



# Kieso & Weygant

SEVENTH EDITION

## INTERMEDIATE ACCOUNTING

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SEVENTH EDITION

# INTERMEDIATE ACCOUNTING

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## OFFICIAL ACCOUNTING PRONOUNCEMENTS

The following list of official accounting pronouncements constitutes the major part of *generally accepted accounting principles* (GAAP) and represents the authoritative source documents for much of the discussion contained in this book.

### Accounting Research Bulletins (ARB's), Accounting Procedures Committee, AICPA, (1953–1959)

| Date Issued | No.    | Title   |
|-------------|--------|---|
| June 1953   | No. 43 | Restatement and Revision of Accounting Research Bulletins Nos. 1–42, (originally issued 1939–1953)<br>Ch. 1 Prior Opinions (amended)<br>Ch. 2 Form of Statements (amended and partially superseded)<br>Ch. 3 Working Capital (amended and partially superseded)<br>Ch. 4 Inventory Pricing (amended)<br>Ch. 5 Intangible Assets (superseded)<br>Ch. 6 Contingency Reserves (superseded)<br>Ch. 7 Capital Accounts (amended and partially superseded)<br>Ch. 8 Income and Earned Surplus (superseded)<br>Ch. 9 Depreciation (amended and partially superseded)<br>Ch. 10 Taxes (amended and partially superseded)<br>Ch. 11 Government Contracts (amended)<br>Ch. 12 Foreign Operations and Foreign Exchange (amended)<br>Ch. 13 Compensation (amended and partially superseded)<br>Ch. 14 Disclosure of Long-term Leases in Financial Statements (superseded)<br>Ch. 15 Unamortized Discount, Issue Cost, and Redemption Premium on Bonds Refunded (superseded) |
| Oct. 1954   | No. 44 | Declining-Balance Depreciation; Revised July, 1958 (amended)  |
| Oct. 1955   | No. 45 | Long-term Construction-type Contracts (unchanged)   |
| Feb. 1956   | No. 46 | Discontinuance of Dating Earned Surplus (unchanged)   |
| Sept. 1956  | No. 47 | Accounting for Costs of Pension Plans (superseded)  |
| Jan. 1957   | No. 48 | Business Combinations (superseded)  |
| April 1958  | No. 49 | Earnings Per Share (superseded)   |
| Oct. 1958   | No. 50 | Contingencies (superseded)  |
| Aug. 1959   | No. 51 | Consolidated Financial Statements (amended and partially superseded)  |

### Accounting Terminology Bulletins, Committee on Terminology, AICPA

|           |       |   |
|-----------|-------|---|
| Aug. 1953 | No. 1 | Review and Résumé (of the eight original terminology bulletins) (amended) |
| Mar. 1955 | No. 2 | Proceeds, Revenue, Income, Profit, and Earnings (amended)                 |
| Aug. 1956 | No. 3 | Book Value (unchanged)  |
| July 1957 | No. 4 | Cost, Expense, and Loss (amended)   |

