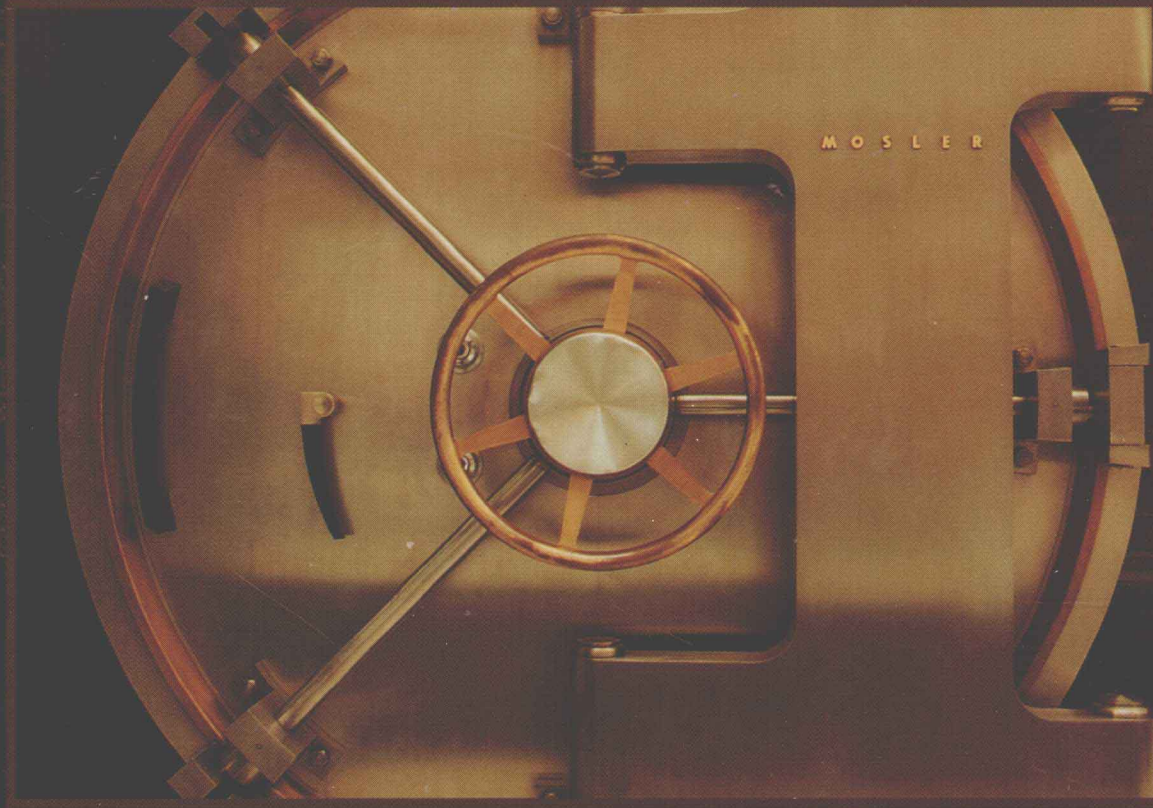


FIFTH CANADIAN EDITION

FINANCIAL ACCOUNTING

AN INTRODUCTION TO CONCEPTS, METHODS, AND USES



BRIAN GABER ♦

SIDNEY DAVIDSON ♦

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ROMAN L. WEIL ♦

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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

PREFACE

The fifth Canadian edition of *Financial Accounting* builds on a theme developed over the first four editions — an integrated approach to teaching concepts, methods, and uses of accounting. We believe that an introductory course in financial accounting should have the following objectives:

1. To help students develop sufficient understanding of the theoretical structure, concepts, and judgment underlying financial statements so that they can adapt to new and different situations.
2. To train students in accounting techniques so that they are able to prepare financial statements from straightforward transactions.
3. To teach students how to interpret, analyze, and evaluate financial accounting information in order to assist in making business decisions.

Most accounting textbooks reflect similar objectives. The critical difference relates to the relative emphasis placed on the objectives. The majority of introductory financial accounting texts stress the coverage of accounting procedures and are labelled “procedural” texts. A few emphasize concepts; in Canada, none focus primarily on uses of accounting information.

The major feature of this book is its ability to support any course emphasis — procedural, conceptual, user, or, ideally, balanced. This necessitates a large book, but we believe the flexibility it provides to instructors more than justifies its length. The book is sufficiently rich in material to support a course either entirely devoted to, or devoid of, debits and credits.

The book contains not only full treatment of all the accounting procedures typically covered in an introductory course, but also more advanced material to meet the needs of those students with backgrounds in high school accounting. The book also includes considerable discussion of the uses of accounting information. The final three chapters are devoted principally to this theme.

It is, however, the conceptual content of this book that clearly sets it apart. We attempt to explain the “why” as well as the “how” of accounting procedures. There are numerous nonquantitative discussion cases on important issues facing the accounting profession. The capstone of this conceptual approach is a new chapter on accounting theory — a first for introductory accounting texts.

Today, introductory financial accounting textbooks must serve a multipurpose role. There are three distinct categories of students who take this course:

1. Accounting majors with as much as four years of high school accounting. These students are penalized if they must go through the book-keeping cycle and rudimentary accounting procedures again.

2. Accounting majors with no previous accounting background. These students must start their accounting studies from the beginning.
3. Nonaccounting majors who are taking the course as a required business credit or for general interest. These students want minimal exposure to the procedural aspects of accounting.

We believe that a conceptual orientation benefits all three groups. Accounting educators are also beginning to believe that an accounting curriculum that begins with concepts ultimately creates better accountants. A procedural emphasis is more suited to the intermediate accounting course, which is taken only by accounting majors.

