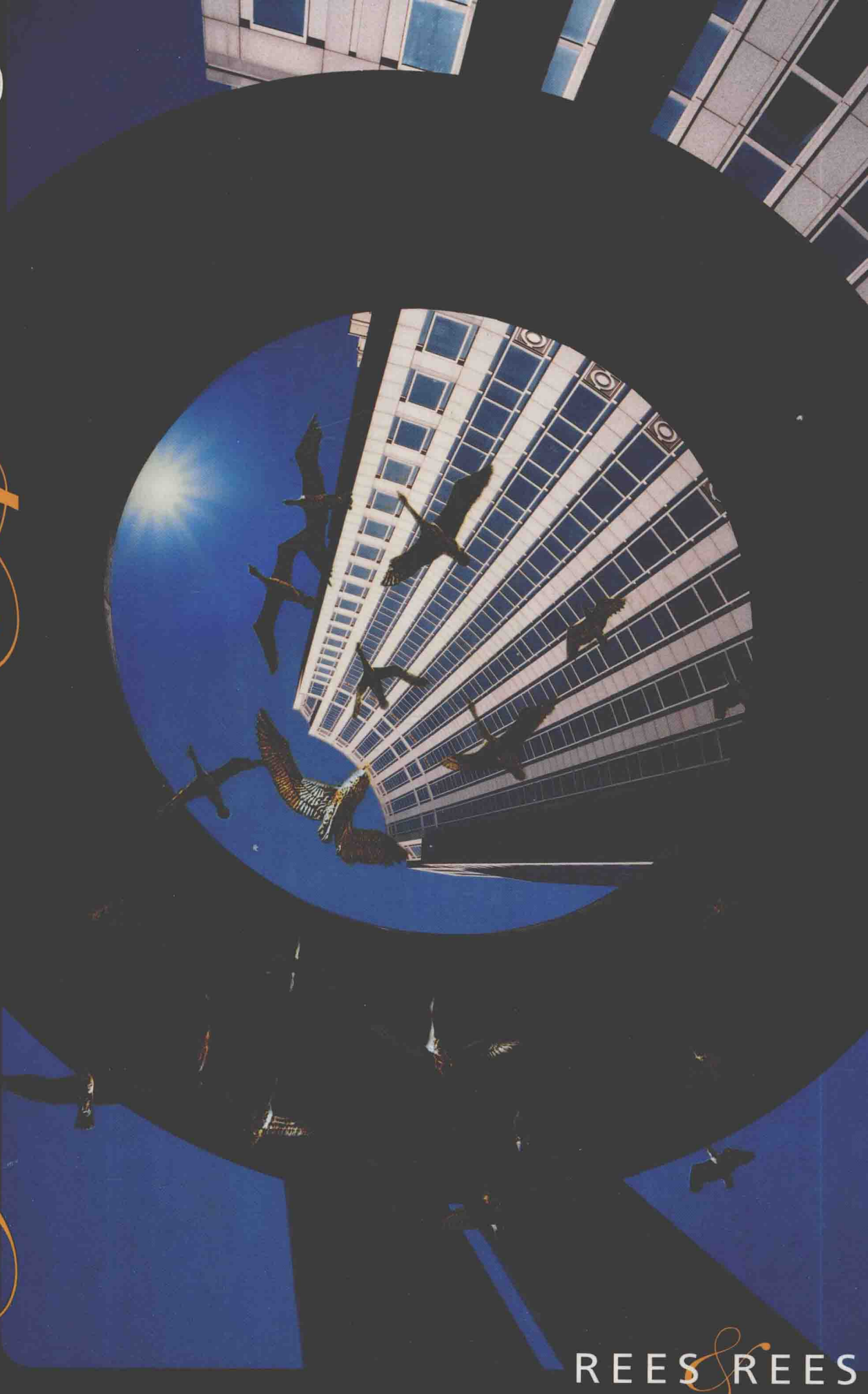


# Intermediate & Accounting



REES & REES

# Intermediate Accounting

Lynn L Rees—Texas A&M University  
David A. Rees—Southern Utah University

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Lynn L Rees and David A. Rees

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# **Dedication**

**To our wives**

**Barbara and LaRee**

# Preface

Enron. Worldcom. Imclone Systems. Waste Management. Sunbeam. Andersen. Global Crossing. The number of high-profile Fortune 500 companies involved in accounting irregularities within the last few years has brought the accounting profession under siege from regulators and the general public. We as accounting educators bear part of the blame. The accounting irregularities in these and other companies seem to validate the concerns of several groups and organizations who believe that poor training leads to inappropriate practices and to support their call for significant and meaningful change in accounting education. While many colleges and individual instructors have instituted revisions to meet the demands of their constituents, there is clearly room for more improvement.

