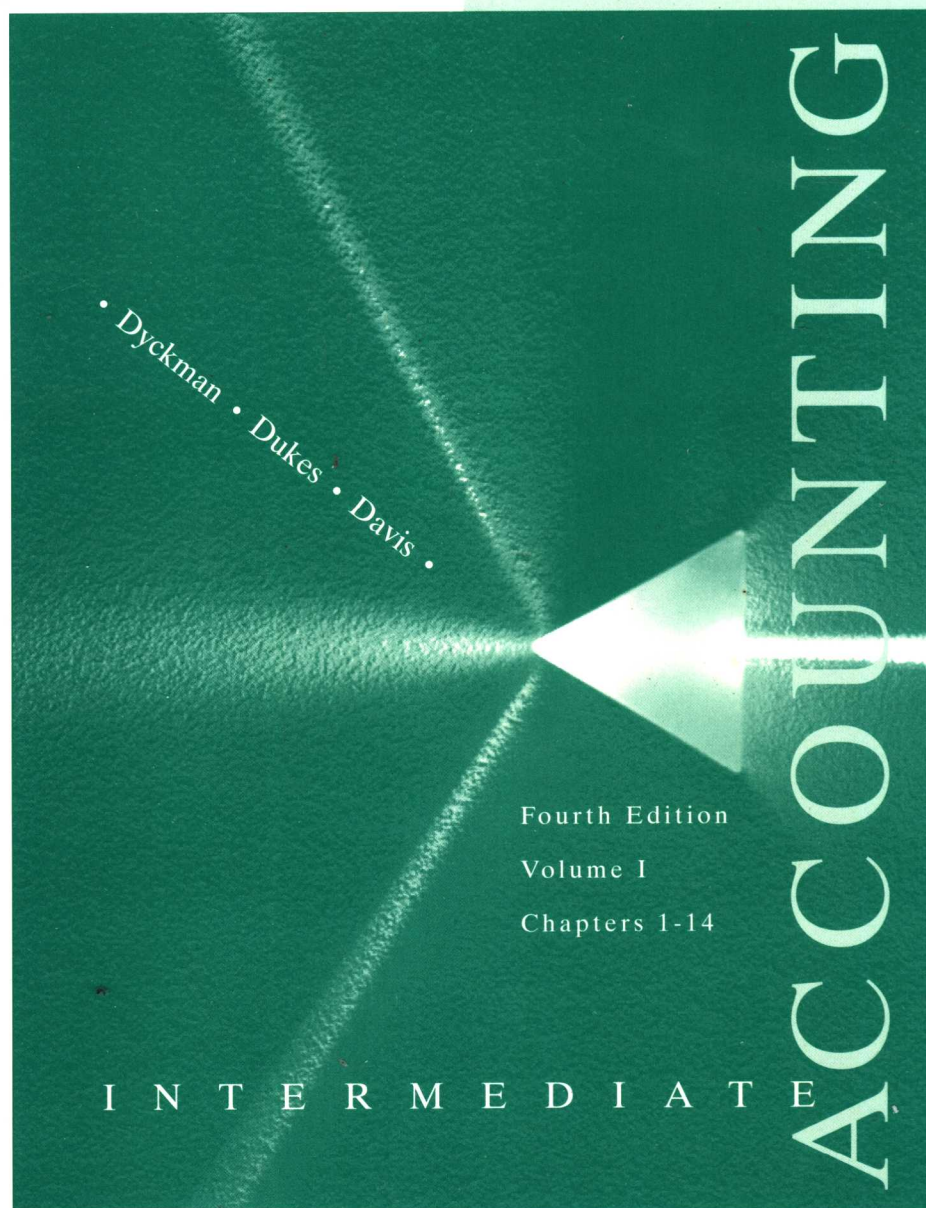


# Ready Notes

## Volume I

for use with



Prepared by  
Jon A. Booker  
Charles W. Caldwell  
Susan C. Galbreath  
Richard S. Rand

Ready Notes  
Volume I  
for use with  
**INTERMEDIATE  
ACCOUNTING**

Fourth Edition

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<http://www.mhhe.com>

Welcome to

## READY NOTES

Your life just got easier! This booklet includes *Ready Notes* to accompany your textbook. *Ready Notes* were designed as a classroom supplement to accompany *Ready Shows*. More importantly, *Ready Notes* were developed for you, the student.

