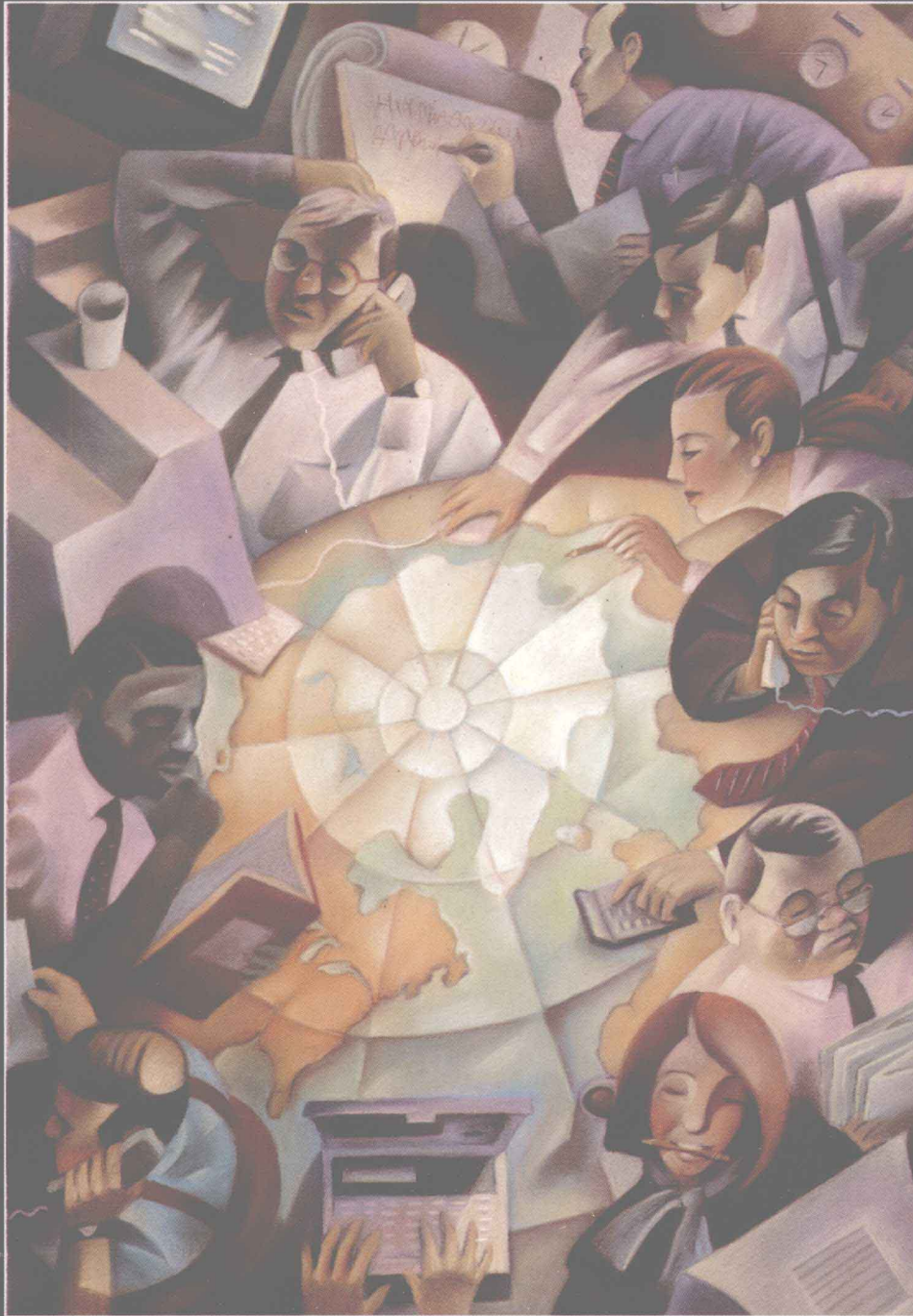


VOLUME I: CHAPTERS 1-12

# INTERMEDIATE ACCOUNTING

SECOND EDITION



J. DAVID SPICELAND | JAMES F. SEPE | LAWRENCE A. TOMASSINI



Volume I

# INTERMEDIATE ACCOUNTING

**Second Edition**

**J. David Spiceland**

*University of Memphis*

**James F. Sepe**

*Santa Clara University*

**Lawrence A. Tomassini**

*The Ohio State University*

**Mc  
Graw  
Hill** **Irwin  
McGraw-Hill**

Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis  
Bangkok Bogotá Caracas Lisbon London Madrid  
Mexico City Milan New Delhi Seoul Singapore Sydney Taipei Toronto

Artist represented by Kolea Baker. Artist: Hilber Nelson Stock usage of purple people in Workbook 19

## McGraw-Hill Higher Education

A Division of The McGraw-Hill Companies

### INTERMEDIATE ACCOUNTING

Copyright © 2001, 1998 by The McGraw-Hill Companies, Inc. All rights reserved. Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of the publisher.

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 VNH/VNH 0 9 8 7 6 5 4 3 2 1 0

ISBN 0-07-229842-1 (combined volume)

ISBN 0-07-240133-8 (volume I)

ISBN 0-07-240134-6 (volume II)

Material from the Uniform CPA Examination Questions and Unofficial Answers, Copyright © (November 1974 through November 1995) by the American Institute of Certified Public Accountants, Inc., is reprinted (or adapted) with permission.

