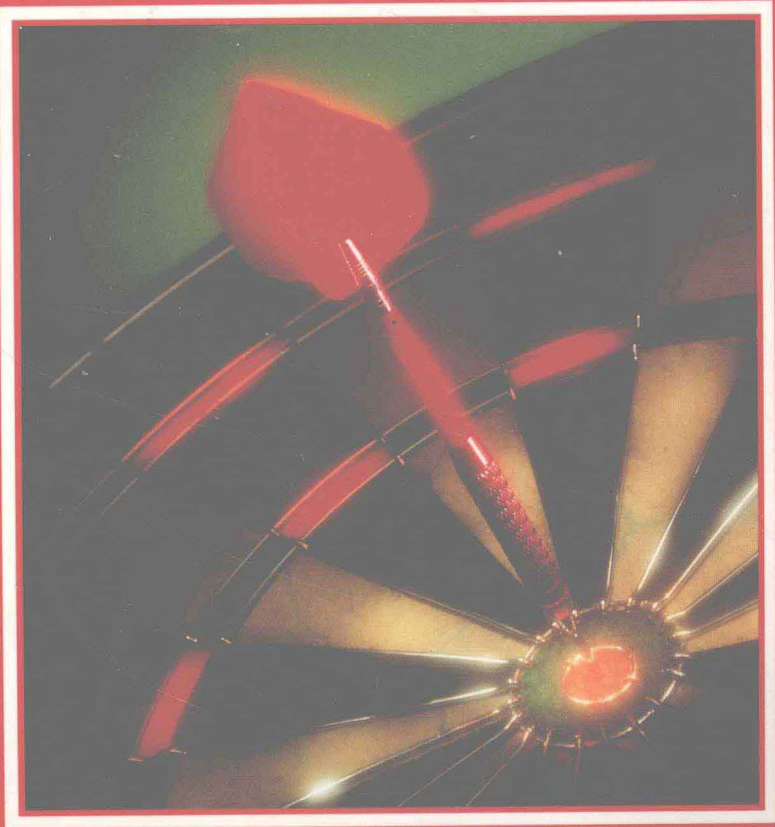


Seventh Canadian Edition

ACCOUNTING:

The Basis for Business Decisions



Volume 1

Financial Accounting

R.F. MEIGS ■ W.B. MEIGS ■ W.P. LAM

S e v e n t h C a n a d i a n E d i t i o n

ACCOUNTING:

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Volume 1

Financial Accounting

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McGraw-Hill Ryerson Limited

Toronto Montreal New York Auckland Bogotá
Caracas Lisbon London Madrid Mexico Milan
New Delhi Paris San Juan Singapore Sydney Tokyo

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ISBN: 0-07-551660-8

1 2 3 4 5 6 7 8 9 0 RRD 4 3 2 1 0 9 8 7 6 5

Printed and bound in the United States of America by R. R. Donnelley (Canada) Limited

Care has been taken to trace ownership of copyright material contained in this text. The publishers will gladly take any information that will enable them to rectify any reference or credit in subsequent editions.

Sponsoring Editor: Kelly Smyth

Production Editor: Gail Marsden

Cover Design: Dianna Little

Cover Photograph: © G. K. and Vikki Hart/The Image Bank

Printing & Binding: R. R. Donnelley (Canada) Limited

Canadian Cataloguing in Publication Data

Meigs, Robert F.

Accounting: the basis for business decisions

7th Canadian ed.

Includes index.

Contents: v. 1-2. Financial accounting—v. 3.

Managerial accounting.

ISBN 0-07-551660-8 (v. 1) ISBN 0-07-551795-7 (v. 2)

ISBN 0-07-551659-4 (v. 3)

1. Accounting. I. Meigs, Walter B., date—

II. Lam, Wai P., date—

III. Title.

HF5635.M45 1994 657'.044 C94-932029-3

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S e v e n t h C a n a d i a n E d i t i o n

ACCOUNTING:

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Volume 1

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Preface

These texts, Volumes 1, 2, and 3, are an introduction to the field of accounting and to the use of accounting information as a basis for business decisions. They are intended for use in the first university-level accounting course, which usually spans two semesters.