## Intermediate Accounting from a New Conceptual Approach

We see a growing commitment to teach students that good judgment is as necessary as a good grounding in accounting practices, particularly at the intermediate level. As students increase their knowledge of accounting principles, they must also understand that exercising judgment does not mean that any accounting solution that is not illegal is acceptable, nor does it give an accountant a license to do whatever is required to keep a client or to give management what it wants.

In *Intermediate Accounting* we teach analytical and decision-making skills along with accounting practices by taking an entirely new approach: we place a heavy emphasis on students learning accounting *concepts*. Of the book's 21 chapters, eight are devoted to the FASB's Conceptual Framework and accounting concepts. We believe this conceptual approach is consistent with the call for a focus on learning instead of memorizing.

What are the advantages of this conceptual approach to teaching intermediate accounting? First, such an approach effectively prepares students for the world of work, where accountants must identify alternative ways of accounting for new or unusual transactions, select an appropriate alternative, and defend its use. By focusing on the principles in the FASB's Conceptual Framework and allowing students to apply those principles, even to accounting problems not specifically covered in the chapter, students are trained to think analytically to solve unfamiliar problems.

Secondly, the conceptual approach actually allows the instructor to cover more material in greater depth within a shorter time period. In our discussions with accounting professors, many expressed frustration with the cumbersome presentation of material in most texts intended for a typical year-long course. While other intermediate accounting textbooks take up to eight chapters to cover the asset side of the balance sheet, the conceptual approach we use in *Intermediate Accounting* allows the instructor to cover thoroughly the same material in half the number of chapters.

## Comprehensive Coverage of International GAAP

In addition to focusing on concepts, another innovative feature of *Intermediate Accounting* is its comprehensive coverage of international material. The remarkable

I liked how your book went beyond the basic "how" to explaining "why" in today's accounting principles.



progress of the IASB and its predecessor, the IASC, has made familiarity with international GAAP a necessity within the accounting profession, and we expect the importance of international GAAP to only increase in the future. We believe that our textbook provides a valuable service to students by exposing them to international GAAP early in their careers, giving them a firm foundation to build on.

Besides making students more internationally aware, the presentation of international GAAP has another significant advantage. We have been frustrated with students viewing accounting as a science in which there is only one right way to account for and report transactions, and we are particularly concerned that students develop this viewpoint after they have taken the intermediate accounting courses. We want students to learn that accounting involves judgment, and we want them to begin learning to exercise judgment at the intermediate level. We want students to understand that there are correct alternative ways of accounting for and reporting certain transactions, and we think exposing them to international GAAP is a good way to do that. In *Intermediate Accounting* we strive to teach students that exercising judgment is an art, as well as a critical part of their education.

## A Text Classroom-Tested for Proven Success

I found the examples given in the chapters to be very helpful in grasping an understanding of the material.

*Intermediate Accounting* was thoroughly classroom-tested and revised before publication to ensure accuracy, completeness, clarity, and student comprehension. We conducted extensive testing in the classroom for two years, including summer school sessions. Student comments were obtained for each chapter, and based on those comments, chapters were rewritten as necessary to improve readability. We used the same evaluation method to ensure useful and insightful end-of-chapter materials. In addition to being classroom-tested, all the exercises and problems were verified by another experienced accounting instructor.

Some of the comments we received from student reviewers are included as marginal notes throughout this preface. We believe your students will have similar positive responses to the material and its presentation.

## An Overview of the Text

A look at the structure of *Intermediate Accounting* demonstrates the differences between our text and other intermediate accounting texts currently in use and delineates the framework of our conceptual approach.

## Part 1: Foundations

Your book is far superior to any other technical textbook I have used.

The text begins with an in-depth look at the development of accounting and financial reporting—a unique introduction to an intermediate accounting book in that it introduces students to the evolution of both accounting and financial reporting and details the effect of cultural influences on financial reporting.

By starting with an international review of the history of accounting and demonstrating that accounting developed within a cultural context, we prepare students for a better understanding of the global issues that are critical factors in today's international business community. Chapter 1 covers the standard-setting function in the United States and positions it as a political process shaped by the inputs received from various affected groups. It reviews the movement to and the status of international GAAP and examines the keiretsu in Japan as an example of how culture impacts financial reporting. In addition to its strong content, this chapter also introduces the approach that defines the entire text. In user

testing, students gave a high rating to this chapter, and some reviewers commented on how such an approach might encourage students to read the book.

