

# ACCOUNTING PRINCIPLES

Second Edition

Lanny M. Solomon  
Richard J. Vargo  
Larry M. Walther



**ANOTHER QUALITY  
USED BOOK**

# ACCOUNTING PRINCIPLES

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SECOND EDITION

**Lanny M. Solomon**

*The University of Texas at Arlington*

**Richard J. Vargo**

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# PREFACE

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## TO THE INSTRUCTOR

Since the early 1970s, accounting enrollments throughout the country have risen dramatically. Dedicated (and not so dedicated) students have crowded into classrooms to study a subject that could improve their chances of future employment. Interestingly, during this same period, professorial complaints regarding students' reading and analytical abilities and work habits have increased. It is these very problems that prompted us to write the first edition of *Accounting Principles* in 1983 and to develop many of the refinements in this second edition.

The authors recognize that introductory accounting courses at many academic institutions often are of the service variety to meet business administration major requirements. Such classes usually contain a substantial number of students who quickly lose interest in the subject matter, which is regarded as relatively difficult, time-consuming, and somewhat dry and boring. Unfortunately, quality students who plan to pursue accountancy as a major often fail to develop the necessary attitude for the rigorous courses that follow. Frequently, these students seek other career opportunities.

What does *Accounting Principles* do to overcome these problems? Although we cannot perform miracles, we are confident that our text can arouse students' interest in accounting, thereby creating a more dynamic instructional environment. This ability grows out of the text's heavy emphasis on real-world experience. We make extensive use of data from corporate financial reports to illustrate important points, along with interesting excerpts from periodicals, and a decision-oriented approach to management accounting. In short, our aim is to add pizzazz to the study of the subject. However, we do not lose sight of our main objective as accounting educators: *to provide a well-balanced presentation of the measurement and reporting of financial activity*. Users of the first edition have indicated that our objectives have been met. Both faculty and students were enthusiastic about the book's clarity, readability, accuracy, and comprehensiveness.

Not only have we tried to meet diverse readership needs, but we have also tried to serve diverse instructional philosophies. Flexibility has been a prime consideration in the design of this text. For those instructors who desire to reinforce learning of basic accounting procedures via reversing entries, work sheets, special journals, and other similar tools, such topics are covered in ample depth. However, such coverage may be omitted without any loss of continuity if a more conceptual presentation is preferred. Discussions of the concepts and rationale that underlie accounting practices are integrated at appropriate points throughout the text. The result, we believe, is an enlightening presentation—one that will create a stimulating educational experience.

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## SIGNIFICANT CHANGES IN THE SECOND EDITION

On the basis of user feedback, the authors have made several changes in the organization and content of the second edition. The major changes include:

1. Coverage of the accounting cycle has been expanded, with the discussion of the adjusting and closing processes now in two separate chapters (Chapters 3 and 4). In addition, an appendix on reversing entries has been added to Chapter 4.

2. The discussion of merchandising operations (Chapter 5) has been reorganized to follow the flow of information on the income statement.
3. Much of the previous Chapter 6 (Financial Statements: An In-Depth View) has been integrated in more appropriate places. Coverage of more advanced topics appears later in the text. Elementary topics, such as balance sheet and income statement classification, are presented in Chapters 4 and 5.
4. An overview of financial accounting concepts has been moved forward in the text (Chapter 13) to accommodate those users who desire coverage of this topic in the first course. In addition, this chapter now contains an appropriate discussion of inflation accounting.
5. Coverage of partnerships and corporations has been changed. Chapter 14 is now devoted solely to partnerships; Chapters 15 and 16 relate to corporations and issues of income reporting. This new treatment is an improvement over the first edition. Corporate coverage is now deferred to Principles II, and there is no need to split chapters and/or topical discussion among different courses and instructors.
6. A new appendix has been added to the statement of changes in financial position discussion (Chapter 19) for those instructors who prefer a work sheet approach to the topic. In addition, because of changing business practice, we have expanded our presentation of the cash definition of funds.
7. For those schools that desire to fulfill requirements of the American Assembly of Collegiate Schools of Business, an overview of international accounting has been added to Chapter 20.
8. Coverage of managerial accounting now comprises seven chapters. Material from the old Chapter 25 has been rearranged, with a decrease in discussion of direct and absorption costing.
9. The material related to expected value in decision making has been deleted. Major additions include an expansion of process costing to include multiple departments (via an appendix) and further coverage of taxes in capital budgeting decisions.
10. The discussion of federal income taxes is now postponed until Chapter 28, making optional coverage more convenient.
11. There are added presentations concerning the use of the computer in accounting, including a brief overview of electronic spreadsheets.
12. The problems now have more variety in coverage and difficulty level. Users may choose from Series A and Series B problems. B problems are similar to those of set A, employing different data and/or transactions. A review of the text's twenty-eight chapters will reveal more A problems than B. A problems numbered 7 and above are unique, without any alternate.