OUR GOALS IN THIS SEVENTH CANADIAN EDITION

We have tried to accomplish many things in this edition. Among our most important goals have been to:

1. Provide students with a better understanding of the environment in which accounting information is developed and used.
2. Shift emphasis from the preparation of accounting information to its interpretation and use.
3. Retain a course structure that meets the specific content requirements of most universities and colleges.

Providing Students with a Better Background

If students are to appreciate the nature of accounting, they first should have a basic understanding of the business environment. We find, however, that many introductory students lack this background. Often the introductory accounting course is also the students' first course in the business curriculum.

We give increased attention to explaining business practices before discussing accounting issues. Our focus is upon ***current*** business and accounting practices, not those of the past. For example, virtually every business with external reporting obligations now uses a perpetual inventory system. Yet many accounting textbooks continue to emphasize periodic systems. We emphasize ***perpetual*** inventory systems.

For purposes of illustration, textbooks traditionally assume the use of simple, manually maintained accounting records. Such records do not meet the needs of most modern businesses. We, too, find it convenient to use simple accounting records as the basis for many illustrations. However, we also explain how the information is processed in a computer-based environment.

Attention is given throughout the text to the role of ***professional judgment*** in both the development and interpretation of accounting information. We explain in some depth professional ethics for accountants in the field of public and private accounting. We also discuss audits, reviews, and

the independent auditors' potential liability to the users of financial statements. Furthermore, we delineate the development and importance of international accounting standards in today's global business environment.

Shifting to a "User Orientation"

Today, relatively few introductory students will become professional preparers of accounting information. All, however, will become life-long information **users**. For this reason, we have shifted our emphasis significantly from the preparation of accounting information to its interpretation and use.

This shift in emphasis affects the text in several ways. For example, we have added new assignment material designed specifically to develop students' analytical, decision-making, and communication skills. Accordingly, a substantial number of stimulating and challenging problems/cases requiring the application of these critical skills have been incorporated in the final section of the assignment material entitled "Analytical and Decision Problems and Cases."

A user-oriented approach also affects topical content and emphasis. Topics relevant to basic business decisions now are addressed, even if these topics traditionally have been deferred to later accounting courses. Examples of such topics include accounting for postretirement costs, audits and reviews, "window dressing," and many of the disclosures that accompany financial statements.

Throughout the text, attention is given to analytical ratios and financial relationships. The chapter on analysis of financial statements now serves primarily as a review.

Increased attention also is given to the use of accounting information **by management**. No longer is this topic addressed only in a group of "managerial" chapters; it now is integrated throughout the text.

Some "traditional" accounting topics relate primarily to the preparation of accounting information and are of little significance to the information user. Examples include reversing entries, manual special journals, and alternative methods of recording accruals and deferrals. In our user-oriented approach, such topics are given less emphasis. Often they are presented in Supplemental Topic sections.

Preserving a Proven Course Structure

Some universities are experimenting with radically different approaches to the introductory accounting course. We have **not** embarked upon such a path. We have great respect for the existing structure of the introductory course, which has evolved from decades of experience and research. We recognize that many students transfer credit for this course from one institution to another. Some standardization of the curriculum is therefore essential.

We regard our changes in this seventh Canadian edition as **evolutionary**, not **revolutionary**. Faculty acquainted with our past editions will find much that is familiar.



ELEMENTS OF THE TEXTBOOK

This seventh Canadian edition introduces many new features and retains all of the time-honoured materials. Such a well-balanced blending makes this text uniquely suitable for today's business environment.

Chapter Introductions and Learning Objectives

Each chapter begins with a brief overview and a set of basic learning objectives. These learning objectives then are integrated with the text discussions.

Cases in Point

A distinctive feature of past editions has been the use of short **Cases in Point**, which are based upon actual events. Many new Cases in Point have been created for this edition as part of our increased focus on the contemporary business environment.

Supplemental Topics and Appendixes

A new feature in the structure of this edition is the inclusion of short **Supplemental Topic** sections at the end of several chapters. These Supplemental Topics are closely related to the content of the chapters in which they appear.

