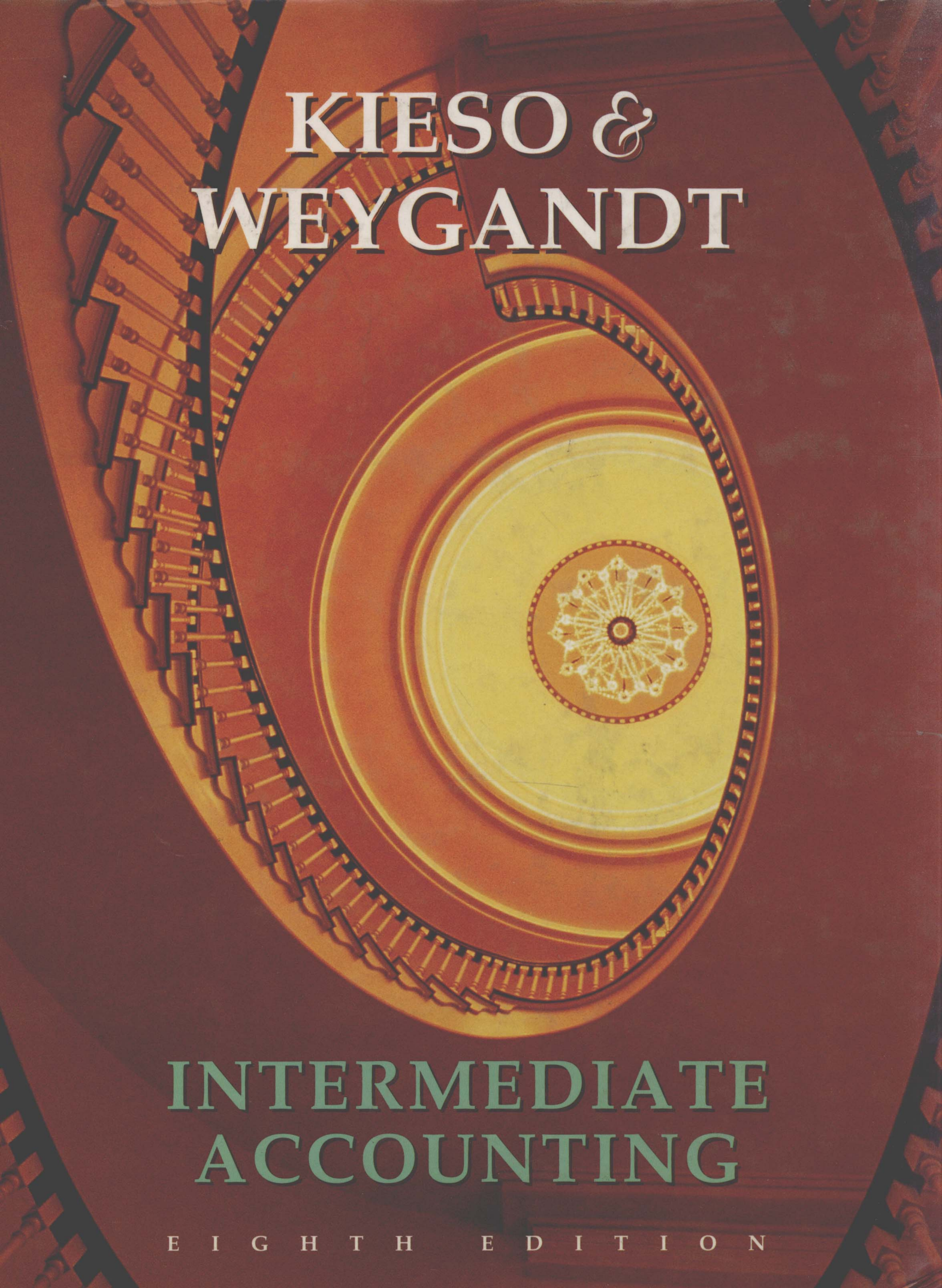




KIESO &
WEYGANDT

INTERMEDIATE
ACCOUNTING

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Dedicated to
Donna and Enid
for Their
Love, Support, and Understanding

