Preface

Introductory accounting and finance have traditionally been taught as two separate courses, even though the importance of a basic knowledge of finance in learning accounting and a knowledge of accounting in learning finance have been widely acknowledged. One important historical reason for having two separate courses was that, in the past, few professors could teach both courses well. This lack of competent instructors has disappeared, and there are now many professors who can well integrate the basic elements of accounting and finance.

Accounting is an ever-evolving art. Understanding accounting is necessary to understand financial reporting by business organizations and the uses of financial reports by decision makers, both internal managers and financial analysts.

The structure of accounting is an important educational tool. The basic logic of the debit-credit process is elegant and logically consistent. The use of debits and credits emphasizes the relationships between accounts and simplifies the explanation of a wide range of financial transactions.

This book is also an introduction to corporate financial management, building on the basic capital budgeting framework and the time value of money. The objective is to stress the theoretical formulations that are most useful in making managerial financial decisions. A working knowledge of the time value of money is essential to having a complete liberal education.

The terms *net present value*, *internal rate of return*, and *capital asset pricing model* are today widely used by managers. A few years ago, the persons in important managerial positions might have said that they made the firm's big decisions on the basis of their experience, judgment, and intuition. Now, top managers insist more and more on having financial information properly analyzed before they exercise their judgments.

Many of the financial models are simplifications of the real world. If they were to be applied without thought, it is likely that some of the models would lead to undesirable decisions. However, if used correctly, such models will give insights into the weaknesses of other, more simplified and erroneous decision-making techniques. This book emphasizes that the correct application of financial techniques in business situations improves the likelihood of making good decisions. However, exact answers and correct decisions are not always guaranteed in a complex and uncertain world.

This book is based on a number of fundamental principles. First, the time value of money is used as the basic foundation for a large amount of the analysis. Second, decisions are approached on an after-tax basis. Third, we have avoided relatively complex models that are more appropriate for a more advanced finance course. Fourth, we emphasize decision making. We emphasize the models and methods of analysis that are most useful and practical rather than discussing theory for theory's sake. Finally, once the reader understands the basic concepts and methods, we think it is important to introduce various real-world constraints and complexities.

I acknowledge the invaluable contributions of my co-authors on other writing projects, Sy Smidt, Jerry Hass, and Bob Swieringa. While these friends and colleagues cannot be held responsible for any mistakes (misstatements), they did help contribute significantly to my understanding of the topics covered in this book.

Harold Bierman, Jr.
Cornell University