



Kieso & Weygandt

SEVENTH EDITION



INTERMEDIATE ACCOUNTING

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■ — SEVENTH EDITION — ■

INTERMEDIATE ACCOUNTING

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Jerry J. Weygandt, Ph.D., CPA, is Arthur Andersen Alumni Professor of Accounting at the University of Wisconsin-Madison. 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 is actively 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 ————— ■

The seventh edition of *Intermediate Accounting* discusses in depth the traditional (intermediate) financial accounting topics as well as the recent developments in accounting valuation and reporting practices promulgated by the leading professional accounting organizations and applied by practitioners in industry and public accounting. Explanations and discussions of financial accounting theory are supported and illustrated by examples taken directly from practice and authoritative pronouncements.

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

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

We have attempted to balance our coverage so that the conceptual discussion and procedural presentation are mutually reinforcing. The study of concepts develops an understanding of procedures, and the performance of procedures enriches an understanding of the concepts. Accountants must act as well as think; therefore, we have given equal emphasis to *how* and to *why*.

We believe that individuals can account for events and phenomena best if they fully understand the nature of the phenomena and comprehend the economic consequences of the events. An appreciation for the behavioral and economic consequences of accounting and reporting alternatives is equally important. To this end, we have provided coverage that develops perspective as well as an understanding of the business transactions and other events for which enterprises account and report.

■ REVISIONS AND NEW FEATURES ■

The most significant revision to the seventh edition is the complete rewriting of Chapter 20 on accounting for income taxes. This revision conforms to the profession's most recent and long-awaited pronouncement on accounting and reporting requirements related to interperiod income tax allocation. Also, eleven pages of new material covering the accounting and reporting requirements for postretirement benefits other than pensions (*FASB Statement No. 106*) have been added to Chapter 21.

Numerous new features have been added to the seventh edition:

A **four-color presentation with a larger-type size and a more open design** make the book easier to read and more user friendly.

2. A **description of each case, exercise, and problem** is provided for the first time.
3. **Financial reporting problems** have been developed and are placed as the last item of the homework-assignment material. Most of these financial reporting problems require reference to and analysis and interpretation of Georgia-Pacific Corporation's financial statements and accompanying notes (see the specimen financial statements, Appendix 5-A).
4. **Ethics material** in the form of text discussion and assignment material (questions, cases, and exercises) has been added to sensitize students to the ethical considerations, situations, and dilemmas encountered by practicing accountants.
5. **Interviews** of eight prominent accounting and business personalities on relevant accounting topics is a unique new feature. The interviews are integrated throughout the book as follows:

Preceding Chapter 1
Arthur R. Wyatt, "International Accounting and Standard Setting"
Between Chapters 5 and 6
Dennis R. Beresford, "Standard Setting"
Between Chapters 9 and 10
Ted Clarke, "Financial Accounting: A Preparer's Viewpoint"
Between Chapters 12 and 13
Robert Sack, "Ethics"
Between Chapters 16 and 17
James C. Treadway, "Ethics: A Regulator's Viewpoint"
Between Chapters 19 and 20
Clark H. Johnson, "Financial Accounting: A CFO's Viewpoint"
Between Chapters 23 and 24
Patricia McConnell, "Financial Accounting: A Financial Statement User's Viewpoint"
Between Chapters 25 and 26
James F. Fitzgerald, "Careers in Accounting"

Because these interviews contain considerable accounting content and are relevant to an accountant's professional development, they can serve as a basis for classroom discussions.

6. **Learning objectives** are presented in the side margins throughout the book as aides to students.
7. **Four-color graphics and flow charts** have been added throughout the chapters to enhance clarity and comprehension.
8. **Icons** (images or symbols), set in the margins of end-of-chapter assignment materials, have been specifically designed to identify (a) the exercises and problems that are contained in the *Lotus Problems* supplement—blue icon— and (b) the questions, cases, exercises, and problems that contain ethical issues or dilemmas—red icons.

Throughout the text we have attempted to improve the pedagogy and simplify complex presentations. Examples are: the addition of all new four-color graphics to enhance the time diagrams and illustrations in Chapter 6; clarification and expansion of the capitalization of interest approach in Chapter 10; updating and expansion of (1) the MACRS tax depreciation approach and (2) the impairment in asset value discussion in Chapter 11; in Chapter 13 the presentation on property tax accruals has been simplified and the coverage on guarantees and warranties has been revised to conform to *FASB Technical Bulletin No. 90-1*; the updated coverage in Chapters 15 and 16 on dividend availability and policy resulting from more states adopting recent versions of the Model Business Corporation Act; revision of the quasi-reorganization coverage to conform to the SEC's new reclassification rules; and clarification of the computation of weighted average shares outstanding and calculations of earnings per share in Chapter 17. The recent practices of "trade loading" and "channel stuffing" relative to revenue recognition abuses are discussed in Chapter 19. Coverage about financial instruments with off-balance-sheet risk and concentrations of risk (*FASB Statement No. 105*) has been integrated into relevant chapters.

The sequence of chapters has remained the same, except that Chapter 27 of the sixth edition has been deleted. "Accounting for Changing Prices," the topic of that deleted chapter has been condensed into an appendix to Chapter 26 because the disclosure of current cost and constant dollar information (inflation accounting) is no longer mandatory or widely practiced.

