

Preface

An accounting text can be written with an emphasis on either of two viewpoints: (1) what the user of accounting information needs to know about accounting or (2) what the preparer of accounting reports needs to know about accounting. This book focuses on the user of accounting information. Because such a person needs to know enough about the preparation of accounting reports to use them intelligently, this text includes the technical material needed for this purpose. The book is aimed primarily, however, at the person who wants to be a knowledgeable user of accounting information. This focus is reinforced in the book's case studies, which help the student learn that accounting is not a cut-and-dried subject with all of its "answers" clearly indicated by the application of rules.

The focus of the book makes it particularly appropriate for required core courses in accounting, in which many of the students are not planning to take further elective accounting courses. We believe that if a core course stresses the more analytical uses of accounting information by managers and outside analysts rather than the procedural details that the practicing accountant needs to know, then those students who do not take further accounting courses will be left with a positive view of the importance of accounting rather than with the negative "bean counter" stereotype. We also feel that a user orientation in the core course actually is likely to generate a greater number of accounting majors from the class than if the course is oriented more toward the person who has already decided to major in accounting. Similarly, in our experience the required accounting module in a management development program will generate little participant interest unless the module is oriented toward the nonaccountant user of accounting information. In sum, we think the book conveys the fact that accounting is interesting and fun, not dull and tedious.

Specifically, this book is used in at least the following four ways:

1. As an introductory course where most (if not all) of the students have no prior training in accounting. In many schools this introduction comprises two separate courses, one dealing with financial accounting and the other with management accounting. Many schools use this book for both such courses, whereas some use it only for financial accounting (Chapter 1 and Chapters 2–14) or for management accounting (Chapter 1 and Chapters 15–28). It is used in such introductory courses both at the upper undergraduate level and in graduate programs. In addition to its widespread use in schools of business and management, it also is used in introductory accounting courses in some law schools, education schools, and schools of public health.
2. As an elective course that builds on a required introductory course in accounting—particularly where the introductory course had more of a procedural orientation and the elective is intended to be more conceptual, analytical, and user-oriented.
3. As the accounting module in a management development program where the participants represent a variety of functional and technical backgrounds.
4. As a nontechnical accounting reference book for nonaccountants in business and other organizations.

Many instructors assign or recommend the text *Essentials of Accounting*, either as preliminary to study of the subject (it is often sent in advance to participants in MBA and management development programs) or as a review device. It is a self-study introductory treatment of financial accounting, geared to Part 1 of this text.

THE CASES

As in previous editions, the cases have been selected because of their interest and educational value as a basis for class discussion. They are not necessarily intended to illustrate either correct or incorrect handling of management problems. Skill in the management use of accounting information can be acquired, we believe, only through experience. Thinking about a case and discussing it in informal discussion groups and in the classroom require the student to do something—to analyze a problem, to weigh various factors involved in it, to make some calculations, to take a position, and so on. In class the student is required to explain her or his point of view, to defend it, to understand and appraise the arguments of colleagues, and to decide what arguments are the strongest. Practice in doing these things helps to increase skill and understanding; in fact, many educators believe that the really important parts of a subject can be learned only by experience of some sort, as opposed to merely hearing or reading about them. Thus, although the case material constitutes less than half the pages in this book, the discussion of these cases is by far the more important part of the educational process. Of course, such discussions contribute to the students' communication skills as well as to their understanding of accounting.

This edition has a total of 110 cases, 18 of which are new. It is often difficult to judge when to replace an older time-tested case (a “classic” or an “old chestnut”) with which instructors are comfortable with a case of more recent vintage. Each type of case has its advantages. In making changes, we endeavored to strike a balance. We retained some of the best, and most frequently used, older cases while replacing others with some new cases. We hope that these newer cases will become the next generation of classics.

Occasionally, a student or instructor questions our use of small business settings for many of the cases. Such cases often avoid certain complexities at a point when the student is not yet prepared to deal with them. We also would note that studies have reported that small businesses (those employing fewer than 500 people) represent over 99 percent of all U.S. businesses, provide about 50 percent of all private-sector jobs, generate almost 40 percent of the GNP, and contribute two out of three newly created jobs. We therefore feel that exposure to small business cases is beneficial to students, some of whom will one day own a small business while many others will eventually work in such firms or work with them as auditors or consultants.

CHANGES IN THIS EDITION

Part 1 reflects Financial Accounting Standards Board pronouncements through the end of 2005 and the important changes in financial accounting that are expected to occur during the following years. A number of new cases have been added, covering stock options, consolidations, proforma earnings and other contemporary accounting controversies and developments.

The basic structure of Part 2 remains intact. A few new terms and topics were introduced. Most notably these include strategic cost management, a term that encompasses a number of topics that were discussed in the eleventh edition, and the real options approach to valuing investment proposals. The changes provide updated statistics, such as regarding current management accounting practice, and updated research findings and references. And a number of new cases have been added in the areas of activity-based costing, joint costing, relevant costing, residual income (economic profit) planning and “open book management,” and overall performance measurement and organizational control.

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