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财务会计学

(第六版)

FINANCIAL ACCOUNTING

(SIXTH EDITION)

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世界财经与管理教材大系



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出版者的话

但凡成事，均缘于势。得势则事成，失势则事不顺。顺势而行，如顺水行舟；借势而动，如假梯登高；造势而为，如太空揽月。治学、从政、经商、置业，均不可一日失势。势者，长处、趋势也。

今日中国，是开放的中国；当今世界，是开放的世界。改革开放，大势所趋，势不可挡。经济开放、文化开放、政治开放，世界需要一个开放的中国，中国更要融入开放的世界。借鉴国际惯例，学习他人之长，已经到了不可不为之时。

借鉴国际惯例，学习他人之长，已属老生常谈，但学什么、如何学、以何为蓝本为众多志士仁人所关注。可喜的是，由赤诚图文信息有限公司精心策划，ITP、McGraw-Hill及Simon & Schuster等国际出版公司特别授权，东北财经大学出版社荣誉出版的“世界财经与管理教材大系”现已隆重面世！她以“紧扣三个面向，精选五大系列，奉献百部名著，造就亿万英才”的博大胸襟和恢弘气势，囊括经济学、管理学、财务与会计学、市场营销学、商务与法律等财经、管理类主干学科，并根据大学教育、研究生教育、工商管理硕士（MBA）和经理人员培训项目（ETP）等不同层次的需要，相应遴选了具有针对性的教材，可谓体系完整，蔚为大观。所选图书多为哈佛、斯坦福、麻省理工、伦敦商学院、埃维商学院等世界一流名校的顶尖教授、权威学者的经典之作，在西方发达国家备受推崇，被广为采用，经久不衰，大有“洛阳纸贵”之势。

借鉴国际惯例，毕竟只是因势而动；推出国粹精品，才是造势而为。在借鉴与学习的同时，更重要的是弘扬民族精神，创建民族文化。“民族的，才是国际的”。我们提倡学他人之长，但更希望立自己之势。

势缘何物，势乃人为。识人、用人、育人、成人，乃人本之真谛。育人才、成能人，则可造大势。育人、成人之根本在教育，教育之要件在教材，教材之基础在出版。换言之，人本之基础在书本。

凡事均需讲效益，所谓成事，亦即有效。高效可造宏基，无效难以为继，此乃事物发展之规律。基于此，我们崇尚出好书、出人才、出效益！

东北财经大学出版社

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Financial Accounting is written for students in a one-semester or two-quarter introductory financial accounting sequence. The sixth edition of the textbook builds on and maintains the strengths of our first five editions. The overall objective of this edition is to provide introductory financial accounting students and their instructors with the most timely, relevant, and understandable textbook possible.

DISTINGUISHING FEATURES OF THE SIXTH EDITION

The fifth edition of this text was designed to be user-oriented and satisfy the need for a more conceptual introduction to financial accounting than most texts provide. From the positive feedback we have received, we believe progress has been made. If anything, however, we did not go far enough in the fifth edition. Our objective for the sixth edition is simply to make *Financial Accounting* one of the most user-oriented texts on the market and the one most in line with the recommendations of the Accounting Education Change Commission (AECC). Four major changes and innovations have been made to accomplish our goals.

Streamlined Coverage of Details and Complexities

We believe that many professors are looking for a book that introduces students to accounting, excites them by using lots of real-world business examples, and allows them to see how accounting is used. They do not want a book that takes an encyclopedic approach to every possible nuance of financial statement preparation or alternative way to perform accounting functions. To respond to this need, we have divided most chapters into two parts: (1) **basic material** that needs to be covered to understand essential accounting concepts and (2) **expanded material** dealing with nonessential topics or additional complexities that can be covered if the professor desires. For example, in Chapter 9 dealing with prop-

erty, plant, and equipment, the concept of depreciation is explained and illustrated in the basic material section using only straight-line and units-of-production methods. Other alternatives, such as sum-of-the-years' digits and declining balance methods, are included in the expanded material section of the chapter. Partial-year depreciation calculations and changes in depreciation estimates are also covered in the expanded material section.

It is important to note that the more complex material and alternative accounting procedures will not be in appendixes but will be included within the chapter (only in a separate section) so that professors who want to introduce basic concepts can do so by using the front part of each chapter and professors who want a more traditional approach can use the full chapter. This should respond to the growing movement in accounting education to use the introductory accounting course to expose students to business, and accounting's role in business, rather than to the traditional, preparer-oriented introductory accounting course. The sixth edition, which places material necessary to understand basic concepts in the main part of the chapter, additional complexities at the back of the chapter, and a few optional topics in appendixes, should satisfy this need. Note that end-of-chapter materials are closely correlated and tied to the textual material. End-of-chapter materials are divided and labeled as basic or expanded to model the division of coverage in the chapters.

