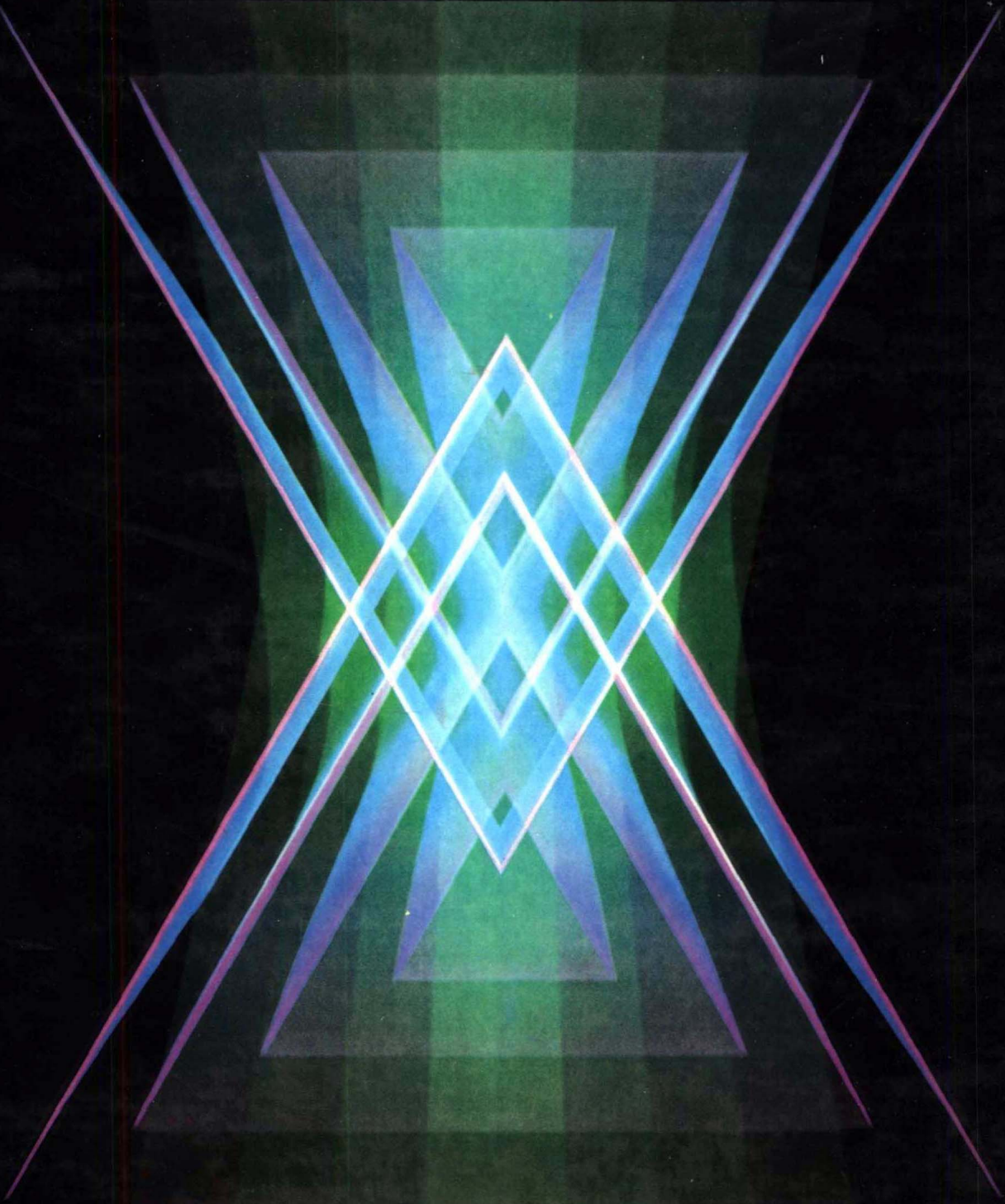


ACCOUNTING

THE BASIS FOR BUSINESS DECISIONS



SEVENTH EDITION

WALTER B. MEIGS AND ROBERT F. MEIGS

ACCOUNTING: THE BASIS FOR BUSINESS DECISIONS

SEVENTH EDITION



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ACCOUNTING: THE BASIS FOR BUSINESS DECISIONS

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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 seventh 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 guide to accounting careers, prepared by the editors of *Business Week*.
- 2 A short preview of each chapter, introducing students to both the educational goals and the technical content of the chapter.
- 3 Chapter learning objectives integrated into the text material through marginal notations and summaries at the end of each chapter.
- 4 Introductory chapters explaining the steps in the accounting cycle as applied to manual systems and to computer-based accounting systems.
- 5 Introductory level coverage of the new Statement of Cash Flows.
- 6 Coverage of the historic Tax Reform Act of 1986, including the effects of the Act upon individuals and corporations.
- 7 Over 200 new exercises and problems. In addition, the vast majority of the exercises and problems carried forward from the prior edition have been revised.
- 8 In each chapter, a new first exercise emphasizing accounting terminology. This exercise is coordinated with similar exercises in the *Test Bank* and the *Study Guide*.
- 9 A new type of problem material—Business Decision Cases—emphasizing the use and interpretation of accounting information in interesting yet practical business situations. These cases are more numerous and more varied than similar problems in past editions.
- 10 A new appendix containing an introductory-level discussion of international accounting and foreign currency translation, complete with problem material.
- 11 A second new appendix in which students are asked to analyze the illustrated financial statements of a well-known corporation.
- 12 Increased use of real business examples—termed Cases in Point—to illustrate key accounting concepts.
- 13 Increased emphasis upon accounting theory and generally accepted accounting principles throughout the text.
- 14 Increased emphasis upon the relationship of many accounting practices to the need for achieving adequate internal control.
- 15 Careful shortening of the text, which now contains 26 chapters rather than 28.

New items in the supplemental package:

- 1 *General Ledger Software and Applications*, produced by CYMA/McGraw-Hill.
- 2 *Accounting/Lotus Connection*, by E. James Meddaugh. Software, data, and instructions for working accounting problems with Lotus 1-2-3.
- 3 A new application (practice set), *Echo Paint Co.*, by Richard A. Wright. This application simulates the accounting system of a small business, using actual business documents rather than a narrative of transactions. Available in both manual and computer-based formats.
