

Walter B. Meigs & Robert F. Meigs

FINANCIAL ACCOUNTING

— Fifth Edition —

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Walter B. Meigs

UNIVERSITY OF SOUTHERN CALIFORNIA

Robert F. Meigs

SAN DIEGO STATE UNIVERSITY

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FINANCIAL ACCOUNTING

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Preface

A new edition provides authors with an opportunity to add new material, to condense the coverage of topics that have declined in relative importance, to reorganize portions of the book to improve instructional efficiency, and to refine and polish the treatment of basic subject matter. We have tried to do all these things in this fifth edition, the most extensive revision in the history of the text.

The environment of accounting is changing fast, and the shift toward computers, the increasing public interest in income tax policies, and the growing importance of international business activity affect the goals and content of an introductory text in accounting. In order to function intelligently as a citizen as well as in the business community, every individual needs more than ever before an understanding of basic accounting concepts. Our goal is to present accounting as an essential part of the decision-making process for the voter, the taxpayer, the government official, the business manager, and the investor.

This edition, like the preceding one, is designed for use in the first college-level course in accounting. In this course, instructors often recognize three groups of students: those who stand at the threshold of preparation for a career in accounting, students of business administration who need a thorough understanding of accounting as an important element of the total business information system, and students from a variety of other disciplines who will find the ability to use and interpret accounting information a valuable accomplishment. During the process of revision, we have tried to keep in mind the needs and interests of all three groups.

NEW FEATURES IN THIS EDITION

In the text

- 1 A short preview of each chapter, introducing students to both the educational goals and the technical content of the chapter.
- 2 Each step in the accounting cycle clearly explained for both manual and computer-based accounting systems.
- 3 Over 100 new exercises and problems. In addition, virtually all exercises and problems carried forward from the prior edition have been carefully revised.
- 4 A new category of problem material—Cases for Analysis—emphasizing the use and interpretation of accounting information in interesting yet practical business situations.
- 5 A new appendix with an introductory-level discussion of international accounting and foreign currency translation, complete with problem material.

- 6 A new appendix on payroll accounting, with emphasis upon internal control.
- 7 Frequent use of real business examples — termed Cases in Point — to illustrate key accounting concepts.
- 8 Increased emphasis upon accounting theory and generally accepted accounting principles throughout the text.
- 9 Increased emphasis upon the relationship of many accounting practices to the need for achieving adequate internal control.

In the supplemental package

- 1 Computer software enabling students to work most of the exercises in the textbook on a personal computer.
- 2 An Electronic Study Guide, with chapter highlights and self-testing material, designed for use on a personal computer.
- 3 A computer-based practice set, also suited to personal computers.
- 4 The Financial Accounting Test Bank — a printed manual providing instructors with a wealth of multiple-choice questions and short exercises organized on a chapter-by-chapter basis.
- 5 EXAMINER and MicroEXAMINER, the computer-based versions of the test bank, now available for use on personal as well as mainframe computers.

FEATURES CARRIED FORWARD FROM PRIOR EDITIONS

Special qualities that are carried forward from prior editions include:

- 1 Depth of coverage. Topics are covered in a depth that will qualify the student for subsequent course work in accounting.
- 2 Accuracy in all problem material and solutions. All problems, solutions, and examination materials have been developed and tested first-hand by the authors in their own classes for introductory accounting students. This personal attention to accuracy is supplemented by independent testing by other accounting faculty.
- 3 Perspective — careful effort throughout the text and problems to utilize current and realistic prices, interest rates, and profit levels.
- 4 People-oriented problems which depict the complex decisions that must be made by men and women acting as managers, investors, and in other roles.
- 5 For each chapter, a demonstration problem, a glossary of key terms introduced or emphasized in the chapter, and an abundance of problem material.
- 6 Emphasis on the impact of inflation upon accounting information.
- 7 The concept of present value, presented in clear and understandable terms, integrated into the discussions of the valuation of assets and liabilities.
- 8 Careful integration into the text and problems of the latest pronouncements of the Financial Accounting Standards Board.
- 9 The most comprehensive package of supplementary materials available for any financial accounting textbook.