Chapters 2, 3, and 4 continue to build a solid foundation for understanding intermediate accounting principles. These chapters cover the accounting cycle, preparation of basic financial statements, basic financial analysis, and the FASB's conceptual framework.

## Part 2: Applying the Conceptual Framework

Chapters 5–16 comprise the core of the text, and it is here where our text differs most from other intermediate accounting textbooks. Using the conceptual approach, principles are presented and explained, and then applied. Both the manner of presentation and the relationships established between the principles are different from those found in more traditional texts.

These chapters present the historical cost principle, examine the matching principle and revenue recognition principle in depth, and detail methods of reporting assets, liabilities, legal capital and basic stockholders' equity transactions and accounts, and marketable securities and comprehensive income. The section ends with a detailed examination of the statement of cash flows.

## Part 3: Special Reporting Issues

This section provides specific and detailed information on a variety of special reporting procedures. Chapters 17–19 look at accounting methods for leases, pensions, and income taxes. Chapters 20 and 21 cover foreign currency transactions and hedge accounting—topics not typically included in current intermediate textbooks but information we consider fundamental for accounting students in today's global business world.

# Text Features: Tools for Teaching and Learning

## Chapter Features Support Learning and Teaching

An array of well-designed features built into every chapter of *Intermediate Accounting* aids student comprehension of the concepts presented and gives instructors useful tools to expand learning beyond the text and classroom.

Your textbook saved valuable study time with its concise and to-the-point style. Also, the examples and illustrations were easy to understand and very helpful.

- Each chapter begins with at least one real-world scenario that helps students relate the material they are learning to what actually occurs in the business world. Answers to the questions raised in the real-world scenarios are provided in the chapter.
- Throughout the text, relevant pronouncements of the FASB and its predecessors are paraphrased, set off as quotations, and discussed, with all references included.
- International accounting material, interlaced throughout each chapter, is denoted by a globe icon.
- A separate section of each chapter focuses on international accounting and financial reporting issues.
- Each chapter references one or more current Web sites where students can find extensive information about related topics that may be of interest to them and to the study of accounting. *Intermediate Accounting* also has its own Web site that provides additional support.

- Real-world examples of how information is reported in published financial reports are found in each chapter. These examples, including notes, have been taken from the published financial reports of various publicly traded corporations.

## End-of-Chapter Materials Guide Discussion and Reinforce Concepts

We have provided a variety of end-of-chapter materials, each with its own pedagogical purpose and value.

- The questions at the end of each chapter cover the essential concepts of the chapter and can be used in class to stimulate discussion and guide the students' thinking or as short written homework assignments.
- The exercises are designed to reinforce the basic concepts of the chapter.
- The problems are designed to stimulate the students' thinking and to give them the opportunity to apply what they have learned. Some problems also are designed to reinforce material covered in an earlier chapter, thus helping students to link their accounting knowledge.
- Research problems encourage students to examine the literature of the FASB, the AICPA, and international GAAP. The cases and research activities are designed to get the students out of the textbook and into other published materials with which accountants should be familiar.

Instead of memorizing, your book helped me understand the reasoning behind the way problems are solved and why they are solved in that manner.

## Additional Features Enhance the Conceptual Approach

The unique conceptual approach of *Intermediate Accounting* is further supported with real-world examples plus questions that encourage the application of principles and stimulate class discussion.

- This Is the Real World: This boxed feature presents a real business situation that has been in the news and/or reported in a periodical and relates that situation to the topic being discussed in the chapter.
- Extending the Concept: This margin element poses a question related to the topic of the chapter and includes the answer if the chapter discussion does not explicitly provide one.
- Conceptual Question: This margin element is used occasionally to provide a question that prompts students to think broadly and analytically, beyond the chapter discussion.

I liked your many examples, illustrations, and exhibits. They were very helpful.

## Technology Tools for Connecting Intermediate Accounting with the Real World

Instructors can choose from our extensive **InfoAccess Menu** for informational resources that turbo-charge the learning experience and prepare students for the world beyond the classroom.

### Guide to GAAP

Appearing on CD, this guide covers all FASB Statements, Interpretations, and Technical Bulletins; APB Opinions; ARBs; and relevant AICPA Statements of Position and FASB EITF issues, giving students practical experience researching accounting



procedural guidelines. With its easy-to-use topical format, comprehensive disclosure checklists, and numerous practical considerations and examples, this resource is meant to be a timesaving tool.

