

10TH EDITION

CLYDE P. STICKNEY  
ROMAN L. WEIL

# Financial Accounting

AN INTRODUCTION TO  
*Concepts, Methods, and Uses*

10TH EDITION

**CLYDE P. STICKNEY**

Dartmouth College

**ROMAN L. WEIL**

University of Chicago

# Financial Accounting

AN INTRODUCTION TO  
*Concepts, Methods, and Uses*

**THOMSON**  
★  
**SOUTH-WESTERN**

Australia • Canada • Mexico • Singapore • Spain • United Kingdom • United States



**Financial Accounting: An Introduction to Concepts, Methods, and Uses, 10e**

Clyde P. Stickney, Roman L. Weil

**Editor-in-Chief:**

Jack W. Calhoun

**Team Leader:**

Melissa S. Acuña

**Acquisitions Editor:**

Julie Lindsay

**Developmental Editor:**

Craig Avery

**Marketing Manager:**

Keith Chasse

**Production Editor:**

Heather Mann, Sam Versetto

**Manufacturing Coordinator:**

Doug Wilke

**Production House:**

Lachina Publishing Services, Inc.

**Printer:**

R.R. Donnelley & Sons Company  
Willard, OH

**Design Project Manager:**

Rik Moore

**Internal Design:**

Kim Torbeck, Imbue Design

**Cover Design:**

Rik Moore

COPYRIGHT © 2003  
by South-Western, a division of  
Thomson Learning. Thomson  
Learning™ is a trademark used  
herein under license.

Printed in the United States of  
America

2 3 4 5 05 04 03

For more information  
contact South-Western,  
5191 Natorp Boulevard,  
Mason, Ohio 45040.  
Or you can visit our Internet site  
at: <http://www.swcollege.com>

**ALL RIGHTS RESERVED.**

No part of this work covered by the  
copyright hereon may be  
reproduced or used in any form or  
by any means—graphic, electronic,  
or mechanical, including  
photocopying, recording, taping,  
Web distribution or information  
storage and retrieval  
systems—without the written  
permission of the publisher.

For permission to use material from  
this text or product, contact us by  
Tel (800) 730-2214  
Fax (800) 730-2215  
<http://www.thomsonrights.com>

**Library of Congress Cataloging-In-  
Publication Data**

Stickney, Clyde P.

Financial accounting: an  
introduction to concepts, methods, and  
uses / Clyde P.

Stickney, Roman L. Weil.—10th ed.  
p. cm.

Includes bibliographical references  
and index.

ISBN 0-324-18351-8

1. Accounting. I. Weil, Roman L.  
II. Title.

HF5635 .D228 2002  
657—dc21

2002070300



10TH EDITION

# Financial Accounting

AN INTRODUCTION TO

*Concepts, Methods, and Uses*

For

**GRETA, ISABELLA AND LILY**

For

**KATHY AND KATHERINE**

With Thanks



# For Our Students

Whatever be the detail with which you cram your students, the chance of their meeting in after-life exactly that detail is infinitesimal; and if they do meet it, they will probably have forgotten what you taught them about it. The really useful training yields a comprehension of a few general principles with a thorough grounding in the way they apply to a variety of concrete details. In subsequent practice the students will have forgotten your particular details; but they will remember by an unconscious common sense how to apply principles to immediate circumstances.

**Alfred North Whitehead**

*The Aims of Education and Other Essays*

WARNING: Study of this book is known to cause thinking, occasionally deep thinking. Typical side effects include mild temporary anxiety followed by profound long-term understanding and satisfaction.

**WITH THANKS** ●





# Preface

Over the years, we have come to refer to our book's title by the acronym FACMU—Financial Accounting: An Introduction to Concepts, Methods, and Uses. We take *concepts*, *methods*, and *uses* to be the central elements in learning and teaching about financial accounting.