NEW AND EXTENSIVELY REVISED CHAPTERS

Many new topics are discussed in this fifth edition. For example, the first four chapters, presenting the basic accounting cycle, now explain the accounting procedures applied in computer-based accounting systems as well as those used in manual systems. Chapter 3, “Measuring Business Income,” also includes new discussions of the accounting principles of realization and matching. In addition, Chapter 4 has been extensively revised to explain more clearly and more thoroughly the nature and mechanics of adjusting entries.

Chapter 6, on accounting systems, has been revised to provide up-to-date coverage of computer-based accounting systems. Emphasis is placed upon means of achieving internal control in the EDP environment.

Chapter 8, on receivables and payables, and Chapter 9, covering inventories, both include new material on the relationships between accounting procedures and the objectives of internal control. Internal control is also the emphasis of the new appendix on payroll accounting which follows Chapter 8.

Chapter 10, on plant assets, includes a new section explaining why gains and losses on disposals of plant assets often differ for income tax purposes and financial reporting purposes. Also revised is the discussion of exchanges of plant assets.

Chapter 12, “Corporations: A Closer Look,” is now followed by two appendixes. The first covers investments made for purposes of control and includes an introduction to consolidated financial statements. The second appendix, new to this fifth edition, introduces the emerging topics of international accounting and foreign currency translation.

Our last chapter, on income taxes, has been thoroughly revised to incorporate the many recent changes in income tax laws.

In summary, this fifth edition is the most extensive revision we have prepared. In addition to the changes in chapter content, there are many new Cases in Point — real business examples illustrating key accounting concepts. Also, the extent of revision in the end-of-chapter material is virtually without precedent in a financial accounting textbook. There are over 100 new exercises and problems, and a new category of problem material — Cases for Analysis — emphasizing the use and interpretation of accounting information. Essentially all the exercises and problems carried forward from prior editions have been revised to reflect today’s price-levels, interest rates, and business environment.

SUPPLEMENTARY MATERIALS

A full assortment of supplementary materials accompanies this text:

- 1 ***Solutions manual.*** A comprehensive manual containing answers to all review questions, exercises, problems, and Cases for Analysis contained in the text, along with a complete solution to the practice set.

In the development of problem material for this book, special attention has been given to the inclusion of problems of varying length and difficulty. By referring to the time estimates, difficulty ratings, and problem descriptions in the ***Solutions Manual***, instructors can choose problems that best fit the level, scope, and emphasis of the course they are offering.

2 ***An instructor's guide.*** This separate manual includes the following three sections for each chapter of the textbook:

- a A brief topical outline of the chapter listing in logical sequence the topics the authors like to discuss in class.
- b An assignment guide correlating specific exercises and problems with various topics covered in the chapter.
- c Comments and observations.

The "Comments and observations" sections indicate the authors' personal views as to relative importance of topics and identify topics with which some students have difficulty. Specific exercises and problems are recommended to demonstrate certain points. Many of these sections include "Asides," introducing real-world situations (not included in the text) that are useful in classroom discussions.

Also included in the Instructor's Guide are sample assignment schedules, ideas for using each element of the supplemental package, and solutions to the parallel sets of Achievement Tests and Comprehensive Examinations.

3 Two parallel sets of ***Achievement Tests*** and ***Comprehensive Examinations***. Each set consists of four Achievement Tests with each test covering three or four chapters; the Comprehensive Examination covers the entire text and may be used as a final examination.

4 The ***Financial Accounting Test Bank***. With its abundance of multiple-choice questions and exercises arranged on a chapter-by-chapter basis, this booklet is a most valuable resource for instructors who prefer to assemble their own examinations. In its new format, this supplement represents one of the largest test banks ever to accompany a financial accounting textbook.

The questions and exercises contained in the Text Bank booklet also are available in two computer test-generating programs: EXAMINER, designed for main-frame computers, and the new MicroEXAMINER, designed for personal computers. These, and all other computer-based supplements that accompany this text, assume no prior experience with computers on the part of instructors or students. All computer supplements are available for use on popular microcomputers.

5 ***A self-study guide.*** The ***Study Guide*** enables students to measure their progress by immediate feedback. This self-study guide includes an outline of the most important points in each chapter, an abundance of objective questions, and several short exercises for each chapter. In the back of the self-study guide are answers to questions and solutions to exercises to help students evaluate their understanding of the subject. The self-study guide will also be useful in classroom discussions and for review by students before examinations.