Photo credits for chapter opening photos: Chapter 1: © 1999 PhotoDisc, Inc.; Chapter 2: Colin Hawkins/Tony Stone Images; Chapter 3: Used with Permission of Campbell Soup Company; Chapter 4: Courtesy of The Boeing Company; Chapter 5: Courtesy of Electronic Arts. SimCity 3000 © 1998 Electronic Arts. All rights reserved. SimCity 3000 is a trademark or registered trademark of Electronic Arts in the U.S. and/or other countries.; Chapter 6: Bob Daemmrch/Stock Boston; Chapter 7: Bob Daemmrch/The Image Works; Chapter 8: Courtesy of Ford Motor Company; Chapter 9: J. Pickerell/The Image Works; Chapter 10: M. Bernsau/The Image Works; Chapter 11: Courtesy of Boise Cascade Corporation; Chapter 12: Used by Permission of Cracker Barrel Old Country Store, Inc. Cracker Barrel has not reviewed this information and nothing in this textbook should be considered a disclosure concerning Cracker Barrel Old Country Store, Inc. or its parent's financial information.; Chapter 13: Scott Goodwin Photography; Chapter 14: Walter Hodges/Tony Stone Images; Chapter 15: Courtesy of International Business Machines; Chapter 16: Jonathan Elderfield/The Liaison Agency; Chapter 17: Alan Oddie/PhotoEdit; Chapter 18: Scott Goodwin Photography; Chapter 19: Vincent Dewitt/Stock Boston; Chapter 20: Scott Goodwin Photography; Chapter 21: Scott Goodwin Photography; Chapter 22: Bill Bachmann/PhotoEdit.

Vice president/Editor-in-chief: *Michael W. Junior*

Publisher: *Jeffrey J. Shelstad*

Sponsoring editor: *Stewart Mattson*

Developmental editor: *Jennifer Jackson*

Marketing manager: *Richard Kolasa*

Senior project manager: *Susan Trentacosti*

Manager, new book production: *Melanie Salvati*

Director of design BR: *Keith J. McPherson*

Interior designer: *Maureen McCutcheon*

Cover design: *Kiera Cunningham*

Cover illustrator: *Hibler Nelson*

Photo research coordinator: *Sharon Miller*

Senior supplement coordinator: *Carol Loreth*

New media coordinator: *Chet Smith*

Compositor: *GAC Indianapolis*

Typeface: *10/12 Times Roman*

Printer: *Von Hoffmann Press, Inc.*

### Library of Congress Cataloging-in-Publication Data

Spiceland, J. David, 1949—

Intermediate accounting / J. David Spiceland, James F. Sepe.—2nd ed.  
p. cm.

Includes index.

ISBN 0-07-229842-1 (combined)—ISBN 0-07-240133-8 (v. 1)—ISBN 0-07-240134-6  
(v. 2)

I. Accounting. I. Sepe, James F. II. Title.

HF5635 .S7838 2000

657'.044—dc21

99-058464

<http://www.mhhe.com>

[illegible]

*Dedicated to:*

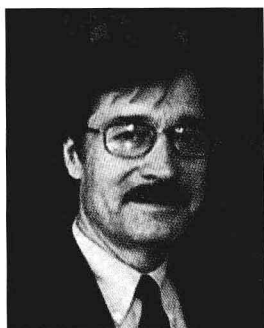
David's parents: Irene and Jesse W. Spiceland

Jim's wife Barbara, sons Matt and Dave, daughter Kristina, and son-in-law Bob

Larry's wife and children: Eve Tomassini, Nicholas, Anthony, and Katherine



# About the Authors



## ■ David Spiceland

David Spiceland is Professor of Accounting at the University of Memphis where he teaches intermediate accounting and other financial accounting courses at the undergraduate, masters, and doctoral levels. He received his B.S. degree in finance from the University of Tennessee, his M.B.A. from Southern Illinois University, and his Ph.D. in accounting from the University of Arkansas.

Professor Spiceland's primary research interests are in earnings management and educational research. He has published articles in a variety of journals including *The Accounting Review*, *Accounting and Business Research*, *Journal of Financial Research*, and *Journal of Accounting Education*. David has received university and college awards and recognition for his teaching, research, and technological innovations in the classroom.



## ■ Jim Sepe

Jim Sepe is an Associate Professor of Accounting at Santa Clara University where he teaches primarily intermediate accounting in both the undergraduate and graduate programs. He previously taught at California State Polytechnic University—San Luis Obispo and the University of Washington, and has visited at Stanford University and the Rome campus of Loyola University of Chicago.

Professor Sepe received his B.S. from Santa Clara University, M.B.A. from the University of California—Berkeley, and Ph.D. from the University of Washington. His research interests concern financial reporting issues and the use of financial information by capital markets. He has published in *The Accounting Review*, *Journal of Business Finance and Accounting*, *Financial Management*, and *Journal of Accounting Education*. He is a past recipient of the American Accounting Association's Competitive Manuscript Award, and has served as a member of the editorial board of *The Accounting Review*.

