



# Using Financial Accounting

AN INTRODUCTION

MURRAY ♦ NEUMANN ♦ ELGERS

# Using Financial Accounting: An Introduction

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This is an exciting time in accounting education. Various constituencies have emphasized the need for change and accounting educators have been quick to respond. Colleges and universities have developed innovations in their curricula, methods of instructional delivery, and course materials. We believe this book will assist those students and faculty members seeking an innovative approach to introductory financial accounting.

For several years now, nearly all introductory texts have offered new and various pedagogical features that proclaim to follow a “user” approach. We have attempted to advance this trend. *Using Financial Accounting* is truly written from the user’s perspective. We emphasize (1) the effects of transactions on financial statements, (2) the interrelationships among the financial statements, and (3) the interpretation of financial statement information.

The mechanical aspects of the accounting process, such as journals, ledgers, debits/credits, trial balances, etc., are virtually eliminated from the text. Beginning students too frequently become immersed in detailed bookkeeping procedures and lose sight of the underlying objective of accounting: to assist in making business and economic decisions.

By taking an analytical and interpretative approach, students are able to understand and use financial statements. They will retain this ability longer than the knowledge of detailed accounting procedures. This approach “adds value” to students’ potential contributions as business professionals.

## TARGET AUDIENCE

This text is intended to serve both accounting majors and nonmajors. Nonmajors view a rules-based presentation as procedural rather than conceptual. Majors are also limited by a mechanical approach in that they do not really understand the goals and purposes of financial accounting until much later in their academic or professional careers. The target audience for this text includes:

1. Undergraduate accounting majors
2. Students other than accounting majors who want to interpret financial statements and interact with accounting professionals. This student group includes business majors and students in nonbusiness disciplines, such as engineering, health services, and law.
3. MBA students, who are particularly well served by an interpretative approach.

## FEATURES

This text’s distinctive combination of features enhances value to students. These features include (1) the use of transaction analysis, rather than journal entries, to describe business events; (2) incorporation of “Reality Checks” that relate the text material to current real-world companies; (3) attention to international issues and accounting conventions for non-U.S. firms; (4) discussions and problem materials dealing with ethical issues facing managers and accountants; (5) evaluations of economic consequences associated with accounting policy decisions; (6) inclusion of an unusually large, diverse, and flexible set of end-of-chapter assignment material; and (7) a host of Internet-based problems in each chapter.

## Transaction Analysis

To understand and interpret financial statements, students must gain an understanding of how transactions affect financial statements. This is accomplished by using the basic accounting equation:

$$\text{ASSETS} = \text{LIABILITIES} + \text{SHAREHOLDERS' EQUITY}$$

Transaction analysis, using the accounting equation, provides students with the background and tools to analyze financial statements. In addition to showing how business events affect the accounting equation, significant parts of each chapter are devoted to analysis and interpretation. Ratio analysis is introduced as early as Chapter 3, “The Balance Sheet,” and appears in every subsequent chapter.

## Reality Checks

Because we focus on the uses of financial accounting information, each chapter includes numerous real-world illustrations. These illustrations show how financial statements provide insights into a firm’s performance. As part of this real-world orientation, Reality Checks are interspersed throughout the text. Reality checks are self-contained, limited-scope problems (with solutions), based on actual financial statements and other disclosures. They help students see how financial statements can be used to answer important questions.

## International Coverage

International issues are interwoven into the discussion of financial statement analysis. The reader is shown how international differences in accounting standards can affect the inferences drawn from financial statements. For example, the discussion of non-current assets indicates that firms in some countries (such as Australia) report the market value of property, plant, and equipment. Moreover, problems involving non-U.S. firms are included at the end of several chapters. International accounting issues are summarized in Chapter 13, “Reporting Issues for Affiliated and International Companies.”

## Ethics

Ethical issues are considered throughout the text. Ethical dilemmas are presented, and the reader is asked to identify the proper course of action. We use a flag called “What Would You Do?” to alert readers to these ethical issues as they arise.

## Economic Consequences

During the past 20 years, we have become more aware of the economic consequences and managerial motivations related to accounting policy decisions. Sophisticated users of financial statements should know that motivations stemming from compensation plans and debt covenants can affect the relevance and reliability of financial accounting information. These discussions are relatively self-contained so that they can be included at the instructor’s option.

## End-of-Chapter Material

Each chapter ends with questions, exercises, and problems. The questions and exercises are relatively short, straightforward applications of the text material. Problems

are longer and more involved than the exercises. Many involve writing or research assignments. Some problems are long enough, and sufficiently complex, to be treated as mini-cases.

Extended discussion problems have been included to challenge students' understanding of how financial statements can be used. They often require qualitative, narrative responses; some require research and writing. Our focus on the user orientation, real-world information, international issues, and ethics is carried through to the end-of-chapter material. Much of this material is based on actual financial statements from companies from around the world. The end-of-chapter material also contains situations requiring the application of ethics and Internet searches.

## ORGANIZATION

This book is arranged into four major components that make it readily adaptable for use in quarter, semester, or modular-type programs.

Chapters 1 through 5 introduce financial accounting and three primary financial statements: the balance sheet, the income statement, and statement of cash flows.

Chapters 6 through 10 examine in more detail current and noncurrent assets, current and noncurrent liabilities, and shareholder's equity.

Chapter 11 is a synthesis of financial statement analysis. Although all chapters focus on the analysis and interpretation of financial statements, Chapter 11 provides an overall framework for financial statement analysis. Most instructors will use this chapter to unify the topics covered earlier in the text.

Chapters 12 through 14 consist of several self-contained modules that explore relatively complex topics such as leases, pensions, consolidated reporting, and international reporting. Many instructors will choose to cover only a subset of these topics.

Appendix A contains an overview of the accounting process. Journal entries, adjusting entries, closing entries, and other procedural aspects of accounting are discussed. This appendix is intended primarily for those students (such as accounting majors) who wish to engage in further study of financial accounting. Most instructors who elect to utilize this appendix would likely use it in an end-of-course module to prepare students for intermediate financial accounting.

Appendix B examines various career options in accounting. This material would be of interest to a wide array of readers.

Appendix C reviews the basic concepts of the time value of money.

In keeping with our real-world approach, Appendixes D and E contain the annual reports of Wendy's International, Inc. and Reebok International Limited, respectively. These reports serve as the basis for a number of exercises and problems.

## SUPPLEMENTS

The following supplements are available for use with this text:

**Solutions/Instructor's Manual.** Prepared by Elizabeth C. Conner of the University of Colorado at Denver, this manual provides solutions to the text's extensive end-of-chapter review material. It also includes chapter overviews, learning objectives, and material designed to encourage group work. Sheila Viel of the University of Wisconsin—Milwaukee, carefully verified the solutions.

**Test Bank.** Prepared by Linda Kidwell of Niagara University, the Test Bank provides a variety of true/false, multiple-choice, matching, fill-in, and essay problems—80

to 100 per chapter in both the printed and computerized versions. Each chapter includes a page linking the problems to the learning objectives and providing a difficulty level for each problem.

**PowerPoint Presentation Slides.** Prepared by Anthony Zambelli of the University of Redlands, these slides highlight the major concepts of each chapter.

**Study Guide.** Prepared by Cecilia M. Fewox of the College of Charleston, the Study Guide for students provides an overview for each chapter, a review of each specific chapter objective, and self-test material that utilizes matching, completion, and multiple-choice formats, as well as demonstration problems.

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