6 ***An Electronic Study Guide.*** An electronic version of the print Study Guide enabling students to review chapter highlights and to test themselves using a personal computer.

7 ***Working papers.*** A soft-cover book of ***partially filled-in working papers*** for the problem material is published separately from the text. On these work sheets, the problem headings and some preliminary data have been entered to save students much of the mechanical pencil-pushing inherent in problem assignments.

8 ***Manual practice set.*** The practice set available with the preceding edition has been completely revised and significantly shortened. Designed for use after completing Chapter 6 of the text, the Candlelight Restaurant Supply, Inc. practice set is bound

in two separate books, making it easy for students to journalize transactions, post entries, and prepare financial statements. The purpose of the manual practice set is to acquaint students with the flow of information through an accounting system and to allow them to personally perform each step in the accounting cycle.

- 9 **Computerized practice set.** A computer-based version of the Candlelight Restaurant Supply, Inc., practice set accompanies this fifth edition. The computerized practice set is based upon the same narrative as the manual practice set but allows students to experience hands-on operation of a computer-based accounting system.

This computerized practice set has a unique instructional feature that identifies any erroneous input. If an error is made in analyzing a transaction, the computer responds with hints and help statements until the transaction is recorded correctly. Thus, any printed computer output generated by the student represents a correct solution to the practice set. The practice set is accompanied by a special instruction booklet for the student.

- 10 **Computer-based exercises.** A new computer supplement, Computerized Applications in Financial Accounting, enables students to work the exercises from the textbook on a personal computer.
- 11 **Checklist of key figures for problems.** This list appears on the front and back inside covers of this book. The purpose of the checklist is to aid students in verifying their problem solutions and in discovering their own errors.
- 12 **Transparencies of problem solutions.** This is a visual aid prepared by the publisher for the instructor who wishes to display in a classroom the complete solutions to any or all problems, and selected exercises.
- 13 **Additional transparencies for classroom illustrations.** A large number of transparencies have been produced for use in the classroom to illustrate various accounting concepts and procedures. These transparencies all differ from the illustrations appearing in the textbook and are enhanced by the use of color.

CONTRIBUTIONS BY OTHERS

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We also are grateful to the Financial Accounting Standards Board which granted us permission to quote from FASB Statements, Discussion Memoranda, Interpretations, and Exposure Drafts. All quotations are copyrighted © by the Financial Accounting Standards Board, High Ridge Park, Stamford, Connecticut 06905, U.S.A. and are reprinted with permission. Copies of the complete documents are available from the FASB.

Walter B. Meigs
Robert F. Meigs

Contents

Preface	xv
Part One The accounting cycle	
Chapter 1 Accounting: the language of business	3
<i>What is accounting?</i>	
THE PURPOSE AND NATURE OF ACCOUNTING	4
<i>The functions of an accounting system. Communicating accounting information — who uses accounting reports? Accounting information is user-oriented. The distinction between accounting and bookkeeping. The work of accountants. Public accounting. Private accounting. Governmental accounting. Development of accounting standards—the FASB. Two primary business objectives. Accounting as the basis for business decisions. Internal control. Forms of business organization.</i>	
FINANCIAL STATEMENTS: THE STARTING POINT IN THE STUDY OF ACCOUNTING	15
<i>The balance sheet. Assets. Liabilities. Owners' equity. What is capital stock? The accounting equation. Effects of business transactions upon the balance sheet. Effect of business transactions upon the accounting equation.</i>	
USE OF FINANCIAL STATEMENTS BY OUTSIDERS	26
<i>Bankers and other creditors. Owners. Others interested in financial information.</i>	
Chapter 2 Recording changes in financial position	40
<i>The role of accounting records. The use of "accounts" for recording transactions.</i>	
THE LEDGER	41
<i>Debit and credit entries. Recording transactions in ledger accounts: illustration. Running balance form of ledger account. The normal balance of an account. Sequence and numbering of ledger accounts.</i>	