CHANGES TO THE FIFTH EDITION

The major changes in this edition are as follows:

1. A new Chapter 5 devoted to the discussion of accounting theory and a conceptual framework for accounting.
2. An appendix to Chapter 5 deals with ethical issues facing the accounting profession. Surveys of accounting instructors have indicated that this is the topic they would most like added to the accounting curriculum.
3. An appendix to Chapter 5 discusses principles of internal control. Traditionally, this topic has been covered in the fourth year auditing course, but it is now recognized that all future managers should have exposure to objectives and procedures of control.
4. An appendix to Chapter 5 discusses systems concepts. If accounting is portrayed to students as an “information system,” they should have an understanding of the implications of the term.
5. The chapter on financial statement analysis has been moved to the end of the book (Chapter 15). Surveys have shown that instructors prefer to treat this as the concluding chapter to the course.
6. The two chapters on the statement of changes in financial position have been combined into a single chapter and placed near the end of the book (Chapter 13). The one-semester course does not have time to devote two weeks to the topic, and the perceived complexity of the statement of changes in financial position by the students makes it more appropriate to cover the topic at the end of the course.
7. Self-study material at the end of each chapter will help the students bridge the gap between the chapter material and the assignments.
8. The end-of-book glossary has been replaced by a running glossary in the margins. Each chapter also contains a list of the key terms defined in that chapter, and the index identifies where the principal definition can be found for each term. The running glossary approach is preferred by students.

larger page size with expanded margins. This enhances readability and allows the students to make notes in the margins.

10. A second colour has been introduced to highlight key items. The use of colour, along with a more pleasing type-style, adds significantly to the readability of the text.
11. At least two discussion cases have been added to each chapter. These deal with qualitative issues that face the profession and act as catalysts to stimulate classroom discussion.
12. Part of the Solutions Manual has been turned into an Instructor's Manual. This contains guidance on course design and curriculum matters as well as suggested approaches to taking up the case-type questions. A separate manual for instructors facilitates placing the solutions manual on library reserve for students.
13. The end-of-book appendix on accounting for the effects of changing prices has been deleted. This is consistent with the deletion of this material from the *CICA Handbook*.
14. The end-of-book appendix containing a set of annotated financial statements has also been deleted. Surveys showed that few courses had adequate time to cover this appendix, and students had difficulty benefiting from a self-study approach.
15. Most chapters now include a section discussing accounting principles in foreign jurisdictions. The multinational nature of business today calls for a more global focus in the accounting curriculum.
16. Numerous detailed reviews by accounting instructors helped identify passages that were subsequently rewritten to improve clarity.
17. The book, of course, has been updated to reflect all accounting pronouncements in effect at the time of printing.

As you can see, a great many changes have been made to the fifth edition. We believe these contribute to a book that will enhance student learning, increase student interest in accounting as a career, and meet the pedagogical needs of accounting education in the 1990s.

ORGANIZATION OF THE BOOK

The book is divided into four major sections:

- | | |
|----------|--|
| PART ONE | This consists of Chapters 1 through 4. It familiarizes students with the discipline, covers the basic accounting cycle, and introduces many of the fundamental concepts that provide the foundation for accounting. |
| PART TWO | This is the new Chapter 5, entitled "A Conceptual Framework for Accounting." The chapter begins with a review of the concepts introduced in the first four chapters to allow instructors to omit classroom coverage of Part One for classes with high school accounting backgrounds. The chapter then introduces |

students to the decision usefulness paradigm, which is the central theme of accounting today. A conceptual framework for accounting is then introduced to give students a frame of reference to evaluate the accounting techniques introduced later in the book.

PART THREE This includes Chapters 6 through 12 and covers the various elements of financial statements. These chapters present the theoretical basis for, and the impact of, accounting procedures in addition to the methods involved.

PART FOUR The final three chapters are devoted to the users of financial statements. Chapter 13 introduces the Statement of Changes in Financial Position. Chapter 14 discusses the impact of accounting alternatives on business decisions. Chapter 15 deals with financial statement analysis.

INSTRUCTOR'S MANUAL

The Instructor's Manual contains suggested course outlines for courses emphasizing a procedural, conceptual, or user orientation. Chapter objectives and teaching hints for many topics, discussion case guidelines, and templates for making transparencies, are included.

SOLUTIONS MANUAL

The Solutions Manual contains the solutions to all procedurally oriented questions, and is suitable for placing on library reserve.

ACKNOWLEDGEMENTS

I am first and foremost indebted to the authors of the American edition for creating such a high-quality introductory text with a conceptual focus. I am equally indebted to C.L. Mitchell, who worked on the initial Canadianization of the book.

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introductory accounting text, and it took vision and courage by Ron to support these changes.

As any textbook author knows, the largest contribution of all comes from the patience and understanding of one's family over the long duration of the project. To Margaret and Cory — thank you.

Brian G. Gaber
Wilfrid Laurier University
Waterloo, Canada

PUBLISHER'S NOTE TO STUDENTS AND INSTRUCTORS

This textbook is a key component of your course. If you are the instructor of this course, you undoubtedly considered a number of texts carefully before choosing this as the one that would work best for your students and you. The authors and publishers spent considerable time and money to ensure its high quality, and we appreciate your recognition of this effort and accomplishment. Please note the copyright statement.

If you are a student, we are confident that this text will help you to meet the objectives of your course. It will also become a valuable addition to your personal library.

Since we want to hear what you think about this book, please be sure to send us the stamped reply card at the end of the text. Your input will help us to continue to publish high-quality books for your courses.

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