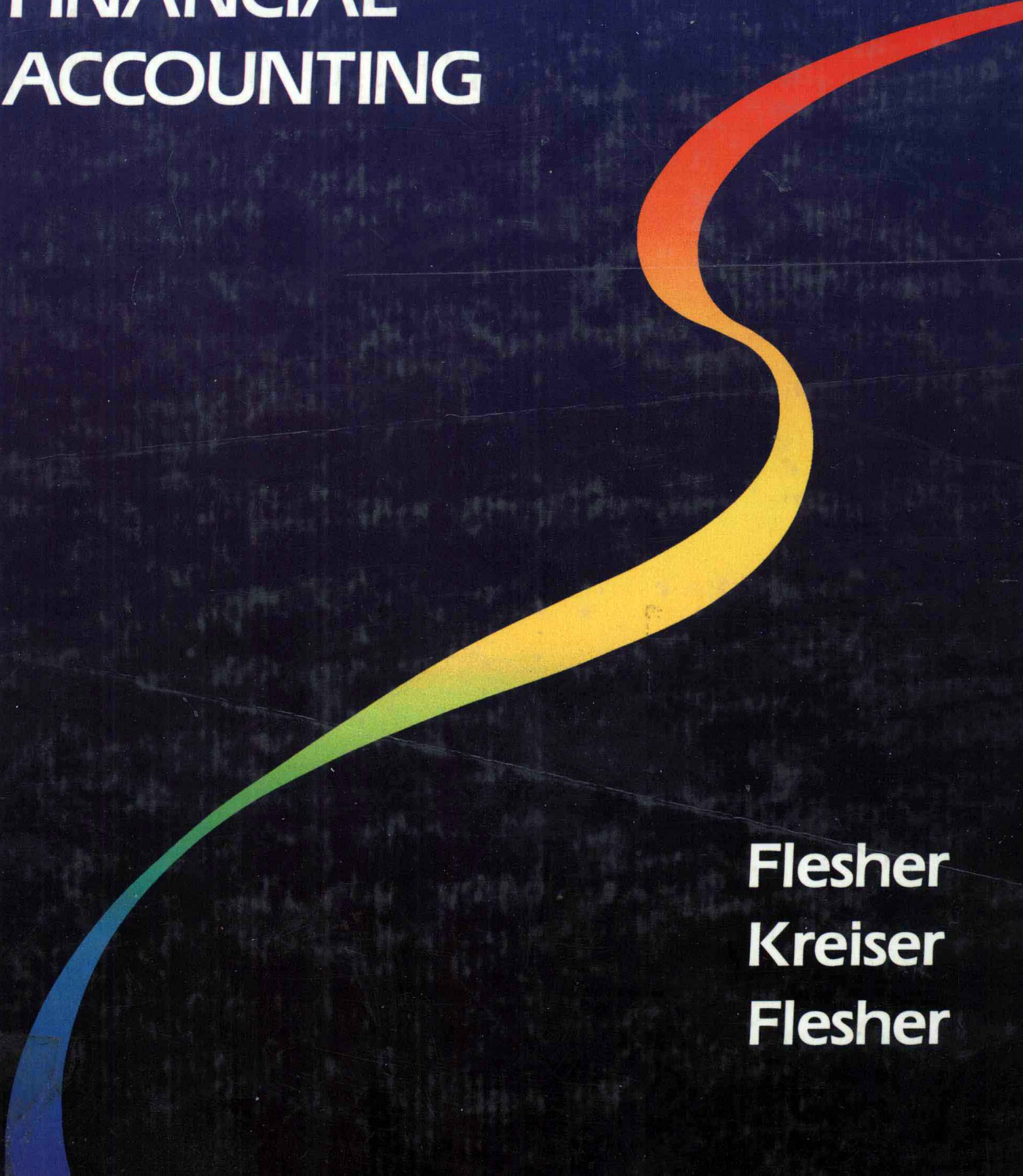


Introduction to  
**FINANCIAL  
ACCOUNTING**



**Flesher  
Kreiser  
Flesher**

# Introduction to FINANCIAL ACCOUNTING

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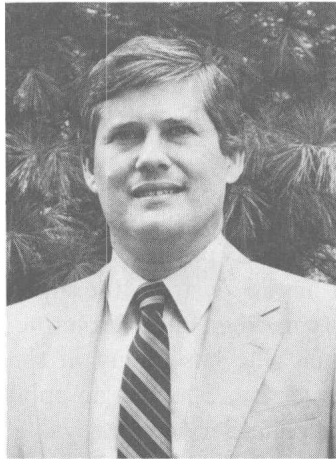
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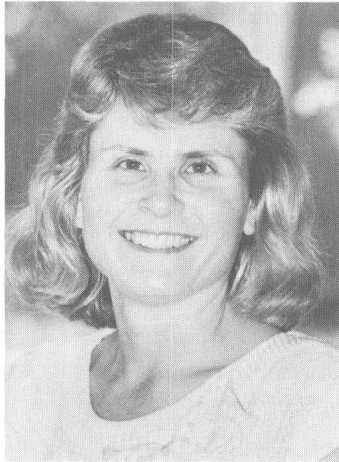


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# Preface

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*Introduction to Financial Accounting* is intended for use in the first semester or first two quarters of introductory accounting courses. The text covers financial accounting material only and does not include the subject matter usually covered in managerial accounting courses.