Although it incorporates changes large and small throughout its chapters, the tenth edition of FACMU has the same principal objectives as the previous editions:

- To help students develop a sufficient understanding of the basic concepts underlying financial statements so that they can apply the concepts to new and different situations.
- To train students in accounting terminology and methods so that they can interpret, analyze, and evaluate financial statements currently published in corporate annual reports.

Most introductory financial accounting textbooks share these, or similar, objectives. Textbooks differ in their relative emphases on concepts, methods, and uses.

1. **Concepts** This book emphasizes the rationale for, and implications of, important accounting concepts. To learn accounting, students must develop the ability to conceptualize the transactions that accounting summarizes and the process of summarization. Without such conceptualization, students will have difficulty focusing on the relevant issues in new and difference situations.

Accordingly, each chapter begins by identifying important accounting concepts. Several numerical examples illustrating their application then follow. The end-of-chapter material includes numerous short exercises to check students' ability to apply the concepts to different problem situations.

2. **Methods** We place sufficient emphasis on accounting procedures so that students can interpret, analyze, and evaluate published financial statements. The text does not emphasize procedures to such an extent that students bog down in detail. All writers of accounting textbooks must decide just how much accounting procedure to include. We believe students will learn most effectively by working exercises and problems. Too much emphasis on accounting procedures, however, lulls students into the security of thinking they understand accounting concepts when they do not. We have for many years used the mixture of concepts and procedures in this book and have found it effective in the classroom.

Understanding the accounting implications of an event requires that students construct the journal entry for that event. Throughout this book we use journal entries in describing the nature of accounting events. Moreover, most chapters contain exercises and problems that require the analysis of transactions with debits and credits. Do not conclude by a glance at this text, however, that it is primarily procedural. We want students to learn *concepts*; the procedures enhance the learning of concepts.

3. **Uses** This book attempts to bridge the gap between the preparation of financial statements and their use in various decision situations. The chapters consider the effects of alternative accounting principles on the measurement of earnings and financial position and the appropriate interpretations of them. Numerous problems based on financial statement data of actual companies appear at the end of most chapters.

## CHANGES IN THIS EDITION

---

The most important changes made in this revision are as follows:

1. **Increased emphasis on financial statement analysis.** Without changing the emphasis on concepts and methods described in the previous section, this edition includes a new or revised section in most chapters on analyzing and interpreting financial statement information. Each chapter also includes new problems that require students to interpret disclosures by actual companies relating to the topics that the chapter discusses.
2. **Revised or added material in response to new financial reporting standards.** Chapter 8 includes material on asset impairments, particularly for goodwill and other intangibles not requiring amortization. Chapter 10 includes a substantially enhanced section on derivatives. Chapter 11 presents revised materials on the purchase method for corporate acquisitions and Chapter 12 presents revised materials on the accounting for stock options.
3. **Enhanced the discussion of quality of earnings.** Chapter 6 develops more fully the concept of the quality of earnings. Subsequent chapters discuss various financial reporting topics in terms of their effect on the quality of earnings.



4. **Enhanced the flow from concepts to methods.** Significant revisions to Chapters 6, 7, 8, and 12 present the underlying concepts more clearly and then link the accounting concepts to the related accounting methods in a more integrated manner.
5. **New problems based on actual company data.** In nearly every chapter, we have replaced exercises and problems with those using actual public company data.
6. **Rewritten for greater clarity.** We have worked hard to make the language clearer and more precise, and we have added headings, diagrams, and transitions to aid that clarity and precision.
7. **New WebTutor online course administration tool for WebCT and Blackboard.** WebTutor provides concept reinforcement for easier and more portable learning.

We have listed further content changes where relevant in the next section.

## ORGANIZATION

This book comprises four major parts:

- Part One: “Overview of Financial Statements,” consisting of Chapter 1.
- Part Two: “Accounting Concepts and Methods,” Chapters 2 through 5.
- Part Three: “Measuring and Reporting Assets and Equities,” Chapters 6 through 13.
- Part Four: “Synthesis,” Chapter 14.

