

FOURTH *edition*



Financial Accounting

L I B B Y

L I B B Y

S H O R T

To Our Student Readers

We wrote this book specifically for two kinds of students:

- *Future managers*, who will need to interpret and use financial statement information in business decisions, whether they pursue careers in marketing, finance, banking, manufacturing, human resources, sales, information systems, or other areas of management.
- *Future accountants*, who will prepare financial statements for those managers. Future accountants need a solid foundation for further professional study.

Both managers and accountants must understand how to *use financial statements in real business decisions* to perform their duties successfully. The best way to learn to do this is to study accounting in real business contexts. This is the key idea behind our *focus company approach*, which we introduce in the first chapter and which integrates each chapter's material around a focus company, its decisions, and its financial statements. The focus companies are drawn from 12 different industries, providing you with a broad range of experience with realistic business and financial accounting practices. In each chapter, *you will actually work with these real companies' statements* and those of additional contrast companies.

We wrote this book to satisfy the needs of both future accountants and future managers, while at the same time allowing you, the individual student, as much freedom and flexibility as possible in mastering the material. If you enjoy working with technology, you will probably find our *CD-ROM* and *Web-based resources* a great help (see facing page). Yet we've also worked hard to improve the textbook itself, *shortening the chapters and focusing the writing* to make it as clear and easy to understand as possible. With the focus companies providing an invaluable real-world perspective, we believe *Financial Accounting* provides all the flexibility and support you need in this crucial course.

The preface to this book contains detailed information about the features and supplements that make up the *Financial Accounting* package. While this material is written for your instructor, we invite you to review it as well, that you may learn more about the book and so make your experience using it as rewarding and enjoyable as it can be.

Good luck in your first accounting course.

Robert Libby Patricia A. Libby Daniel G. Short

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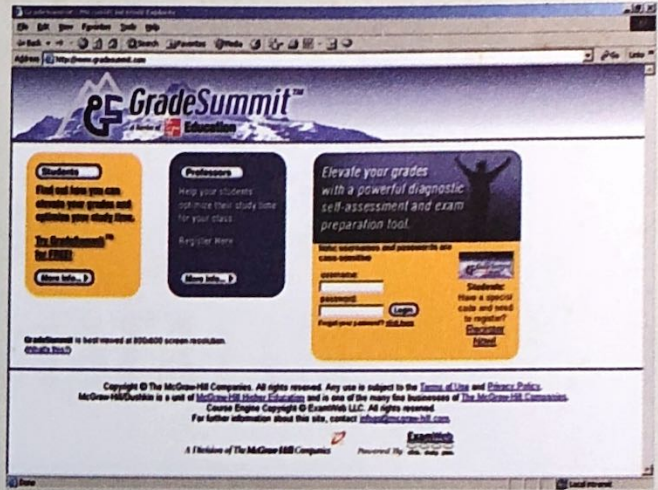
Helpful Technology

Financial Accounting offers numerous technology supplements to make the material even easier for you to master.

GradeSummit—Better Grades in Less Time

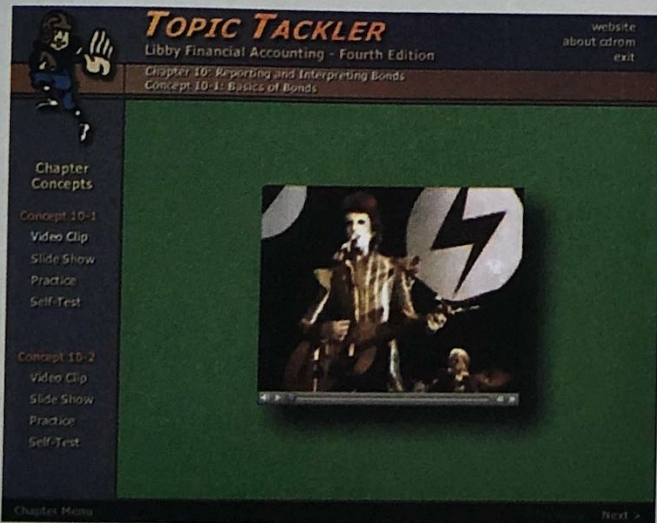
GradeSummit provides Web-based practice tests that tell you everything you need to know in order to study effectively. These tests can be taken in several formats according to your preference, and a smart testing engine automatically scales the difficulty of the questions according to your responses.

Once you've taken a particular test, **GradeSummit** returns a detailed results page showing exactly where you did well and where you need to improve. With that information, you can plan your studying to focus exclusively on your weak areas, without wasting effort on material you've already mastered. And when you continue testing on those subjects, **GradeSummit** compares your new score with your previous efforts, showing you exactly how far you've progressed.