Expanded End-of-Chapter Material

While users were pleased with the end-of-chapter assignments in the fifth edition, a major effort has been made to upgrade and make this material even better. We have changed and clarified existing exercises and problems and added a significant number of new, short exercises. Many professors indicate that they don't have time to cover long problems and that they prefer more short exercises. We have responded to this request.

In addition, we have added a variety of new end-of-chapter materials. Specifically, we have added written and oral communication assignments, library assignments (such as looking up annual report information and reading current periodicals), business analysis cases, and ethics cases. In the *Instructor's Guide and Solutions Manual*, we note which of these assignments are best suited for group work. Professors who want to follow AECC recommendations by including more cooperative learning and skills development assignments will find that this book satisfies their needs.

Using the Cycle Approach

Although our goal in the fifth edition was to be user oriented, we kept the traditional financial statement organization that most financial accounting books use. This left some users feeling that, although the chapter material was user oriented, the overall organization of the book still favored a preparer approach.

In the sixth edition, we have abandoned the financial statement organization. In its place, we use an organizational format more consistent with business activities and cycles. Specifically, after introducing and explaining financial reporting and the accounting cycle in Part 1 (Chapters 1–5), we discuss the operating activities of a business in Part 2 (Chapters 6–8) and the investing and financing activities in Part 3 (Chapter 9–12). We conclude the financial portion of the text by discussing other dimensions of financial reporting in Part 4 (Chapters 13 and 14).

We have added a new chapter (Chapter 5) on the integrity of financial information, which should add greatly to students' understanding of the financial reporting process. We have dropped the separate chapter on partnerships and proprietorships, and instead include essential material on those topics in Chapter 11. We have also dropped several appendices (such as reversing entries and using a work sheet to account for inventory), which we feel were very preparer oriented. And to make the book even more user oriented, we discuss important relationships and include applicable ratios throughout the text. Chapter 14 ties all the ratios together in a chapter that analyzes and presents comprehensive financial statements.

The result of the organization, additions, and deletions is 14 chapters of financial accounting, an

amount that professors should be able to cover in one term.

More Real-World Examples

In the fifth edition, we added Business Environment Essays throughout the chapters and "Setting the Stage" scenarios at the beginning of each chapter. These features have been very well received and are maintained and strengthened in the sixth edition. In addition, we have added a significant number of references to real company annual reports and business news articles. Real company data are used as illustrations wherever possible (as long as it doesn't overly complicate a topic). Finally, PepsiCo, Inc.'s entire annual report is shown in the Appendix at the back of the text and is referenced throughout the text. Considered together, these changes make the sixth edition of this book one of the most user-oriented texts on the market and one that implements the AECC recommendations for changing the way we teach accounting.

IMPORTANT STRENGTHS FROM PREVIOUS EDITIONS

In addition to the philosophical and specific content changes that are new to the sixth edition, several strengths have been maintained from previous editions.

Corporate Emphasis

The text is written with an emphasis on corporations to reflect the real world of financial reporting. In Chapter 2, the entity concept is explained, and each type of business organization is defined and described briefly. Also, the corporation is used to explain and illustrate the primary financial statements. Early chapter references to proprietorships and partnerships have been deleted to simplify the coverage and to avoid confusion among students.

Focus on Ethics

A section in Chapter 1 introduces the topic of ethics. A general decision model for resolving ethical issues is presented, along with a brief summary of the American Institute of Certified Public Accountants' *Code of Professional Conduct*. In addition, most chapters contain at least one ethics case relating to the

topics covered in the chapter. The cases present ethical dilemmas that require students to think about behavioral and moral issues in business and accounting. Research in moral development suggests that students who are exposed to, and required to think about, ethical issues develop a stronger personal code of ethics than do those who are naive about the issues. We believe these ethics cases will provide a basis for rich classroom discussions.

Chapter Organization and Structure

Each chapter is carefully structured to help students focus on important ideas and remember them. Specific components found in each chapter include:

LEARNING OBJECTIVES. Each chapter begins with specific learning objectives to guide students in their study of the chapter. Where applicable, the learning objectives are classified as basic or expanded. These objectives show students and instructors the organizational flow of the chapter and help students evaluate their understanding of the main points within each chapter. The objectives are integrated in the text margins and summarized at the end of the chapter.