- 4 Two relatively short applications, *Big Screen Systems* and *Remington Restaurant Supply*, demonstrating the basic accounting cycle in manual accounting systems.

- 5 *Executive Woodcraft Company*, a managerial accounting application by Ronald W. Hilton.
- 6 A separate manual containing solutions to all the manual and computer-based accounting applications (practice sets).
- 7 A greatly expanded *Test Bank*, available as a printed manual or in computer-based formats.
- 8 An expanded set of *Visual Classroom Displays*, now in color and with multiple overlays.
- 9 A semiannual newsletter to accounting faculty.

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 Abundant problem material, including review questions, exercises, two sets of problems, and Business Decision Cases. In addition, each chapter contains a glossary of key terms and most chapters include a demonstration problem to assist students in developing skill in analyzing and solving accounting problems.
- 6 The concept of present value, presented in clear and understandable terms, integrated into discussions of the valuation of assets and liabilities.
- 7 Careful integration into the text and problem material of recent pronouncements of the Financial Accounting Standards Board.
- 8 The most comprehensive package of supplementary materials available for any accounting textbook.
- 9 Checklist of key figures for problems and Business Decision Cases included on the inside cover pages of the textbook.

NEW AND EXTENSIVELY REVISED CHAPTERS

Many new topics are discussed in this seventh 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 5, “Merchandising Transactions and Internal Control,” condenses into one chapter material previously discussed in two chapters. 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 Computer environment.

In prior editions, we covered receivables and payables in a single chapter. We found that this approach was confusing to some students, so receivables and payables now are discussed in two separate chapters. Chapter 8 covers receivables, including a new discussion of notes receivable with interest included in the face amount. We have moved the discussion of notes payable to Chapter 11, our new chapter on current liabilities.

Chapter 10 condenses our coverage of plant assets, for which we previously used two chapters. An all-new Chapter 11 covers in one place the various types of current liabilities, including accounts payable, notes payable, and payrolls.

We moved the chapter on partnerships (Chapter 12) to precede the chapter on accounting principles (Chapter 13). This change, along with our new 26-chapter format, enables us to emphasize unincorporated businesses in the first semester and still end the semester with a review of generally accepted accounting principles. The second semester begins with a four-chapter unit on accounting issues relating primarily to corporations.