### **Thomson Analytics—Business School Edition (BSE)**

This premier web-based portal product provides integrated access to Thomson Financial content for the purpose of financial analysis. Thomson Analytics BSE offers the same features and functionality found in the full Thomson Analytics product, but for a subset of 500 companies. The 500 companies encompass global entities, spanning from large to small capitalization and consist of a minimum of:

- 150 Top Companies from the DJ Global Index
- 150 Middle Companies from the DJ Global Index
- 150 Bottom Companies from the DJ Global Index

Thomson Analytics—Business School Edition includes the following content sets:

#### **I/B/E/S Consensus Estimates**

The I/B/E/S Consensus Estimates includes averages, means, and medians; analyst-by-analyst earnings coverage; analysts' forecasts based on 15 industry standard measures; current and historic coverage for the selected 500 companies that are drawn from a database of 60 established and emerging markets. Current history is five years forward, and historic history is from 1976 for the United States and from 1987 for international. Current data is updated daily and historic is updated monthly.

#### **Worldscope**

Worldscope includes company profiles, financials and accounting results, and market per-share data for the selected 500 companies, drawn from a database of more than 55 established and emerging markets; and annual information and monthly prices going back to 1980, all updated daily.

#### **Disclosure SEC Database**

The SEC Disclosure Database includes company profiles, annual and quarterly company financials, pricing information and earnings estimates for U.S. and Canadian selected companies. The data is annual from 1987—quarterly data rolling 10 years—with monthly pricing, all updated weekly.

### **8-Hour Becker Conviser CPA Review**

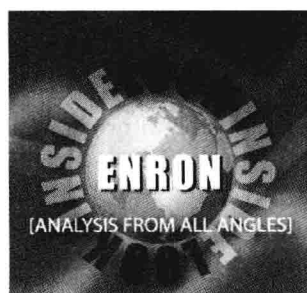
This CD contains eight free interactive hours of the Becker Conviser CPA review. Lectures on this easy-to-use, self-paced CD focus on both the content and skills needed to pass select CPA exam topics.

### **INSIDE LOOK: Analysis from All Angles**

This feature brings accounting news into the classroom with this new Web site from Thomson/South-Western. The Access Card allows instructors and students to use information related to Enron, Andersen, and other accounting-related “names in the news.” In addition to relevant articles, Inside Look includes related research links and questions to help students develop critical thinking skills. For a demo, go to <http://insidelook.swcollege.com>.

### **NewsEdge**

This feature delivers news and information to fit individual classroom needs. The content is selected from the world's premier news and information sources and chosen for relevance by editorial experts.



**NewsEdge**



### InfoTrac® College Edition

This provides anytime, anywhere online access to a database of full-text articles from hundreds of popular and scholarly periodicals, such as *Newsweek*, *Fortune*, and *Journal of Accountancy*, among others. For more information, visit <http://www.swcollege.com/infotrac/infotrac.html>.

## Other Support Materials

### Available to Instructors

- Solutions Manual, prepared by David Rees and Lynn Rees. This manual contains independently verified answers to all end-of-chapter questions, exercises, problems, and cases.
- Instructor's Manual, prepared by Kathy Sevigny. This manual enhances class preparation with objectives, chapter outlines, teaching suggestions and strategies, transparency masters, and topical overviews of end-of-chapter materials. It also features assignment classifications with level of difficulty and estimated completion time.
- Test Bank and Examview, prepared by David Rees. The test bank is available in both printed and computerized version, Examview. Test items include multiple-choice questions and short examination problems for each chapter, along with solutions.
- PowerPoint Slides. Hundreds of slides in Microsoft® PowerPoint® format can be used in on-screen lecture presentations or printed out and used as traditional overheads. Additionally, they can be printed and distributed to students, allowing students to concentrate on the professor instead of hurrying to copy down information.
- Spreadsheet Templates, prepared by David Rees. Excel templates are provided on the Web site for solving selected end-of-chapter exercises and problems that are identified in the text with a spreadsheet icon.
- Instructor's Resource CD packages the Solutions Manual, Instructors Manual, Test Bank, Examview, PowerPoint slides, and Excel spreadsheet solutions on one convenient CD-ROM.