Jim has received numerous awards at Santa Clara for his teaching excellence and innovations in the classroom. Most recently he received Santa Clara University's Brutocao Award for Excellence in Curriculum Innovation.



## ■ Lawrence Tomassini

Professor Tomassini is the Ernst and Young Scholar and Department Chair of the accounting and MIS department at The Ohio State University. Prior to that, he was Department Head and the Ernst and Young Distinguished Professor at the University of Illinois (1987–93). From 1973–87, Professor Tomassini served on the University of Texas at Austin faculty, where he held the John Arch White and the Peat Marwick Mitchell Centennial Professorships in Accounting. His scholarly interests are in the application of judgment and decision making theories to understand and improve the practice of accounting and auditing. Professor Tomassini has published articles in many academic journals including *Accounting Horizons*, *Contemporary Accounting Research*, *Journal of Accounting Research*, and *The Accounting Review*.

# Preface

## THE LEARNING SYSTEM CONCEPT

An *Intermediate Accounting* textbook? Yes. But that's just the beginning. The textbook is but one element of a unique and complete Learning System whose components are designed to work together to provide the best possible learning experience for students of intermediate accounting. Today's students learn in more visual and interactive ways than ever before. These are students who have grown up in a multimedia and computer-enhanced environment, accustomed to being stimulated on a multidimensional level. This observation is reinforced by a study conducted by professors Navarro and Shoemaker at the University of California at Irvine. In this study, a group of students who had learned with a combination of lecture, the text, and multimedia outperformed by 15% a second group who were provided lecture and the text only. The Learning System is a timely response to the evolving demands of students today.

The Learning System includes five components:

- The Textbook—the cornerstone of the Learning System.
- The Coach CD—the multimedia element containing animated illustrations and exercises from the text, interviews with accounting experts, and interactive quizzes.
- The Website and Online Learning Center—extensive and evolving Web resources and distance learning capability.
- Essentials of Accounting CD—a quick review of the accounting cycle in a multimedia environment.
- Alternate Exercises and Problems Manual—additional exercises and problems for each chapter.

In keeping with our commitment to providing value to students, the entire Learning System, comprised of the five components listed above, is sold for the price of a new textbook.

## The Textbook

The newly designed and visually appealing textbook is the cornerstone of the Learning System. Its benefits include the following:

### ■ Decision Makers' Perspective

The role of financial accounting is to communicate information that supports business decision making. Without understanding how decision makers use accounting information, it is difficult for accounting students to fully understand financial accounting issues or, more important, to critically evaluate accounting method alternatives.

This text frames the financial accounting function in the context of the decision-support role it serves. What motivates managers' selection of financing alternatives? How do creditors use information about receivables and inventory to evaluate a company's effectiveness in managing its assets? Which information is most useful to investors when assessing a firm's profitability? Why do managers choose a particular accounting method over an allowable alternative? This perspective reflects the need for accounting curricula to emphasize professional judgment and critical thinking skills.

We provide the decision makers' perspective in a variety of ways:

- a. Topics are presented in the context of the economic and political environment in which firms and standard-setters operate.
- b. Most chapters include one or more sections entitled "Decision Makers' Perspective" that offer insights into how the information discussed in the chapters affects decisions made by investors, creditors, managers, and others.
- c. Chapters 4 and 5 provide overviews of how decision makers use financial information to assess profitability and risk.
- d. Each chapter includes multiple cases in the "Broaden Your Perspective" assignment material that require students to critically evaluate information from financial reports in order to make decisions.
- e. Each chapter opens with a brief Financial Reporting Case that poses interesting questions about topics in the upcoming chapter. The questions are answered at the end of the chapter and marginal notations throughout the chapter point out locations where each question is addressed.

## ■ Conceptual Emphasis

A stated objective of most intermediate accounting textbooks is to achieve an appropriate balance between procedures and theory. We share this objective, but do not feel that there necessarily is a trade-off between the "why" and the "how." Instead, we believe that a true understanding of **how** a particular procedure is applied demands a clear understanding of **why** it is applied. Without a thorough comprehension of the basis for its application, students merely memorize the mechanics of a procedure. Students have a learned tendency to memorize and a traditional presentation often does little to dissuade that tendency.

Not only does memorization fail to achieve the desired objective of an intermediate accounting course, but it also is an ineffective method of study. We stress continually the "why" as the basis for the "how," not solely to teach students the theoretical structure of accounting, but also to enhance their understanding of accounting procedures. We try to avoid "method" ology; that is, avoid showing how something is done without explaining why. We also try never to miss an opportunity to remind students how an issue is similar to related issues.

How often are we told by students that they knew the material covered on the test, but were unable to provide the correct answer to the specific questions? When probed, they usually will agree that what they knew were mechanical procedures as presented in the text, but did not understand **why** those procedures were applied. Accordingly, when the format of the questions was varied on an exam, they were unable to apply the appropriate procedures. Continually focusing on the **why**, in concert with the **how**, is our commitment.

## ■ Focus on the Real World

Students learn best when they see how concepts are applied in the real world. For that reason, we routinely and extensively employ real-world examples to enhance the presentation in three ways: (1) to add realism to a discussion, (2) to illustrate a concept, or (3) to serve as the foundation for a Concept Review Exercise, a problem, or a case. Also, references to popular press coverage and academic research are included to add realism and plausibility. These are not included merely for the sake of having done so—only when they clearly enhance the presentation. We use real-world examples much more extensively than ever before in any intermediate accounting text.