Somewhere in your educational experience, you have undoubtedly encountered a common dilemma facing many students; the feeling of helplessness that comes from trying to write down everything your instructor says and, at the same time, actually paying attention to what is being taught. *Ready Notes* addresses this problem by providing pre-prepared lecture outlines to accompany the *Ready Shows* your instructor will be using in class. Rather than spending time copying material that is already in the book, you will be able to focus on the most important aspects of what your instructor is actually saying. You will still be expected to take notes, but the nature of those notes will change.

Each page in *Ready Notes* includes reproductions of some of the actual projected screens that you will be seeing in class. The *Ready Notes* booklet includes the information for many of the examples that your instructor will be presenting.

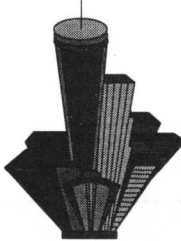
It is your responsibility to attend class regularly and to be prepared for class. However, used properly, *Ready Notes* will help you to achieve your goals for the course. Good luck and good accounting!

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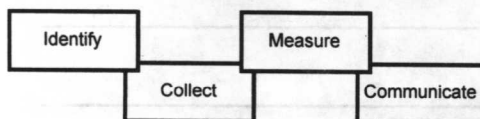
## CHAPTER 1 The Environment of Accounting



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### Nature of Financial Accounting

An information system whose purpose  
is to . . .



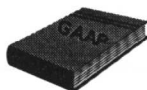
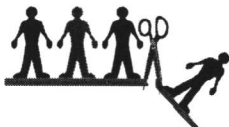
Information about an economic entity  
to those with an interest in the  
financial affairs of the entity

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## Accounting Environment

### External Accounting Information

For those who lack direct access to the information generated by the internal operations of a company.



Concepts, principles, and procedures known as Generally Accepted Accounting Principles (GAAP) were developed to meet the needs of external users.

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## Accounting Environment

### Internal Accounting Information

Developed to meet the needs of management.



Information that aids planning and control.

Much of the information is confidential.

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## Financial Reporting Objective

- Report the effects of completed business transactions and other events on the organization.
- Two basic types of financial statements:
  - ✦ Relating to a specific point in time (Balance Sheet)
  - ✦ Relating to a specific period of time (Income, Retained Earnings and Cash Flows)



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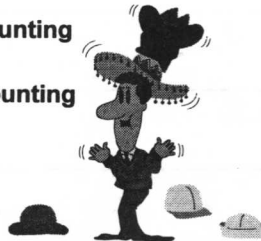
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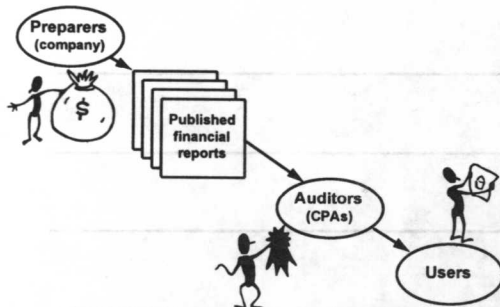
## Professional Accounting

- Public Accounting
- Management Accounting
- Not-for-Profit Accounting



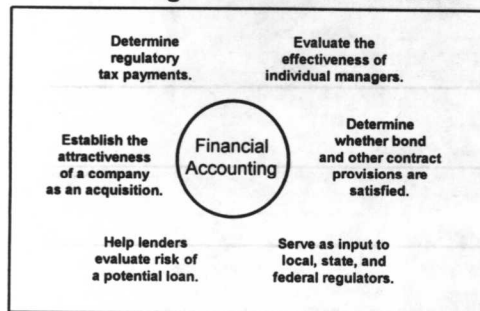
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## Preparers, Auditors, and Users of Financial Information



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## The Interaction of Financial Accounting with Its Environment



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## The Need for Financial Reporting Standards

### ● Cash Flow

- ♦ Used to evaluate the company's ability to make interest payments and repay debt.

### ● Reported Earnings

- ♦ Viewed as a major factor influencing the market price of a company's stock.

### ● Practice Standards

- ♦ Generally Accepted Accounting Principles (GAAP).



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## Accounting Environment

Accounting information helps decision makers evaluate economic opportunities for gain and the related inherent risks of providing capital to a particular venture.