### Accounting Principles Board (APB) Opinions, AICPA (1962–1973)

|            |        |  |
|------------|--------|--|
| Nov. 1962  | No. 1  | New Depreciation Guidelines and Rules (amended)  |
| Dec. 1962  | No. 2  | Accounting for the "Investment Credit" (amended)   |
| Oct. 1963  | No. 3  | The Statement of Source and Application of Funds (superseded)                            |
| Mar. 1964  | No. 4  | Accounting for the "Investment Credit" (Amending No. 2)                                  |
| Sept. 1964 | No. 5  | Reporting of Leases in Financial Statements of Lessee (superseded)                       |
| Oct. 1965  | No. 6  | Status of Accounting Research Bulletins (partially superseded)                           |
| May 1966   | No. 7  | Accounting for Leases in Financial Statements of Lessors (superseded)                    |
| Nov. 1966  | No. 8  | Accounting for the Cost of Pension Plans (superseded)                                    |
| Dec. 1966  | No. 9  | Reporting the Results of Operations (amended and partially superseded)                   |
| Dec. 1966  | No. 10 | Omnibus Opinion—1966 (amended and partially superseded)                                  |
| Dec. 1967  | No. 11 | Accounting for Income Taxes (superseded)   |
| Dec. 1967  | No. 12 | Omnibus Opinion—1967 (partially superseded)  |
| Mar. 1969  | No. 13 | Amending Paragraph 6 of APB Opinion No. 9, Application to Commercial Banks (unchanged)   |
| Mar. 1969  | No. 14 | Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants (unchanged) |
| May 1969   | No. 15 | Earnings per Share (amended)   |
| Aug. 1970  | No. 16 | Business Combinations (amended)  |
| Aug. 1970  | No. 17 | Intangible Assets (amended)  |
| Mar. 1971  | No. 18 | The Equity Method of Accounting for Investments in Common Stock (amended)                |
| Mar. 1971  | No. 19 | Reporting Changes in Financial Position (amended)  |
| July 1971  | No. 20 | Accounting Changes (amended)   |
| Aug. 1971  | No. 21 | Interest on Receivables and Payables (amended)   |
| April 1972 | No. 22 | Disclosure of Accounting Policies (amended)  |
| April 1972 | No. 23 | Accounting for Income Taxes—Special Areas (superseded)                                   |

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| Date Issued  | No.    | Title  |
|--|--------|--|
| April 1972   | No. 24 | Accounting for Income Taxes—Equity Method Investments (unchanged)  |
| Oct. 1972  | No. 25 | Accounting for Stock Issued to Employees (unchanged)   |
| Oct. 1972  | No. 26 | Early Extinguishment of Debt (amended)   |
| Nov. 1972  | No. 27 | Accounting for Lease Transactions by Manufacturer or Dealer Lessors (superseded)   |
| May 1973   | No. 28 | Interim Financial Reporting (amended and partially superseded)   |
| May 1973   | No. 29 | Accounting for Nonmonetary Transactions (unchanged)  |
| June 1973  | No. 30 | Reporting the Results of Operations (amended)  |
| June 1973  | No. 31 | Disclosure of Lease Commitments by Lessees (superseded)  |
| <b>Financial Accounting Standards Board (FASB),<br/>Statements of Financial Accounting Standards (1973–1991)</b> |        |  |
| Dec. 1973  | No. 1  | Disclosure of Foreign Currency Translation Information (superseded)  |
| Oct. 1974  | No. 2  | Accounting for Research and Development Costs  |
| Dec. 1974  | No. 3  | Reporting Accounting Changes in Interim Financial Statements   |
| Mar. 1975  | No. 4  | Reporting Gains and Losses from Extinguishment of Debt (amended)   |