Students always should read the Supplemental Topic sections, as these discussions will enhance their overall understanding of the chapter. Instructors, however, may decide whether these topics are of sufficient general interest for inclusion in class discussions, homework assignments, and examinations. [Assignment material relating to Supplemental Topics are preceded by an asterisk (*).]

Chapter Reviews

Each chapter is followed by such learning aids as a **Glossary of Key Terms** and, in most chapters, a **Demonstration Problem** with a complete solution.

Assignment Material

One of the distinctive features of this seventh Canadian edition is the increase in the quantity and variety of the assignment material. Increased emphasis is placed upon the development of students' analytical abilities, decision-making skills, and communication skills. Much of the new assignment material is based upon the operations of well-known companies.

Six categories of assignments accompany the text. These are (1) Discussion Questions, (2) Multiple Choice Questions, (3) Exercises, (4) Problems, (5) Analytical and Decision Problems and Cases, and (6) Comprehensive Problems.

Discussion Questions are short and usually call for expository answers. In addition to developing writing and communication skills, these questions explore students' conceptual understanding of accounting.

Multiple Choice Questions focus on many of the most important concepts in the chapter. These questions are very useful in testing students' understanding of key aspects of the chapter material. They are both stimulating and challenging.

Exercises are short assignments, usually focusing upon a single concept. We have greatly increased the number and the variety of Exercises. By enabling instructors to cover basic concepts quickly, we hope to allow more time for discussing in class such assignments as our Analytical and Decision Problems and Cases.

Problems are longer than the Exercises and address several concepts at one time. Most chapters contain both an *A* and *B* problem series, each providing thorough coverage of the chapter. A few chapters contain a single—but longer—series of problems. The single series accommodates a greater variety of assignments.

Analytical and Decision Problems and Cases emphasize the development of analytical, decision-making, and communication skills. They also provide a wealth of assignment material well suited to in-class discussions.

To encourage the use of these assignments, we have developed a large number of Analytical and Decision Problems and Cases that cover a wide range of time requirements and difficulty levels. Many of our Exercises and Problems also call for analysis and the use of judgment.

We consider our six **Comprehensive Problems** to be among the most useful assignments in the text. Each of these problems ties together concepts presented over a span of chapters. Two of the Comprehensive Problems are similar in scope to a “practice set,” and another involves the analysis of an actual annual report.

A **Checklist of Key Figures** for Problems and Comprehensive Problems appears on the front and back inside covers of the text. The purpose of these check figures is to aid students in verifying their problem solutions and in discovering their own errors.

The Flexibility of PRIMIS

The U.S. text, *Accounting: The Basis for Business Decisions*, Ninth Edition, by Meigs and Meigs, and selected supplementary materials are available on the McGraw-Hill/Primis custom publishing database. Any materials on the database can be configured and created to your specifications. The Primis database includes several McGraw-Hill accounting texts, selected Harvard business cases, and articles from various journals.

NEW AND EXTENSIVELY REVISED CHAPTERS

Many chapters in this seventh Canadian edition have been revised significantly. Almost every chapter contains greater emphasis upon the use of accounting information and more assignment material than ever before. Among the changes in topical content that will be noticed most readily are:

Chapter 1, “Accounting: The Language of Business,” has been rewritten to provide a more comprehensive introduction to the process of financial reporting. We have added discussions of such topics as reporting requirements of publicly owned companies, auditing, and professional ethics. Also included is a new discussion of the nature and sources of generally accepted accounting principles. Moreover, the importance of a background in accounting as a “stepping stone” to positions in top management is illustrated. Career opportunities in accounting are discussed in a Supplemental Topic section at the end of the chapter.

In **Chapter 4**, we have revised the format of the work sheet. Our goal is to focus upon the **accounting processes** illustrated within the work sheet, not to present the document itself as a component of the accounting cycle.

Chapter 5, now entitled “Accounting for Merchandising Activities; Classified Financial Statements,” exemplifies many of the changes in this edition. The opening pages of this chapter illustrate our concerted effort to explain business practices before discussing the accounting treatments accorded those practices.

