

INTERNATIONAL EDITION

INTRODUCTION TO

Financial Accounting

NINTH EDITION



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Introduction to Financial Accounting

Ninth Edition

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P R E F A C E

“You have to know what something is before you know how to use it.”

Introduction to Financial Accounting, 9/E, describes the most widely accepted accounting theory and practice with an emphasis on using and analyzing the information in financial statements.

IFA, 9/E, takes the view that business is an exciting process and that accounting is the perfect window through which to see how economic events affect businesses. Because we believe that accounting aids the understanding of economic events and that accounting builds on simple principles, this book introduces a number of concepts earlier than many other textbooks. We cover these early concepts at the most accessible level and illustrate them with carefully chosen examples from real companies. Our coverage addresses the choices that management makes when preparing financial statements and how these choices affect the way users interpret the information. We also discuss ethical issues throughout the book and in the assignment materials.

This is the ninth edition of this text, and that is a testimonial to its effectiveness. But it also is a testimonial to our former colleagues, students and adoptors who, in each prior edition, have shared their thoughts and suggestions and driven us to change and adapt it to better meet the needs of today’s students and adopting faculty.

Our Philosophy

Introduce the simple concepts early, revisit concepts at more complex levels as students gain understanding, and provide appropriate real-company examples at every stage—that’s our philosophy. Our goal is for students to be able to read and interpret a real company’s financial statements, balance sheet, income statement, and statement of cash flows.

We want students to view accounting as a tool that enhances their understanding of economic events. Students should be asking questions such as “After this transaction, are we better or worse off?” and “What do these statements tell us about the company’s financial position and performance?”

Students cannot understand financial statements in isolation. Rather, they must look at all the financial statements within the context of the company’s business environment. They need to understand the accrual basis of accounting that underlies the balance sheet and income statement, but they must also understand the importance of cash as presented in the statement of cash flows. We present all three basic financial statements in the first five chapters. By presenting the statement of cash flows as Chapter 5, immediately after the presentation of the basics of accrual accounting, students learn the importance of all three statements and the unique information each statement presents before encountering details about financial reporting practices in the later chapters.

One of our colleagues, Hal Bierman, often focuses on an economic event by asking, “Are you happy or are you sad?” We believe that accounting provides a way to understand what is happening and to answer that question. You might think of the basic financial

statements as scorecards in the most fundamental economic contests. Each year the financial statements help you answer the most important questions: Are you happy or sad? Did you make or lose money? Are you prospering or just surviving? Will you have the cash you need for the next big step?

Who Should Use this Book?

Introduction to Financial Accounting, 9/E, presupposes no prior knowledge of accounting and is suitable for any undergraduate or MBA student enrolled in a financial accounting course. It deals with important topics that all business students should study. We have aimed to present relevant subject matter and to present it clearly and accessibly.

This text is oriented to the user of financial statements but gives ample attention to the needs of potential accounting practitioners. *IFA*, 9/E, stresses underlying concepts yet makes them concrete with numerous illustrations, many taken from recent corporate annual reports. Moreover, accounting procedures such as transaction analysis, journalizing, and posting are given due consideration where appropriate. Managers and accountants can develop a better understanding of the economic consequences of a company's transactions by summarizing those transactions into journal entries and T-accounts. However, the ultimate objective is an understanding of financial position and prospects, which we achieve by a focus on the balance sheet equation.

Enhanced Chapter Organization

- Increased emphasis on the Statement of Cash Flows by moving it to Chapter 5, completely revised chapter simplifies the presentation enough for coverage early in the course.
- We combined Chapters 8 and 9 from the last edition to create a new Chapter 9. This change streamlines coverage of liabilities, interest, bonds, and leases.
- We deleted Chapter 14 from the 8th edition, Conceptual Framework and Measurement Techniques, with essential material integrated into other chapters.

Enhanced Emphasis on Financial Statement Analysis

- **NEW Financial Statement Portfolio, located right after Chapter 2!** This insert provides a visual roadmap to financial statement analysis by highlighting key financial ratios and how to derive them from the financial statements. The Financial Statement Portfolio also refers students to appropriate chapters in the book for in-depth coverage of these ratios. A convenient tab gives students easy reference to the Portfolio all semester long.
- **NEW “Interpreting Financial Statements”** sections in each chapter permit students to pause and ponder how to use the information they are learning to better understand the financial position and prospects of a company.
- **NEW “Analyzing and Interpreting Financial Statements” problems at the end of each chapter.** Each problem set includes financial statement research, analyses of Starbucks financial statements, and analysis of other companies' financial statements using the internet.
- **NEW Focus on Starbucks' Annual Report** to illustrate various methods for analyzing financial statements. (See portions of Starbucks 10K in the appendix of this book.) By using one company throughout the book, students get a complete picture of its operations. Problem material at the end of each chapter asks students to analyze Starbucks' financial results.