## ■ Conversational Writing Style

A key focus of our preparation of this text was to foster a friendly dialogue between the text and each individual student. Specifically, we wanted to actively avoid the encyclopedic presentation that seems to have evolved in some textbooks in response to the increasing volume of accounting material. The tone of our presentation is intentionally conversational—creating the



impression of *speaking with* the student, as opposed to *teaching to* the student. This approach creates a clear, readable text that is better able to involve, inform, and motivate the students.

## ■ Organization and Content

We have made significant improvements in our organization (a) by relying more heavily on appendixes and multipart chapters, (b) by reorganizing chapters into a more logical sequence, and (c) by more efficient intrachapter organization. These are not merely space-saving changes, but also enhance the text's ability to teach.

We combine related topics and sequence chapters with common characteristics in close proximity with one another (a) to achieve efficiency of presentation and, more important, (b) to enhance learning. Topics in some textbooks are made to seem more complex than they are by creating the illusion (or not dispelling it) that essentially similar topics are distinct issues (e.g., separate and sometimes dissimilar treatment of notes, bonds, and leases). Much less space is needed and learning is enhanced when "common threads" among topics are emphasized and the topics are presented in as similar a fashion as possible. These improvements are described below.

### Section One: The Role of Accounting as an Information System.

#### 1. Environment and Theoretical Structure of Financial Accounting

Traditionally, early chapters of an intermediate text are overly verbose, tending to lull students into a false sense of serenity. Most students enter intermediate accounting replete with anticipation and expecting to be challenged. A concise, well-written single chapter, combining the discussion of the accounting environment with the development of the conceptual basis of financial accounting, will immediately channel the students' excitement into the consideration of thought-provoking issues. By capturing the students' interest at the outset of the course, it can be better maintained during the course.

2. Review of the Accounting Process
3. The Income Statement and Statement of Cash Flows
4. Income Measurement and Profitability Analysis

Sequencing the discussion of income measurement following the overview of the income statement seems so natural, we wonder why more books have not done it. How can a student really understand the importance and limitations of the income statement without a thorough understanding of the revenue recognition principles upon which it is based? We also introduce profitability analysis in this chapter to support the Decision Makers' Perspective provided throughout the book.

A secondary benefit is that this placement beefs up the early part of the book. By the nature of their review role, the first five chapters of most intermediate books are less challenging than later chapters. This tends to cause students to lose their initial excitement and interest. By encountering more challenging topics earlier in the course, students become more involved and their enthusiasm can be maintained.

5. The Balance Sheet and Financial Disclosures
6. Time Value of Money Concepts

Section One has been improved for the second edition by (1) expanding the section on comprehensive income (*SFAS 130*) to include real-world examples of comprehensive income disclosures; (2) adding a section to Chapter 3 on earnings quality; (3) adding a section on software revenue recognition to Chapter 4; and (4) revising the coverage of reporting disaggregated information to include *SFAS No. 131*, "Disclosures about Segments of an Enterprise and Related Information."

### Section Two: Economic Resources.

7. Cash and Receivables
8. Inventories: Measurement

9. Inventories: Additional Issues
10. Operational Assets: Acquisition
11. Operational Assets: Utilization and Disposition

Combining the coverage of tangible and intangible operational assets into one chapter (Chapter 10) is a logical improvement. Property, plant, and equipment, natural resources, and intangible assets share so many common characteristics that separate chapters necessarily duplicate a great deal of discussion. The combination of these topics is consistent with our theme of avoiding redundancy. We also avoid the artificial significance often attributed to relatively unimportant aspects of intangible assets, seemingly for the sole purpose of justifying an entire chapter devoted to intangible assets. Because of similarities in the combined material, the single-chapter approach is considerably more concise than two chapters. Two short chapters being replaced by a single chapter of equal combined length would not be an improvement.

Second edition enhancements to Section Two include: (1) an explanation in Chapter 7 that highlights the relationship between receivables and payables and (2) a section in Chapter 10 that covers the treatment of in-process research and development costs that arise in business acquisitions.

**Section Three: Financial Instruments.** Chapters dealing with various financial instruments (12–19) are presented together in sequence.

12. Investments
13. Current Liabilities and Contingencies
14. Bonds and Long-Term Notes
15. Leases
16. Accounting for Income Taxes
17. Pensions

Some intermediate accounting textbooks discuss long-term liabilities, such as notes and bonds, in one chapter and discuss tax allocation, leases, and pensions considerably later. Each of these topics involves liabilities and any theoretical discussion should consider their shared characteristics. Thus, their coverage in sequence seems intuitive. Accounting for lease liabilities is most similar to that of bonds and long-term notes. Consequently, discussing leases immediately following long-term liabilities is pedagogically efficient.

The sequential placement of these chapters is consistent with our objective of presenting the material in a more efficient order. Students benefit from seeing that we account for debt essentially the same way, regardless of whether it's packaged as notes, bonds, capital leases, or another form of liability. In fact, to emphasize the point, we use the same numerical situation from chapter to chapter to illustrate bonds, notes, and leases. Scattering such similar topics among several chapters as many texts do encourages students to view these as disconnected accounting issues when, actually, accounting for debt is but a single issue with several related variations.