► ABOUT THE AUTHORS ◀

Donald E. Kieso, Ph.D., CPA, received his bachelors degree from Aurora University and 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 Emeritus 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 four Golden Apple Teaching Awards (1986, 1990, 1992, and 1994). 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 Board of Governors of the American Accounting Association's Administrators of Accounting Programs Group, the AACSB's Accounting Accreditation and Visitation Committees, 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 Board of Trustees and Executive Committee of Aurora University, the Boards of Directors of Castle BancGroup Inc. and the Sandwich State Bank, and committees of the Illinois CPA Society. From 1989 to 1993 he served as a charter member of the national Accounting Education Change Commission. In 1988 he received the Outstanding Accounting Educator Award from the Illinois CPA Society, and in 1992 he received the FSA's Joseph A. Silvoso Award of Merit and the NIU Foundation's Humanitarian Award for Service to Higher Education.

Jerry J. Weygandt, Ph.D., CPA, is Arthur Andersen Alumni Professor of Accounting at the University of Wisconsin-Madison and is President of the American Accounting Association for 1994-95. 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 has been 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

Accounting is an exciting, dynamic field of study; its body of knowledge, theories, and practices as well as the methodologies of teaching these concepts are constantly evolving. In the writing of this eighth edition of *Intermediate Accounting* we have thoroughly revised and updated the text to include all the latest developments in the accounting profession as well as addressed the important recommendations of the Accounting Education Change Commission for involving students more in the learning process.

Continuing to keep pace with the complexities of the modern business enterprise and professional accounting pronouncements, 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, less commonly used methods, or specialized topics.

Benefiting from the comments and recommendations of adopters of our seventh edition, we have made significant revisions. Explanations have been expanded where necessary, 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 seventh edition coverage and condensed the coverage of other topics.

Accountants must act as well as think; therefore, we believe it is important for students to understand the *how* as well as the *why*. The study of concepts develops an understanding of procedures, and the performance of procedures enriches an understanding of the concepts. We have therefore balanced our coverage so the conceptual discussion and procedural presentation are mutually reinforcing.

We believe that individuals learn to account for financial events and phenomena best if they fully understand the nature of the business transactions and comprehend the behavioral and economic consequences of the events for which firms account and report. The ability to critically evaluate accounting alternatives and their consequences is important. Throughout this revision, we have provided coverage to help students develop a real understanding of how accounting can be used to make effective financial decisions.

► NEW FEATURES

Based on extensive reviews, focus groups, and interactions with other intermediate accounting instructors and students, we have developed a number of new pedagogical features designed both to help students learn more effectively and to answer the changing needs of the course.

- **Underlying Concepts:** These margin notes relate topics covered within each chapter back to the conceptual principles introduced in the beginning of the book. This continual reinforcement of underlying accounting concepts illustrates

how the concepts are applied in practice and ensures that students understand the *why* as well as the *how*.

- **International Insights:** Many instructors have asked for coverage of international accounting, but can't afford the time for in-depth discussion. Our "International Insights" are a series of brief paragraphs in the margin of the text containing an observation or comparison of accounting practices in other countries with the topics covered in the chapter. New international coverage is also included in examples and exhibits within the body of the text where appropriate.
- **Using Your Judgment:** We have created a new section of end-of-chapter assignments that go beyond the routine problem solving and calculations found in other texts. "Using Your Judgment" sections, appearing at the end of every chapter, help develop students' analytical, critical thinking, and interpersonal communication skills in the accounting environment, and include:

Financial reporting problems, usually involving analysis and interpretation of Georgia-Pacific Corporation's financial statements (Appendix 5-A).

Writing assignments that help students develop the communication skills they will need in their professional careers.

Group assignments that help students both to learn concepts cooperatively and to develop skills in working in group situations.

Ethics cases that sensitize students to the ethical considerations, situations, and dilemmas encountered by practicing accountants.