SETTING THE STAGE. An interesting, real-life scenario “sets the stage” for each chapter. These scenarios tie directly to material covered in the chapter and help students relate chapter topics to actual business happenings.

BUSINESS ENVIRONMENT ESSAYS. The text contains numerous real-world examples, adapted from financial newspapers and business publications, that illustrate important concepts being discussed. These examples enable students to see how the accounting topics they are studying are applied and interpreted in real-world situations.

KEY TERMS. Throughout each chapter, key terms are defined in the margins, making it easier for students to learn accounting, the language of business. A list of key terms (with page references) is presented at the end of each chapter to provide additional reinforcement, and all key terms are defined in a comprehensive glossary at the end of the book.

SUMMARIES. Several concise summaries are presented within each chapter to help students remem-

ber the important points just discussed, and each chapter concludes with a comprehensive summary, organized by learning objectives.

REVIEW PROBLEMS. A basic material and an expanded material review problem (where applicable) are provided at the end of each chapter. These review problems (with solutions) demonstrate the application of the major concepts and procedures covered in the chapter.

APPENDIXES. To allow greater flexibility of coverage, the optional topics of work sheets and special journals are covered in appendixes at the end of Chapter 4.

END-OF-CHAPTER MATERIALS. The end-of-chapter materials are designed to test and reinforce student understanding in various ways. The discussion questions are intended to refine students’ understanding of specific accounting terms and concepts. The exercises deal with single concepts, and each can be completed fairly quickly (a maximum of 30 minutes). The problems generally take longer to complete than the exercises, and they probe for a deeper level of understanding. Those problems identified as “Unifying Concepts” and those with “Interpretive Questions” require students to analyze or interpret the computed results. The end-of-chapter assignments are divided into basic and expanded material, consistent with the chapter.

Two types of cases are included at the end of every chapter to help students develop analytical, problem-solving, and communication skills. The business analysis cases demonstrate how accounting affects day-to-day business decisions and require students to interpret data, as well as solve problems. The ethics cases require students to consider behavioral and moral issues in accounting and business. As mentioned earlier, written and oral communication assignments and business activities are also included, consistent with AECC recommendations. Those that best fit group work are identified in the *Solutions Manual/Instructor’s Resource Guide*.

LEARNING AND TEACHING AIDS THAT ACCOMPANY THE TEXTBOOK

This textbook is part of a comprehensive and carefully prepared educational package that offers various forms of assistance to both instructors and stu-

dents. Each of the supplementary items available for use with the text is described briefly.

Available to Students

STUDY GUIDE. The Study Guide provides a means for students to reexamine the concepts and procedures in each chapter from several different perspectives. This publication includes learning objectives; detailed chapter summaries; discussions of topics that cause problems for students and suggestions for overcoming those problems; and tests for student self-assessment, including matching, true-false, multiple-choice questions, and computational exercises (all with solutions).

WORKING PAPERS. Appropriate printed forms for students to use in solving end-of-chapter problems are available.

SOLUTIONS SOFTWARE, PREPARED BY WARREN W. ALLEN AND DALE H. KLOOSTER. This software is a general ledger program tailored specifically to *Financial Accounting*. Available in MS-DOS® and Windows®¹ versions, the software may be used to solve selected end-of-chapter problems, which are identified with the symbol shown at the left.



HOMEWORK ASSISTANT TUTORIAL (HAT) SOFTWARE, PREPARED BY RAY MESERVY OF BRIGHAM YOUNG UNIVERSITY. This Windows-based software visually teaches the relationships among T-accounts, journals, ledgers, and financial statements in solving end-of-chapter problems, which are identified with the symbol shown at the left. This is also an ideal classroom teaching aid.

Available to Instructors

SOLUTIONS MANUAL/INSTRUCTOR'S RESOURCE GUIDE. This manual contains answers to all discussion questions and detailed solutions for exercises, problems, business analysis cases, and ethics cases. A table is provided at the beginning of each chapter showing the estimated completion time and level of difficulty for each exercise, problem, and case. Assignments suited for group work are also identified.

The manual also contains teaching transparency masters designed to aid the instructor in presenting key concepts and principles discussed in the text.

TEST BANK, PREPARED BY DAVID COTTRELL OF BRIGHAM YOUNG UNIVERSITY. A collection of examination problems, multiple-choice questions, true-false questions, and matching exercises, accompanied by solutions, is available in both printed and micro-computer (MicroExam III) versions. The Test Bank is designed to save time in preparing and grading periodic and final examinations. The printed version of the Test Bank also includes sample quizzes for each chapter and sample examinations for groups of chapters.