#### 18. Employee Benefit Plans

The benefits of this organization are similar to those of grouping liabilities together; students readily see that accounting objectives for similar items are the same. In this case, students see that the accounting objective of every employee benefit (from salary to postretirement benefits to stock-based compensation plans) is the same: to report compensation expense in the period(s) the compensation is earned.

Other texts scatter these closely related topics among several chapters; for instance, stock compensation benefits in one chapter, health care benefits in another chapter, postretirement benefits in still another chapter, and vacation benefits and postemployment benefits in yet another chapter. Students understandably interpret these scattered topics as being several unrelated topics, in fact, unrelated to the other topics in the chapters in which they appear. No

wonder students come away interpreting a handful of basic accounting issues as being dozens of separate accounting issues. This chapter is one more example of how students benefit from our consistent presentation of related topics in cohesive groups, highlighting their similarities, avoiding redundancy, and making learning and teaching easier.

As we move from pensions in the previous chapter to other postretirement benefits in the first part of this chapter, we consistently continue the same example situation but shift the focus from the pension benefits to the postretirement health care benefits. Students benefit from unavoidably seeing the similarities and inherent differences between the two types of benefits and how accountants deal with them.

Postretirement benefit plans other than pensions and stock-based benefit plans are two important issues that share similarities in that they each deal with accounting for employee benefits. They are dissimilar in that one (other postretirement benefits) represents a liability and the other (stock-based compensation) primarily creates shareholders' equity, but a liability in some instances. These simultaneous similarities and dissimilarities offer an attractive opportunity for a transition chapter, an interface between the several liability chapters (13–17) and shareholders' equity (19). Combined, the sequence of Chapters 13–19 represents the right-hand side of the balance sheet—equities. The transition chapter emphasizes the shared characteristics of these topics in addition to their differences.

### 19. Shareholders' Equity

Incorporating the coverage of the accounting for paid-in capital and retained earnings links related topics in a single chapter. This is made possible without an unduly long chapter by de-emphasizing some traditional, but relatively less important, shareholders' equity topics. For example, we omit coverage of appropriated retained earnings in favor of a brief description of the much more common restriction of retained earnings. We also present stock options, covered in some texts in the retained earnings chapter, in our Employee Benefit Plans chapter.

Improvements to Section Three for the Second Edition include: (1) modifying the section on the equity method in Chapter 12 to include the proposed change in the definition of a controlling interest in a subsidiary and proposed changes in the period over which goodwill can be amortized, (2) adding an introduction to financial instruments and investments in derivatives to Chapter 12 and eliminating the appendix on derivatives, (3) adding a new section to Chapter 14 providing comprehensive coverage of derivatives and *SFAS 133*, (4) adding a discussion of comprehensive income (*SFAS 130*) to Chapter 14 as it relates to reporting derivatives, (5) adding a new appendix to Chapter 14 describing a short-cut method for accounting for interest rate swaps, (6) modifying the discussion, illustrations, and assignment materials in Chapter 16 relating to operating losses to reflect recent changes in carryback and carryforward periods, and (7) revising the discussion to incorporate the new reporting and other postretirement benefits in Chapters 17 and 18 to reflect the new reporting requirements of *Statement No. 132*, "Employers' Disclosures about Pensions and Other Postretirement Benefits."

## Section Four: Additional Topics

- 20. Earnings Per Share
- 21. Accounting Changes and Error Corrections
- 22. The Statement of Cash Flows Revisited

Section Four also is updated for the second edition: (1) the chapter-opening Financial Reporting Case in Chapter 20 is revised to focus on EPS disclosures from Microsoft; (2) the real-world example of EPS disclosures in Chapter 20 is changed to reflect disclosure requirements of *SFAS 128*; and (3) the introductory discussion of the preparation of a statement of cash flows in Chapter 22 is simplified.

## ■ Features

**New Design.** The new design augments the rich pedagogy found in the text.

### Icons.



SPATS: This icon indicates end-of-chapter exercises and problems that can be solved using the Microsoft Excel Spreadsheet templates provided on the SPATS disk.



The Coach icon guides students to a Graphic, Illustration, or a Concept Review Exercise that can be found in an animated form or otherwise enhanced on the Coach CD.

**Financial Reporting Cases.** A brief Financial Reporting Case opens each chapter. The intent is to immediately involve the student in an interesting situation related to the accounting issues to come. Then, the cases pose questions of the student in the role of decision maker. Marginal notations throughout the chapter point out locations where each question is addressed. Finally, the case questions are answered at the end of the chapter.

FINANCIAL REPORTING CASE

## Cracker Barrel Old Country Store

By the time you finish this chapter, you should be able to respond appropriately to the questions

You are the lone accounting major in your five-member group in your Business Policy class. A part of the case your group is working on is the analysis of the financial statements of Cracker Barrel Old Country Store. The company operates stores that provide a combination of restaurant and gift shop services to the motoring public.