- **Summary of Learning Objectives:** Completely rewritten end-of-chapter summaries reinforce important ideas from each chapter and link them to the learning objectives introduced at the beginning and integrated throughout.

► ENHANCED FEATURES

Real-World Emphasis: To help make material relevant and readily understandable, numerous examples, many of them new, from real corporations have been used throughout the text. Virtually all of the many illustrations and exhibits are excerpts from actual financial statements of existing firms, including the 1993 annual report of the Georgia-Pacific Corporation in Appendix 5-A.

"Perspectives": Interviews with prominent accounting and business personalities on relevant accounting topics give a further real-world emphasis. Five new interviews have been added in this edition for a total of thirteen. Interviews with individuals such as Kathy Whitmire, former mayor of Houston, show students how an accounting education can be used in a wide variety of professions and how the concepts they're learning are applied and debated in the real world.

Ethics: Ethics in the accounting environment is introduced as a topic in Chapter 1 and is included in every chapter in an Ethical Case in the "Using Your Judgment" section to help students learn to identify when ethical issues are involved and how to approach ethical decision-making.

Currency and Accuracy: Accounting continually changes as its environment changes; an up-to-date book is therefore a necessity. As with past editions we have striven to make this edition the most up-to-date and accurate text available.

Readability: Adopters of previous editions have praised the readability of our text. In this edition, we have carefully reviewed each line of text to further improve clarity and directness of language, to take out unnecessary detail, and to simplify complex presentations. Our streamlining efforts have both improved user-friendliness and allowed us to add needed new material while still shortening the overall length of the text.

Flexibility: In this edition, we have further increased the flexibility of use by shifting some optional topics to Appendices. Appendices are concerned primarily with complex subjects, lesser used methods, or specialized topics.

► CONTENT CHANGES

The list below outlines the revisions and improvements of the eighth edition by chapter. The most significant changes are preceded by an asterisk (*).

- Chapter 1.** Strengthened discussion of SEC.
Added “business reporting,” an expansion of “financial reporting.”
*Developed new “house of GAAP” (most to least authoritative levels of GAAP).
*AICPA Special Committee on Financial Reporting covered (and in Chapter 26).
- Chapter 2.** Reworked the conceptual framework illustrations.
- Chapter 3.** Enhanced discussion of adjusting entries.
- Chapter 4.** Simplified discussion of intraperiod tax allocation.
*Added an illustration of a foreign income statement.
Revised coverage of “comprehensive income.”
- Chapter 5.** *New illustration of a foreign balance sheet.
- Chapter 6.** Added an amortization schedule for bonds.
Deleted coverage of interpolation.
- Chapter 7.** *Reorganized and simplified coverage of notes receivable.
- Chapter 8.** Reorganized and expanded coverage of perpetual versus periodic inventory methods.
Streamlined coverage of cost accounting.
Moved LIFO reporting problems to Appendix 8-A.
- Chapter 9.** Deleted coverage of standard cost valuation.
New coverage of hedging of purchase commitments.
*Shortened and simplified the chapter by moving coverage of LIFO retail and dollar-value LIFO retail to the appendix.
- Chapter 10.** Clarified coverage of capitalization of interest.
Contributions received and made, SFAS No. 116, covered in this chapter (and in Chapter 15).
- Chapter 11.** *New coverage of impairments of long-lived assets (property, plant and equipment).
Revised discussion of controversy over depletion.
Restructured depletion discussion.
- Chapter 12.** *Simplified chapter by moving “valuing goodwill” to the chapter appendix.
*New coverage of goodwill impairment.
- Chapter 13.** *Reorganized chapter into two main sections.
Moved coverage of employee bonus computation to an appendix.
Strengthened coverage of unearned revenue.
- Chapter 14.** Reorganized and simplified coverage of notes payable.
*Post-employment benefits (SFAS No. 113) discussed.
*Discussion about the fair value of financial instruments (SFAS No. 107) covered.
*Expanded discussion of financial investments with emphasis on derivatives.
Added new graphic on defeasance.
Deleted appendix coverage of serial bonds.
*Revised appendix on restructuring of troubled debt and added impairment of a loan (SFAS No. 114).