| Mar. 1975  | No. 5  | Accounting for Contingencies (amended)   |
| May 1975   | No. 6  | Classification of Short-term Obligations Expected to be Refinanced   |
| June 1975  | No. 7  | Accounting and Reporting by Development Stage Enterprises  |
| Oct. 1975  | No. 8  | Accounting for the Translation of Foreign Currency Transactions and Foreign Financial Statements (superseded)  |
| Oct. 1975  | No. 9  | Accounting for Income Taxes—Oil and Gas Producing Companies (superseded)   |
| Oct. 1975  | No. 10 | Extension of “Grandfather” Provisions for Business Combinations  |
| Dec. 1975  | No. 11 | Accounting for Contingencies—Transition Method   |
| Dec. 1975  | No. 12 | Accounting for Certain Marketable Securities   |
| Nov. 1976  | No. 13 | Accounting for Leases (amended, interpreted, and partially superseded)   |
| Dec. 1976  | No. 14 | Financial Reporting for Segments of a Business Enterprise (amended)  |
| June 1977  | No. 15 | Accounting by Debtors and Creditors for Troubled Debt Restructurings   |
| June 1977  | No. 16 | Prior Period Adjustments   |
| Nov. 1977  | No. 17 | Accounting for Leases—Initial Direct Costs   |
| Nov. 1977  | No. 18 | Financial Reporting for Segments of a Business Enterprise—Interim Financial Statements   |
| Dec. 1977  | No. 19 | Financial Accounting and Reporting by Oil and Gas Producing Companies (amended)  |
| Dec. 1977  | No. 20 | Accounting for Forward Exchange Contracts (superseded)   |
| April 1978   | No. 21 | Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises   |
| June 1978  | No. 22 | Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt   |
| Aug. 1978  | No. 23 | Inception of the Lease   |
| Dec. 1978  | No. 24 | Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise’s Financial Report  |
| Feb. 1979  | No. 25 | Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies  |
| April 1979   | No. 26 | Profit Recognition on Sales-Type Leases of Real Estate   |
| May 1979   | No. 27 | Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases   |
| May 1979   | No. 28 | Accounting for Sales with Leasebacks   |
| June 1979  | No. 29 | Determining Contingent Rentals   |
| Aug. 1979  | No. 30 | Disclosure of Information about Major Customers  |
| Sept. 1979   | No. 31 | Accounting for Tax Benefits Related to U.K. Tax Legislation Concerning Stock Relief  |
| Sept. 1979   | No. 32 | Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters (amended and partially superseded) |
| Sept. 1979   | No. 33 | Financial Reporting and Changing Prices (amended and partially superseded)   |
| Oct. 1979  | No. 34 | Capitalization of Interest Cost (amended)  |
| Mar. 1980  | No. 35 | Accounting and Reporting by Defined Benefit Pension Plans (amended)  |
| May 1980   | No. 36 | Disclosure of Pension Information  |
| July 1980  | No. 37 | Balance Sheet Classification of Deferred Income Taxes  |
| Sept. 1980   | No. 38 | Accounting for Preacquisition Contingencies of Purchased Enterprises   |
| Oct. 1980  | No. 39 | Financial Reporting and Changing Prices: Specialized Assets—Mining and Oil and Gas   |
| Nov. 1980  | No. 40 | Financial Reporting and Changing Prices: Specialized Assets—Timberlands and Growing Timber   |
| Nov. 1980  | No. 41 | Financial Reporting and Changing Prices: Specialized Assets—Income-Producing Real Estate   |
| Nov. 1980  | No. 42 | Determining Materiality for Capitalization of Interest Cost  |
| Nov. 1980  | No. 43 | Accounting for Compensated Absences  |
| Dec. 1980  | No. 44 | Accounting for Intangible Assets of Motor Carriers   |