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**FIRST EDITION  
FEATURES  
RETAINED**

Many features in the first edition proved popular with users. Those features, repeated in this edition, include a heavy use of real-world firms and data, excerpts from periodicals, a truly managerial section, strong problem material, and clarity and readability of presentations.

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**Heavy Real-  
World  
Emphasis**

Many accounting texts use hypothetical firms in their illustrations and examples. The authors have found that students show an increased interest in the subject matter when exposed to the accounting and financial reporting practices of real businesses. Consequently, we include annual report data from over 100 different

companies, including McDonald's, Holiday Inn, Wendy's, American Airlines, Apple Computer, Levi Strauss, and the Coca-Cola Company. We have carefully selected firms from industries with which students themselves have contact. Importantly, all examples were screened for appropriateness at the introductory level.

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**Excerpts from  
Periodicals**

The authors have integrated excerpts from journal and newspaper articles into topical discussions in an effort to bridge the gap between academia and the business world. The selected articles relate to the subject matter at hand and were chosen (and adapted) to focus on practical, interesting applications. Excerpts are from such popular periodicals as *The Wall Street Journal*, *Forbes*, and *Fortune*. Typical examples include:

"Future Looks Bright for Prospective Accountants"  
"Stock Splits: It's Time to Feed the . . . Investors"  
"Buy a Bond; Get a Seat"  
"Sometimes It's Cheaper to Lose Money"

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**A Truly  
Managerial  
Section**

The final chapters of an accounting principles text are normally devoted to cost and managerial accounting topics. The usual approach is to have students calculate this and calculate that, while paying very little attention to the use or impact of the data they are generating. Our approach is to focus on the *how and why* of planning, control, performance evaluation, and decision making and to show practical applications whenever possible. This *balanced* (as opposed to highly procedural) presentation should appeal to a wide variety of instructors, including those who currently use a separate text for managerial coverage.

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**Strong  
Problem  
Material**

All problem material contained in this text was carefully designed to reflect current accounting principles and practices. Questions, exercises, problems, and cases range in scope from the simple to the complex; all were written and solved by the authors to assure total coordination with the text presentation. To further ensure accuracy and reliability, we obtained independently worked solutions from seven additional experienced accounting instructors. Furthermore, the *Instructor's Solutions Manual* has been double-checked by the authors and yet two other accounting professionals. We are confident that the end-of-chapter materials are as trouble-free as repeated multiple checking can make them; they will provide a solid, well-rounded foundation for accounting students and a varied resource for instructors.

Our problem material generally requires the standard calculations. Often, however, we go one step further and ask the students to think beyond the numbers. For example, the student may be directed to comment on the limitations of the calculation and/or method used or to pursue an extended application of the data generated. The exercises and problems require consideration of the *how* and the *why*. *All* requirements are answerable from either the text presentation or good common sense.

As explained earlier, the problem material is divided into Series A and Series B. Instructors can therefore use one problem for illustration purposes and assign another as homework, or use different problem sets in alternating semesters or quarters. Although duplication is important, the authors have not lost sight of the need for variety. There is ample variety of material within both sets that allows instructors to approach a given topic from varying perspectives.