In Chapter 17, our coverage of consolidated financial statements has been shortened and updated to focus upon the recent wave of takeovers and acquisitions. A new Appendix B, following Chapter 17, introduces the emerging topic of international accounting and foreign currency translation.

Many people view the Tax Reform Act of 1986 as the most significant change in the history of American tax law. Our extensively revised chapter on income taxes, Chapter 18, presents this new tax law in a clear and understandable manner.

Perhaps the most significant change in financial reporting in many years is the requirement that businesses now prepare a statement of cash flows as a third major financial statement. Chapter 19, “Measuring Cash Flows,” introduces and explains this new financial statement. The chapter takes a new approach to cash flows, emphasizing the content of the financial statement rather than the mechanics of preparing working papers.

Chapter 20, “Analysis and Interpretation of Financial Statements,” is now followed by a new Appendix C, “Financial Statements of a Publicly Owned Corporation: A Case Study.” This appendix affords students an opportunity to apply the analytical techniques discussed in the chapter to the illustrated financial statements of a well-known corporation.

Two significant changes have been made in our managerial accounting chapters. First, Chapter 21 has been extensively revised to clarify the objectives and structure of a responsibility accounting system. Second, the chapter on cost-volume-profit analysis (now Chapter 24) has been moved to precede the chapter on budgeting and standard costs. This new sequence provides students with a better understanding of cost behavior when we introduce the concepts of budgeting and establishing standard costs.

In summary, this seventh edition is the most extensive revision we have ever prepared. In addition to changes in chapter content, there are many new pedagogical features, such as chapter previews, many more actual business examples, summaries of chapter learning objectives, and terminology exer-

cises. Also, this seventh edition includes over 200 new exercises, problems, and Business Decision Cases.

SUPPLEMENTARY MATERIALS

A distinguishing characteristic of this textbook is the wide variety of supplementary learning and teaching aids for students and instructors. All these materials, with the exception of the computerized supplements and two practice sets, were prepared personally by the authors of the textbook. (A graphic summary of these supplements appears immediately after this preface.)

For students

1 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 Study Guide will also be useful in classroom discussions and for review by students before examinations.

2 Working papers Partially completed working papers are available for all Group A and Group B problems, and for all Business Decisions Cases. These working papers save time, because much of the data “given” in a problem has already been entered on the working paper. In addition, the working papers often provide guidance in organizing the solutions.

The working papers are available in a variety of packages, so that students may purchase only those working papers relating to their course assignments. The following sets of accounting work sheets are available:

Group A Problems, Chapters 1 through 15

Group A Problems, Chapters 14 through 26

Group B Problems, Chapters 1 through 15

Group B Problems, Chapters 14 through 26

Group A and Group B Problems, Chapters 1 through 15

Group A and Group B Problems, Chapters 14 through 26

Blank Accounting Forms, all chapters

All packages include working papers for the Business Decision Cases and any appendixes relating to the chapters.

For instructors who prefer to have students develop solutions “from scratch,” the package of *Blank Accounting Forms* provides enough of each type of columnar paper for the typical two-semester course.

3 Computerized Tutorial System This supplement enables students to work selected exercises from the textbook on a personal computer. These exercises are marked with the symbol shown in the left margin. The “tutorial” features of this supplement include demonstration exercises, “help screens,” and other guidance in solving the exercise.

Separate tutorial systems are available for the first and second semesters. A special *instructor's disk* also is available for use in evaluating students' work and in maintaining a computer-based grade book.

This tutorial, and all other computer-based supplements that accompany the text, assume *no prior experience* with computers on the part of students or instructors.