The marketing major in the group is confused by the following disclosure note from Cracker Barrel's annual report:

*3: Short-Term and Long-Term Investments (in part)*  
The Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's investment securities are classified as held-to-maturity under SFAS No. 115 and, as a result, are carried at amortized cost. Unrealized holding gains and losses are not reported in the Company's financial

**Concept Review Exercises.** Included *within* each chapter are Concept Review Exercises with solutions. The intent is to allow students to reinforce their understanding of the chapter material and practice applying the concepts and procedures learned in the chapter prior to attempting their homework assignment. When chapters explain more than one distinct major topic, a concept review exercise immediately follows the discussion of each topic.

**CONCEPT REVIEW EXERCISE**

**Income Statement Presentation**

The Samuelson Construction Company builds office buildings. It also owns and operates a chain of motels throughout the Southwest. On September 30, 2000, the company decided to sell the entire motel business for \$40 million. The sale was completed on December 15, 2000. Income statement information for 2000 is provided below for the two segments of the

**Additional Considerations.** To maintain an appropriate level of rigor and comprehensiveness of topic coverage without sacrificing clarity of explanation or adding unnecessary verbiage, the text incorporates passages within the text entitled Additional Considerations.

These are “on the spot” considerations of important, but incidental or infrequent aspects of the primary topics to which they relate. Their parenthetical nature is highlighted visually by distinctive enclosures in lightly shaded boxes of consistent and distinctive appearance.

#### ADDITIONAL CONSIDERATION

##### Periodic Inventory System

The principal alternative to the perpetual inventory system is the periodic system. This system requires that the cost of merchandise purchased be recorded in a temporary account called *purchases*. When inventory is sold, the inventory account is not decreased and cost of goods sold is not recorded. Cost of goods sold for a period is determined and the inventory account is adjusted only at the end of a reporting period.

**Ethical Dilemmas.** Ethical Dilemmas are incorporated within the narrative. The intent is to raise the students’ consciousness to the ethical ramifications and provide a source for classroom discussion.

#### ETHICAL DILEMMA



You have recently been employed by a large retail chain that sells sporting goods. One of your tasks is to help prepare periodic financial statements for external distribution. The chain’s largest creditor, National Savings & Loan, requires quarterly financial statements, and you are currently working on the statements for the three-month period ending June 30, 2000.

During the months of May and June, the company spent \$1,200,000 on a large radio and TV adver-

**Global Perspectives.** Global Perspectives are integrated within the discussion to emphasize that our economy does not operate in isolation and that financial reporting differs from country to country.

#### GLOBAL PERSPECTIVE



##### The Income Statement

There are significant differences from country to country in the presentation and content of the income statement as well as in the accounting methods used to measure income statement amounts. Many of the measurement differences are highlighted in the specific chapters that deal with the specific issues. For example, differences in inventory measurement methods, differences in the treatment of goodwill, and the method used to value and depreciate property and equipment are but three of several areas where global practices differ widely.

**Assignment Materials.** A major feature of this text is its unique array of assignment materials, including the traditional options of discussion questions, exercises, problems, and cases. However, tradition stops there. To develop students’ critical thinking skills, case materials in the Broaden Your Perspective sections include 12 different types of cases.

## BROADEN YOUR PERSPECTIVE

### Critical Thought Case 1-1 The development of accounting standards

Expand your critical-thinking skills through practice. These cases will give you an opportunity to work with other students, hone your writing skills, use the Internet, and explore other resources that will broaden your knowledge and develop your decision-making skills.

In 1934, Congress created the Securities and Exchange Commission (SEC) and gave the commission both the power and responsibility for setting accounting and reporting standards in the United States.

#### Required:

1. Explain the relationship between the SEC and the various private sector standard-setting bodies that have, over time, been delegated the responsibility to set accounting standards.

To assure consistent quality of assignment materials, every question, exercise, problem, and case is personally developed, solved, and tested by the principal authors (with the exception of selected CPA exam problems included to provide an entrance exam perspective). None has been developed by graduate students or research assistants. The intent is to maintain quality, uniformity, and consistency with chapter coverage. Significantly, too, solutions



go beyond merely providing answers, but also provide detailed supporting calculations, annotations, and concept descriptions where appropriate.

**Marginal Comments.** These notes found in the margins of the text highlight key points or provide additional insight.

#### ■ Prepayments

*Prepayments are transactions in which the cash flow precedes expense or revenue recognition.*

**Prepayments** occur when the cash flow *precedes* either expense or revenue recognition. For example, a company may buy supplies in one period but use them in a later period. The cash outflow creates an asset (supplies) which then must be expensed in a future period as the asset is used up. Similarly, a company may receive cash from a customer in one period but provide the customer with a good or service in a future period. For instance, magazine pub-

### ■ Instructor Supplements

Few texts offer an ancillary package in which all key supplements are written or co-authored by the text's author team.

**Instructor's Resource Manual.** This manual is written by the authors and provides for each chapter (a) a chapter overview, (b) comprehensive lecture outline, (c) extensive teaching transparency masters that can be used as they are or modified to suit an instructor's particular needs or preferences, (d) a variety of suggested class activities (research, Internet, group, communication, ethics, FedEx, real world, and others), and (e) an assignment chart indicating topic, learning objective, and estimated completion time for every question, exercise, problem, and case.