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**Clarity of  
Presentations**

The authors have paid close attention to readability throughout the text, especially to make troublesome topics (such as adjusting entries, corporate equity, bonds, present value, and the statement of changes in financial position) understandable to students. To eliminate differences in writing styles, one of the authors has spent count-

less hours integrating the same tone, approach, and manner of presentation in all twenty-eight chapters. Accounting is a rigorous subject for most individuals. The authors recognize this fact and have worked hard to produce a clear and usable volume. Comments from users (instructors *and* students) indicate that we have, in fact, generated a readable book.

As an aid to comprehension, each chapter contains a set of learning objectives. In addition, many chapters contain summary problems (with solutions), thereby allowing the student to test his or her knowledge of the material presented.

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## SUPPLEMENTARY MATERIALS

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### For the Student

A complete set of supplementary materials for both student and instructor accompanies this text to help facilitate the learning and teaching of accounting.

- **Study Guide.** An innovative study guide has been written by Wanda A. Wallace and James J. Wallace of Texas A&M University to reinforce the material presented in the text. The study guide contains chapter learning objectives; a chapter synopsis; a discussion of technical points; multiple-choice, true-false, and matching questions; *and* answers with explanations.
- **Working Papers.** Two volumes of working papers have been prepared by the authors. Volume I covers Chapters 1–14, while Volume II covers Chapters 14–28. The inclusion of Chapter 14 (Partnerships) in both volumes recognizes that coverage of this topic occurs in the first Principles course at some schools and in the second course at others. Many of the working papers are partially filled in, thereby allowing students to concentrate on accounting concepts as opposed to the pencil pushing associated with problem setup.
- **Practice Sets.** The authors have written four manual practice sets that tie together a number of issues discussed in the text. The first practice set, Sun Mountain Foods, covers Chapters 1–6 and focuses on the accounting cycle. A second practice set, Whispering Wood, has been prepared to accompany Chapters 7–12. Rather than concentrate on transaction processing, this exercise reinforces concepts and interrelationships via a typical year-end situation faced by the accountant. A third practice set, The Thompson Corporation, covering Chapters 15–17, can be assigned to help the student understand and integrate the principles and practices of corporate accounting. The fourth manual practice set, Smithson Manufacturing, covers Chapters 21–26 and is managerial in orientation. Although some journalizing is required, students are asked to focus on budgeting, variance analysis, decision making, and other management functions.

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### For the Instructor

- **Instructor's Solutions Manual.** A comprehensive, two-volume manual is available that contains the solutions to all questions, exercises, problems, and cases. A suggested completion time and difficulty index is provided for each problem and case. Solutions to the practice sets are available in separate volumes.
- **Instructor's Resource Manual.** The instructor's resource manual contains detailed lecture outlines that parallel the text's discussion. These outlines are especially useful for part-time instructors and graduate teaching assistants. The manual also includes suggested homework assignments.
- **Transparencies.** A set of transparencies is free to adopters. Packaged in two boxes, the transparencies contain solutions to all problems and cases, along with selected exercises. All are prepared in large, easy-to-read type.

- **Teaching Transparencies.** A set of approximately 100 teaching transparencies is also included in the boxes for adopters. These helpful two-color aids include discussion outlines and various examples, with an emphasis on those that are too time-consuming to present on a chalkboard.
- **Test Bank.** A test bank has been prepared that contains multiple-choice, true-false, matching, short exercises, and longer problems for each chapter. It is available in printed and microcomputer versions.
- **Achievement Tests.** A set of objective achievement tests is available in alternate forms. These tests take 40 to 60 minutes to complete and examine a student on approximately three chapters at a given sitting. In addition, we offer two comprehensive tests in alternate forms for Chapters 1–14 and Chapters 15–28; these require approximately 100 to 120 minutes to administer.

### Computer Software

We also offer a variety of microcomputer software to help both student and instructor.