In our view, the four parts are tiers, or steps, in the learning process. Part One presents a general overview of the principal financial statements. Part Two discusses the basic accounting model accountants use to generate the principal financial statements. Part Three considers the specific accounting principles or methods used in preparing the financial statements. Finally, Part Four synthesizes material covered in Chapters 1 to 13. This organization reflects the view that learning takes place most effectively when students begin with a broad picture, then break up that broad picture into smaller pieces until achieving the desired depth, and finally synthesizing so that the relation between the parts and the whole retains its perspective.

Chapter 1 presents a brief description of the principal activities of a business firm (goal setting and strategy formulation, investing, financing, and operating) and shows how the three principal financial statements—the balance sheet, the income statement, and the statement of cash flows—report the results of these activities. We use the business activities and the financial statements of Wal-Mart Stores to illustrate the important concepts. Chapter 1 also provides an overview of the financial reporting environment. Many students feel deluged with the multitude of new terms and concepts after reading Chapter 1. However, most of these same students admit later that the broad overview helped piece material together as they later explored individual topics at greater length.

Chapters 2 through 4 present the basic accounting model that generates the three principal financial statements. In each case, the discussion begins with a description of the important concepts underlying each statement. The chapter then describes and illustrates procedures accountants use to generate the financial statements. Each chapter uses the balance sheet equation or changes in the balance sheet equation to motivate understanding of the preparation procedures. Although these chapters emphasize debit/credit procedures, instructors can use the balance sheet equation approach to communicate the basics



of statement preparation. Each of these chapters includes one or more simple problems that students can work using the balance sheet approach to prepare the three principal financial statements. Chapter 3, unlike treatments in other texts, integrates the accounting entries for transactions during a period with the related adjusting entries at the end of the period. When textbooks discuss these two types of entries in separate chapters, students often lose sight of the fact that measurement of net income and financial position requires both kinds of entries. In this edition, we have revised and expanded the section on interpreting the income statement by adding more firms and incorporating industry economics and business strategy into the analysis in Chapter 3.

In this edition, we have added justification for the statement of cash flows in Chapter 4. We continue to put coverage of the statement of cash flows early in the text (Chapter 4). This placement serves two purposes. First, it elevates the statement to its rightful place among the three principal financial statements. Students can thereby integrate the concepts of profitability and cash flow more effectively and begin to understand that one does not necessarily accompany the other. Covering this statement at the end of the course (in many cases, when time is running out) can lead students to think the cash flow statement less important. Placing this chapter early in the book forces the student to cement understanding of the basic accounting model from Chapters 2 and 3. Preparing the statement of cash flows requires the student to “work backward” from the balance sheet and income statement to reconstruct the transactions that took place. The coverage of the statement of cash flows:

1. treats both the indirect and the direct method of calculating cash flow from operations, and
2. uses both the columnar worksheet and the T-account worksheet for preparing the statement.

Chapters 2, 3, and 4 conclude with a section on analyzing and interpreting each financial statement, serving as a prelude to the integrated analysis of profitability and risk in Chapter 5.

Chapter 5 describes and illustrates tools for analyzing the financial statements. The discussion structures the various financial statement ratios in a multi-level format that students have found minimizes the need to memorize formulas. Instructors who incorporate annual reports of actual companies throughout their course will find that analysis of the financial statements of such companies provides effective synthesis at this point. An appendix to Chapter 5 illustrates procedures for preparing pro forma financial statements. This topic helps cement understanding of the relation among the three principal financial statements.

Chapters 6 through 12 discuss the various generally accepted accounting principles that accountants use in generating the financial statements. Each chapter not only describes and illustrates the application of the various accounting methods but also considers their effects on the financial statements. This approach reflects the view that students should be able to interpret and analyze published financial statements and to understand the effect of alternative accounting methods on such assessments.