- 4 Accounting applications** Accounting applications are simulations of various accounting activities. This Seventh Edition offers a variety of these applications in both manual and computer-based formats. A brief description of our eight accounting applications follows:

Manual applications

- a Remington Restaurant Supply** A traditional practice set designed to pull together the steps in the accounting cycle. This application is much shorter than in prior editions, because the student now steps in to the role of chief accountant in the middle of the month. Requires about 6 to 8 hours.
- b Big Screen Systems** An alternative to *Remington Restaurant Supply*, this application enables instructors to alternate assignments from one semester to the next.
- c Echo Paint Co.**, by Richard A. Wright. This application, designed for use after Chapter 6, uses *checks, invoices, and other business documents*, in lieu of a narrative of transactions. A highly realistic simulation, it is new to this edition.
- d Valley Building Materials, Inc.** A traditional narrative practice set involving a corporate entity and designed for use *after Chapter 16*, this item includes payrolls, capitals stock transactions, and other transactions not included in the earlier applications.
- e Executive Woodcraft Company**, by Ronald W. Hilton. Emphasizing the flow of costs through a *cost accounting system*, this application also includes optional modules on cost-volume-profit analysis, budgeting, and special order analysis. It is new to this seventh edition.

Computer-based applications

- f CYMA/McGraw-Hill** An educational version of a leading *general ledger software* package. Our two narrative accounting applications, *Remington Restaurant Supply* and *Big Screen Systems*, are provided for use with this software. However, the software is extremely flexible; it may be used to work most accounting cycle problems, and to maintain personal accounting records or those of a small business.
 - g Echo Paint Co.**, by Richard A. Wright and Educational Computer Systems, Inc. This computer-based version of the Echo Paint Co. application introduces students to business documents and the use of personal computers by simulating the activities of a computerized small business. The computer program is “tutorial”—that is, it identifies any errors made by the student and provides guidance in correcting them.
 - h Remington Restaurant Supply** A short tutorial practice set based upon a narrative of transactions. For use after Chapter 6.
 - i Valley Building Materials, Inc.** This computer-based application is designed for use after Chapter 16 of the text. It is based upon our manual application, Valley Building Materials, Inc., but utilizes the personal computer. In addition, the application includes a number of “help screens,” which identify and explain any student mistakes.
- 5 Accounting/Lotus Connection**, by E. James Meddaugh. A supplement which enables students to apply Lotus 1-2-3 to a wide variety of accounting problems, which are included in the supplement. A *separate solutions manual* is available to instructors. Note: Users must have access to Lotus 1-2-3.

Supplements for instructors

- 1 ***Solutions manual*** A comprehensive manual containing answers to all review questions, exercises, Group A and Group B problems, and Business Decision cases contained in the text.

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 ***Solutions to accounting applications*** A separate manual containing complete solutions to all nine of our manual and computer-based accounting applications. Separating these solutions from the solutions to problem material accommodates those instructors who want to make the regular *Solutions Manual* available to students in a laboratory or in the reserve section of the library.

- 3 ***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 sets of Achievement Tests and Comprehensive Examinations.

- 4 Four separate sets of ***achievement tests*** and ***comprehensive examinations***. Sets A and B each consist of six 50-minute achievement tests, each covering *three* chapters, and two comprehensive examinations covering the first and second halves of the textbook. The A and B sets are parallel, differing only in the sequence of questions and in quantitative problem data. The two sets of parallel tests may be used in the same classroom to ensure that no student sits next to someone taking an identical examination, or may be alternated from one semester to the next.

Sets C and D each include eight 50-minute achievement tests, each covering *four* chapters, and two 1 hour and 40 minute comprehensive examinations. The C and D sets parallel one another, differing only in the sequence of questions and in quantitative problem data.

- 5 ***A new and enlarged test bank*** With an abundance of true-false questions, multiple-choice questions, and short exercises organized on a chapter-by-chapter basis, this supplement is a valuable resource for instructors who prepare their own examinations. In its new format, this is one of the largest test banks ever to accompany any accounting textbook.

The test bank also is available in two computer-based formats: **EXAM-INNER** for mainframe systems, and **MicroEXAMINER** for personal computers. MicroEXAMINER now allows instructors to edit examination questions, as well as to add material to the test bank.

- 6 Instructors' disk for Computerized Tutorial System** The Computer Tutorial System includes a special instructors' disk that enables instructors to evaluate students' work. Also includes a computer-based grade book.
- 7 Transparencies of solutions to exercises, problems, and cases** This visual aid enables instructors to display by overhead projector the complete solution to every numerical exercise, problem, and Business Decision Case in the text. The transparencies now use a bold typeface for greater clarity.
- 8 Visual Classroom Displays** A large number of special teaching transparencies provide illustrations not shown in the textbook. The transparencies now use two colors and multiple overlays, enabling instructors to develop illustrations on a step-by-step basis.
- 9 Newsletter to accounting instructors** This semiannual newsletter is intended to help instructors keep the introductory course current and up-to-date. The newsletter will include recent changes in accounting principles and tax laws, important actions by the FASB, current business developments that highlight key accounting concepts, brief abstracts of articles in current business journals, and a "just for fun" quiz on current accounting developments.