- **Microtest.** Microtest is a microcomputer test-generation package that consists of item banks on disks and the software necessary to turn them into instructor-customized tests. It accommodates five types of questions—true/false, multiple-choice, fill-in, matching, and essay—that are accompanied by a comprehensive set of descriptors, including: chapter number, item number, item type, level of difficulty (easy, moderate, difficult). Versions are available for the Apple II+ and IIe, the IBM PC, IBM XT, and most IBM compatibles.
- **Study-Aid.** Study-Aid is a new computer program for the Apple II, IIe, IIC, Macintosh, and the IBM PC computers keyed directly to the text and study guide for easy reference and learning. After reading each chapter, Study-Aid allows students to check how much they have learned with fill-in-the-blank, multiple-choice, and matching review exercises and self-tests.
- **Computerized Practice Set.** Seaside Enterprises, a computerized practice set compatible with the Apple IIe and the IBM PC, covers Chapters 1–9. The set illustrates the ability of the computer to process transactions and prepare financial statements; some “what-if” analysis may be employed. An instructor’s manual is available.
- **Electronic Spreadsheet Exercises.** Approximately three exercises from each chapter have been adapted to microcomputers by Gaylord Smith of Albion College. These exercises, denoted by a diskette symbol, are solved by use of Lotus 1-2-3 (IBM) templates. The related instructor materials are available to text adopters.
- **Computer Simulation.** For those schools that desire to integrate microcomputers into the study of management accounting, a computer simulation game (Briton, Inc.) is available. Also developed by Gaylord Smith, the game asks students to manage the firm and to make accounting-related decisions. The accompanying software and instructor’s manual are furnished to adopters. A student manual is available to help guide team players.



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Comments from users are welcomed and appreciated.

Lanny M. Solomon  
 Richard J. Vargo  
 Larry M. Walther

# CONTENTS

---

## PREFACE x

---

## 1 AN INTRODUCTION TO ACCOUNTING 1

**What Is Accounting?** 2 Users and Uses of Accounting Information 3 Financial and Managerial Orientation 4 Limitations of Accounting Information 5 The Accountant: A Glorified Bookkeeper? 6 **The Accounting Profession** 6 Public Accounting 6 Private Accounting 8 Governmental Accounting 9 **Future Looks Bright for Prospective Accountants**<sup>1</sup> 10 **Key Underlying Concepts** 11 Entity Assumption 11 Historical Cost: An Objective, Verifiable Measure 12 The Accounting Equation 12 **The Accounting Equation: An Extended Illustration** 16 **Financial Statements** 16 The Principle of Disclosure 20 Income Statement 20 Statement of Owners' Equity 21 Balance Sheet 21 Statement Interrelationships 21 **Summary Problem** 23 Key Terms and Concepts 26 Questions 26 Exercises 27 Problems 30 Case 1: Seaview Transportation Company 38

---

## 2 PROCESSING ACCOUNTING INFORMATION 41

**The Importance of Good Processing Systems\*** 43 **Tools of Accounting** 44 Accounts 44 Debits and Credits 46 Journals 48 Chart of Accounts 49 **Posting: Interaction of the Basic Tools** 51 **An Extended Illustration** 52 **Trial Balance** 58 Equality Does Not Ensure Accuracy 58 Unequal Totals 59 **A Brief Overview** 61 **Summary Problem** 61 Key Terms and Concepts 65 Questions 65 Exercises 66 Problems 68 Case 2: Down on the Farm 77

---

## 3 INCOME MEASUREMENT AND ADJUSTING ENTRIES 81

**Income Measurement** 82 The Meaning of Income 82 The Accounting Period 83 Revenue Recognition 84 **The Choice of a Reporting Period: Common Sense, But Then Again . . .\*** 85 Expense Recognition—The Matching Principle 86 Accrual Basis Accounting 86 Cash Basis Accounting 87 **Adjusting Entries** 89 Multiperiod Costs and Revenues 89 Unrecorded Revenues and Expenses—Accruals 93 Adjusted Trial Balance 95 Adjustment Errors 96 **Summary Problem** 98 Key Terms and Concepts 100 Questions 100 Exercises 101 Problems 104 Case 3: Regal Pool Service 113

---

## 4 COMPLETION OF THE ACCOUNTING CYCLE 115

**Work Sheet** 116 Starting the Work Sheet 118 Income Statement and Balance Sheet 118 Uses of the Work Sheet 119 **Post-Closing Trial Balance** 125 **A Look Back: The Accounting Cycle** 126 Interim Reporting 126 **The Balance Sheet** 126 Statement Classification 127 Footnotes 132 **All Balance Sheets Are Not Created Equal\*** 133 **Appendix: Reversing Entries** 134 Key Terms