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| Date Issued | No.    | Title   |
|-------------|--------|---|
| Mar. 1981   | No. 45 | Accounting for Franchise Fee Revenue  |
| Mar. 1981   | No. 46 | Financial Reporting and Changing Prices: Motion Picture Films   |
| Mar. 1981   | No. 47 | Disclosure of Long-Term Obligations   |
| June 1981   | No. 48 | Revenue Recognition When Right of Return Exists   |
| June 1981   | No. 49 | Accounting for Product Financing Arrangements   |
| Nov. 1981   | No. 50 | Financial Reporting in the Record and Music Industry  |
| Nov. 1981   | No. 51 | Financial Reporting by Cable Television Companies   |
| Dec. 1981   | No. 52 | Foreign Currency Translation  |
| Dec. 1981   | No. 53 | Financial Reporting by Producers and Distributors of Motion Picture Films   |
| Jan. 1982   | No. 54 | Financial Reporting and Changing Prices: Investment Companies   |
| Feb. 1982   | No. 55 | Determining Whether a Convertible Security is a Common Stock Equivalent   |
| Feb. 1982   | No. 56 | Designation of AICPA Guide and SOP 81-1 on Contractor Accounting and SOP 81-2 on Hospital-Related Organizations as Preferable for Applying APB Opinion 20   |
| Mar. 1982   | No. 57 | Related Party Disclosures   |
| April 1982  | No. 58 | Capitalization of Interest Cost in Financial Statements that Include Investments Accounted for by the Equity Method   |
| April 1982  | No. 59 | Deferral of the Effective Date of Certain Accounting Requirements for Revision Plans of State and Local Governmental Units  |
| June 1982   | No. 60 | Accounting and Reporting by Insurance Enterprises   |
| June 1982   | No. 61 | Accounting for Title Plant  |
| June 1982   | No. 62 | Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants  |
| June 1982   | No. 63 | Financial Reporting by Broadcasters   |
| Sept. 1982  | No. 64 | Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements  |
| Sept. 1982  | No. 65 | Accounting for Certain Mortgage Bank Activities   |
| Oct. 1982   | No. 66 | Accounting for Sales of Real Estate   |
| Oct. 1982   | No. 67 | Accounting for Costs and Initial Rental Operations of Real Estate Projects  |
| Oct. 1982   | No. 68 | Research and Development Arrangements   |
| Nov. 1982   | No. 69 | Disclosures about Oil and Gas Producing Activities  |
| Dec. 1982   | No. 70 | Financial Reporting and Changing Prices: Foreign Currency Translation   |
| Dec. 1982   | No. 71 | Accounting for the Effects of Certain Types of Regulation   |
| Feb. 1983   | No. 72 | Accounting for Certain Acquisitions of Banking or Thrift Institutions   |
| Aug. 1983   | No. 73 | Reporting a Change in Accounting for Railroad Track Structures  |
| Aug. 1983   | No. 74 | Accounting for Special Termination Benefits Paid to Employees   |
| Nov. 1983   | No. 75 | Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units   |
| Nov. 1983   | No. 76 | Extinguishment of Debt  |
| Dec. 1983   | No. 77 | Reporting by Transferors for Transfers of Receivables with Recourse   |
| Dec. 1983   | No. 78 | Classifications of Obligations that Are Callable by the Creditor  |
| Feb. 1984   | No. 79 | Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises   |
| Aug. 1984   | No. 80 | Accounting for Futures Contracts  |
| Nov. 1984   | No. 81 | Disclosure of Postretirement Health Care and Life Insurance Benefits  |
| Nov. 1984   | No. 82 | Financial Reporting and Changing Prices: Elimination of Certain Disclosures   |
| Mar. 1985   | No. 83 | Designation of AICPA Guides and Statement of Position on Accounting by Brokers and Dealers in Securities, by Employee Benefit Plans, and by Banks as Preferable for Purposes of Applying APB Opinion 20 |
| Mar. 1985   | No. 84 | Induced Conversions of Convertible Debt   |
| Mar. 1985   | No. 85 | Yield Test for Determining Whether a Convertible Security Is a Common Stock Equivalent  |
| Aug. 1985   | No. 86 | Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed   |
| Dec. 1985   | No. 87 | Employers' Accounting for Pensions  |
| Dec. 1985   | No. 88 | Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits  |
| Dec. 1986   | No. 89 | Financial Reporting and Changing Prices   |
| Dec. 1986   | No. 90 | Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs  |
| Dec. 1986   | No. 91 | Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases   |
| Aug. 1987   | No. 92 | Regulated Enterprises—Accounting for Phase-in Plans   |
| Aug. 1987   | No. 93 | Recognition of Depreciation by Not-for-Profit Organizations   |
| Oct. 1987   | No. 94 | Consolidation of All Majority-Owned Subsidiaries  |
| Nov. 1987   | No. 95 | Statement of Cash Flows   |
| Dec. 1987   | No. 96 | Accounting for Income Taxes   |
| Dec. 1987   | No. 97 | Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments  |