**Case Implementation Manual.** Most accounting instructors are not trained specifically to teach ethics, international accounting, group interaction techniques, Internet techniques, and writing. To assist instructors desiring to add one or more of these dimensions to their courses, our Case Implementation Manual is designed to provide instructional support in teaching cases in these areas. The manual is prepared in concert with our Board of Advisors that includes recognized experts in each of these fields. They offer their expertise in providing background material necessary to give students the perspective they need to derive maximum benefit from these cases and suggest how instructors can incorporate these cases to their best advantage. The Solutions Manual, also, includes detailed solutions to every case.

**Solutions Manual and Disk.** Written by the text authors, the Solutions Manual includes detailed solutions for every question, exercise, problem, and case.

**Solution Transparencies.** Acetate overhead transparencies for every question, exercise, problem, and case are provided in a large, readable typeface.

**Presentation Manager CD.** This all-in-one resource contains the Instructor's Resource Manual, Solution Transparencies, PowerPoint slides, and Video Clips—organized by concept and by chapter. Using Presentation Manager, an instructor can easily create a multimedia presentation that incorporates video, transparencies, and PowerPoint slides.

**Test Bank.** James Patton, California State University at Bakersfield, and the authors teamed up to create a comprehensive text bank containing over 1,500 problems and true/false, multiple-choice, and essay questions.

**Diploma.** This computerized test bank by Brownstone is a user-friendly testing system that allows faculty to easily generate exams. It will create different versions of the same test, change the answer order, edit or add questions, and even conduct online testing.

**Ready Shows.** These PowerPoint slides created by Jon Booker, Charles Caldwell, and Susan Galbreath, all of Tennessee Technological University, provide an easy way of including multimedia in the intermediate accounting course.

## ■ Student Supplements

A unique array of student supplements helps students reinforce important concepts, simplifies the learning process, and provides assistance on topics requiring additional study.

**Study Guide.** The Study Guide, written by the text authors, provides chapter summaries, detailed illustrations, and a wide variety of self-study questions, exercises, and multiple-choice problems (with solutions).

**Working Papers.** Students use formatted solution templates to aid them in doing homework assignments.

**Spreadsheet Application Templates (SPATS).** Selected end-of-chapter exercises and problems, marked in the text with a SPATS icon, can be solved using these Microsoft Excel templates.

**Ready Notes.** Essentially a smart notepad for the student, Ready Notes includes replicas of all the PowerPoint tutorial slides with space to take notes.

**Interactive Financial Accounting Lab, version 2.5, by Ralph Smith and Rick Birney.** This interactive, multimedia product allows students to review the accounting cycle on their own. The software includes an automatic grade book feature and provides students with feedback when they answer incorrectly.

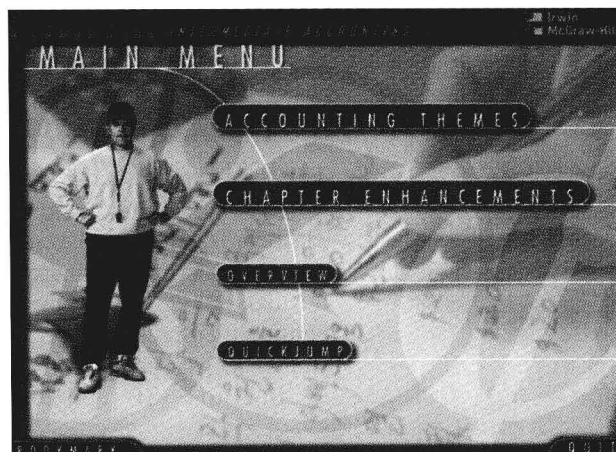
**Understanding Corporate Annual Reports: A Financial Analysis Project, Fourth Edition, by William R. Pasewark.** This project provides students with instructions for obtaining an annual report from a publicly traded corporation and for making an industry or competitor comparison.

**Essentials of Accounting CD.** Free with the second edition Learning System, this interactive, multimedia CD walks the students through a review of the accounting cycle at their own speed. This review takes less time to complete than the Interactive Financial Accounting Lab, but does not have grade book features.

**Alternate Exercise and Problem Manual.** Also part of the Learning System, this manual includes additional exercises and problems for each chapter in the text.

## Coach

Coach is an exciting, multimedia vehicle designed to be used in concert with the textbook to enhance the intermediate accounting learning experience. Students access the multimedia content from either of two perspectives. A Chapter Enhancement perspective provides access chapter by chapter. Alternatively, the Accounting Theme perspective brings together topics from diverse chapters that share relationships within four themes: (1) Standard Setting and the Politics of Accounting, (2) Earnings Management and Accounting Choices, (3) Financial Statement Relationships, and (4) Accounting Disclosures and Decision Making. Either way—chapter-by-chapter or by theme—multimedia content is available



through four menus: The Big Picture, Ask The Expert, Coaching Illustrations, and Show The Coach What You Know.