<sup>1</sup>Titles marked by an asterisk (\*) denote chapter articles.

and Concepts 136 Questions 136 Exercises 137 Problems 141 Case 4: "The Closing" 151

## 5 ACCOUNT- ING/REPORTING FOR MER- CHANDISING OPERATIONS 153

**Inventory: A Cause for Concern 154 Measuring Merchandising Profitability 155** Sales Revenue 155 Cost of Goods Sold 159 Accounting for Merchandise Acquisitions 161 **Inventory Accounting 165 Financial Statements of a Merchandising Concern 166** Income Statement 166 **Gross Profit: A Clue Behind Those Rising Prices\* 168** Statement of Owners' Equity 169 Balance Sheet 169 **Going Behind the Scenes: The Work Sheet 169 Adjusting and Closing Entries 172 Income Reporting 174** Single- and Multiple-Step Statements 174 Gains and Losses 177 **Summary Problem 177** Key Terms and Concepts 181 Questions 181 Exercises 182 Problems 185 Case 5: Kwik-Kleen, Inc. 194

## 6 INFORMA- TION-PROCESS- ING SYSTEMS AND INTERNAL CONTROL 195

Practice Set I  
Sun Mountain  
Foods

**System Features 196** Audit Trails 196 Internal Control 197 Foreign Corrupt Practices Act 204 **Types of Systems 205** General Journal/General Ledger System 205 Special Journals 205 Computers 223 **Computer Crime: Lots of Money, Little Ingenuity\* 226 Summary Problem 227** Key Terms and Concepts 228 Questions 229 Exercises 230 Problems 233 Case 6: Big Valley Electronics 243

## 7 CASH AND SHORT-TERM INVESTMENTS 245

**Cash 246** Balance Sheet Presentation 247 Cash Management 247 **Bank Deposits: Hurry Up and Wait\* 253 Short-Term Investments 259** Nature of Short-Term Investments 259 Recording Initial Cost and Changes in Value 260 **Appendix: The Voucher System 264 Summary Problem 267** Key Terms and Concepts 269 Questions 270 Exercises 270 Problems 274 Case 7: Tri-Counties Auto Club 284

## 8 RECEIVABLES 286

**The Use of Credit 287 Receivables 287 Accounts Receivable 288** Direct Write-Off Method 288 Allowance Method 289 Credit Card Sales 294 **Long Distance: Live Wires and Dead Beats\* 295** Installment Receivables 296 **Notes Receivable 296** The Nature of Interest 297 Accounting for Notes and Interest 298 Discounting Notes Receivable 299 Dishonoring a Note 301 **Summary Problem 301** Key Terms and Concepts 303 Questions 303 Exercises 304 Problems 307 Case 8: The Great Escape 314

## 9 INVENTORY 316

Computerized  
Practice Set  
Seaside  
Enterprises

**What Is Inventory? 317** Ownership Problems 318 **Effects of Inventory Errors on Financial Statements 319** Counterbalancing Errors 321 **Inventory Valuation and Income Measurement 322** Key Objective 322 Cost Determination 323 Costing Methods 324 **Inflation and Inventory 331 A LIFO Boomerang: Or, How to Make Money in a Recession\* 332 Lower of Cost or Market 333** Application of the Lower-of-Cost-or-Market Method 334 What About Increases in Value? 335 **Inventory Estimates 335** Gross Profit Method 336 Retail Method 337 **Periodic and Perpetual Inventory**

**Systems 338** Perpetual System 338 **Summary Problem 342** Key Terms and Concepts 343 Questions 343 Exercises 344 Problems 347 Case 9: In One Door and Out the Other 355

---

**10 PROPERTY, PLANT, AND EQUIPMENT: ACQUISITION AND DEPRECIATION 357**

**Determining the Cost of Property, Plant, and Equipment 358** Cash Purchase 359 Lump-Sum Purchase 360 Small Items of Property, Plant, and Equipment 361 **Depreciation 362** Determining Service Life 362 Methods of Depreciation 364 *Depreciation: Two Common Fallacies* 371 Revisions of Depreciation 371 Disclosure of Depreciation in the Financial Statements 372 Depreciation and the Tax Laws 372 **Inflation and Property, Plant, and Equipment 374** *Faster! Slower! Faster! Slower!\** 375 **Summary Problem 376** Key Terms and Concepts 377 Questions 378 Exercises 378 Problems 381 Case 10: Jeff's Machine Shop 389