- Chapter 15.** Contributions received and made (SFAS No. 116) covered in this chapter (and in Chapter 10).
- Chapter 16.** Chapter shortened by moving coverage of quasi-reorganizations to the appendix.
- Chapter 17.** *Added discussion of FASB's proposed guidelines on accounting for stock options.
Added discussion on FASB's proposed standard on earnings per share.
- Chapter 18.** *Completely reorganized and rewritten to take into consideration new standards (SFAS No. 115) on investments in debt and equity securities.
- Chapter 19.** Strengthened coverage of the deposit method.
Simplified and shortened coverage of cost recovery method.
- Chapter 20.** *Revised chapter to conform to SFAS No. 109 guidelines.
- Chapter 23.** Strengthened coverage of cumulative-effect type changes to include statement presentation and explanation of proforma amounts.
- Chapter 25.** Deleted appendix coverage of "fundamental analysis versus capital market analysis."
- Chapter 26.** New illustration of segment reporting.
Upgraded coverage of "auditor's report."
Updated coverage on safe harbor rule.
*AICPA Special Committee on Financial Reporting (9/94) covered in this chapter (and in Chapter 1).

► 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, exercises, problems, and short cases. For this edition many exercises and problems have been revised, and a new section, "Using Your Judgment," has been added that includes financial reporting problems, writing assignments, group assignments, and ethics cases, 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. 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. Those exercises and problems that are contained in the *Lotus Problems* supplement are identified by a blue computer disk icon in the margin. 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. The "Using Your Judgment" assignments are designed to develop students' critical thinking, analytical, interpersonal, and communication skills.

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 assignment may be varied from year to year.

► 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 large 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. All pages containing assignment material have a blue triangle tab to the running head, while the five interest and annuity tables in Chapter 6 have a beige triangle tab to ease locating and identifying. The names of real-world companies as part of illustrations are red. The color design is summarized as follows:

Red—Real-world company names, secondary headings, and accents.

Blue—Financial statements, highlighted amounts and descriptions in boxed illustrations.

Beige—Exhibits, schedules, trial balances, work sheets, illustrations, and lists of definitions.

► SUPPLEMENTARY MATERIALS

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

Instructor's Manual: Chs. 1-14 (00359-X)

Instructor's Manual: Chs. 14-26 (11747-1)

- Lecture outlines keyed to text learning objectives.
- Updated Bibliography.
- Teaching Transparency Masters.
- Section on "How to assign and evaluate ethical issues in the course."
- New Sections on "How to incorporate writing" and "How to incorporate group (collaborative) work."

Solutions Manual, Vol. I: Chs. 1-14 (01366-8)

Solutions Manual, Vol. II: Chs. 14-26 (01382-X)

Solutions Manual: Chs. 1-26 (10877-4)

- Answers to all questions, exercises, problems and case material provided.
- Classification Tables categorize the end-of-chapter material by topic to assist in assigning homework.
- Assignment Tables (characteristics) describe the end-of-chapter material, its difficulty level, and estimated completion time.
- All solutions double-checked to assure accuracy.

Test Bank, Vol. I: Chs. 1-14 (04132-7)

Test Bank, Vol. II: Chs. 14-26 (11750-1)

- Essay questions with solutions help you test students' communication skills.
- Estimated completion times facilitate test planning.
- Computations for multiple choice problems assist you in giving partial credit.

Computerized Test Bank IBM 5.25" (10762-X)

Computerized Test Bank IBM 3.5" (10761-1)

Computerized Test Bank MAC (10763-8)

- A large collection of objective questions and exercises with answers for each chapter in the text.
- Generate questions randomly or manually, and modify/customize texts with your own material.
- Create multiple versions of the same text by scrambling by type, chapter, number, or Study Objective.