SOLUTIONS TRANSPARENCIES. Acetate transparencies of solutions to all end-of-chapter problems are available.

POWERPOINT SLIDES, PREPARED BY DAVID COTTRELL OF BRIGHAM YOUNG UNIVERSITY. Selected teaching transparencies of key concepts and exhibits from the text are available in PowerPoint®² presentation software.

ACKNOWLEDGMENTS

Throughout the textbook, relevant publications of standard-setting and professional organizations are discussed, quoted, or paraphrased. We are indebted to the American Accounting Association, the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, and the Institute of Management Accountants for material from their publications.

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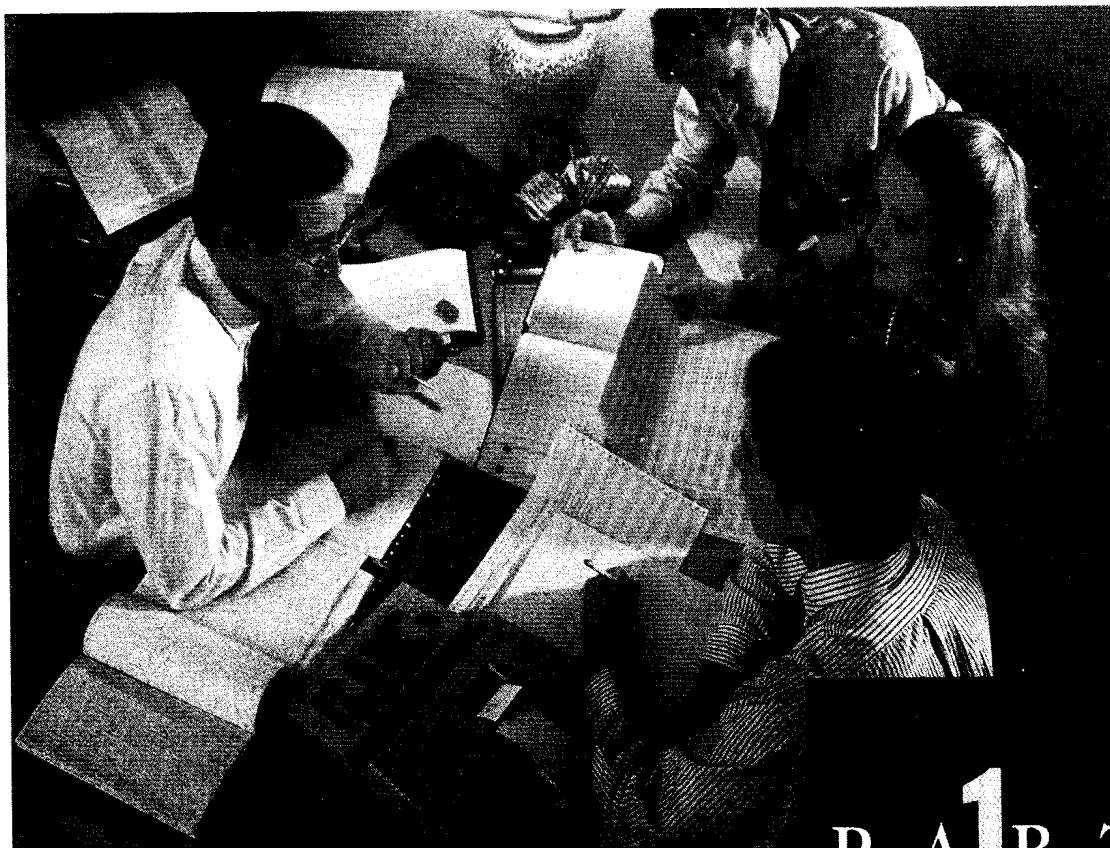
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P A 1 R T

Financial Reporting and the Accounting Cycle

Chapters

- 1 Accounting Information: Users and Uses
- 2 Financial Statements: An Overview
- 3 Transactions and the Accounting Cycle
- 4 Completing the Accounting Cycle
- 5 The Integrity of Financial Information

Accounting Information: Users and Uses

CHAPTER 1

After studying this chapter, you should be able to:

Basic Learning Objectives*

1. Describe the purpose of accounting and explain its role in business and society.
2. Identify the primary users of accounting information.
3. Describe the environment of accounting, including the effects of generally accepted accounting principles, international business, and ethical considerations.
4. Identify various career opportunities in accounting.

*Due to the nature of this chapter, there is no expanded material and hence no expanded learning objectives.

