to such an extent that students bog down in detail. All writers of accounting textbooks must decide just how much accounting procedure to include. Many believe, as we do, that students will learn most effectively by working many problems and exercises. Too much emphasis on accounting procedures, however, lulls students into the security of thinking they understand accounting concepts when they do not. We have for many years used the mixture of concepts and procedures in this book and have found them effective in classroom use.

Understanding the accounting implications of an event requires that students construct the journal entry for that event. Throughout this book we use journal entries in describing the nature of accounting events. Moreover, most chapters contain exercises and problems that require the analysis of transactions with debits and credits. Do not conclude by a glance at this text, however, that it is primarily procedural. We want students to learn concepts; the procedures enhance the learning of concepts.

- 3. Uses** This book attempts to bridge the gap between the preparation of financial statements and their use in various decision situations. The chapters consider the effects of alternative accounting principles on the measurement of earnings and

financial position and the appropriate and inappropriate interpretations of them. Numerous user-oriented problems and cases based on financial statement data of actual companies appear at the end of most chapters.

CHANGES IN THIS EDITION

The major changes in the eighth edition are as follows:

1. The chapters expand consideration to the roles of political pressures and economic consequences in the setting of financial accounting standards, particularly in the materials on marketable securities, employee stock options, and foreign currency translation.
2. Several chapters reflect new or proposed reporting standards on comprehensive income, asset impairments, and earnings per share.
3. Approximately 30 percent of the questions, exercises, problems, and cases at the ends of chapters represent new or substantially revised material. Virtually all of the new exercises and problems use financial statement data of actual companies.
4. Extensive changes made to enhance readability of the text include the use of bullet points, text setoffs, and active voice.

ORGANIZATION

This book comprises four major parts. Part One, “Overview of Financial Statements,” consisting of Chapter 1; Part Two, “Accounting Concepts and Methods,” Chapters 2 through 6; Part Three, “Measuring and Reporting Assets and Equities,” Chapters 7 through 14; and Part Four, “Synthesis,” Chapters 15 and 16. We view the four parts as four tiers, or steps, in the learning process. Part One presents a general overview of the principal financial statements. Part Two discusses the basic accounting model accountants use to generate the principal financial statements. Part Three considers the specific accounting principles or methods used in preparing the financial statements. Finally, Part Four synthesizes material covered in Chapters 1 to 14. This organization reflects the view that learning takes place most effectively when the student starts with a broad picture, then breaks up that broad picture into smaller pieces until achieving the desired depth, and finally synthesizing so that the relation between the parts and the whole retains its perspective.

Chapter 1 presents a brief description of the principal activities of a business firm (investing, financing, and operating) and shows how the three principal financial statements—the balance sheet, the income statement, and the statement of cash flows—report the results of these activities. Chapter 1 also provides an overview of the financial reporting environment. Many students feel deluged with the multitude of new terms and concepts after reading Chapter 1. Most of these same students admit later, however, that the broad overview helped piece material together as they later explored individual topics at greater length.

Chapters 2 through 5 present the basic accounting model that generates the three principal financial statements. In each case, the discussion begins with a description of the important concepts underlying each statement. The chapter then describes and illustrates procedures accountants use to generate the financial statements. One of

the unusual features of the book is the integration in Chapter 3 of the accounting entries for transactions during a period with the related adjusting entries at the end of the period. When textbooks discuss these two types of entries in separate chapters, students often lose sight of the fact that measurement of net income and financial position requires both kinds of entries.

Another unusual aspect of the text is the early coverage, in Chapter 5, of the statement of cash flows. This placement serves two purposes. First, this placement elevates the statement to its rightful place among the three principal financial statements. Students can thereby integrate the concepts of profitability and cash flow more effectively and begin to understand that one does not necessarily accompany the other. Covering this statement at the end of the course (in many cases, when time is running out) leads the student to think that the cash flow statement is less important. Placing this chapter early in the book forces the student to cement understanding of the basic accounting model from Chapters 2 through 4. Preparing the statement of cash flows requires the student to “work backward” from the balance sheet and income statement to reconstruct the transactions that took place.

Chapter 6 describes and illustrates tools for analyzing the financial statements. The discussion structures the various financial statement ratios in a multi-level format that students have found minimizes the need to memorize formulas. Instructors who incorporate annual reports of actual companies throughout their course will find that analysis of the financial statements of such companies at this point in the course serves as an effective synthesis. An appendix to Chapter 6 illustrates procedures for preparing pro forma financial statements. This topic helps cement understanding of the relation among the three principal financial statements.

Chapters 7 through 13 discuss the various generally accepted accounting principles that accountants use in generating the financial statements. Each chapter not only describes and illustrates the application of the various accounting methods but also considers their effects on the financial statements. This approach reflects the view that students should be able to interpret and analyze published financial statements and to understand the effect of alternative accounting methods on such assessments. We have placed some of the more complicated topics in end-of-chapter appendixes to provide flexibility in coverage. Some instructors may wish to omit this more advanced material.

Chapter 14 explores the statement of cash flows in greater depth by presenting a comprehensive illustration using transactions discussed in Chapters 7 through 13. Instructors have flexibility in structuring their coverage of the statement of cash flows.

Some students who have used the previous editions of this book report that Chapter 15, which synthesizes much of the material in the first fourteen chapters, is the most useful in the book. This chapter explicitly considers the combined effects of alternative accounting methods on the financial statements. The self-study problem and problems 16 and 17 at the end of Chapter 15 provide thorough review for the entire book.

Chapter 16 considers international reporting issues in greater depth than the short section in each of the preceding chapters. The chapter presents a framework for classifying countries according to their standard-setting process and the types of accounting standards set. We illustrate the framework using Germany, Japan, and the

United Kingdom as examples. Chapter 16 also describes and illustrates foreign currency translation methods.

The end of the book includes a comprehensive glossary of accounting terms. It serves as a useful reference tool for accounting and other business terms and provides additional descriptions of a few topics, such as accounting changes and comprehensive income, considered only briefly in the text.

RELATED MATERIALS ACCOMPANYING THE TEXTBOOK

The following supplementary materials are available with the textbook:

Instructor's Manual The instructor's manual presents suggested outlines for courses of varying lengths, a list of chapter objectives, helpful teaching hints, detailed lecture and discussion outlines including the number of particularly germane problems, and sample examination questions and problems. The instructor's manual also includes a list of check figures for various problems in the text. The instructor may wish to photocopy these check figures and distribute them to students.

Solutions Manual The solutions manual provides full solutions for all end-of-chapter assignment items, including questions, exercises, problems, and cases. We give computations wherever possible, allowing the instructor to show how to reach a particular answer.

Study Guide This study guide, by LeBrone C. Harris and James E. Moon, lists highlights from each chapter and provides numerous short true/false, matching, multiple-choice questions, and exercises, with answers.

Testbook Prepared by Bobbe Barnes of the University of Colorado, the testbook is thoroughly expanded and revised and now includes multiple-choice items, matching questions, short essay questions, and problems.

Computerized Test Bank All items in the testbook are available in EXAMaster software format for most DOS-based and Macintosh microcomputers.



Spreadsheet Template Software Prepared by Kent Finkle, each chapter identifies (with the symbol shown on the left) two problems to be solved using Microsoft Excel®, Lotus 1-2-3® or compatible software.

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