Test Preparation Service

Simply call Wiley's Accounting Hotline (800) 541-5602 with the questions you have selected for an exam. Wiley will provide a master exam within 24 hours.

Solution Transparencies, Vol. I: Chs. 1-14 (01431-1)

Solution Transparencies, Vol. II: Chs. 15-26 (01432-X)

- Provided in organizer box with chapter files folders.
- Large, bold type size for easier class presentation.
- Provided for all quantitative exercises, problems, and cases.

Checklist of Key Figures (01385-4)

Video (10765-4)

Video Instructor's Manual (10764-6)

- Brings accounting to life while assisting students with difficult topics.

Student Study Guide, Vol. I: Chs. 1-14 (01404-4)

Student Study Guide, Vol. II: Chs. 14-26 (01419-2)

- New authorship
- Chapter Learning Objectives
- Chapter Outline—a broad overview of general chapter content with space for notetaking in class
- Chapter Review with summary of key concepts
- Glossary of key terms.
- Review Questions and exercises—self-test items with supporting computations

Workpapers, Vol. I: Chs. 1-14 (01387-9)

Workpapers, Vol. II: Chs. 14-26 (01400-1)

Lotus Problems 3.5" (01422-2)

Lotus Problems 5.25" (01423-0)

- Spreadsheet requirements range in difficulty (from data entry to developing spreadsheets)
- Review of intermediate accounting and Lotus concepts
- Each chapter consists of a basic tutorial, a more advanced tutorial, and two or three problems from the text.
- Each problem followed by "what-if" questions to build students' analytical skills.

Rockford Corporation Practice Set (01427-3)

Rockford Computerized Practice Set 3.5" (01428-1)

Rockford Computerized Practice Set 5.25" (01429-X)

Solution to the Practice Set (01430-3).

- Shorter (income tax entry is easier with several hints offered).
- Check figures available in solution manual.
- For assignment after Chapter 3, a good review of financial accounting to get students up to speed in intermediate.

Ainsworth: Flint Hill Beauty Salon: A Case Study (57476-7)

Presents the concepts of establishing and running a business for use as review before intermediate accounting.

Teaching Transparencies

- ▶ 100 color figure illustrations and exhibits
- ▶ 90% from outside the text

*Self-Study Problems/Solutions Book, Vol. I (01420-6)**Self-Study Problems/Solutions Book, Vol. II (01421-4)*

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Primary Text Reviewers

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 Myrtle Clark, University of Kentucky
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 Wayne M. Higley, Buena Vista College

Marilyn F. Hunt, University of Central Florida
 Susan Kauffman, Russell Sage College
 Daphne Main, University of New Orleans
 Barbara Oliver, College of St. Mary
 Harold Peckron, Kutztown University of Pennsylvania
 Judson Stryker, Stetson University
 Robert West, University of South Florida
 Marilyn Young, University of Tulsa

Primary Supplement Reviewers

Taisier AlDiab, Cameron University (Lotus)
 Jon Bacon, Northern Illinois University (Sol M, TB)
 Eugene Cardamone, Hudson Valley Community College (TM)
 Michael Chatfield, Southern Oregon State College (TB)
 Douglas deVidal, University of Texas–Austin (TB)
 Pamela Druger, Augustana College (Self-Study)
 James M. Emig, Villanova University (Sol M)
 Larry R. Falcetto, Emporia State University (Sol M, TB)
 Cecelia Fewox, Trident Technical College (Prac)
 Mary Fleming, California State University–Fullerton (SG)

Greg Graber, Northern Illinois University (Sol M, IM)
 Mary Lee Hodge, University of Texas–Arlington (Prac)
 Arthur G. Joy, Columbus College (SG)
 Timothy M. Lindquist, University of Northern Iowa (Prac)
 Heidi Meier, Cleveland State University (Self-Study)
 Kenneth Pelfrey, Ohio State University (SG)
 Sandra Pelfrey, Oakland University (TM)
 John Rigsby, Mississippi State University (Lotus)
 Michael Watters, New Mexico State University (TB)