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**(Listing continued on inside of back cover.)**

# INTERMEDIATE ACCOUNTING

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## ACCOUNTING TEXTBOOKS FROM WILEY

- Arpan and Radebaugh: **International Accounting and Multinational Enterprises**, 2nd  
Burch and Grudnitski: **Information Systems: Theory and Practice**, 5th  
Davis, Alderman and Robinson: **Accounting Information Systems**, 3rd  
Defliese, Jaenicke, O'Reilly, and Hirsch: **Montgomery's Auditing 11th, Revised College Version**  
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Delaney and Gleim: **CPA Examination Review—Auditing**  
Delaney and Gleim: **CPA Examination Review—Business Law**  
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Gleim and Delaney: **CPA Examination Review—Volume I Outlines and Study Guides**  
Gleim and Delaney: **CPA Examination Review—Volume II Problems and Solutions**  
Guy and Carmichael: **Audit Sampling: An Introduction to Statistical Sampling in Auditing**, 2nd  
Haried, Imdieke, and Smith: **Advanced Accounting**, 5th  
Helmkamp: **Managerial Accounting**, 2nd  
Helmkamp, Imdieke, and Smith: **Principles of Accounting**, 3rd  
Imdieke and Smith: **Financial Accounting**, 2nd  
Kam: **Accounting Theory**, 2nd  
Kell and Boynton: **Modern Auditing**, 5th  
Kemp and Phillips: **Advanced Accounting**  
Kieso and Weygandt: **Intermediate Accounting**, 7th  
Lere: **Managerial Accounting: A Planning-Operating-Control Framework**  
Moriarity and Allen: **Cost Accounting**, 3rd  
Moscove, Simkin and Bagranoff: **Accounting Information Systems**, 4th  
Newell and Kreuze: **College Accounting, Chapters 1-10, 1-15, 1-27**  
Schroeder, McCullers, and Clark: **Accounting Theory: Text and Readings**, 4th  
Taylor and Glezen: **Auditing: Integrated Concepts and Procedures**, 5th  
Taylor, Glezen, and Ehrenreich: **Case Study in Auditing**  
Weygandt, Kieso, and Kell: **Accounting Principles**, 2nd  
Wilkinson: **Accounting and Information Systems**, 3rd  
Wilkinson: **Accounting Information Systems: Essential Concepts and Applications**



*Dedicated to the memory of*  
Susan Natalie Robinson and Sigrid Ann Stottrup

*and to the support provided by*  
Donna, Douglas, and Debra  
Enid, Matthew, Erin, and Lia

## ABOUT THE AUTHORS

**Donald E. Kieso, Ph.D., CPA**, received his doctorate in accounting from the University of Illinois. He has served as chairman of the Department of Accountancy and is currently the KPMG Peat Marwick Professor of Accountancy at Northern Illinois University. He has public accounting experience with Price Waterhouse & Co. (San Francisco and Chicago) and Arthur Andersen & Co. (Chicago) and research experience with the Research Division of the American Institute of Certified Public Accountants (New York). He has done postdoctorate work as a Visiting Scholar at the University of California at Berkeley and is a recipient of NIU's Teaching Excellence Award and has twice received the Executive MBA Golden Apple Teaching Award. Professor Kieso is the author of other accounting and business books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, the Financial Executives Institute, and the Illinois CPA Society. He has served as a member of the Board of Directors of the Illinois CPA Society, the AACSB Accounting Accreditation Committee, the Board of Governors of the American Accounting Association's Administrators of Accounting Programs Group, the State of Illinois Comptroller's Commission, as Secretary-Treasurer of the Federation of Schools of Accountancy, and as Secretary-Treasurer of the American Accounting Association. Professor Kieso is currently serving as a member of the Accounting Education Change Commission, the Board of Directors of Aurora University, as chair of the Accounting Education Change Liaison Committee of the American Accounting Association, and on committees of the Illinois CPA Society. In 1988 he received the Outstanding Accounting Educator Award from the Illinois CPA Society.