In keeping with contemporary business practices, this chapter now emphasizes **perpetual inventory systems**—the type of system used in every large business organization. Periodic systems still receive thorough coverage; in fact, we have added an explanation of a “shortcut” periodic system that is used by many small businesses. Also, additional coverage on periodic inventory system is presented in a Supplemental Topic section at the end of the chapter.

The final portion of Chapter 5, “Introduction to Classified Financial Statements,” typifies our increased emphasis upon the **use** of accounting information.

Chapter 6, “Accounting Systems, Internal Control, and Audits,” emphasizes the capabilities of computer-based accounting systems, rather than the use of manual special journals. Among the new features of this chapter are examples of how data bases tailor information to meet the needs of different decision makers. New elements of this chapter also include discussions of financial and operational audits, and the related topics of employee fraud and management fraud. However, the coverage of manual special journals is not neglected; it is presented in a Supplemental Topic section at the end of the chapter.

Chapter 8, “Accounts Receivable and Notes Receivable,” now includes discussions of the goals of credit management, accounts receivable turn-over rates, strategies for quickly converting receivables into cash, and disclosure of concentrations of credit risk. These additions illustrate our increased emphasis on the use of accounting information by management, as well as by persons outside of the business organization.

Our coverage of notes receivable with interest included in the face amount has been moved to a Supplemental Topic section, as such notes are held primarily by financial institutions.

Chapter 9, “Inventories and the Cost of Goods Sold,” has been revised extensively in light of our emphasis upon perpetual inventory systems. Also included are discussions of the just-in-time concept, inventory turn-over rates, and the objectives of efficient inventory management.

Chapter 10, dealing with capital assets such as plant and equipment, includes extensively revised coverage of trade-ins.

Our coverage of liabilities, contained in **Chapters 11** and **16**, has been revised extensively. **Chapter 11** now focuses upon the types of liabilities **common to most business entities**, including long-term instalment debt. **Chapter 16**, in contrast, addresses those types of liabilities found primarily in the financial statements of large, publicly owned corporations. This format completes our coverage of accounting for the sole proprietorship type of unincorporated businesses in the first semester. It also heightens students' awareness of the differences in the business environments of small businesses and of large corporations.

Our coverage of liabilities also has been expanded in terms of topical content. Chapter 11 now includes long-term instalment debt, disclosure requirements relating to long-term debts, and increased emphasis on contingent losses and commitments. Extensively revised coverage of payroll liabilities now appears as a Supplemental Topic.

In Chapter 16, new or expanded coverage is given to topics that, because of their materiality, are relevant to the users of corporate financial statements. Examples include deferred income taxes and an employer's obligation for postretirement benefits.

Chapter 12, "Accounting Concepts, Professional Judgment, and Ethical Conduct," is new to this edition. One objective of this chapter is to review at one time many of the generally accepted accounting principles discussed throughout the text. Another objective is to look in some depth at key elements of a code of professional ethics.

Chapter 18, "Income Taxes and Business Decisions," has been substantially updated to include the most recent changes in tax legislation.

Chapter 20, "Analysis and Interpretation of Financial Statements," has been revised to reflect our emphasis of this topic throughout the textbook.

Chapter 22, "Cost Accounting Systems," contains new coverage of activity-based costing, just-in-time inventory systems, and total quality management.

SUPPLEMENTARY MATERIALS

This text is accompanied by a large number of supplementary learning and teaching aids. These supplements are listed below. A complete description of these materials is contained in the **Instructor's Guide**. If you would like information and costs on the supplemental materials, please contact your local McGraw-Hill Ryerson representative. We value both your interest and our supplements.