### Available to Students

- Web Site (<http://rees.swlearning.com>). This content-rich Web site enhances the learning experience with PowerPoint slides, Excel spreadsheet templates, and online tutorials, and provides a real-world business connection through links to accounting-related sites.
- WebTutor Advantage on WebCT or Blackboard extends the classroom experience with an interactive educational learning tool. WebTutor provides real-time, self-correcting study outside the classroom that helps students grasp even the most complex topics. It includes:
  - Short *Topical Video* segments relating chapter content to a real business situation or events in the news.
  - *Tutorial* for reinforcing key chapter concepts.
  - *Annotated Spreadsheets*.
  - *Interactive Quiz* to test knowledge and provide immediate feedback on concept comprehension. Includes fill-in-the-blank, multiple-choice, and true/false questions.
  - *Crossword Puzzles*, a fun and engaging opportunity for testing understanding of each chapter's key terms.

- *Quiz Bowl*, providing the challenge of an online Jeopardy-style game to review chapter content.
- *Spanish Dictionary* of key financial accounting terms.
- Calculators for use in solving end-of-chapter materials.
- Links to relevant sites.
- **Xtra! for Intermediate Accounting CD-ROM** lets students test their understanding of text content through alternative study materials such as demonstration problems and quizzing. Available as an optional free package with each new text, students receive an access code so that they can receive Xtra! reinforcement in intermediate accounting.
- **Ethics in the Post-Enron Age.** With the Enron/Andersen debacle, ethics is becoming an increasingly important (and interesting) part of accounting education. This timely supplement contains ethics cases based on real situations in the business world. Examples include cases tied to Enron, Global Crossing, and Boston Chicken. Identifying ethical dilemmas and projecting their resolution allows students to develop essential skills for success in their future careers. In each section of the textbook, the problems will be labeled according to subject matter (i.e. bad debt expense, revenue recognition). This allows the instructor to select problems consistent with the needs of the course. Written by Iris Stuart, of California State University-Fullerton, and Bruce Stuart.
- **Accounting and Auditing Research: A Practical Guide, Fifth Edition.** This is the only step-by-step guide that provides methodology for conducting practical accounting research. In addition, the book offers up-to-date references to the primary sources of authoritative accounting literature, including electronic databases, and contains a special section on the Internet as a research tool. Written by Thomas Weirich, Central Michigan University, and Alan Reinstein, Wayne State University.
- **Practice Cases**
  - *Sharkey Incorporated*—In this case study, students assume the role of a financial consultant for Sharkey, Inc., for a two-year term. The goal of the case study is for students to maximize both earnings per share and return on assets.
  - *Foxcor Manufacturing Company*—This comprehensive practice case pulls together the concepts learned in the first half of the intermediate accounting course. The case also draws upon theory and concepts learned in foundation accounting courses. After completing this case, students will be able to read and interpret the financial statements and understand how individual journal entries support a set of financial statements and related note disclosures.

# Acknowledgments

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# About the Authors

Lynn L and David A. Rees are brothers who have individually achieved success and earned great respect for their research and teaching in accounting. This text, their first collaborative effort, brings together a wealth of knowledge presented within a unique approach.

## **Lynn L Rees**

Lynn L Rees is a Mays Faculty Fellow in the Mays Business School at Texas A&M University. He holds a bachelor's degree from Southern Utah University and a Ph.D. degree from Arizona State University. Prior to joining the faculty at Texas A&M, he was on staff at Washington State University, the University of Massachusetts—Amherst, and Arizona State University. Dr. Rees has taught various accounting classes at the undergraduate and masters level and has given seminars to Ph.D. students. His research papers have been presented in the United States, South America, Asia, and Europe. He has published papers in *The Accounting Review*, *Journal of Accounting Research*, and *Journal of Finance*, among others. He is an Associate Editor of *Advances in Accounting* and serves on the editorial boards of several other journals.

## **David A. Rees**

David A. Rees is a Professor of Accounting at Southern Utah University. He holds a bachelor's degree from Brigham Young University, a Master's of Accountancy from Utah State University, and a Ph.D. degree from Texas Tech University. Dr. Rees joined the SUU faculty in 1985 to establish and oversee the Master's of Accountancy program there. Prior to this, he was at Wichita State University, Morehead State University, and Texas Tech University, where he taught extensively in both undergraduate and graduate programs in such diverse courses as financial accounting, not-for-profit accounting, and cost and managerial accounting, and conducted various graduate seminars. He has published papers and articles in several practitioner journals, and published and presented pedagogical materials in many venues. With his dissertation topic being in not-for-profit accounting, Dr. Rees is considered an expert in this area. He has worked for several years auditing not-for-profit entities and has served on the boards of directors of several not-for-profit organizations.



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