Some of the specific changes to Chapters 6 through 12 of this edition include:

- an integrated discussion of revenue recognition for various types of businesses, particularly technology-based firms, along with the related treatment of receivables (Chapter 6),
- new material on analyzing accounts receivable (Chapter 6),

- increased emphasis on the effects of the LIFO versus FIFO choice, deleting material on periodic and perpetual inventory systems, standard costing, and direct costing (Chapter 7).
- a new discussion of the relation between asset valuation and income measurement, with application of these concepts to inventories (Chapter 7)
- new material on analyzing inventories (Chapter 7),
- major revision of accounting for long-lived assets, relating various accounting methods more clearly to underlying concepts (Chapter 8),
- new material related to identifying and accounting for intangibles (Chapter 8),
- new material on analyzing long-lived assets (Chapter 8),
- expanded discussion of the nature and accounting for derivatives (Chapter 10),
- integrated discussion of the market value method for marketable securities and investments in securities to illustrate commonalities and differences (Chapter 11),
- an enhanced discussion of the purchase method for corporate acquisitions and the rationale for elimination of the pooling-of-interests method (Chapter 12),
- altered flow of accounting for shareholders' equity, beginning with the firm's obtaining funds, then using funds to acquire assets to generate earnings, and finally distributing funds through dividends or treasury stock purchases (Chapter 12), and
- enhanced illustration and discussion of the accounting for stock options (Chapter 12).

Chapter 13 deepens the explorations of the statement of cash flows by presenting a comprehensive illustration using transactions discussed in Chapters 6 through 12. Instructors have flexibility in structuring their coverage of the statement of cash flows by covering Chapter 4 early in the course and Chapter 13 at the end of the course or by covering both chapters at the end of the course. New to this edition, we have added to Chapter 13 a review of the important concepts and procedures for the statement of cash flows from Chapter 4.

Some students who have used the previous editions of this book report that they find Chapter 14, which synthesizes much of the material in the first thirteen chapters, the most useful in the book. This chapter explicitly considers the combined effects of alternative accounting methods on the financial statements. The chapter also summarizes the effect of various accounting principles discussed in earlier chapters on the quality of earnings.

For this edition, we have also added discussion of quality of earnings considerations for asset impairment losses and derivatives (Chapter 14). The self-study problem and Problems 16 and 17 at the end of Chapter 14 provide thorough review for the entire book. Case 14.19 requires students to evaluate the quality of earnings for many of the topics discussed throughout the book.

An appendix to the book describes compound interest and present value computations for students not previously exposed to this topic.

The end of the book includes a comprehensive Glossary of accounting terms. It serves as a useful reference tool for accounting and other business terms and provides additional descriptions of a few topics, such as accounting changes and inventory profit, considered only briefly in the text. Containing illustrations, tables, and examples, this Glossary is, we believe, the most comprehensive, useful, and informative financial accounting reference of terminology in any accounting textbook.

The Web site for the book (<http://stickney.swcollege.com>) includes expanded discussion of topics in the text, including income taxes, retirement benefits, consolidation with



a minority interest, proportional consolidation and special purpose entities, foreign currency translation, and general price-level accounting.

## **RELATED MATERIALS ACCOMPANYING THE TEXTBOOK**

---

The following supplementary materials augment the textbook:

### **INSTRUCTOR'S MANUAL**

The instructor's manual presents suggested outlines for courses of varying lengths, a list of chapter objectives, helpful teaching hints, detailed lecture and discussion outlines, including the numbers of particularly germane questions, exercises, problems, and cases.

### **SOLUTIONS MANUAL**

The solutions manual provides full solutions for all end-of-chapter assignment items, including questions, exercises, problems, and cases. We give computations, allowing the instructor to show how to reach a particular answer. The Solutions Manual is available for sale to students of adopting instructors.

### **STUDY GUIDE**

This study guide, by LeBrone C. Harris and James E. Moon, lists highlights from each chapter and provides numerous short true/false, matching, multiple-choice questions, and exercises, with answers.

