

# Contents

---

<b>Preface</b>	<b>ix</b>
Objectives and Features of the 8th Edition	
<b>Acknowledgments</b>	<b>xiii</b>
<b>1. An Introduction to Accounting Theory</b>	<b>1</b>
Accounting Theory and Policy Making	4
The Role of Measurement in Accounting	7
Plan of This Book	12
Appendix 1-A: Valuation Systems	14
<b>2. Accounting Theory and Accounting Research</b>	<b>31</b>
Accounting Research and Scientific Method	32
Is Accounting an Art or a Science?	39
Directions in Accounting Research	42
A Scientific Revolution in Accounting?	51
<b>3. Development of the Institutional Structure     of Financial Accounting</b>	<b>63</b>
Accounting in the United States Prior to 1930	64
Formative Years, 1930–1946	66
Postwar Period, 1946–1959	70
Modern Period, 1959 to the Present	73
<b>4. The Economics of Financial Reporting Regulation</b>	<b>107</b>
The Case for Unregulated Markets for Accounting Information	108
The Case for Regulated Markets for Accounting Information	113
Imperfections of Accounting Regulation	120
The Regulatory Process	121
Economic Consequences of Accounting Policy	126

<b>5. Postulates, Principles, and Concepts</b>	<b>139</b>
Postulates and Principles	140
Basic Concepts Underlying Historical Costing	146
Equity Theories	159
Appendix 5-A: The Basic Postulates of Accounting (ARS 1)	165
Appendix 5-B: A Tentative Set of Broad Accounting Principles for Business Enterprises (ARS 3)	167
<b>6. The Search for Objectives</b>	<b>185</b>
ASOBAT	186
APB Statement 4	194
The Trueblood Committee Report	196
SATTA	203
User Objectives and User Diversity	208
<b>7. The FASB's Conceptual Framework</b>	<b>223</b>
The FASB's Conceptual Framework	225
The Conceptual Framework as a Codificational Document	250
Empirical Research on the Conceptual Framework	254
Assessing the Conceptual Framework	255
<b>8. Usefulness of Accounting Information to Investors and Creditors</b>	<b>265</b>
Earnings, Dividends, and Stock Prices	267
Residual Income Models	270
Background on Risk and Return	279
Introduction to Capital Markets Research in Accounting	286
The Value of Accounting Information: Evidence From Return Data	291
The Value of Accounting Information: Evidence From Direct Valuation	301
Accounting Data and Creditors	303
Importance of Earnings Forecasting	304
Empirical Research and Standard Setting	306
<b>9. Uniformity and Disclosure: Some Policy-Making Directions</b>	<b>327</b>
What Underlies the Choice Among Accounting Methods?	329
Uniformity	330
The Usefulness of Accounting Allocations	341
Disclosure	342
Improving Accounting Standards	352

<b>10. International Accounting</b>	<b>365</b>
National Accounting Differences	366
International Harmonization of Accounting Standards	377
<b>11. The Balance Sheet</b>	<b>401</b>
The Relationship Between the Balance Sheet and the Income Statement	402
Assets	407
Liabilities	425
Owners' Equity	433
Financial Instruments	437
Classification in the Balance Sheet	446
Appendix 11-A: A Simple Example of a Weather Derivative	449
<b>12. The Income Statement</b>	<b>465</b>
Income Definitions	466
Revenues and Gains	467
Expenses and Losses	471
Future Events and Accounting Recognition	474
Current Operating Versus All-Inclusive Income	477
Nonoperating Sections	480
Earnings per Share	486
Special Subjects Concerning Income Measurement	487
Earnings Management	496
Income Statement Developments	500
<b>13. Statement of Cash Flows</b>	<b>521</b>
The Statement of Changes in Financial Position	522
The Motivation for a Cash Flow Statement	525
Requirements of the Cash Flow Statement	527
Classification Problems of SFAS No. 95	533
Analytical Usefulness of the Cash Flow Statement	536
Cash and Funds Flow Research	542
Improving the SCF	542
<b>14. Accounting for Changing Prices and Inflation</b>	<b>565</b>
Institutional Aspects of Inflation Accounting	
Prior to SFAS No. 33	567
An Overview of Inflation Accounting	569
Provisions of SFAS No. 33 and Rejection in SFAS Nos. 82 and 89	574

SFAS No. 157	577
SFAS No. 159	584
Accounting Standards Updates	586
<b>15. Income Taxes and Financial Accounting</b>	<b>593</b>
Income Tax Allocation	594
The Asset–Liability Orientation of SFAS No. 109	608
Empirical Research on Income Tax Allocation	613
International Accounting Standards (IAS)	615
Improving Accounting Standards	615
<b>16. Pensions and Other Postretirement Benefits</b>	<b>627</b>
Overview of Pension Plans	628
Development of Pension Accounting Standards	638
Postretirement Benefits Other Than Pensions	651
International Accounting Standards (IAS)	659
Improving Accounting Standards	659
Appendix 16-A: Illustration of Pension Expense Determination and Actuarial Funding Methods	661
<b>17. Leases</b>	<b>681</b>
The Lease Contract	683
The Evolution of Lease Accounting Standards	690
FASB and IASB Joint Exposure Draft on Accounting for Leases	713
Improving Accounting Standards	715
<b>18. Intercorporate Equity Investments</b>	<b>729</b>
Relevant Circumstances	731
Consolidation	733
The Equity Method	742
The Fair Value Method	743
Defining the Reporting Entity	744
Translation of Foreign Operations	747
IASB Standards	754
Improving Accounting Standards	755
Appendix 18-A: Special Purpose Entities, Variable Interest Entities, and the Downfall of Enron	756
<b>Name Index</b>	<b>769</b>
<b>Subject Index</b>	<b>773</b>
<b>About the Authors</b>	<b>791</b>