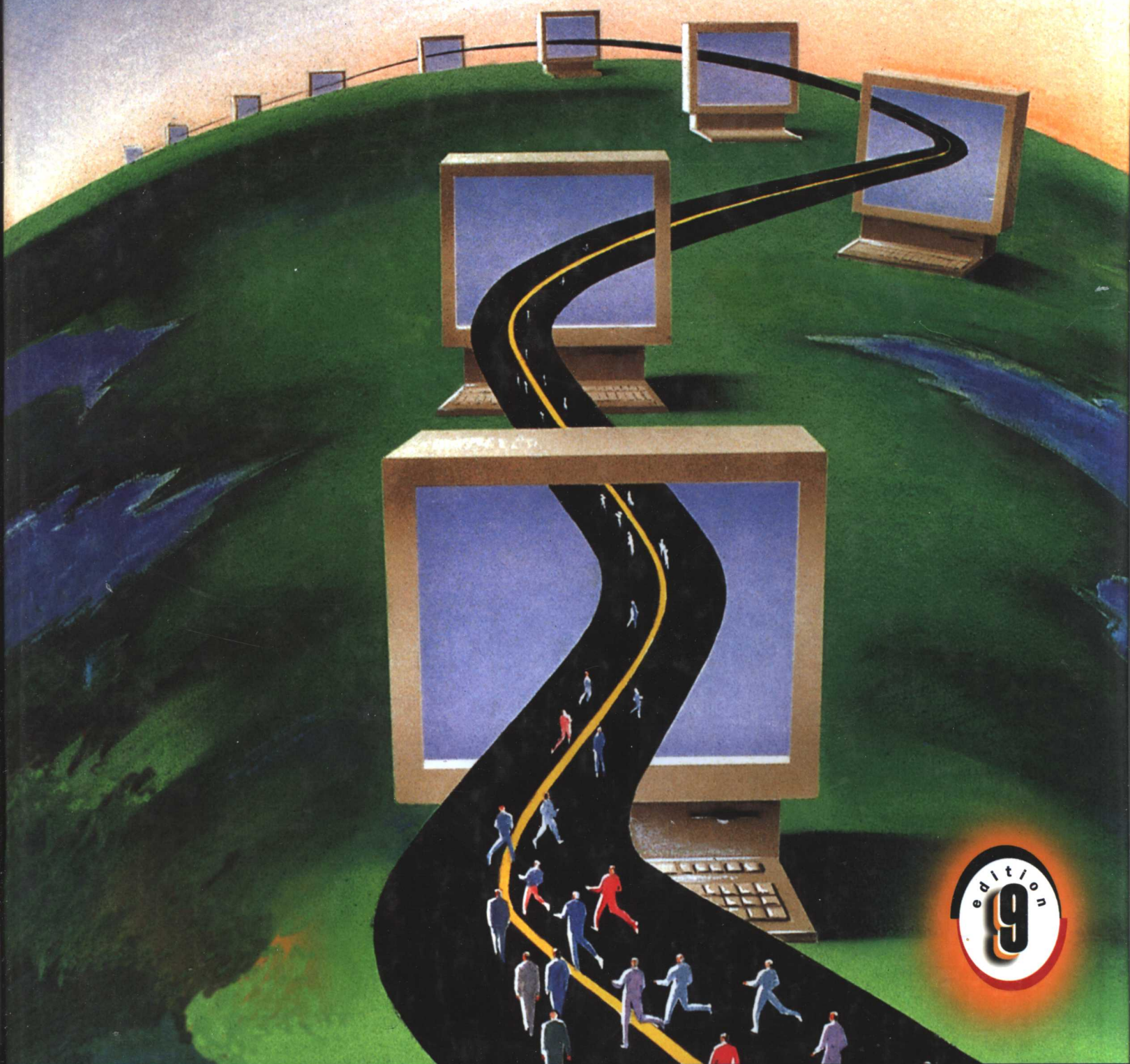


MEIGS & MEIGS • BETTNER • WHITTINGTON

# FINANCIAL ACCOUNTING





# FINANCIAL ACCOUNTING

**Robert F. Meigs**

*San Diego State University*

**Mary A. Meigs**

*San Diego State University*

**Mark Bettner**

*Bucknell University*

**Ray Whittington**

*San Diego State University*



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### *Financial Accounting*

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# WELCOME

We know that you may be tempted to skip over the introduction to this textbook. But you really will do better in this course if you understand the organization and features of the book, as well as the goals of its authors. So, please — take about 15 minutes and read the following Note to Students. If you don't want to read the Note to Instructors, well — that's OK.

## NOTE TO STUDENTS

We hope that you will see this first accounting course as an opportunity to learn about the worlds of business and personal finance. More importantly, when you've completed the course, we hope you will view it as having been a very worthwhile experience.