Topic Tackler—Your Guide to the Most Troublesome Topics

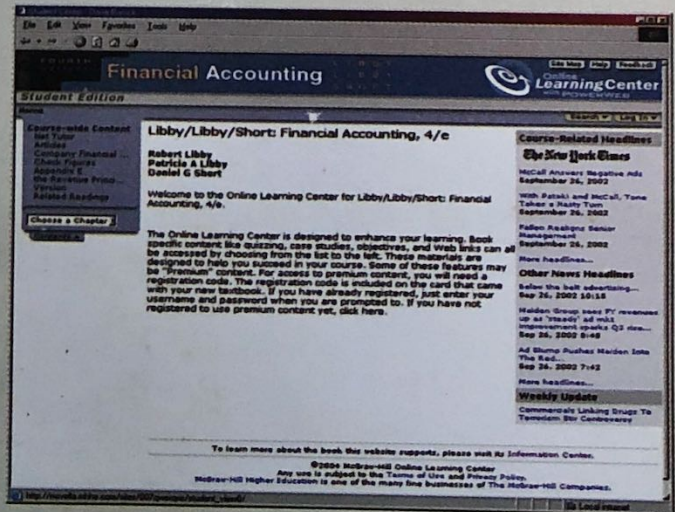
Included on the enclosed CD-ROM, **Topic Tackler** offers extra assistance with the most challenging topics in your financial accounting course. Two topics in every chapter are thoroughly explored through a mixture of video clips, PowerPoint slide shows, interactive exercises, and self-tests; these topics are identified in the text by a unique Topic Tackler icon. Makes a great study and review tool!



Financial Accounting Online—Making the Most of the Web

www.mhhe.com/libby4e

Financial Accounting's fully-featured Website offers self-quizzes, learning objectives, PowerPoint slides, chapter outlines, chapter take-aways, flashcards, and a link to NetTutor, McGraw-Hill/Irwin's live online tutoring service (see enclosed card). In addition to this helpful study material, you'll find two appendices linked to the text material, check figures, articles tied to end-of-chapter material, Web links to the focus company financial statements, and a helpful application called Homework Manager.



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Financial Accounting

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Bob is a widely published author specializing in behavioral accounting. He was selected as the AAA Outstanding Educator in 2000. His prior text, *Accounting and Human Information Processing* (Prentice Hall, 1981), was awarded the AICPA/AAA Notable Contributions to the Accounting Literature Award. He received this award again in 1996 for a paper. He has published numerous articles in the *Journal of Accounting Research*; *Accounting, Organizations, and Society*; and other accounting journals. He is Vice President-Publications of the American Accounting Association and is a member of the American Institute of CPAs and the editorial boards of *The Accounting Review*; *Accounting, Organizations, and Society*; *Journal of Accounting Literature*; and *Journal of Behavioral Decision Making*.

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Patricia Libby is Chair of the Department of Accounting and Associate Professor of Accounting at Ithaca College, where she teaches the undergraduate financial accounting course. She previously taught graduate and undergraduate financial accounting at Eastern Michigan University and the University of Texas at Austin. Before entering academe, she was an auditor with Price Waterhouse (now PricewaterhouseCoopers) and a financial administrator at the University of Chicago. She received her B.S. from Pennsylvania State University, her M.B.A. from DePaul University, and her Ph.D. from the University of Michigan; she is also a CPA.