	THE JOURNAL	49
	<i>Why use a journal? The general journal: illustration of entries. Posting. Ledger accounts after posting.</i>	
	THE TRIAL BALANCE	56
	<i>Uses and limitations of the trial balance. Locating errors. Dollar signs. The accounting cycle: an introduction. Manual and computer-based systems: a comparison.</i>	
Chapter 3	Measuring business income	76
	<i>Profits: public image versus economic function. Retained earnings. Net income. CASE IN POINT. Revenue. Expenses. Dividends. Debit and credit rules for revenue and expense.</i>	
	RECORDING REVENUE AND EXPENSE TRANSACTIONS: ILLUSTRATION	83
	<i>The journal. The ledger. The trial balance. Recording depreciation at the end of the period. The adjusted trial balance. Financial statements. The income statement. Statement of retained earnings. The balance sheet. Income statement and retained earnings statement: a link between two balance sheets.</i>	
	CLOSING THE ACCOUNTS	95
	<i>After-closing trial balance. Sequence of procedures in the accounting cycle. Accounting procedures in a computer-based system. Dividends—declaration and payment. Accrual basis of accounting versus cash basis of accounting.</i>	
Chapter 4	Completion of the accounting cycle	120
	<i>Accounting periods and financial statements. Transactions affecting more than one accounting period.</i>	
	ADJUSTING ENTRIES	121
	<i>Types of adjusting entries. Characteristics of adjusting entries. Apportioning recorded costs. Apportioning unearned revenue. Recording unrecorded expenses. Recording unrecorded revenue. Adjusting entries and the accrual basis of accounting.</i>	
	THE WORK SHEET	130
	<i>Preparing the work sheet. Uses for the work sheet. Work sheets in a computer-based system. The accounting cycle. Preparing monthly financial statements without closing the accounts. Reversing entries. Reversing entries in a computer-based system.</i>	

Part Two Merchandising concerns, internal control, and accounting systems

Chapter 5	Merchandising transactions and internal control	166
	MERCHANDISING COMPANIES	167
	<i>Revenue from sales. Sales returns and allowances. Credit terms. Sales discounts. Cost of goods sold. The perpetual inventory system. The periodic inventory system. Beginning inventory and ending inventory. Cost of merchandise purchased for resale. The Transportation-in account. F.O.B. shipping point and F.O.B. destination. Inventory theft and other losses. Income statement for a merchandising company. Work sheet for a merchandising business. Financial statements. Closing entries. Sales taxes. Classified financial statements. The purpose of balance sheet classification. Classification and format of income statements.</i>	
	THE SYSTEM OF INTERNAL CONTROL	187
	<i>The meaning of internal control. Strong internal control now required by law.</i>	
	GUIDELINES TO STRONG INTERNAL CONTROL	188
	<i>Organization plan to establish responsibility for every function. Control of transactions. Subdivision of duties strengthens internal control. Specific methods of achieving internal control. Limitations and cost of internal control.</i>	
	INTERNAL CONTROLS OVER THE PURCHASE AND SALE OF MERCHANDISE	192
	<i>Business documents and procedures. Purchase orders. Invoices. Debit and credit memoranda (debit memos, credit memos). Recording purchase invoices at net price.</i>	
Chapter 6	Accounting systems: manual and computer-based	213
	<i>Streamlining the accounting process.</i>	
	MANUAL ACCOUNTING SYSTEMS	214
	<i>Sales journal. Controlling accounts and subsidiary ledgers. Purchases journal. Cash receipts journal. Cash payments journal. The general journal. Subsidiary ledger accounts. Ledger accounts. Reconciling subsidiary ledgers and controlling accounts. Variations in special journals. Direct posting from invoices. Unit record for each transaction.</i>	

COMPUTER-BASED ACCOUNTING SYSTEMS 235

Advantages of computer-based systems. CASE IN POINT. Internal control and the computer. Organizational controls. CASE IN POINT. Security controls. CASE IN POINT. Input controls. Program controls. Accounting applications of the computer.

Part Three Current assets and current liabilities

Chapter 7 Cash and marketable securities 258

CASH 258

Management responsibilities relating to cash. Basic requirements for internal control over cash. Internal control over cash receipts. CASE IN POINT. Internal control over cash disbursements. CASE IN POINT. The voucher system. Petty cash. Control features of bank checking accounts. Bank statements. Reconciling the bank account.