Let us share with you our thoughts on this course. A first accounting course introduces you only briefly to actual accounting practices and techniques. The real focus of the course is what accounting information *means* — and how this information is *used* by decision makers.

Today, everyone needs a basic understanding of accounting information, not just those of you planning careers in business. You will work with accounting information in any career and use it in managing your personal financial activities. Using accounting information is simply a part of everyday life.

## OUR APPROACH

Our goals in this text are to develop your abilities to understand accounting information and to use this information in making economic decisions.

To understand accounting information, you must also understand the economic activities that the information describes. In this book, we focus primarily upon business activities. However, most of the accounting concepts we discuss also apply to the economic activities of individuals, government, and non-profit organizations.

The purpose of accounting is to provide information useful to economic decision makers. Throughout the course, we will cast you in many

decision-making roles - from "starving student" to corporate executive. Simply stated, the key to using accounting effectively is practice.

If you like, we will also show you how to use the Internet as both a learning aid and a research tool. You do not need access to the Internet to use this textbook or learn about accounting. But if you do have access to the Net, we can make your study of accounting more interesting. (Please read Exploring the Internet on the inside of our front cover.)

## ELEMENTS OF THIS TEXTBOOK

This ninth edition is accompanied by a wide variety of in-text learning aids. Understanding their purpose should help you use them to greater advantage.

**Chapter Introductions and Learning Objectives**  
Each chapter starts with a photograph and caption, which sometimes does not seem to have much to do with accounting. They are intended to illustrate a major theme of the chapter in a non-technical way, but one that you will remember.

Each chapter also includes a short set of learning objectives, which are integrated with the text discussions, chapter summaries, and assignment materials. These objectives identify the main points in each chapter and may help you study for exams. But don't limit yourself to meeting these objectives. Strive to broaden your knowledge!

### Case in Point

Our Case in Point sections describe actual business events illustrating key accounting concepts. These cases have two goals. The first is to illustrate accounting concepts using "real world" examples. The second is to illustrate these concepts in a manner that you will remember.

### \*Supplemental Topics and Appendixes

Several chapters are accompanied by \*Supplemental Topic sections. We encourage you to always read these \*Supplemental Topic sections - they will enhance your understanding of the Chapter. However, your instructor will decide whether these

topics are of sufficient general interest for inclusion in class discussions, homework assignments, and examinations.

In contrast to the \*Supplemental Topics, our eight Appendixes provide self-contained coverage of specialized topics. Your instructor may assign specific appendixes, but we invite you to explore the others on your own.

### Net Connections

Each chapter concludes with a section entitled Net Connections. These sections identify interesting sites on the Internet which may enhance your understanding of the chapter. We strongly encourage you to visit a few of these websites — even if your instructor does not make this a course requirement. (The inside of our back cover contains an Internet Directory with the addresses of all netsites referenced in the text. You can also reach these sites quickly by using the Links feature on our home page.)

### End-of-Chapter Reviews

Each chapter is followed by a number of learning aids designed to help you study more efficiently. They include a Summary of Learning Objectives, a glossary of Key Terms, Self-Test Questions, a Demonstration Problem, and our Comments on the In-Text Cases.

### Assignment Materials

One of the distinctive features of this ninth edition is the nature and variety of its assignment material. These assignments not only illustrate basic accounting concepts, they also provide you with opportunities to develop your analytical, communication, and interpersonal skills. We have increased our emphasis on these “success skills,” because they are of such importance in today’s business world.

Many of our assignments are based upon the operations of well-known companies, such as Toys “R” Us, Hershey Foods, and Microsoft. Many others are based on smaller companies which are less well-known, but just as “real.” A special index at the back of the text identifies all of our references to real companies.

We have greatly increased the number of assignments well-suited to group and/or classroom discussions. We find that students can learn much from one another. This concept, often called “collaborative learning,” really works!

There are six basic categories of assignments (1) Discussion Questions, (2) Exercises, (3) Problems, (4) Cases, (5) Internet Assignments, and (6) Comprehensive Problems.

**Discussion Questions** call for short, written answers. Merely reading over them may prove an effective way for you to evaluate your understanding of a chapter.

**Exercises** are short assignments, usually focusing on a single concept. They are designed to illustrate those concepts quickly and clearly. You also may find them similar to the types of exercises your instructor uses on exams.

**Problems** are longer than the Exercises and usually address several different concepts. Every problem also has an “analytical element,” requiring you to explain or interpret the information you develop, or use that information in a business decision.

A package of partially completed Accounting Work Sheets supporting all Problems in the text is available through your bookstore. You can also download selected working papers at no charge from our home page.