### **TEST BANK**

Prepared by Douglas M. Stein (Cardean University), the test bank includes multiple-choice items, matching questions, short essay questions, and problems.

### **EXAMVIEW COMPUTERIZED TESTING SOFTWARE**

All items in the test bank are available in ExamView computerized testing software for Microsoft Windows. This supplement allows instructors to add or edit questions, instructions, and answers by previewing them onscreen. They can also create and administer quizzes online—whether over the internet, a local area network (LAN), or wide area network (WAN).

### **LECTURE PRESENTATION SOFTWARE IN POWERPOINT**

Sample lectures created by Gordon Duke (University of Minnesota) aid in lecture preparations by those using this text. Software is available by download on the book's Web site.

### **SPREADSHEET TEMPLATE SOFTWARE**

At least three problems per chapter have a corresponding template where basic problem data appear on a Microsoft Excel® Spreadsheet to reduce tedium in solving problems and increase student awareness of basic software applications. Software is available by download on the book's Web site.

## **SOLUTIONS TRANSPARENCIES**

Solutions acetates accompany all numerical requirements for end-of-chapter exercises, problems, and cases.

## **WEBTUTOR ON WEBCT AND BLACKBOARD**

WebTutor allows instructors to easily teach their course online and provides students with online learning features that make learning financial accounting easier and more portable.

We encourage instructors to contact their South-Western sales representative for information and samples of these items.

## **ACKNOWLEDGMENTS**

We gratefully acknowledge the helpful criticisms and suggestions of the following people who used the previous edition or reviewed the manuscript for this edition:

**Andrew W. Alford**  
**Matthew J. Anderson** Michigan State University  
**Gary C. Biddle** Hong Kong University of Science and Tehnology  
**Peggy Bishop** University of Pennsylvania  
**Germain B. Boer** Vanderbilt University  
**Paul R. Brown** New York University  
**Robert M. Bushman** University of North Carolina  
**Alvin H. Carley**  
**Alica Cash**  
**Kevin M. Devine** Xavier University  
**Gordon L. Duke** University of Minnesota  
**Kirsten M. Ely** Georgia Institute of Technology  
**Merle M. Erickson** University of Chicago  
**Carol Ann Frost** Hanover, NH  
**Bertrand N. Horwitz** SUNY Binghamton  
**Jennifer J. Jones**  
**A. Ronald Kucic** University of Denver  
**James A. Largay III** Lehigh University  
**Laureen A. Maines** Indiana University  
**Edward L. Maydew** University of North Carolina  
**Alan P. Mayer-Sommer** Georgetown University  
**Janette Moody** The Citadel  
**Patricia C. O'Brien** University of Waterloo  
**Eugene Orza** Major League Baseball Players' Association  
**Glen E. Owen**  
**Glenn Pfeiffer** Chapman College  
**Gordon S. Potter** Cornell University  
**Alan Reinstein** Wayne State University  
**Anne J. Rich** Quinnipiac College  
**Katherine Schipper** Financial Accounting Standards Board  
**Catherine M. Schrand** University of Pennsylvania



**Stephan E. Sefcik** University of Washington  
**Thomas I. Selling** American Graduate School of International Management  
**Galen R. Sevcik** Georgia State University  
**Lawrence G. Singleton** George Washington University  
**Virginia E. Soybel** Babson College  
**Steve Sung**  
**Brett Trueman** University of California, Berkeley  
**Bob Virgil** Edward Jones and Co.  
**Peter R. Wilson** Duke University  
**J. Scott Whisenant** University of Houston  
**Stephen A. Zeff** Rice University

Thomas Horton and Daughters, Inc., permits us to reproduce material from *Accounting: The Language of Business*. Problems 35 to 37 in Chapter 3 derive from ones prepared by George H. Sorter. These problems involve working backward from one financial statement to another, and we have found them useful in cementing understanding. Stan Baiman provided us with a series of excellent problems on the statement of cash flows for use in Chapters 8 through 12. Katherine Schipper provided us ideas and data for several cases. Steve Zeff provided us with numerous thought-provoking problems, which we have used or adapted for use in many of the chapters in this edition.