CONTRIBUTIONS BY OTHERS

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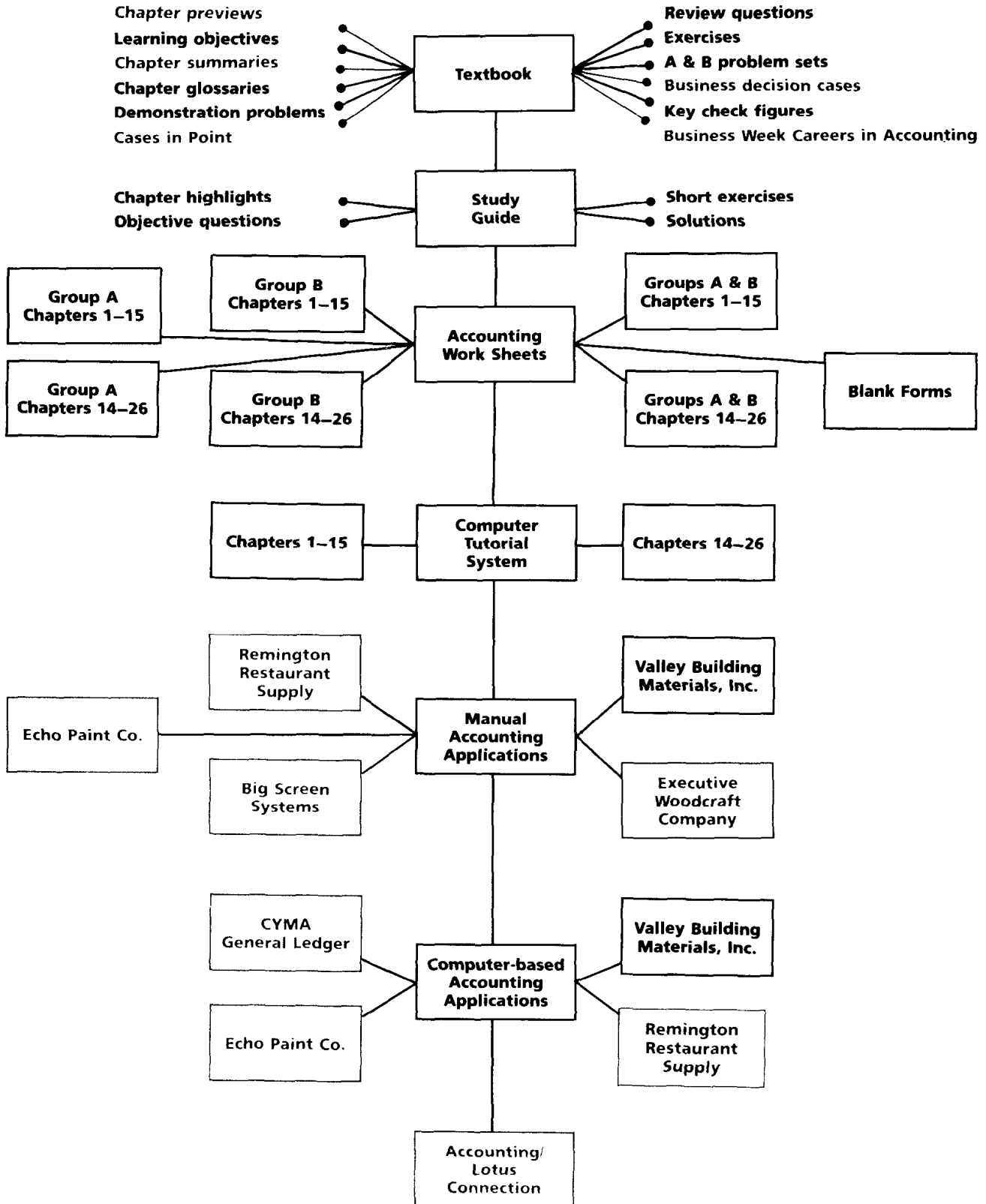
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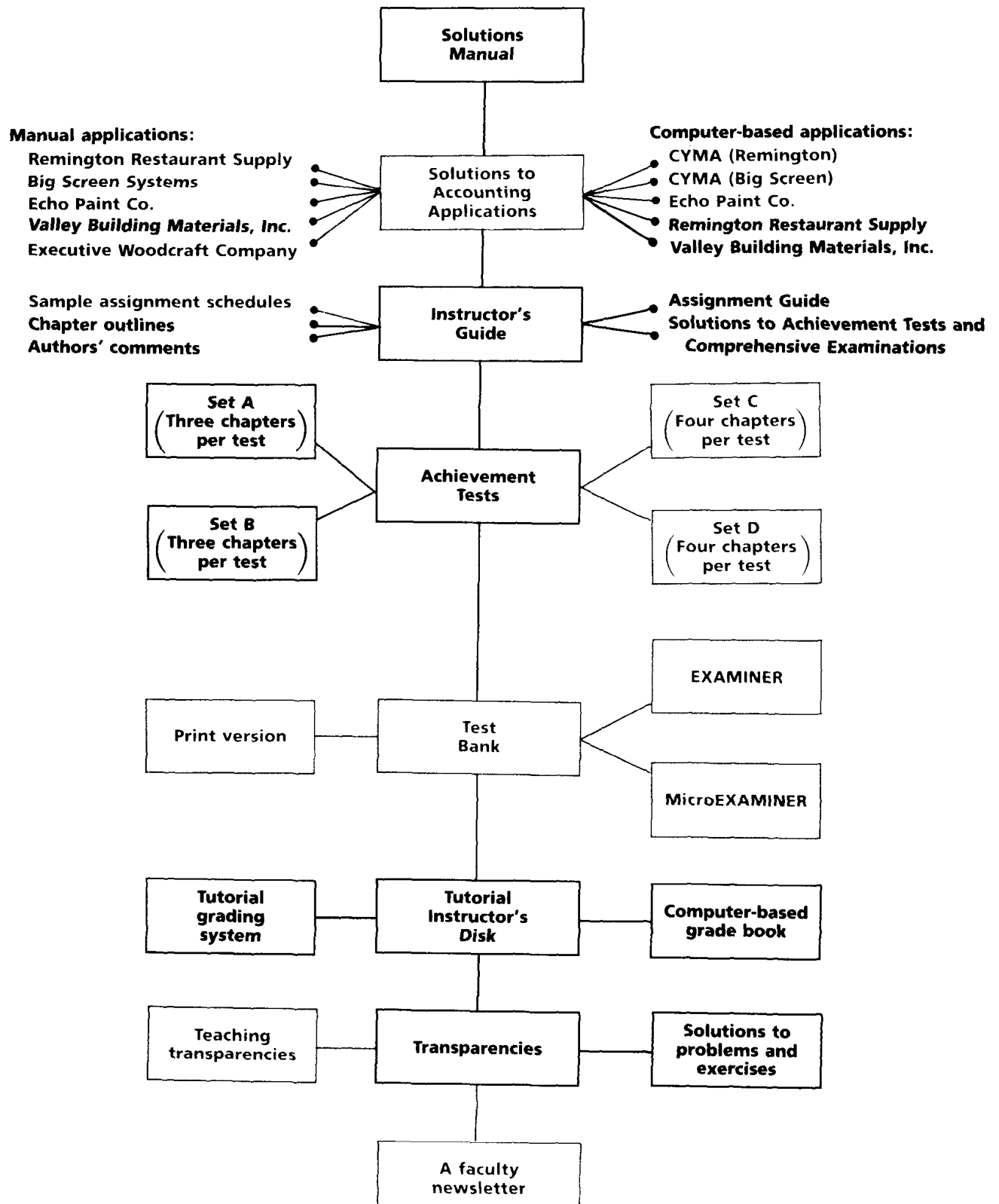
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Walter B. Meigs
Robert F. Meigs

TEXTBOOK AND STUDENT SUPPLEMENTS
(New or expanded features are shown in color)



SUPPLEMENTS FOR INSTRUCTORS
 (New or expanded supplements are shown in color)



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