**Cases** are intended primarily to develop your analytical and communication skills. These assignments readily lend themselves to group analysis and classroom discussions. Read a few just for fun; they present “accounting” from a different and challenging perspective.

**Internet Assignments** invite you to use the Net for both learning and research. (Just try not to spend too much time on the Net.) One Internet Assignment appears at the end of each chapter, and several others are available in Appendix B. As we find good new Internet Assignments, we will post them on CyberLab (our home page).

**Comprehensive Problems** tie together concepts presented over a span of chapters. The text includes four of these problems, ranging in length from 50-minute assignments to several hour projects. (The Accounting Work Sheets supplement supports all of our Comprehensive Problems and may save you considerable time.)

A **Checklist of Key Figures** for all Problems and Comprehensive Problems appears at the end of this text. The purpose of these figures is to let you know if your solution is “on track,” and to assist you in locating errors.

### Icons


Many assignments have special characteristics which are indicated by icons appearing in the left margin. For example, we have many assignments designed to show how computer software is used in accounting. A circle-and-arrow icon indicates assignments well-suited to our general ledger software (GLAS). A stack-of-paper marks







those assignments best suited to our spreadsheet software (SPATS).



 Our icon of a graduating student in a cap and gown identifies assignments which relate accounting information to the daily lives of students. The group icon indicates those assignments which best lend themselves to group discussions — or a sharing of the work. A scales-of-justice logo identifies assignments raising ethical issues.



 A magnifying glass indicates the need for research beyond the chapters you have already read. Sometimes this research can be done within the textbook, or on the Internet. But on a few occasions, these assignments send you out into the business community. In short, we just back off. These assignments put the responsibility for learning directly on your shoulders.

 Our world-wide-web logo identifies assignments which require access to the Internet. Because of limited computer resources, many instructors do not assign these problems. But if you have access to the Net, we urge you to visit these sites on your own. Don't limit your learning experience to the course requirements!

When assignments are based upon the operations of a real business organization, the company's name appears in **bold blue** type.

## OUR USE OF COLOR

We often use color to assist you in interpreting illustrations and in conveniently locating elements of the text. For example, red is used for **emphasis** - for major chapter headings and to highlight key elements in some illustrations. We also use color to distinguish between accounting records and financial statements - accounting records are shaded or outlined in **green**, and financial statements in **blue**.

In most diagrams depicting a sequential flow of information, inputs appear in **red**, processes or actions in **green**, and output in **blue**.

These uses of color are summarized below:

## SUPPLEMENTARY MATERIALS FOR YOU

We have developed several supplementary materials to make your study of accounting easier and more efficient. Some are available at no charge.

### CyberLab

Our favorite supplement is CyberLab, our home page on the Internet. As we've said, you don't need the Net to use this book effectively. But for those of you with access to the Net, we invite you to visit us at:

<http://www.magpie.org/cyberlab>

CyberLab offers recent accounting and business news, links to netsites referenced in the text, self-test materials, new Internet Assignments, and e-mail links to the authors. And we plan to expand this site in the future. If you have any suggestions, visit CyberLab's Communications Room and let us know.

### Study Guide

The Study Guide offers immediate feedback to assist you in evaluating your progress and preparing for examinations. It includes a summary of the key points in each chapter, and a wealth of self-test material, including solutions. As an additional study-aid, we explain in detail the reasoning behind the answers to each true-false and multiple choice question.

### Accounting Work Sheets

This soft-cover booklet provides the appropriate type of columnar paper for each Problem and Comprehensive Problem in the textbook. In addition, problem headings and "given" data have been filled in to save you time. (Partially completed working papers are not provided for Discussion Questions, Exercises, Cases, or Internet Assignments. These assignments may be answered on ordinary notebook paper or by using a word processor.)

### Problem-Solving Software

For those of you who want to see how accounting tasks are performed by computer, we offer two software packages. GLAS is our general ledger software. Its primary function is solving "accounting

## How We Use Color

In flowcharts	<b>Input Data</b>	<b>Processes</b>	<b>Output</b>
and elsewhere in the text:	<b>Chapter headings and for emphasis in illustrations</b>	<b>Accounting records</b>	<b>Financial statements, Internet address, and names of real companies used in assignment materials</b>

cycle" problems quickly, by automating the mechanical tasks. SPATS is our spreadsheet software. You can apply spreadsheet software to almost any accounting problem, but SPATS has special templates for quickly working those assignments which bear the "stack-of-paper" logo..

GLAS and SPATS are available in a Windows format. SPATS also requires Excel for Windows®.