---

**11 PROPERTY, PLANT, AND EQUIPMENT/ NATURAL RESOURCES/ INTANGIBLES 391**

**Plant and Equipment Costs Subsequent to Acquisition 392** Repairs 392 Additions 392 Betterments 393 Assessments 394 **Disposals of Property, Plant, and Equipment 394** Removal of Assets from the Accounts 394 Sale of Depreciable Assets 395 Exchanges and Trade-ins 396 Subsidiary Ledgers for Property, Plant, and Equipment 398 **Natural Resources 400** Depletion 400 Depreciable Assets Related to Natural Resources 402 **Intangible Assets 402** Patents 402 Copyrights 403 Franchises 403 Trademarks 403 Goodwill 404 **What's in a Symbol Anyway?\*** 405 Leasehold Improvements 407 Other Intangibles and Deferred Charges 407 **Amortization of Intangibles 408** Amortization in Practice 408 Amortization Procedures 408 Key Terms and Concepts 409 Questions 410 Exercises 410 Problems 413 Case 11: Dudley Finfrock, Banker 423

---

**12 CURRENT LIABILITIES AND PAYROLL 424**

Practice Set II  
Whispering Wood

**Current Liabilities 425** Accounts Payable 426 Prepayments (Advances) by Customers 426 Collections for Third Parties 427 Current Portion of Long-Term Debt 427 Accrued Liabilities 428 Notes Payable 429 Contingent Liabilities 432 Balance Sheet Disclosure 434 **Accounting for Payroll 434** Computerized Payroll Systems 434 Internal Control 435 Employees and Independent Contractors 436 Employee Earnings 436 Deductions from Employee Earnings 437 Payroll Recording and Record Keeping 440 Payroll Taxes of the Employer 441 **The Total Cost of Employee Labor: Don't Forget the Fringe Benefits\*** 444 **Summary Problem 445** Key Terms and Concepts 447 Questions 447 Exercises 448 Problems 450 Case 12: Clipper Stadium 459

---

**13 FINANCIAL ACCOUNTING CONCEPTS/THE IMPACT OF INFLATION 460**

**Objectives of Financial Reporting 461** Characteristics of Financial Information 462 **The Foundation of Accounting 465** Generally Accepted Accounting Principles (GAAP) 465 Specific Principles and Assumptions 468 **The FASB: Unhappiness in Rulemaking Land\*** 469 **Accounting for Inflation 478** Constant Purchasing Power Accounting 479 Current Cost Accounting 482 The FASB and Inflation 485 Key Terms and

Concepts 486 Questions 487 Exercises 488 Problems 491 Case 13: The Consultant 503

## 14 PARTNERSHIPS 504

**Characteristics of a Partnership 505** Ease of Formation 505 Unlimited Liability 505 **A Handshake Cost Me \$15,000\* 506** Mutual Agency 507 Co-ownership of Property and Income 507 Limited Life 507 An Overview: Advantages and Disadvantages of Partnerships 507 Limited Partnerships 508 **Partnership Accounting 508** Partnership Formation and Owner Investments 508 Partnership Earnings: Nature and Distribution 509 Admission of a New Partner 514 Withdrawal of a Partner 516 Liquidation of a Partnership 518 Key Terms and Concepts 521 Questions 521 Exercises 522 Problems 525 Case 14: The Proposed Partnership 534

## 15 INTRODUCTION TO CORPORATIONS 535

**The Nature of Corporations 536** Corporate Form of Organization: Advantages 536 Corporate Form of Organization: Disadvantages 537 Organization of a Corporation 538 Common Stock 540 Preferred Stock: Nature and Characteristics 541 **Greenmail: A Contemporary Version of Blackmail\* 542** Par-Value Stock 544 No-Par Stock 547 Stock Subscriptions 548 Issuing Stock for Assets Other Than Cash 549 Corporate Equity: A Comprehensive Illustration 550 **Book Value Per Share 550** An Example with Two Classes of Stock 551 Meaning of Book Value 552 Key Terms and Concepts 553 Questions 553 Exercises 554 Problems 556 Case 15: Ski-Matic 563