■ 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 larger 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. Learning objectives appear in the side margin in red, while blue computer icons and red ethics icons appear next to the problem material. Major headings are black print and are centered while secondary headings are red. Numbers and descriptions of homework assignment material are colored blue. All pages containing assignment material have a blue/beige border while the five interest and annuity tables in Chapter 6 have a black and red border to ease locating and identifying. All summaries of fundamental concepts at the end of each chapter are presented in gray screen. The names of real world companies as part of illustrations are red. The color design is summarized as follows:

- Red—Learning objectives, ethics icons, real-world company names, secondary headings, and accents.
- Blue—Financial statements, homework assignment numbers and descriptions, highlighted amounts and descriptions in boxed illustrations, and computer icons.
- Beige—Exhibits, schedules, trial balances, work sheets, illustrations, and lists of definitions.
- Gray—Fundamental concepts (a summary at the end of each chapter).

■ 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, short cases, exercises, and problems. For this edition all exercises and problems have been revised, and the end-of-chapter material has been supplemented with over 200 new items, 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. 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. 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.

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 assignments may be varied from year to year.

■ SUPPLEMENTARY MATERIALS ■

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

STUDENT LEARNING AIDS

The **Student Study Guide** contains an enhanced chapter review section with new demonstration problems, additional multiple-choice questions and exercises, expanded synopsis sections that tie in concepts from other chapters, and a more thorough review of text material in a self-study section.

A **Self-Study Problems/Solution Book**, new to this edition, contains exercises and problems for each chapter with annotated step-by-step solutions, with coaching and tips on how to study and how to analyze, setup, and solve accounting problems and exam questions.

The **Rockford Corporation Manual Practice Set** has been revised and slightly shortened and simplified, with check figures provided for both sets of solutions.

The **Rockford Corporation Computerized Practice Set** demonstrates the benefits of an automated accounting system—similar to general ledger software, but easier to implement.

Ruled **Working Papers I and II** in two volumes now contains ruled papers for both exercises (new to this edition) and problems.

The **Lotus 1-2-3 Problems** booklet contains a complete range in difficulty level of intermediate accounting problems (from data entry to developing spreadsheets). Each chapter has basic, intermediate, and advanced tutorials along with three exercises or problems cross referenced to and identified in the text.

The **Multi-State Trucking—Lotus Based Practice Set** requires the student to produce interim financial statements by using computer spreadsheets and aids in making the transition from financial to intermediate.

The **Checklist of Key Figures** is a comprehensive list of key figures for students to use to verify their problem solutions.

INSTRUCTOR TEACHING AIDS

The **Solutions Manuals I and II** contain assignment classification tables, descriptions, difficulty levels, times, and purposes for every assignment by chapter, along with complete solutions, derivations, and helpful notes to instructors.

The **Instructor's Manual** contains enhanced lecture outlines with teaching tips, cross references to text material, chapter reviews, more demonstration problems and in-class illustrations, an updated annotated bibliography, and tips on how to integrate ethics into financial accounting.

The **Examination Book and Test Bank** has been greatly expanded with more multiple-choice questions, more exercises, and a new bank of problems. The derivations of all multiple-choice questions are also now provided.

A **Microtest** computerized test bank is available for IBM-PC and Macintosh microcomputers.

Videos, new to this edition, on selected topics provide real-world background as well as technical coverage in fifteen to thirty minute segments.

The **Tutorial and Presentation Software**, new to this edition, provides graphical animation and explanations useful to instructors as a classroom aid or to students in the lab.

Transparencies of solutions to exercises and problems are provided in two vol-

umes in an organizer box with chapter separators; the large-size 12-point type provides a clear, dark, readable image.

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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.

*DeKalb, Illinois
Madison, Wisconsin
January, 1992*

Donald E. Kieso
Jerry J. Weygandt

PERSPECTIVES ON INTERNATIONAL ACCOUNTING AND STANDARD SETTING

A VISIT WITH ARTHUR WYATT

Arthur R. Wyatt has spent his entire career focusing on the principles of accounting—both in academia and in CPA practice. He received his Ph.D. from the University of Illinois in 1953 and taught there until 1966—when he joined Arthur Andersen & Co. He was soon made a partner and became head of the firm's accounting principles area. In the mid-1980s he left Arthur Andersen for a few years to become a member of the FASB. Currently, Mr. Wyatt is chairman of the International Accounting Standards Committee and president of the American Accounting Association.

You don't go by "Doctor?"

We discussed it when I initially went to work for Arthur Andersen, and I told them that doctor was primarily an academic designation. Since I was going to be in the practice world, I decided that I didn't want to go through the interminable explanations. I was recently in Switzerland and met with some clients there—and nearly everyone in their financial area had the title of doctor and used it. That's just a difference in the society.

How did you happen to focus on international accounting?

Arthur Andersen & Co. has a "one firm" concept, and I'm responsi-



ble—in Chicago—for establishing accounting policies that must be followed around the world. In addition, I'm chairman of the International Accounting Standards Committee, which represents 80 countries. I strive to understand better why people in other countries do things the way they do.

What's a big area of disagreement?

In Germany and Switzerland, it is common practice to establish hidden reserves. We have never accepted that as a firm. Of course, that has slowed our growth in those countries.

Why is international accounting a more topical subject today?

It reflects the changes in the world capital markets—which are directly

related to changes in technology and communications. A company based in Peoria can raise capital around the world if it finds it difficult to raise capital in the United States. That would have been unheard of not long ago.

Does the United States have the best standards in the world?

Well, we have the most detailed disclosure standards and the most precise accounting standards. I wouldn't necessarily equate those two things to being the best. My colleagues in other countries say "If your standards were so good, how did the savings and loan fiasco arise in the United States?" There hasn't been anything like that in any other country.

The savings and loan crisis can be blamed on our accounting methods?

Very definitely. Our accounting permitted savings and loans to continue to show assets at amounts based on their historical cost when the real value was substantially lower.

In some respects, our accounting is not as conservative as some other countries, then.

Very much less conservative than Germany's or Japan's. They permit and even encourage the setting

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