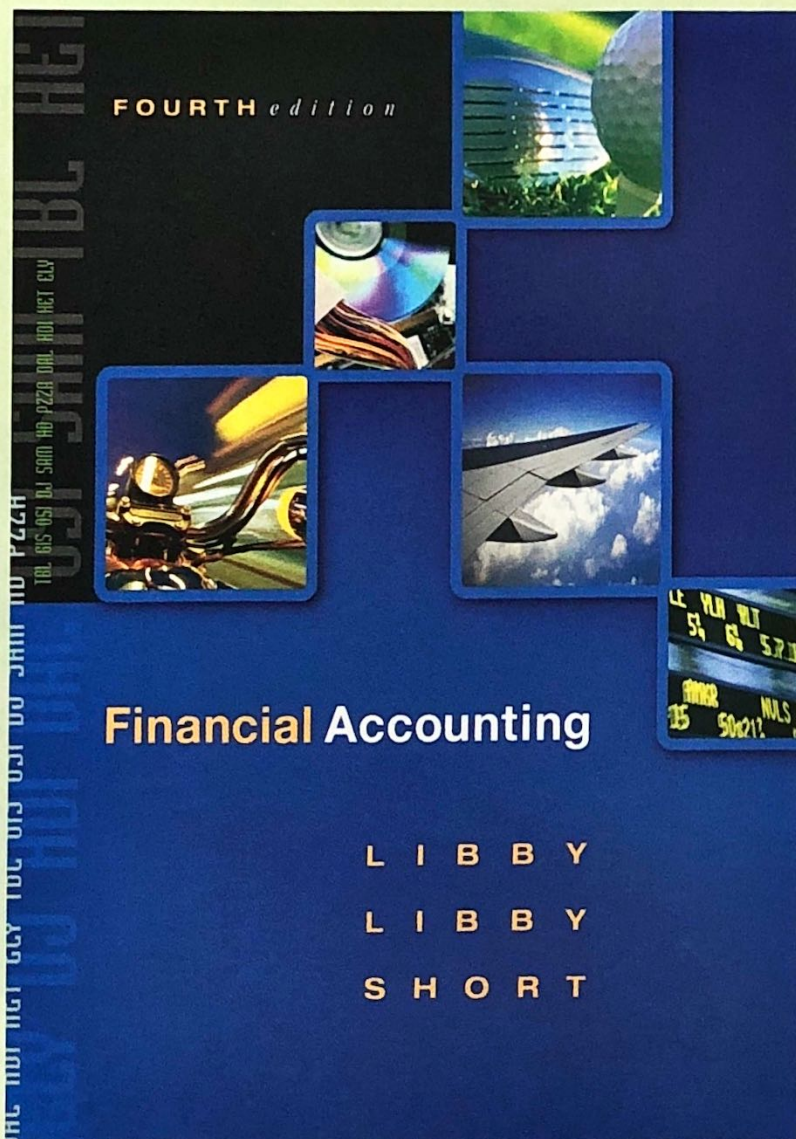
Pat conducts research on using cases in the introductory course and other parts of the accounting curriculum. She has published articles in *The Accounting Review*, *Issues in Accounting Education*, and *The Michigan CPA*. She has also conducted seminars nation-wide on active learning strategies, including cooperative learning methods.

Daniel G. Short

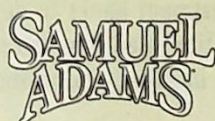
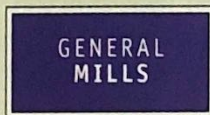
Dan Short is Professor of Accountancy at the Richard T. Farmer School of Business at Miami University. Dan has served as dean at both the Farmer School and the College of Business at Kansas State University. Previously, he was associate dean at the University of Texas at Austin, where he taught the undergraduate and graduate financial accounting courses. He also taught at the University of Michigan and the University of Chicago. He received his undergraduate degree from Boston University and his M.B.A. and Ph.D. from the University of Michigan.

Dan has won numerous awards for his outstanding teaching abilities and has published articles in *The Wall Street Journal*, *The Accounting Review*, the *Journal of Accounting Research*, and other business journals. He has worked with a number of Fortune 500 companies, commercial banks, and investment banks to develop and teach executive education courses on the effective use of accounting information. Dan has also served on boards of directors in several industries, including manufacturing, commercial banking, and medical services.





FOCUS COMPANIES:



Finally, a textbook on which both students and instructors *can agree.*

McGRAW-HILL/IRWIN and the authors would like to thank all of the financial accounting faculty and students who helped make *Financial Accounting, 3/e*, by Libby/Libby/Short **the market-leading financial accounting textbook**. It is clear that this IS the financial accounting text that you both can agree on.

Over three editions, *Financial Accounting* has built a reputation as the most interesting, up-to-date textbook on the market. This author team has continually led the way in making financial accounting more relevant and interesting to students, introducing cutting edge technology supplements to help students with divergent learning styles, and striving to provide students with the most readable and accessible textbook on the market.

The Libby author team achieves these goals by focusing on three key concepts.

RELEVANCE. Unlike other books Libby makes financial accounting come alive by using real world focus companies in each chapter to teach fundamental accounting concepts. Your students learn why accounting is important and how businesses use accounting information to make decisions. The real world flavor is integrated throughout each chapter and even the problem material uses real world data. In light of the recent turmoil in the accounting profession, the fictitious **Maxidrive focus company in Chapter 1—a realistic representation of an actual case of fraud**—provides a perfect setting for discussing Enron and WorldCom and an easy way to get your students interested in and excited about accounting!

CLARITY. The success of *Financial Accounting* also comes from writing that is lively and fun to read—**students just love this textbook!** To continue to meet the changing needs of financial accounting faculty and students, the presentation of material has been streamlined while maintaining effective coverage of all important topics.

TECHNOLOGY AIDES. Today's students have diverse learning styles and numerous time commitments, and they want technology supplements that help them study more efficiently and effectively. **Topic Tackler, NetTutor, Homework Manager, and ALEKS for Financial Accounting** provide your students with four powerful tools tied directly to *Financial Accounting, 4/e*, that will help them maximize their study time and make their learning experience more enjoyable.

The McGraw-Hill/Irwin Libby/Libby/Short team would like to invite you to take the Libby challenge and discover why this is the book on which both students and faculty agree.