## 16 CORPORATIONS: ADDITIONAL EQUITY ISSUES AND INCOME REPORTING 564

**Treasury Stock 565** Acquisitions of Treasury Stock 566 Reissuance of Treasury Stock 567 **Retained Earnings 568** Dividends 569 **Stock Splits: It's Time to Feed the . . . Investors\* 575** Other Items That Affect Retained Earnings 576 Statement of Retained Earnings 577 **Corporate Income Reporting 578** Discontinued Operations 579 Extraordinary Items 580 Changes in Accounting Principle 581 Intraperiod Tax Allocation 582 **Earnings Per Share 584** Weighted-Average Shares Outstanding 585 Earnings Available to Common Stockholders 585 Primary versus Fully Diluted Earnings Per Share 586 EPS Disclosure 587 **Summary Problem 588** Key Terms and Concepts 590 Questions 591 Exercises 592 Problems 595 Case 16: The President's Plan 604

## 17 LONG-TERM LIABILITIES 605

Practice Set III  
The Thompson Corporation

**Bonds 606** Financing with Bonds and Stock 607 Types of Bonds 609 Accounting for Bond Issues 610 **Buy a Bond; Get a Seat\* 611** Factors Affecting Issue Prices 613 Bond Retirement 622 Convertible Bonds 623 Bond Sinking Funds 624 **Other Long-Term Obligations 624** Mortgage Notes 624 Leases 625 **Appendix: Present Value 626** Key Terms and Concepts 631 Questions 632 Exercises 633 Problems 635 Case 17: Kelton Corporation 642

---

**18 LONG-TERM  
INVESTMENTS  
643**

**Investments in Bonds 644** Recording the Initial Investment 645 Bond Interest Revenue 645 Sale of Bonds Before Maturity 648 **Investments in Stock 649** Lower-of-Cost-or-Market Method 649 Equity Method 651 Controlling Investments 653 **Losers Keepers\* 663** Stock Investments: A Brief Overview 665 An Addendum: Purchase versus Pooling of Interests 666 Key Terms and Concepts 668 Questions 668 Exercises 669 Problems 672 Case 18: The Court Appearance 681

---

**19 STATEMENT  
OF CHANGES  
IN FINANCIAL  
POSITION 683**

**Concepts of Funds 685** Sources and Uses of Working Capital 685 Typical Sources of Working Capital 688 Typical Uses of Working Capital 690 Transactions Not Affecting Funds 691 **Preparation of a Statement of Changes in Financial Position: Working Capital Approach 691** Step 1 691 Step 2 694 Step 3 699 Changes in Working Capital Components 700 The Work Sheet Technique 702 **Cash Definition 702** A Cash-Based Statement of Changes: What's the Big Deal?\* 703 Cash-Based Statement 704 Sources and Uses of Cash 705 **Preparation of a Statement of Changes: Cash Approach 705** Step 1 705 Step 2 705 Step 3 706 Step 4 709 Analysis of Cash Flow Information 710 **Appendix: Work Sheet Approach to Preparing a Statement of Changes in Financial Position 710** **Summary Problem 718** Key Terms and Concepts 721 Questions 722 Exercises 723 Problems 727 Case 19: The Invited Lecture 739

---

**20 FINANCIAL  
STATEMENTS:  
ANALYSIS AND  
FURTHER DIS-  
CLOSURES 740**

Words of Caution 741 **Tools of Analysis 742** Horizontal Analysis 743 Vertical Analysis: Common-Size Statements 745 Ratio Analysis 747 **Turnover + Japanese Ingenuity = Effective Inventory Management\* 753** **Analysis of Business Segments 760** **International Accounting 761** Uniformity of International Accounting Standards 761 Accounting for Foreign Currency Transactions 762 Translation of Foreign Currency Financial Statements 764 Disclosure of International Financial Affairs 765 Key Terms and Concepts 765 Questions 765 Exercises 766 Problems 771 Case 20: Justin Corporation 782