We thank Katherine Xenophon-Rybowiak and Tammy Stebbins for helping us to prepare the manuscript for this edition and Cherie Weil for preparing the index.

We thank the following at Thomson Learning: Julie Lindsay, acquisitions editor; Craig Avery, senior developmental editor; Keith Chasse, marketing manager; Heather Mann and Sam Versetto, production editors; and Rik Moore, design project manager for coordinating the production of the book, as well as the compositors at Lachina Publishing Services, Inc. for their excellent work on page-makeup.

Thanks to Michael Behnke for inspiring the WARNING on the dedication page.

Finally, Sidney Davidson. What can we say? For over twenty-eight years he has taught us and guided us and wrote with us. Thank you.

**CPS**  
**RLW**

Preface vii

**PART ONE  
OVERVIEW OF FINANCIAL STATEMENTS 1**

**CHAPTER 1** Introduction to Business Activities and Overview of Financial Statements  
and the Reporting Process 2

**PART TWO  
ACCOUNTING CONCEPTS AND METHODS 43**

**CHAPTER 2** Balance Sheet: Presenting the Investments and Financing of a Firm 44

**CHAPTER 3** Income Statement: Reporting the Results of Operating Activities 108

**CHAPTER 4** Statement of Cash Flows: Reporting the Effects of Operating, Investing,  
and Financing Activities on Cash Flows 178

**CHAPTER 5** Introduction to Financial Statement Analysis 246

**PART THREE  
MEASURING AND REPORTING ASSETS AND EQUITIES  
USING GENERALLY ACCEPTED ACCOUNTING  
PRINCIPLES 313**

**CHAPTER 6** Receivables and Revenue Recognition 314

**CHAPTER 7** Inventories: The Source of Operating Profits 364

**CHAPTER 8** Long-Lived Tangible and Intangible Assets: The Source of Operating  
Capacity 416

**CHAPTER 9** Liabilities: Introduction 474

**CHAPTER 10** Liabilities: Off-Balance-Sheet Financing, Leases, Deferred Income  
Taxes, Retirement Benefits, and Derivatives 534

**CHAPTER 11** Marketable Securities and Investments 596

**CHAPTER 12** Shareholders' Equity: Capital Contributions, Earnings, and Distributions  
670

**CHAPTER 13** Statement of Cash Flows: Another Look 734

**PART FOUR  
SYNTHESIS 777**

**CHAPTER 14** Significance and Implications of Alternative Accounting  
Principles 778

**APPENDIX 830**

**COMPOUND INTEREST, ANNUITY, AND BOND TABLES 857**

**GLOSSARY 865**

**INDEX 953**



Preface vii

## **PART ONE OVERVIEW OF FINANCIAL STATEMENTS 1**

### **CHAPTER 1**

#### **Introduction to Business Activities and Overview of Financial Statements and the Reporting Process 2**

Overview of Business Activities 4 | Principal Financial Statements 8 | Problem 1.1 for Self-Study 18 | Other Items in Annual Reports 19 | Financial Reporting Issues 20 | The Financial Reporting Process in the United States 25 | An International Perspective 27 | Summary 28 | Solution to Self-Study Problem 28 | Key Terms and Concepts 30 | Questions, Exercises, Problems, and Cases 31