INVESTMENTS IN MARKETABLE SECURITIES 274

Securities exchanges. Marketable securities as current assets. Accounting for investments in marketable securities. Gains and losses from sale of investments in securities. Balance sheet valuation of marketable securities. Lower of cost or market (LCM). The argument for valuation at market value. Presentation of marketable securities in financial statements.

Chapter 8 Receivables and payables 297

ACCOUNTS RECEIVABLE 298

The credit department. Uncollectible accounts receivable. Reflecting uncollectible accounts in the financial statements. The Allowance for Doubtful Accounts. Estimating uncollectible accounts expense. Two methods of estimating uncollectible accounts expense. Writing off an uncollectible account receivable. Recovery of an account receivable previously written off. Direct charge-off method of recognizing uncollectible accounts expense. Credit card sales. Credit balances in accounts receivable. Analysis of accounts receivable. Internal controls for receivables.

NOTES RECEIVABLE 309

Definition of a promissory note. Nature of interest. Accounting for notes receivable. Discounting notes receivable. Classification of receivables in the balance sheet.

CURRENT LIABILITIES	315
NOTES PAYABLE	316
<i>Notes payable issued to banks. Notes payable with interest charges included in the face amount. Comparison of the two forms of notes payable. The concept of present value applied to long-term notes. An illustration of notes recorded at present value. Installment receivables.</i>	
APPENDIX A. PAYROLL ACCOUNTING	340
<i>Internal control over payrolls. CASE IN POINT. Deductions from earnings of employees. Social security taxes (FICA). CASE IN POINT. Federal income taxes. Other deductions from employees' earnings. Employer's responsibility for amounts withheld. Payroll records and procedures. Payroll taxes on the employer. Distinction between employees and independent contractors.</i>	
Chapter 9 Inventories	350
<i>Inventory defined. Periodic inventory system versus perpetual inventory system. Inventory valuation and the measurement of income. Importance of an accurate valuation of inventory. Taking a physical inventory. Pricing the inventory. Cost basis of inventory valuation. Inventory valuation methods. Consistency in the valuation of inventory. The environment of inflation. Inventory profits. Disclosing the effects of inflation. The lower-of-cost-or-market rule (LCM). Estimating ending inventory and cost of goods sold. Gross profit method. The retail method of estimating ending inventory. Internal control. CASE IN POINT. Perpetual inventory system. Internal control and perpetual inventory systems. CASE IN POINT. Perpetual inventory records.</i>	
Part Four Operating assets, long-term liabilities, and owners' equity	
Chapter 10 Plant and equipment, depreciation, natural resources, and intangible assets	390
PLANT AND EQUIPMENT	390
<i>Plant and equipment represent a stream of services to be received. Major categories of plant and equipment. Determining the cost of plant and equipment. Capital expenditures and revenue expenditures. CASE IN POINT.</i>	

DEPRECIATION	395
<i>Allocating the cost of plant and equipment over the years of use. Depreciation not a process of valuation. Accumulated depreciation does not consist of cash. Causes of depreciation. Methods of computing depreciation. Revision of depreciation rates. Depreciation and income taxes. Accelerated Cost Recovery System (ACRS). Inflation and depreciation. Historical cost versus replacement cost. Disclosure of replacement cost.</i>	
DISPOSAL OF PLANT AND EQUIPMENT	404
<i>Gains and losses on disposal of plant and equipment. Gains and losses for income tax purposes. Trading in used assets on new.</i>	
NATURAL RESOURCES	408
<i>Accounting for natural resources.</i>	
INTANGIBLE ASSETS	409
<i>Characteristics. Operating expenses versus intangible assets. Amortization. Goodwill. Patents. Trademarks and trade names. Franchises. Copyrights. Other intangibles and deferred charges. Research and development (R&D) costs.</i>	
Chapter 11 Forms of business organization	429
SINGLE PROPRIETORSHIPS	430
<i>Accounting for the owner's equity in a single proprietorship. Closing the accounts. Financial statements for a single proprietorship.</i>	
PARTNERSHIPS	432
<i>Significant features of a partnership. Advantages and disadvantages of a partnership. Limited partnerships. The partnership contract. Partnership accounting. Partnership profits and income taxes. Alternative methods of dividing partnership income. Other aspects of partnership accounting.</i>	
CORPORATIONS	439
<i>What is a corporation? Advantages of the corporate form of organization. Disadvantages of the corporate form of organization. Formation of a corporation. Authorization and issuance of capital stock. Par value. No-par stock. Preferred stock and common stock. Characteristics of preferred stock. Market price of preferred stock. CASE IN POINT. The underwriting of stock issues. Market price of common stock.</i>	