**Jerry J. Weygandt, Ph.D., CPA**, is Arthur Andersen Alumni Professor of Accounting at the University of Wisconsin-Madison. He holds a Ph.D. in accounting from the University of Illinois. Articles by Professor Weygandt have appeared in the *Accounting Review*, *Journal of Accounting Research*, the *Journal of Accountancy*, and other professional journals. These articles have examined such financial reporting issues as accounting for price-level adjustments, pensions, convertible securities, stock option contracts, and interim reports. He is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Wisconsin Society of Certified Public Accountants. He has served on numerous committees of the American Accounting Association and as a member of the editorial board of the *Accounting Review*. In addition, he is actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee (AcSEC) of that organization. He has served as a consultant to a number of businesses and state agencies on financial reporting issues and served on the FASB task force that examined the reporting issues related to "accounting for income taxes." Professor Weygandt has received the Chancellor's Award for Excellence in Teaching; he also has served as Secretary-Treasurer of the American Accounting Association. In 1991 he received the Wisconsin Institute of CPA's Outstanding Educator's Award.

## ■ ————— PREFACE ————— ■

The seventh edition of *Intermediate Accounting* discusses in depth the traditional (intermediate) financial accounting topics as well as the recent developments in accounting valuation and reporting practices promulgated by the leading professional accounting organizations and applied by practitioners in industry and public accounting. Explanations and discussions of financial accounting theory are supported and illustrated by examples taken directly from practice and authoritative pronouncements.

Continuing to keep pace with the complexities of professional accounting pronouncements and the modern business enterprise, we have added new topics, deleted some obsolete material, clarified some of the existing coverage, added numerous illustrations, and updated material where necessary. To provide the instructor with greater flexibility in choosing topics to cover or omit, we have continued the use of judiciously selected appendices. The appendices are concerned primarily with complex subjects, lesser used methods, or specialized topics.

Benefiting from the comments and recommendations of adopters of our sixth edition, we have made significant revisions. Explanations where necessary have been expanded, complicated discussions and illustrations have been simplified, realism has been integrated to heighten interest and relevancy, and new topics and coverage have been added to maintain currency. We have even deleted some sixth edition coverage and condensed the coverage of other topics.

We have attempted to balance our coverage so that the conceptual discussion and procedural presentation are mutually reinforcing. The study of concepts develops an understanding of procedures, and the performance of procedures enriches an understanding of the concepts. Accountants must act as well as think; therefore, we have given equal emphasis to *how* and to *why*.

We believe that individuals can account for events and phenomena best if they fully understand the nature of the phenomena and comprehend the economic consequences of the events. An appreciation for the behavioral and economic consequences of accounting and reporting alternatives is equally important. To this end, we have provided coverage that develops perspective as well as an understanding of the business transactions and other events for which enterprises account and report.

### ■ REVISIONS AND NEW FEATURES ■

The most significant revision to the seventh edition is the complete rewriting of Chapter 20 on accounting for income taxes. This revision conforms to the profession's most recent and long-awaited pronouncement on accounting and reporting requirements related to interperiod income tax allocation. Also, eleven pages of new material covering the accounting and reporting requirements for postretirement benefits other than pensions (*FASB Statement No. 106*) have been added to Chapter 21.

Numerous new features have been added to the seventh edition:

**A four-color presentation with a larger-type size and a more open design** make the book easier to read and more user friendly.

2. A **description of each case, exercise, and problem** is provided for the first time.
3. **Financial reporting problems** have been developed and are placed as the last item of the homework-assignment material. Most of these financial reporting problems require reference to and analysis and interpretation of Georgia-Pacific Corporation's financial statements and accompanying notes (see the specimen financial statements, Appendix 5-A).
4. **Ethics material** in the form of text discussion and assignment material (questions, cases, and exercises) has been added to sensitize students to the ethical considerations, situations, and dilemmas encountered by practicing accountants.
5. **Interviews** of eight prominent accounting and business personalities on relevant accounting topics is a unique new feature. The interviews are integrated throughout the book as follows:

|  |                            |
|--|----------------------------|
|  | Preceding Chapter 1        |
| Arthur R. Wyatt, "International Accounting and Standard Setting"                   | Between Chapters 5 and 6   |
| Dennis R. Beresford, "Standard Setting"  | Between Chapters 9 and 10  |
| Ted Clarke, "Financial Accounting: A Preparer's Viewpoint"                         | Between Chapters 12 and 13 |
| Robert Sack, "Ethics"  | Between Chapters 16 and 17 |
| James C. Treadway, "Ethics: A Regulator's Viewpoint"                               | Between Chapters 19 and 20 |
| Clark H. Johnson, "Financial Accounting: A CFO's Viewpoint"                        | Between Chapters 23 and 24 |
| Patricia McConnell, "Financial Accounting: A Financial Statement User's Viewpoint" | Between Chapters 25 and 26 |
| James F. Fitzgerald, "Careers in Accounting"                                       |                            |

Because these interviews contain considerable accounting content and are relevant to an accountant's professional development, they can serve as a basis for classroom discussions.

6. **Learning objectives** are presented in the side margins throughout the book as aides to students.
7. **Four-color graphics and flow charts** have been added throughout the chapters to enhance clarity and comprehension.
8. **Icons** (images or symbols), set in the margins of end-of-chapter assignment materials, have been specifically designed to identify (a) the exercises and problems that are contained in the *Lotus Problems* supplement—blue icon— and (b) the questions, cases, exercises, and problems that contain ethical issues or dilemmas—red icons.

Throughout the text we have attempted to improve the pedagogy and simplify complex presentations. Examples are: the addition of all new four-color graphics to enhance the time diagrams and illustrations in Chapter 6; clarification and expansion of the capitalization of interest approach in Chapter 10; updating and expansion of (1) the MACRS tax depreciation approach and (2) the impairment in asset value discussion in Chapter 11; in Chapter 13 the presentation on property tax accruals has been simplified and the coverage on guarantees and warranties has been revised to conform to *FASB Technical Bulletin No. 90-1*; the updated coverage in Chapters 15 and 16 on dividend availability and policy resulting from more states adopting recent versions of the Model Business Corporation Act; revision of the quasi-reorganization coverage to conform to the SEC's new reclassification rules; and clarification of the computation of weighted average shares outstanding and calculations of earnings per share in Chapter 17. The recent practices of "trade loading" and "channel stuffing" relative to revenue recognition abuses are discussed in Chapter 19. Coverage about financial instruments with off-balance-sheet risk and concentrations of risk (*FASB Statement No. 105*) has been integrated into relevant chapters.

The sequence of chapters has remained the same, except that Chapter 27 of the sixth edition has been deleted. “Accounting for Changing Prices,” the topic of that deleted chapter has been condensed into an appendix to Chapter 26 because the disclosure of current cost and constant dollar information (inflation accounting) is no longer mandatory or widely practiced.

## ■ COLOR DESIGN ■

The color design not only enlivens the textbook’s appearance, but, through planned and consistent usage, eases learning. Note that financial statements are presented in blue toned color with a beige header. Trial balances, work sheets, and larger schedules and exhibits are presented in beige with blue headings. Most small illustrations, demonstrations, and excerpts from notes accompanying financial statements are beige colored/blue trim boxes. Significant amounts and descriptions within either blue or beige colored boxes are highlighted in solid blue color. Learning objectives appear in the side margin in red, while blue computer icons and red ethics icons appear next to the problem material. Major headings are black print and are centered while secondary headings are red. Numbers and descriptions of homework assignment material are colored blue. All pages containing assignment material have a blue/beige border while the five interest and annuity tables in Chapter 6 have a black and red border to ease locating and identifying. All summaries of fundamental concepts at the end of each chapter are presented in gray screen. The names of real world companies as part of illustrations are red. The color design is summarized as follows:

- Red—Learning objectives, ethics icons, real-world company names, secondary headings, and accents.
- Blue—Financial statements, homework assignment numbers and descriptions, highlighted amounts and descriptions in boxed illustrations, and computer icons.
- Beige—Exhibits, schedules, trial balances, work sheets, illustrations, and lists of definitions.
- Gray—Fundamental concepts (a summary at the end of each chapter).