## **PART TWO ACCOUNTING CONCEPTS AND METHODS 43**

### **CHAPTER 2**

#### **Balance Sheet: Presenting the Investments and Financing of a Firm 44**

Underlying Concepts 46 | Problem 2.1 for Self-Study 53 | Problem 2.2 for Self-Study 56 | Accounting Procedures for Preparing the Balance Sheet 57 | Problem 2.3 for Self-Study 64 | An Overview of the Accounting Process 65 | Balance Sheet Account Titles 68 | Problem 2.4 for Self-Study 71 | Analysis of the Balance Sheet 72 | An International Perspective 76 | Summary 80 | Solutions to Self-Study Problems 81 | Key Terms and Concepts 85 | Questions, Exercises, Problems, and Cases 85

### **CHAPTER 3**

#### **Income Statement: Reporting the Results of Operating Activities 108**

The Accounting Period Convention 110 | Accounting Methods for Measuring Performance 110 | Problem 3.1 for Self-Study 116 | Measurement Principles of Accrual Accounting 116 | Problem 3.2 for Self-Study 120 | Overview of Accounting Procedures 120 | Illustration of the Accounting Process for a Merchandising Firm 124 | Problem 3.3 for Self-Study 127 | Problem 3.4 for Self-Study 135 | Problem 3.5 for Self-Study 143 | Interpreting and Analyzing the Income Statement 144 | Summary 146 | Solutions to Self-Study Problems 148 | Key Terms and Concepts 151 | Questions, Exercises, Problems, and Cases 151

### **CHAPTER 4**

#### **Statement of Cash Flows: Reporting the Effects of Operating, Investing, and Financing Activities on Cash Flows 178**

Need for a Statement of Cash Flows 179 | Overview of the Statement of Cash Flows 180 | Problem 4.1 for Self-Study 184 | Preparing the Statement of Cash Flows 185 | Problem 4.2 for Self-Study 192 | Problem 4.3 for Self-Study 195 |

Problem 4.4 for Self-Study 204 | An International Perspective 209 | Problem 4.5 for Self-Study 209 | Using Information in the Statement of Cash Flows 210 | Summary 213 | Problem 4.6 for Self-Study 214 | Solutions to Self-Study Problems 215 | Key Terms and Concepts 220 | Questions, Exercises, Problems, and Cases 220

## **CHAPTER 5**

### **Introduction to Financial Statement Analysis 246**

Objectives of Financial Statement Analysis 248 | Analysis of Profitability 250 | Problem 5.1 for Self-Study 259 | Problem 5.2 for Self-Study 266 | Analysis of Risk 268 | Problem 5.3 for Self-Study 272 | Problem 5.4 for Self-Study 275 | Limitations of Ratio Analysis 276 | An International Perspective 276 | Summary 277 | Problem 5.5 for Self-Study 277 | Appendix 5.1: Pro Forma Financial Statements and Valuation 279 | Solutions to Self-Study Problems 292 | Key Terms and Concepts 294 | Questions, Exercises, Problems, and Cases 295

## **PART THREE**

### **MEASURING AND REPORTING ASSETS AND EQUITIES USING GENERALLY ACCEPTED ACCOUNTING PRINCIPLES 313**

## **CHAPTER 6**

### **Receivables and Revenue Recognition 314**

Financial Reporting Environment 316 | Quality of Earnings 317 | Review of Income Recognition Principles 318 | Application of Income Recognition Principles 320 | Problem 6.1 for Self-Study 321 | Revenue Recognition at Time of Sale 322 | Problem 6.2 for Self-Study 332 | Analyzing Information on Accounts Receivable 334 | Income Recognition at Times Different from Sale 336 | Summary Illustration of Income Recognition Methods 341 | Problem 6.3 for Self-Study 343 | Format and Classification within the Income Statement 343 | An International Perspective 345 | Summary 346 | Appendix 6.1: Effects on the Statement of Cash Flows of Transactions Involving Accounts Receivable 346 | Solutions to Self-Study Problems 347 | Key Terms and Concepts 350 | Questions, Exercises, Problems, and Cases 350