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Eli Amir, Columbia University	Jerry Hamsmith, North Central College	Patrick M. Premo, St. Bonaventure University
Anne Lee Bain, St. Cloud State University	Douglas W. Kieso, Aurora University	Charles J. Reichert, University of Wisconsin–Superior
Steven Balsam, Temple University	Lisa Koonce, University of Texas–Austin	Max Rexroad, Illinois State University
Judy Beckman, University of Rhode Island	Jeanne Lafond, University of Massachusetts–Dartmouth	Eugene Rozanski, Illinois State University
Janet Cassaglo, Nassau Community College	Lucille Lammers, Illinois State University	Robert Schlosser, Rutgers University–Newark
Douglas Cloud, Pepperdine University	Kathy Lockard, Northern Illinois University	J. Roger Selin, University of Wisconsin–Eau Claire
Patrick Delaney, Northern Illinois University	Frank Lordi, Widener University	Sammie Smith, Stephen F. Austin State University
Michael Doran, Iowa State University	John E. McEnroe, DePaul University	Norman A. Sunderman, Angelo State University
Dean S. Eiteman, Indiana University–Pennsylvania	Claudel B. McKenzie, University of North Carolina at Asheville	Frank F. Weinberg, Golden Gate University
Don Etnier, University of Wisconsin–Eau Claire	Janice Morris, University of Houston–Clear Lake	Seung-Weon Yoo, University of Wisconsin–Madison
Kevin Feeney, Southern Connecticut State University	Curtis Norton, Northern Illinois University	Hung Chao Yu, University of Wisconsin–Madison
Robert R. Giacoletti, Eastern Kentucky University	Anne M. Oppegard, Augustana College	Stephen A. Zeff, Rice University
Joseph H. Godwin, University of Georgia		

Focus Group Participants

Marianne Battista, Rider College
John Cheever, California State
Polytechnic University
Darrel Davis, University of Northern
Iowa
Robert Dunlevy, Temple University
Hossein Shalchi, California State
University–San Bernardino

Margaret Smith, North Carolina A&T
State University
Charles Speer, Appalachian State
University
Paul Welch, University of Central
Florida

Student Focus Group Participants

Jason Choquette, Brian Corkill, Brian Hansel, Patrick Hoffman, Renata Kaczmarczyk,
Valerie Lopez, Denise Meisner, Michael Papciak, Christopher Pries, Leslie Rivera,
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Judith Ramaglia,
Pacific Lutheran University

Underlying Concepts

John Cheever, California State
Polytechnic University–Pomona

Group Cases/Assignments

Terry Warfield, University
of Wisconsin–Madison

Ethics Cases

Larry Ponemon, SUNY–Binghamton;
Bruce W. Stuart and Iris Stuart,
Concordia College

Writing Assignments

Susan Smith,
Northern Illinois University

Perspectives

Stuart Weiss,
Stuart Weiss Business Writing Inc.

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Practicing Accountants and Business Executives

Edward N. Antoian Delaware Management Co.	Rebecca Hoger Coopers & Lybrand	Lisa Sanborn Ernst and Young
Dennis R. Beresford Financial Accounting Standards Board	Clark H. Johnson Johnson & Johnson	James C. Treadway Paine Webber Group Inc.
Ted Clarke Nike Inc.	Patricia McConnell Bear, Stearns & Co.	Gerald L. White New York University
Michael Crooch Arthur Andersen & Co.	George Miranda Home Savings of America	Kathryn J. Whitmire former mayor of Houston
James F. Fitzgerald Right Associates	Ronald J. Murray Coopers & Lybrand	Jerry Ulrich Xircom
Greg Graber Deloitte & Touche	Robert Sack University of Virginia	Arthur R. Wyatt Arthur Andersen & Co. and the University of Illinois–Urbana

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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.

*Somonauk, Illinois
Madison, Wisconsin
December 1994*

Donald E. Kieso
Jerry J. Weygandt

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