

IJCM Vol. 14, No 3& 4, 2004 92

SECOND EDITION OF REVSINE, COLLINS, & JOHNSON STRONG ON INFORMATION TECHNOLOGY

Financial Reporting and Analysis (2nd edition).

Lawrence Revsine, Daniel W. Collins, & W. Bruce Johnson.

Upper Saddle River, NJ: Prentice Hall, 2001. Appendices, index. ISBN 0-13-032351-9.

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The framework of accounting principles, whether in management positions or financial reporting positions, is an important part of understanding for many people in today's business world. As indicated in the *International Journal of Commerce and Management's* review of the first edition of *Financial Reporting and Analysis*, Lawrence Revsine, Daniel W. Collins, and W. Bruce Johnson have very impressive credentials (Ramsey, 1999), which have only intensified and broadened for this second edition.

From Northwestern University, Revsine brings insight from his position at Kellogg Graduate School of Management as well as his consultant practices for the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, and the Securities and Exchange Commission. Collins shares the knowledge he has gained as the Chair of the Accounting Department at the University of Iowa; he also serves on the review boards for *Journal of Accounting and Economics*, *Accounting Horizons*, and *Review for Quantitative Finance and Accounting*. Johnson, also of the University of Iowa, has acquired much knowledge and experience from extensive teaching and research in financial reporting and has published many articles based on that research. Compounded, the knowledge these authors possess provides a textbook for clear understanding by financial accounting students and professionals.

This book is organized into eighteen chapters and two appendices. Chapter 1 describes the importance of financial statements and discusses the accounting principles used in current accounting standards. The chapter discusses the process by which financial accounting standards and rules develop, particularly with reference to the United States. Chapter 2 and 3 explain differences in accrual and cash accounting and income statement reporting. Chapter 4 provides balance sheet information (including classification processes of items reported) and the Statement of Cash Flows (SCF), with close attention to how the SCF is derived. Chapters 5, 6, and 7 relate to the importance and uses of financial ratios to credit-seeking entities as well as institutions which offer loans. Chapter 8 is a much-needed discussion on receivables and their contribution to financial statements. Chapter 9 presents inventories and their valuation. This chapter discusses the different methods available for valuation as well as the pros and cons of the methods. Chapter 10 is a discussion on long-lived assets together with the necessity and purposes for depreciation. Chapter 11 covers liabilities and the reporting of debt instruments within financial statements, with excellent theoretical analysis of the need for contingencies and conservatism in financial reporting. Chapter 12 discusses leases, a topic more important in the real world than it sometimes seems to young students; this chapter includes the classification of

leases into either direct-financing or capital leases. Chapter 13 on income-tax reporting is briefer than some of the other chapters perhaps because the authors recognize the annually changing nature of the subject matter and the presence of obligatory instruction in taxes elsewhere in the accounting curriculum. Chapter 14 is information on pensions and other post-retirement benefits (topics which have grown in importance since insecurity beset “securities” in the late 1990s). Chapters 15 and 16 discuss owner equity and intercorporate equity investments. The authors neatly use intercorporate equity investments to lead to in-depth discussion of consolidated financial statements. Chapter 17 revisits the SCF to provide the reader with more detailed understanding of it in view of the accounting knowledge gained since Chapter 4 (many students find the SCF the most sophisticated of financial statements and that it may require more than one discussion, so that they gain their grasp of the SCF incrementally). Chapter 18 gives points on the growing arena of the importance of international financial reporting standards for purposes of understanding and comparability.

This book has several notable strengths. First, it is appropriately detailed in an effort to provide understanding for the user. The book does not appear to leave out any needed information for the student. Revsine, Collins, and Johnson are particularly strong, as the title of their book indicates, on how items should be reported in an effective manner, so that to some extent the book is not only about financial reporting but also about accounting communication. The second strength is the book’s real-world examples. These can be very helpful for users whose learning pattern is more geared to examples than to readings and exercises. Such real-world examples have perhaps become more important in view of corporate scandals involving manipulation of financial statements and underlying data. Revsine, Collins, and Johnson try to enable students to grip the need for ethics in the development of financial statements and communication of financial information. The third strength is the tables and figures presented throughout the text. These sometimes provide a better or clearer understanding of practices or methods to use in the assimilation of a concept. As a fourth strength, Revsine, Collins, and Johnson are on the cutting edge of information technology as it relates to accounting; the book comes with a compact disk and has an elaborate website, both of which facilitate use of this text in online instruction and possibly even distance education.

The only weakness of note is the lack of solutions for the problems given. If the text is used in class, this is not such an important part of the package. The solutions are available separately to the instructor, but what if there isn’t one? Someone simply using the book as a review for the CPA exam may need more information. Additionally, many students learn more efficiently if *they* have the solutions so that they work the problems right the first time and consequently do not gain experience in the wrong *modus operandi* which then has to be unlearned.

This book could be a good resource material for any accounting class whether it is in financial or managerial reporting. Students should be able to decipher between the useful information and the “dressing up” so typical of textbooks as textbook prices have likewise spiraled. The book may be a lot to decipher for students who learn and study from the chapters only. However, with the guidance of an instructor who knows well the accounting profession and with the use of the information technology the authors have made available, the book is a valuable tool for students at an undergraduate level.

REFERENCE

Ramsey, R.D. (1999). New financial accounting book by Revsine, Collins, and Johnson practices what it preaches [review of L. Revsine, D.W. Collins, & B.W. Johnson's Financial Reporting & Analysis (Upper Saddle River, NJ: Prentice Hall)]. *International Journal of Commerce and Management*, 9, 311-313.

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