## **CHAPTER 7**

### **Inventories: The Source of Operating Profits 364**

A Review of Fundamentals 365 | Issue 1: Costs Included in Inventory 367 | Problem 7.1 for Self-Study 372 | Issue 2: Valuation Subsequent to Acquisition 374 | Issue 3: Cost Flow Assumptions 376 | Problem 7.2 for Self-Study 381 | Problem 7.3 for Self-Study 385 | Analyzing Inventory Disclosures 385 | Problem 7.4 for Self-Study 389 | Problem 7.5 for Self-Study 390 | An International Perspective 391 | Summary 391 | Appendix 7.1: Effects on the Statement of Cash Flows of Transactions Involving Inventory 392 | Solutions to Self-Study Problems 393 | Key Terms and Concepts 397 | Questions, Exercises, Problems, and Cases 397



## CHAPTER 8

### Long-Lived Tangible and Intangible Assets: The Source of Operating Capacity 416

Capitalization versus Immediate Expensing 418 | Measurement of Acquisition Cost 422 | Problem 8.1 for Self-Study 425 | Treatment of Acquisition Cost Over Life of Asset 426 | Depreciation and Amortization: Fundamental Concepts 427 | Depreciation and Amortization: Measurement 428 | Problem 8.2 for Self-Study 434 | Impact of New Information about Long-Lived Assets 436 | Problem 8.3 for Self-Study 438 | Problem 8.4 for Self-Study 440 | Problem 8.5 for Self-Study 444 | Retirement of Assets 444 | Financial Statement Presentation 446 | Analyzing Financial Statement Disclosures of Long-Lived Assets 447 | Problem 8.6 for Self-Study 451 | An International Perspective 451 | Summary 452 | Appendix 8.1: Effects on the Statement of Cash Flows of Transactions Involving Plant and Intangible Assets 453 | Solutions to Self-Study Problems 455 | Key Terms and Concepts 458 | Questions, Exercises, Problems, and Cases 458

## CHAPTER 9

### Liabilities: Introduction 474

Basic Concepts of Liabilities 475 | Current Liabilities 481 | Problem 9.1 for Self-Study 484 | Long-Term Liabilities 485 | Problem 9.2 for Self-Study 489 | Problem 9.3 for Self-Study 491 | Problem 9.4 for Self-Study 499 | Problem 9.5 for Self-Study 505 | Problem 9.6 for Self-Study 509 | Summary 509 | Appendix 9.1: Effects on the Statement of Cash Flows of Transactions Involving Long-Term Liabilities 510 | Solutions to Self-Study Problems 511 | Key Terms and Concepts 518 | Questions, Exercises, Problems, and Cases 519

## CHAPTER 10

### Liabilities: Off-Balance-Sheet Financing, Leases, Deferred Income Taxes, Retirement Benefits, and Derivatives 534

Off-Balance-Sheet Financing 535 | Problem 10.1 for Self-Study 538 | Leases 539 | Problem 10.2 for Self-Study 546 | Income Tax Accounting and Deferred Income Taxes 547 | Problem 10.3 for Self-Study 551 | Problem 10.4 for Self-Study 552 | Deferred Compensation: Pension Benefits and Other Deferred Compensation 556 | Deferred Compensation: Health Care and Other Benefits 558 | Derivative Instruments 558 | Problem 10.5 for Self-Study 571 | An International Perspective 572 | Summary 572 | Appendix 10.1: Effects on the Statement of Cash Flows of Transactions Involving Liabilities 572 | Solutions to Self-Study Problems 574 | Key Terms and Concepts 580 | Questions, Exercises, Problems, and Cases 581

## CHAPTER 11

### Marketable Securities and Investments 596

Overview of the Accounting and Reporting of Investments in Securities 597 | Minority, Passive Investments 599 | Problem 11.1 for Self-Study 601 | Problem 11.2 for Self-Study 606 | Minority, Active Investments 608 | Problem 11.3 for Self-Study 611 | Majority, Active Investments 612 | Problem 11.4 for Self-Study 619 |