Retained and Enhanced Features

- Expanded treatment of ethics, with both text coverage and end-of-chapter problems focusing on this important topic in nearly every chapter.
- Critical Thinking Exercises in the assignment material of each chapter that ask students to consider conceptual issues that may have no right answer.
- Business First Boxes in each chapter, new or completely revised. These boxes provide insights into operations at well-known domestic and international companies, accenting today's real-world issues.

Teaching and Learning Support: Because Resources Should Simplify, Not Overwhelm A successful accounting course requires more than a well-written book. Today's classroom requires a dedicated teacher and a fully integrated teaching package. The following material supports this title.

Supplements for Instructors

ONLINE AND TECHNOLOGY RESOURCES

Instructor's Resource Center (www.prenhall.com/horngren): This Prentice Hall resource depository hosts the following resources: Instructor's Manual, Test Item File, TestGen for PC/MAC, PowerPoints, end of chapter Excel templates and solutions, and Test Item File in Blackboard and WebCT formats.

Instructor Resource Center on CD-ROM—Everything you need where you need it. With a new interface and searchable database, sorting through specific resources has never been easier. The Prentice Hall Instructor Resource Center/CD-ROM increases your effectiveness and saves you time and effort. Harness the power of having all of your resources in one well-organized place. Includes Instructor's Manual, Test Item File, TestGen, Solutions Manual, and Powerpoints.

Test Gen for PC/MAC—This PC/MAC-compatible test generating software, new for the 9th edition is powerful and easy to use. It is preloaded with all of the questions from the new Test Item File and allows users to manually or randomly view test bank questions and drag and drop them to create a test. Add or modify questions using the built-in Question Editor, print up to twenty five variations of a single test, deliver the test on a local area network use the built-in Quiz-master feature, and much more. Technical support is available at media.support@pearsoned.com or 1-800-6-PROFESSOR between 8:00–5:00 P.M. (C.S.T). Test Gen EQ available on Instructor Resource CD-ROM.

PowerPoint Slides: Comprehensive slides designed to aid in presentation of key chapter concepts. Available online and on the Instructor's Resource CD-ROM.

Print Resources

INSTRUCTOR'S RESOURCE MANUAL BY SCOTT YETMAR Contains the following elements for each chapter of the text: chapter overviews, chapter outlines organized by objectives, teaching tips, chapter quiz, transparency masters derived from textbook exhibits, and suggested readings.

SOLUTIONS MANUAL BY TEXT AUTHORS: COMPLETE SOLUTIONS TO END OF CHAPTER PROBLEMS, EXERCISES AND QUESTIONS. Special thanks to Carolyn Streuly for reviewing this material.

TEST ITEM FILE BY ZANE SWANSON The Test Item File includes multiple choice, true/false, exercises, comprehensive problems, short answer problems, critical thinking essay questions, etc. Each test item is tied to the corresponding learning objective, has an assigned difficulty level, and provides a page reference.

Solutions Transparencies on Acetate: Ideal for Classroom Presentations and Lectures.

Supplements for Students

Prentice Hall Grade Assist—Shouldn't class-time be spent on class material? With PH Online Homework your students have the ability to practice what you teach them online, anytime. Problems are automatically graded, and you have the ability to choose from hundreds of questions to create assignments, quizzes, or tests. Gradebook allows you to view individual and class results and export data to course management applications.

Excel Templates for end of chapter problems—For each chapter, selected problems (with excel icon) have readymade templates designed to help students solve problems using excel. Gives students a chance to practice and improve skills. Templates on Companion Website.

Companion Website—An excellent online resource center for students, containing key resources such as PowerPoint presentations, excel templates, and self-study quizzes.

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Comments from users are welcome.

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Introduction to Financial Accounting

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Explain how accounting information assists in making decisions.
2. Describe the components of the balance sheet.
3. Analyse business transactions and relate them to changes in the balance sheet.
4. Compare the features of sole proprietorships, partnerships and corporations.
5. Identify the owners' equity section in a corporate balance sheet, differ from that in a sole proprietorship or partnership.
6. Describe auditing and how it enhances the value of financial information.
7. Explain the function of financial reporting.
8. Evaluate the role of ethics in the accounting process.