For the Student:

Study Guide to accompany Volume 1 by Meigs, Meigs, Meigs, and Lam
Study Guide to accompany Volume 2 and Volume 3 by Meigs, Meigs, Meigs, and Lam

Accounting Work Sheets, Chapters 1–12 by Meigs, Meigs, and Lam
Accounting Work Sheets, Chapters 13–26 by Meigs, Meigs, and Lam
Blank Forms for Problems and Cases

Accounting Information Manager: A General Ledger Program by John W. Wanlass

Accounting Information Manager: A Spreadsheet Program by John W. Wanlass

MicroGuide Computerized Accounting Tutorial by Jean Gutmann

Manual Simulations and Applications:

The Next Dimension: An Accounting Cycle Application by Mary A. Meigs and Wai P. Lam

Remington Restaurant Supply: An Accounting Cycle Application

Valley Building Materials Inc.; A Corporate Accounting Cycle Application

Adders 'n' Keys, 2/e by Brenda Mallouk

Deluxe Spa Products Incorporated: Using Management Accounting for Costing and Decision Making by Brenda Mallouk and Catherine Seguin

Premium Foods Corporation: A Financial Statement Analysis Case by Christie W. Johnson

Facts-by-FAX: An Accounting Cycle Application

Color Copy Co.: An Accounting Cycle Application

Echo Paint Co.: A Small Business Application with Forms by Richard A. Wright

Executive Woodcraft: A Managerial Accounting Application by Ronald W. Hilton

Printer Recharge, Inc.: A Corporate Practice Set by Phillip Ricci and Wanda G. Spruill

Computer-Based Simulations and Applications:

CYMA General Ledger Package: Shadow Mountain Hotel

CYMA General Ledger Package: Authenticity and Facts-by-FAX

Echo Paint Co.: A Small Business Application with Forms, by Richard A. Wright

Remington Restaurant Supply: A Computerized Accounting Cycle Application

Electronic Spreadsheet Application to Accompany the Premium Foods Corporation Financial Statement Analysis Case by Christie W. Johnson

For the Instructor:

Canadian:

Instructor's Manual

Solutions Manual

Overhead Transparencies

Test Bank (Manual and Computerized Versions)

Solutions to accompany The Next Dimension

Solutions to accompany Deluxe Spa Products Incorporated

American:

Lecture Video Series

Case Study Videos for Analysis and Critical Thinking

Instructor's Manual/Critical Thinking Guide to Accompany Case Study

Videotapes by Mark S. Bettner

Electronic Classroom Presentations by Glenn Owen



Interactive Solutions Software
Teaching Transparencies
Report Card: Electronic Grading Software
Financial Statement Analysis Problem Set and Software
Solutions to Applications



Acknowledgements

This seventh Canadian edition has benefited from the perceptive inputs of the instructors and students who used the preceding edition. To those instructors and students, I express my sincere appreciation.

I am especially indebted to those reviewers who provided critical and constructive suggestions and to those who bestowed me with valuable advice. The suggestions and advice contributed greatly to the improvement in the text, supplementary, and assignment materials. Accordingly, I wish to thank all of the following individuals:

Mortimer Davis, Vanier College
Bruce W. Densmore, Mount Saint Vincent University
Randy Dickson, Red Deer College
Wendy Doyle, Mount Saint Vincent University
Gary Earle, Loyalist College
Adrian Feigelson, Royal Trust
Leo Gallant, St. Francis Xavier University
Peter Henderson, Douglas College
Tilly Jensen, Northern Alberta Institute of Technology
Ross Johnston, University of Windsor
Chris Kellman, Northwest College
Loris Macor, Coopers & Lybrand
Jim Macri, Ernst & Young
John Mitchell, Sault College
R. C. (Bob) Nichols, British Columbia Institute of Technology
Chris O'Neill, Algonquin College
Bill Ralston, Northwest College
Catherine Seguin, University of Toronto
Glen Sikorski, Niagara College
Ralph Sweet, Durham College

I greatly appreciate the expert attention, advice and assistance given to the seventh Canadian edition by the staff of McGraw-Hill Ryerson, especially Kelly Smyth, Susan Calvert, and Betty Tustin. Also, the excellent editing by Gail Marsden is much appreciated. My special thanks go to Sandy Berlasty for her assistance in typing part of the manuscript.

Finally, heartfelt appreciation is due to my family members—Jean, Angela, Lambert, and Gloria. Their patience and understanding have made this important academic endeavour more enjoyable. As well, they have done an outstanding job in typing, editing, and proofreading the manuscript of the text, solutions, and supplements.

Wai P. Lam

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