## ■ QUESTIONS, CASES, EXERCISES, AND PROBLEMS ■

At the end of each chapter we have provided a comprehensive set of review and homework material consisting of questions, short cases, exercises, and problems. For this edition all exercises and problems have been revised, and the end-of-chapter material has been supplemented with over 200 new items, all of which have been either class tested or double checked for accuracy and clarity.

The questions are designed for review, self-testing, and classroom discussion purposes as well as homework assignments. The cases generally require essay as opposed to quantitative solutions; they are intended to confront the student with situations calling for conceptual analysis and the exercise of judgment in identifying problems and evaluating alternatives. Typically, an exercise covers a specific topic and requires less time and effort to solve than cases and problems. The problems are designed to develop a professional level of achievement and are more challenging and time consuming to solve than the exercises.

Probably no more than one-fourth of the total case, exercise, and problem material must be used to cover the subject matter adequately; consequently, problem assignments may be varied from year to year.

## ■ SUPPLEMENTARY MATERIALS ■

Accompanying this textbook is an improved and expanded package of student learning aids and instructor teaching aids.

### STUDENT LEARNING AIDS

The **Student Study Guide** contains an enhanced chapter review section with new demonstration problems, additional multiple-choice questions and exercises, expanded synopsis sections that tie in concepts from other chapters, and a more thorough review of text material in a self-study section.

A **Self-Study Problems/Solution Book**, new to this edition, contains exercises and problems for each chapter with annotated step-by-step solutions, with coaching and tips on how to study and how to analyze, setup, and solve accounting problems and exam questions.

The **Rockford Corporation Manual Practice Set** has been revised and slightly shortened and simplified, with check figures provided for both sets of solutions.

The **Rockford Corporation Computerized Practice Set** demonstrates the benefits of an automated accounting system—similar to general ledger software, but easier to implement.

Ruled **Working Papers I and II** in two volumes now contains ruled papers for both exercises (new to this edition) and problems.

The **Lotus 1-2-3 Problems** booklet contains a complete range in difficulty level of intermediate accounting problems (from data entry to developing spreadsheets). Each chapter has basic, intermediate, and advanced tutorials along with three exercises or problems cross referenced to and identified in the text.

The **Multi-State Trucking—Lotus Based Practice Set** requires the student to produce interim financial statements by using computer spreadsheets and aids in making the transition from financial to intermediate.

The **Checklist of Key Figures** is a comprehensive list of key figures for students to use to verify their problem solutions.

### INSTRUCTOR TEACHING AIDS

The **Solutions Manuals I and II** contain assignment classification tables, descriptions, difficulty levels, times, and purposes for every assignment by chapter, along with complete solutions, derivations, and helpful notes to instructors.

The **Instructor's Manual** contains enhanced lecture outlines with teaching tips, cross references to text material, chapter reviews, more demonstration problems and in-class illustrations, an updated annotated bibliography, and tips on how to integrate ethics into financial accounting.

The **Examination Book and Test Bank** has been greatly expanded with more multiple-choice questions, more exercises, and a new bank of problems. The derivations of all multiple-choice questions are also now provided.

A **Microtest** computerized test bank is available for IBM-PC and Macintosh microcomputers.

**Videos**, new to this edition, on selected topics provide real-world background as well as technical coverage in fifteen to thirty minute segments.

The **Tutorial and Presentation Software**, new to this edition, provides graphical animation and explanations useful to instructors as a classroom aid or to students in the lab.

**Transparencies** of solutions to exercises and problems are provided in two vol-



umes in an organizer box with chapter separators; the large-size 12-point type provides a clear, dark, readable image.

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If this book helps teachers instill in their students an appreciation for the challenges, worth, and limitations of accounting, if it encourages students to evaluate critically and understand financial accounting theory and practice, and if it prepares students for advanced study, professional examinations, and the successful and ethical pursuit of their careers in accounting or business, then we will have attained our objective.

Suggestions and comments from users of this book will be appreciated.

*DeKalb, Illinois  
Madison, Wisconsin  
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