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## Accounting Environment

### Evolution of Standard-Setting Process

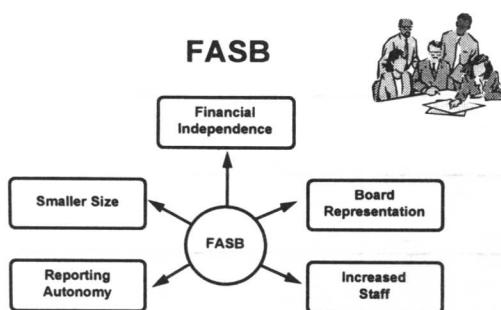
1930 - 1959: Committee on Accounting Procedures (CAP)

1959 - 1973: Accounting Principles Board (APB)

1973 - present: Financial Accounting Standards Board (FASB)



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**FASB**

- Three categories of pronouncements.
  - ◆ Statements of Financial Accounting Concepts (SFACs).
  - ◆ Statements of Financial Accounting Standards (SFASs).
  - ◆ Interpretations of Financial Accounting Standards.
- Due process procedures followed when establishing standards.

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**What Is GAAP?**

- ① Pronouncements by designated authoritative bodies that must be followed in all applicable cases.
- ② Accounting practices developed by respected bodies and industries or that have evolved over time.



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### Official Accounting Pronouncements Related to GAAP

- Accounting Research Bulletins (ARBs) 1939 - 1959.
- Accounting Terminology Bulletins 1953 - 1959.
- Accounting Principles Board Opinions 1962 - 1973.
- Statements of Financial Accounting Concepts 1978 - 1985.
- Statements of Financial Accounting Standards 1973 - present.
- Interpretations 1974 - present.
- Technical Bulletins 1979 - present.



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### Impact of Other Organizations on GAAP



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### Ethics

- To be useful, accounting information must be objective and reliable.
- Management may be under pressure to report desired results and ignore or bend existing rules.



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### International Accounting Standards Committee (IASC)

- Established in 1973 to narrow the range of differences in accounting standards.
- Increase in international trade has motivated the IASC to attempt to eliminate alternative accounting treatments.



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### Question

The function of financial accounting is to identify, measure and communicate financial information about economic entities to interested parties.

- a. True
- b. False

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### Question

Accrual accounting provides a better indication of ability to generate cash flows than does information limited to the financial effects of cash receipts and cash payments.

- a. True
- b. False

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**Question**

The primary objective of accrual basis accounting is the measurement of income.

- a. True
- b. False

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**Question**

Generally accepted accounting principles include both standards set by various rule making bodies and certain accounting practices that have evolved over time.

- a. True
- b. False

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**Question**

The major financial accounting standard setting body is the

- a. Accounting Principles Board.
- b. Securities and Exchange Commission.
- c. Financial Accounting Standards Board.
- d. American Institute of CPAs.

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**Question**

The FASB issues which of the following types of pronouncements?

- a. Standards
- b. Interpretations
- c. Financial Accounting Concepts
- d. Technical Bulletins
- e. All of the above

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**Question**

The Financial Accounting Standards Board develops accounting and reporting standards independent of public, business and political pressures.

- a. True
- b. False

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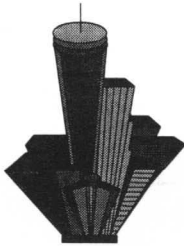
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## The FASB's Conceptual Framework of Accounting

### CHAPTER 2



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## The FASB's Conceptual Framework

How do we determine the amount of  
information to supply in general-  
purpose financial statements?

- ❖ In what format?
- ❖ Under what assumptions, principles,  
and constraints?

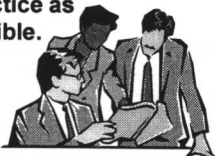


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## The FASB's Conceptual Framework

The FASB's role is to . . .

- ❖ Establish consensus on topical accounting issues.
- ❖ Interpret accounting principles.
- ❖ Keep accounting practice as standardized as possible.



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## The FASB's Conceptual Framework

- Accounting standards should be consistent with the framework.
- New problems can be effectively resolved with reference to the framework.
- User can benefit from a more comprehensive understanding of the accounting information in financial statements.



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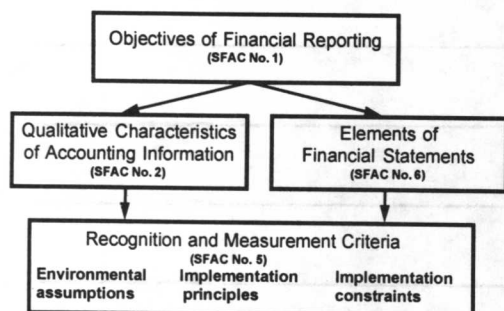
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## The FASB's Conceptual Framework



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