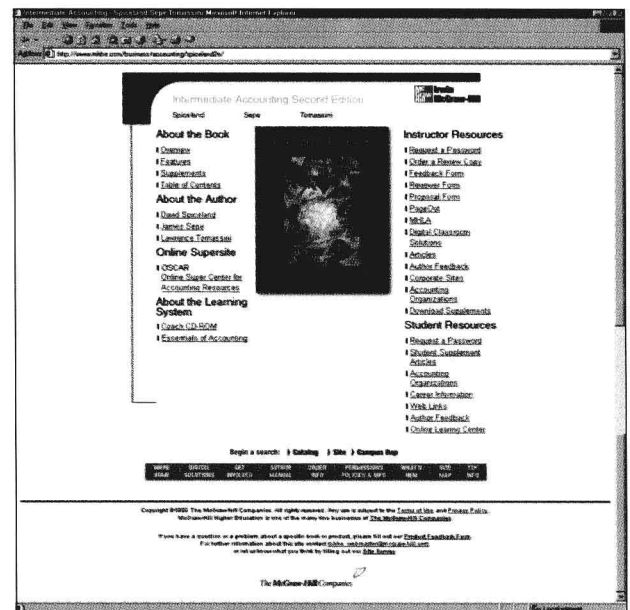
- The Big Picture provides a summary of each accounting theme or chapter enhancement.
- Ask The Expert presents accounting questions that are answered by leading experts in industry and academia via video clips or articles on the Internet.
- Coaching Illustrations are illustrations and examples from the text brought to life with multimedia animation to walk students through important concepts.
- Show The Coach What You Know allows students to test themselves with (a) interactive questions in the Coach's Challenge component and (b) with real-world, real time electronic cases in the Web Cases component.
- Other Features: The Coach CD also has a Quick Jump feature that allows students to access a coaching illustration by simply typing in the page number from the text. An Overview feature orients the student to the navigation and content found on the CD. Also, the CD has a Bookmark feature so that when students exit the program, the next time they use the CD they will be brought back to that place on the CD.

## Website and Online Learning Center

The second edition continues to offer the premiere website for *Intermediate Accounting*. Simply put, it's the most comprehensive and useful accounting textbook website.

### ■ Instructor's Resources

This is where instructors find additional assignment materials, an Instructors' Resource Manual, modifiable teaching transparency masters, PowerPoint Presentations, the Solutions Manual, a Case Implementation Manual, and FASB updates, including complete, revised chapters if new FASB pronouncements are issued.



### ■ Student Resources

This is where students find a wide variety of helpful resources, including all the content found in the Online Learning Center such as practice exams, self-grading quizzes, Electronic Flashcards, Alternate Exercises and Problems, Real-World, Real-Time Electronic Cases, and an Internet Primer—all created by the text authors. Also here are pedagogical elements from the text including learning objectives, chapter summaries, and supplements from the text including the Spreadsheet Application Templates (SPATS), and the Ready Shows (PowerPoint slides), as well as present value tables, amortization schedules, articles related to chapter topics, links to FASB pronouncement summaries, and many other useful references.

### ■ Online Learning Center

The Online Learning Center is a password-protected “digital cartridge” housed on the website. This digital cartridge can be “plugged in” to the Instructor’s course website created in

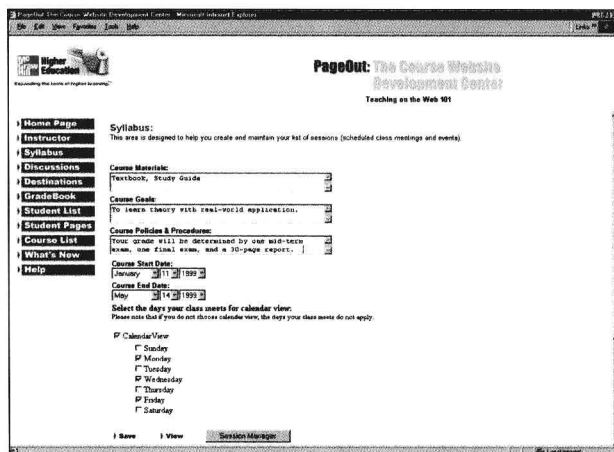
PageOut or their distance learning course. Most of the resources found in the Student Resources section of the website are also housed in the Online Learning Center.

## ■ PageOut

PageOut is an exclusive McGraw-Hill product that allows an instructor to quickly create a professional course website in less than an hour. An instructor simply fills in provided templates with specific course information and clicks on one of 16 designs and the website is complete.

The instructor may then supplement the website by using the interactive course syllabus function. The interactive course syllabus allows an instructor to post content to coincide with lectures. When students visit the website, a syllabus will direct them to components of the textbook's website or material specific to the individual course.

PageOut's online grade book automatically stores quiz and test grades and allows scores to be posted to the whole class or individually. The discussion board offers the instructor and students a forum to pose questions, exchange ideas, and talk about topics relating to the course.



## ■ Course Content Delivery Solutions

To offer a distance learning intermediate accounting course, the Online Learning Center offers three delivery platforms.

- Blackboard.com—courses are hosted on Blackboard's servers and can be accessed by faculty and students anytime, anywhere through a Web browser. Blackboard.com is one of the fastest and easiest ways to experience online course management.
- eColleges.com—provides course hosting and development services for faculty, around-the-clock help service for faculty and students, and one of the most robust and stable online course authoring and management platforms in online education. Users of eColleges.com work hand in hand with eCollege.com's Course Development team to customize McGraw-Hill content to the specifications set forth by the individual instructor.
- WebCT—is one of the most popular and easy-to-use platforms available. McGraw-Hill will prepay the WebCT site license for students. There are also two service agreements available with WebCT. Instructor Advantage is a special level of service