Setting the Stage

How many of you read the *Reader's Digest*? If you don't, then you are one of the few. *Reader's Digest* is the most widely read magazine in the world with a monthly readership of over 100 million. Each month the magazine is published in 17 languages, with the newest edition (as of June 30, 1994) being in the Czech Republic. So The Reader's Digest Association, Inc., the company that produces and sells *Reader's Digest*, must make lots of money selling *Reader's Digest*, right? True, but that is not how the company makes most of its money. The company's marketing strategy is to use *Reader's Digest* to develop loyal customers who will then buy the company's other products. Those other products include books (condensed, series, and general books), home entertainment products (musical selections, videotapes, and children's products), and special interest magazines (e.g., *The Family Handyman*, *Moneywise*, and *American Health*). In addition, the company's fastest-growing product line is its fund-raising organization that works with schools and youth groups to assist in raising money for educational enrichment programs. Sales and profits for each product line indicate that while the *Reader's Digest* magazine is profitable, it is only one item in The Reader's Digest Association, Inc. portfolio of products.

While the *Reader's Digest* magazine may be the company's flagship product, its books and home entertainment line account for two-thirds of the company's sales and three-quarters of its profits. Where is this information obtained? In the company's annual report to shareholders. It is only through a careful review of this report that the above results become apparent. In fact, the information relating to the results for individual segments is disclosed deep in the footnotes to the financial statements (reports summarizing the financial status and results of operations of business entities). An understanding of accounting facilitates the interpretation of financial statement information. A major objective of this text is to provide you with a basic understanding of the language of accounting and with the ability to interpret financial information prepared using accounting techniques and procedures. When you have completed this accounting course, you will be able to "read" the financial statements of companies such as The Reader's Digest Association, Inc. and understand the information that is being conveyed.

Product Line	Sales		Profits	
	(in millions)	% of total	(in millions)	% of total
Reader's Digest Magazine	\$ 689,089	24.5	\$ 78,555	19.0
Books and Home Entertainment				
Products	1,900,297	67.8	310,846	75.3
Special Interest Magazines	90,607	3.2	(3,153)	(0.8)
Other Businesses	129,634	4.6	26,609	6.5
TOTALS	\$2,809,627		\$412,857	

Unless a user of financial information knows the types of information disclosed in an annual report, where the information is disclosed (in the management discussion section, in the body of the financial statements, or in the notes accompanying the statements), and the reliability associated with the information provided, erroneous conclusions may be reached, resulting in poor resource allocation decisions.

In this class, you will begin your study of ac-

counting. You will learn that accounting is the language of business, and unless you have some understanding of it business, investments, taxes and money management will be like a foreign language to you. This chapter introduces you to accounting and provides a perspective by describing briefly the accounting profession, past and present. This background should make it easier for you to understand the concepts and techniques that will be examined in later chapters.

THE PURPOSE OF ACCOUNTING

Objective 1

Describe the purpose of accounting and explain its role in business and society.

Making good decisions is critical for success in any business enterprise. When an important decision must be made, it is essential to use a rational decision-making process. The process is basically the same no matter how complex the issue. First, the problem or question must be clearly identified. Next, the facts surrounding the situation must be gathered and analyzed. Finally, several alternative courses of action should be considered before a decision is reached.

An economic, or financial, decision involves making the best allocation of available resources. For example, assume that you have \$5,000 to invest. What factors would you consider in deciding among the alternative investment choices? One choice might be tuition, books, and other expenses for additional education. Another choice might be new clothes or a newer car. Still another choice might be to invest in a certificate of deposit (CD) at a bank where you could earn a return (called interest) on your investment. Obviously, your choice will depend on many factors, such as the specific alternatives available, current needs, long-term plans, other available resources, and the potential risks and rewards associated with each investment opportunity. Businesses and other organizations must weigh these same factors when making decisions.

Accounting plays a vital role in providing information needed to make knowledgeable financial decisions. The information supplied by accounting is in the form of quantitative data, primarily financial in nature, and relates to specific economic entities. An economic entity may be an individual, a business enterprise, or a nonprofit organization. A **business**, such as a grocery store or a car dealership, is operated with the objective of making a profit for its owners. The goal of a **nonprofit organization**, such as a city government or a university, is to provide services in an effective and efficient manner. Every entity, regardless of its size or purpose, must have a way to keep track of its economic activities and to measure how well it is accomplishing its goals. Accounting provides the means for tracking activities and measuring results.

Without accounting information, many important financial decisions would be made blindly. Investors, for example, would have no way to distinguish be-

business

an organization operated with the objective of making a profit from the sale of goods or services

nonprofit organization

an entity without a profit objective, oriented toward providing services efficiently and effectively