## SOME GUIDELINES FOR CONDUCTING INTERVIEWS

Several of our Cases call for you — or a member of your study group — to interview people in the business community. We ask you to appreciate that business people granting these interviews are donating their time for your benefit. For this reason, we ask that you observe a few basic guidelines:

- \* Please make an appointment for the interview, don't just walk in expecting to talk to someone. And be on time — recognize that time is a very valuable commodity in the business world.
- \* Dress appropriately and conduct yourself in a business-like manner.
- \* Learn the name of the person you will be interviewing, including the correct spelling and pronunciation, and his or her position within the organization.
- \* Write down in advance the questions you plan to ask.
- \* Take notes during the interview. You should never attempt to quote the person's statements from memory.
- \* Realize that business people may not want certain information about their business "spread around town." Tell them in advance that the general content of the interview will be discussed within your study group and, perhaps, in your classroom. Respect any requests that specific comments be kept "off-the-record."

## NOTE TO INSTRUCTORS

We will now shift gears and speak primarily to instructors. Many of you may be familiar with one or more of our past editions. This ninth edition retains the same basic structure, although it has fewer chapters. But in many ways we are changing our approach to the first accounting course.

Basically, we have tried to achieve three goals in this revision. These are to make the text more (1) student-oriented, (2) contemporary, and (3) flexible. (Actually, we find these goals to be highly interrelated.)

## WHAT DO WE MEAN BY MORE "STUDENT-ORIENTED"?

Two things: more relevant to students' needs; and more interesting, thereby motivating students to make the most of this learning opportunity.

Today, most careers do not center around the preparation of accounting information. (Even for CPAs, preparation work is limited in large part to tax returns.) But every student will be a life-long user of accounting information. In each of our last three editions, we have increased our emphasis on the interpretation and use of accounting information. We now are "where we want to be;" this is the balance we have striven for 9 years to achieve.

The new example used throughout our first four chapters now begins with a business plan. Then, as accounting information is developed, the actual results are evaluated in light of management's expectations. Our new Chapters 1 through 4 illustrate much more than the accounting cycle; they now show how accounting information is used in the processes of planning and control.

Every Problem and almost every Exercise now contain an "analytical element," asking students to interpret the information they are working with, or to use it in some form of business decision.

Now, let us address the topic of making this course more interesting. Our approach is to involve students more directly in the learning process. We challenge them to express their views, rather than merely read and remember ours. Features aimed at achieving this goal include the interactive YOUR TURN cases in every chapter, the "analytical elements" in our assignment material, and our Internet features.

Our Net features encourage students to explore interesting, accounting-related netsites on their own. And we try to make this very easy. For example, we not only provide the addresses of these sites, but our home page can transport them there with one click of a button. No instructor assistance should be required for students to use our Internet features.

We have always believed the first accounting course can be of great value to every student. But we want more - we want it to be their favorite course.

## A CONTEMPORARY COURSE

Any course is both more relevant and more interesting if it is up-to-date. We have tried to make this text contemporary in all respects — from our examples, to our topical coverage, to our assignment material.

Our most contemporary features, of course, are provided by the Internet. Students who use our various Net features will be learning in an environment more current than any printed text - including ours.

## **FLEXIBLE TEXT**

We cannot tell local instructors what is best for their students. Instead, we have tried to make this ninth edition as flexible as possible. That's why it's shorter - 14 chapters - with more topics left to the instructor's discretion in the form of appendixes. That's why we provide such a diversity of assignment material, and why the Internet materials are entirely optional.

Of course this textbook is supported by a wide variety of teaching aids — Solutions Manual, Test Banks (print and electronic versions), Instructor's Guide, Achievement Tests, Overhead Transparencies, a Power-Point Classroom Displays, Videos, and more. For a complete description of these items, and a chapter-by-chapter discussion of the changes in the text, please see the To the Instructor section of our Solutions Manual.

## **CONTRIBUTIONS BY OTHERS**

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Finally, we wish to acknowledge the innumerable contributions of Walter B. Meigs, Professor Emeritus, University of Southern California. Professor Meigs is the founding author of this textbook and has participated in all of the preceding editions. Although he is now retired, his philosophy, perspective, and unique authorship skills remain apparent throughout the text.

## **A CLOSING COMMENT ...**

We appreciate having the opportunity of addressing all of you - students and instructors alike. It is a privilege to share our views with those who will shape the future of accounting and the business world.

The writing of this text has taught us much. We have had to challenge, research, verify, and rethink much of what we thought we already knew. We also have been introduced to the wealth of useful information now emerging on the Internet. We hope the experiences of this accounting course - whether you approach it as a student or instructor - will prove as rewarding to you.

Sincerely,  
*Robert F. Meigs*  
*Mary A. Meigs*  
*Mark S. Bettner*  
*Ray Whittington*



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