Students taking the first course in accounting usually have a variety of career goals. While some students may be accounting majors, the majority are usually majoring in some other field of business, or even in a nonbusiness field. Thus, it is important that the introductory textbook in accounting allow for these differences in user objectives. We hope that has been accomplished in the writing of this textbook. All students will find that the ability to use and interpret accounting information will someday be valuable not only in their careers but in their personal lives as well. This emphasis on the uses of accounting information is an important aspect of this book. Ideally, students will be more interested in the subject matter because they can see that accounting is a valuable tool, regardless of their career choice.

Although in many respects this book could be called a traditional principles of accounting text, it does offer a number of innovative features that should contribute to its pedagogical usefulness. One such feature is the discussion of the historical and political development of many of the generally accepted accounting principles. Students frequently have to rely upon rote memorization to learn introductory accounting, but that is not a good learning technique. Alternatively, if students understand why the rules are as they are, there is a better chance that learning can take place without resorting to memorization. In addition, if students understand why accounting has developed in the way it has, there will be a better chance that future evolutions will be understood.

Another feature of this book is the inclusion of articles from a variety of professional accounting journals. These readings are included at the ends of several chapters to provide a practical explanation of certain material covered in one or more chapters.

Many instructors will be pleased to note that this book utilizes a corporate approach throughout the book. Since nonaccounting majors will often be more apt to use accounting data in a corporate setting, it is felt that this approach is preferable for educational purposes as well.

Although this book is user oriented, some of the material in the early chapters still requires the student to work traditional problems involving the preparation of accounting records. The authors feel that only with some appreciation

for preparation will students derive an appreciation for the subsequent use of accounting information.

Most instructors will be pleased to see that the closing out of merchandise inventories (Chapters 5 and 6) is treated in the more popular and more easily explained method of making it a part of the closing entries — and not an adjusting entry. This permits the worksheet totals to be utilized as check figures in the preparation of closing entries and simplifies the explanation of the process.

There is a difference of opinion among instructors as to the amount of coverage to be accorded to inflation accounting, and the authors feel that the relatively light coverage in this book is a strength — at least at this point in students' college careers. The students are introduced to the subject of inflation accounting, but they are not abused with an abundance of detail. Similar coverage is accorded to international accounting and consolidations. Students would not have the training to prepare statements incorporating this material; however, the coverage of these topics is sufficient enough to allow them to understand the general aspects of the subjects from a user's viewpoint.

The statement of changes in financial position places the primary emphasis on the cash approach. Although this approach may not be the most widely published by large corporations, it is the approach desired by corporate financial analysts and by small business owners. Thus, the authors feel that the cash approach is preferable and is easier to understand. A worksheet is used in the preparation of the statement of changes.

Another feature of this book that perhaps differentiates it from its competitors is the inclusion of a chapter on manufacturing accounting (Chapter 6). Note that this is strictly a financial accounting chapter and does not deal with managerial accounting topics.

In summary, this book offers the best of the old, which, combined with pedagogical improvements, should result in students learning better and more easily. It is a traditional financial accounting textbook, but with something more added.

## Supplementary Materials

In addition to the textbook, several supplementary aids are available. For the student, these include:

1. A *Study Guide* prepared by Edward Younkings of Wheeling College. The study guide includes an outline of each chapter; true and false, multiple-choice, and completion questions; and exercises.
2. A manual review *Practice Set* prepared by Elliott Levy, Bentley College, which focuses on accounting for a corporation and includes source documents.
3. "*Your Name*" *Company: Accounting Practice Set for the Computer* prepared by Thomas W. Charles and Frederic M. Stiner, Jr., University of Delaware.

4. *Accounting Cycle Practice Set for the IBM-PC* prepared by Annette Pearson and Frederic M. Stiner, Jr., University of Delaware.
5. Partially completed *Working Papers* for the problems.
6. A *Checklist* of key answers to problem assignments.

For the instructor, the supplementary aids include:

1. A *Solutions Manual* for all homework materials.
2. A *Test Bank* of examination materials for each chapter prepared by Orville R. Keister, Jr., University of Akron. These materials include multiple-choice questions and short problems/exercises.
3. The *Kent Computer Test Bank Generation Program*.
4. A set of *Transparencies* (set in large type) for all homework. Included in the set are several “teaching visuals” for lecture purposes.
5. The *Kent/Bentley Review: Accounting and Computers*, a journal with articles of practical interest on the subject of using the computer in accounting courses. For a complimentary copy, write: Accounting Publisher, Box F, Kent Publishing Company, 20 Park Plaza, Boston, Massachusetts 02116.

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# 1

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## Financial Accounting: Its Development, Objectives, and Functions

*The professional accountant is an investigator, a looker for leaks, a dissector and a detective in the highest acceptation of the term; he must have a good knowledge of real estate, machinery, buildings and other property. His business is to verify that which is right and to detect and expose that which is wrong; to discover and report facts as they exist, whether they be plainly expressed by clear and distinct records or whether they be concealed by the cunning naïve or hidden under plausibly arranged figures or as is frequently the case omitted from the records entirely. He is a reader of hieroglyphics, however written, for every erasure, alteration, interlining, dot, dash or character may have a meaning. . . . He is the foe of deceit and the champion of honesty.*

KEISTER, 1896

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### Learning Objectives

After studying this chapter, the student should be able to:

- Understand what accounting records are used for
- Explain what an accountant does
- Understand the need for accounting records
- Identify the parties who are interested in accounting records
- Identify the various types of accounting career fields
- Describe situations where accounting can be a useful tool
- Identify the three major accounting examinations
- Define the terms *assets*, *liabilities*, and *owner's equity*
- Discuss the basic accounting equation
- Explain the effects of transactions on the basic accounting equation
- Explain the difference between a balance sheet and an income statement