Stock issued for assets other than cash. Subscriptions to capital stock. Donated capital. Stockholder records in a corporation. Retained earnings or deficit. Balance sheet for a corporation illustrated.

Chapter 12	Corporations: a closer look	467
	<i>Public misconceptions of the rate of corporate earnings. Developing predictive information. Discontinued operations. Extraordinary items. Earnings per share (EPS). Presentation of earnings per share in the income statement. Primary and fully diluted earnings per share. Cash dividends. Dividend dates. Liquidating dividends. Stock dividends. Stock splits. Retained earnings. Prior period adjustments to the Retained Earnings account. Statement of retained earnings. Appropriations and restrictions of retained earnings. Treasury stock. Recording purchases of treasury stock. Reissuance of treasury stock. Restriction of retained earnings when treasury stock is acquired. Book value per share of common stock. Illustration of stockholders' equity section.</i>	
	APPENDIX B. INVESTMENTS FOR PURPOSES OF CONTROL	503
	<i>The equity method.</i>	
	CONSOLIDATED FINANCIAL STATEMENTS	505
	<i>Parent and subsidiary companies. Financial statements for a consolidated economic entity. Principles of consolidation. Consolidation at the date of acquisition. Intercompany eliminations. Acquisition of subsidiary's stock at a price above book value. Less than 100% ownership in subsidiary. Consolidated income statement. Purchase method and pooling-of-interests method: two types of business combination. When should consolidated statements be prepared?</i>	
	APPENDIX C. INTERNATIONAL ACCOUNTING AND FOREIGN CURRENCY TRANSLATION	519
	<i>What is international accounting? Foreign currencies and exchange rates.</i>	
	ACCOUNTING FOR TRANSACTIONS WITH FOREIGN COMPANIES	523
	<i>Currency fluctuations: who wins and who loses?</i>	
	CONSOLIDATION OF FOREIGN SUBSIDIARIES	528
	<i>Translating financial statement amounts. Accounting principles: the quest for uniformity.</i>	

Chapter 13 Bonds payable, leases, and other liabilities 533

BONDS PAYABLE 533

Issuance of bonds payable. Tax advantage of bond financing. Accounting entries for a bond issue. The concept of present value. The present value concept and bond prices. CASE IN POINT. Bond prices and maturity dates. CASE IN POINT. Bonds sold at a discount. Amortization of bond discount. Bonds sold at a premium. Year-end adjustments for bond interest expense. Straight-line amortization: a theoretical shortcoming. Effective interest method of amortization. Amortization of bond discount or premium from the investor's viewpoint. Retirement of bonds payable. Bond sinking fund. Conversion of bonds payable into common stock. Conversion of bonds from the investor's viewpoint. CASE IN POINT.

LEASES 552

Operating lease. Capital lease.

OTHER LIABILITIES 553

Mortgage notes payable. Pension plans. Estimated liabilities. Loss contingencies. CASE IN POINT.

APPENDIX D. APPLICATIONS OF PRESENT VALUE 567

The concept of present value. Present value tables. Selecting an appropriate discount rate. Discounting annual cash flows. Discount periods of less than one year. Accounting applications of the present value concept.

Part Five Making use of accounting information

Chapter 14 Accounting principles and concepts: effects of inflation 578

Need for recognized accounting standards. Generally accepted accounting principles. The conceptual framework project. Authoritative support for accounting principles. The accounting entity concept. The going-concern assumption. The time period principle. The monetary principle. The objectivity principle. Asset valuation: the cost principle. Measuring revenue: the realization principle. Measuring expenses: the matching principle. The consistency principle. The disclosure principle. Materiality. Conservatism as a guide in resolving uncertainties. CPA's opinion on published financial statements.