---

**21 INTRODUC-  
TION TO MAN-  
AGERIAL AND  
COST AC-  
COUNTING 784**

Accounting  
Computer Game  
Briton  
Manufacturing  
Company

**Financial Accounting 785** Compliance Reporting 785 **Managerial Accounting 786** Planning 787 Control 787 Decision Making 788 **Planning + Control + Effective Decision Making = Success in the NBA\* 790** Internal Information 791 Some Final Thoughts 791 **Cost Accounting 792** A Changing Face 792 Manufacturing Organizations 793 Manufacturing Costs 793 Financial Statements of a Manufacturer 794 **Cost Behavior 800** Variable Costs 800 Fixed Costs 801 **Cost Accounting: Service Applications 802** Nonprofit Organizations 802 Key Terms and Concepts 803 Questions 804 Exercises 804 Problems 808 Case 21: The Island Plaza 816

---

**22 COST ACCUMULATION SYSTEMS 817**

**Cost Determination 818** **Cost Accumulation Systems 819** Job Order Systems 819 Process Costing Systems 832 Job Order and Process Costing: Service Applications 838 **Flight Costing by Airlines\* 840** **Appendix: Process Costing and Multiple Production Departments 841** **Summary Problem 844** Key Terms and Concepts 846 Questions 846 Exercises 847 Problems 850 Case 22: Reliable Products 861

---

**23 BUDGETING 863**

**Benefits of Budgeting 864** Formalize Planning 865 Serve as a Basis for Performance Evaluation 865 Assist in Communication and Coordination 866 **Budget Construction 866** Construction Flows 866 Budget Estimation 868 The Budget Period 869 Budget Limitations and Human Relations 870 **Budget Strategies: Some Call It Gameplaying\* 871** **Comprehensive Budgeting 872** Master Budget Illustration 872 **Budgeting and Computers 883** Use of a Spreadsheet 885 Key Terms and Concepts 885 Questions 885 Exercises 886 Problems 889 Case 23: The New Computer 900

---

**24 COST-VOLUME-PROFIT ANALYSIS 901**

**Cost Behavior 902** Variable Costs 902 Fixed Costs 905 Mixed (Semivariable) Costs 908 **Cost Analysis 909** Scattergraph 909 Method of Least Squares 910 High-Low Method 911 **Cost-Volume-Profit Analysis 912** Equation Approach 912 Contribution Approach 913 A Graphical Representation 914 Target Net Income 915 Operating Changes 916 CVP Analysis for Multiproduct Firms 919 **CVP + R Spells \$\$\$\* 920** Limiting Assumptions of CVP Analysis 921 **Summary Problem 921** Key Terms and Concepts 923 Questions 923 Exercises 924 Problems 926 Case 24: The Roxy Theater 935

---

**25 PERFORMANCE EVALUATION VIA FLEXIBLE BUDGETS AND STANDARD COSTS 936**

**Responsibility Accounting 937** Responsibility Units 937 Reporting System 939 Controllability: The Key to Responsibility Accounting 941 **Flexible Budgets 942** Constructing a Flexible Budget 943 Flexible Budgets and Performance Evaluation 944 A Common Misunderstanding 944 **Standard Costs 945** Standard Costs and Budgets 945 Setting Standards 946 Levels of Standards 948 **Standards: Efficiency, Productivity, and Lunch\* 949** **Variance Analysis 950** Variance Calculation 951 An Illustration of Direct Material Variances 952 An Illustration of Direct Labor Variances 952 Factory Overhead Variances 953 Variance Investigation 956 **Appendix: Journal Entries for Variances 957** **Summary Problem 959** Key Terms and Concepts 962 Questions 963 Exercises 963 Problems 967 Case 25: Burdick Manufacturing 976

---

**26 DECISION MAKING AND CONTRIBUTION REPORTING 977**

**General Approach to Decision Making 978** Full Project or Incremental Approach? 979 Decision Making: An Emphasis on the Future 980 Qualitative Factors 981 A Summary of the Decision-Making Approach 981 **Make or Buy Decisions 982** Qualitative Considerations 983 Opportunity Cost 983 **Special Order Pricing 984** Contribution Margin in Relation to