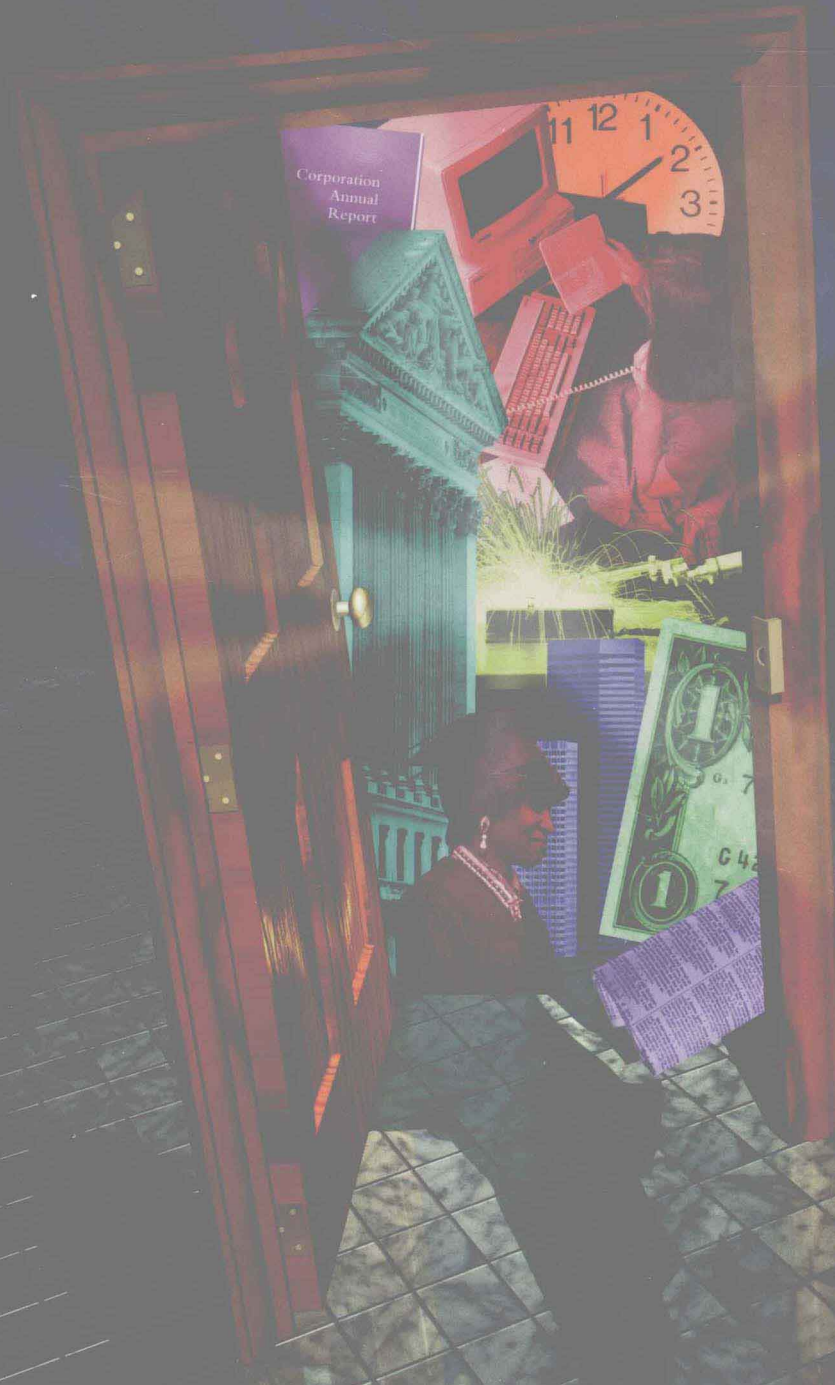


# ACCOUNTING<sub>5e</sub>

CONCEPTS AND APPLICATIONS



SKOUSEN/ALBRECHT/STICE

# ACCOUNTING

## CONCEPTS AND APPLICATIONS

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# Preface

*Accounting: Concepts and Applications* is written for students in a two-semester or three-quarter introductory accounting sequence. The fifth edition of the textbook builds on and maintains the strengths of our first four editions. The overall objective of this edition is to provide introductory accounting students and their instructors with the most timely, relevant, and understandable textbook possible.

## **DISTINGUISHING FEATURES OF THE FIFTH EDITION**

The fourth edition of this text was designed to be user-oriented, provide approximately a 50-50 split between financial and managerial accounting concepts, and satisfy the need for a more conceptual introduction to accounting than most principles texts provide. From the positive feedback we have received, we believe progress has been made. If anything, however, we did not go far enough in the fourth edition. Our objective for the fifth edition is simply to make *Accounting: Concepts and Applications* one of the most user-oriented texts on the market and the one most in line with the recommendations of the Accounting Education Change Commission (AECC). Four major changes and innovations have been made to accomplish our goals.

### **Streamlined Coverage of Details and Complexities**

We believe that many professors are looking for a book that introduces students to accounting, excites them by using lots of real-world business examples, and allows them to see how accounting is used. They do not want a book that takes an encyclopedic approach to every possible nuance of financial statement preparation or alternative way to perform accounting functions. To respond to this need, we have divided most chapters into two parts: (1) **basic material** that needs to be covered to understand essential accounting concepts and (2) **expanded material** dealing with nonessential topics or additional

complexities that can be covered if the professor desires. For example, in Chapter 9 dealing with property, plant, and equipment, the concept of depreciation is explained and illustrated in the basic material section using only straight-line and units-of-production methods. Other alternatives, such as sum-of-the-years' digits and declining balance methods, are included in the expanded material section of the chapter. Partial-year depreciation calculations and changes in depreciation estimates are also covered in the expanded material section.

It is important to note that the more complex material and alternative accounting procedures will not be in appendixes but will be included within the chapter (only in a separate section) so that professors who want to introduce basic concepts can do so by using the front part of each chapter and professors who want a more traditional approach can use the full chapter. This should respond to the growing movement in accounting education to use the introductory accounting course to expose students to business, and accounting's role in business, rather than to the traditional, preparer-oriented introductory accounting course. The fifth edition, which places material necessary to understand basic concepts in the main part of the chapter, additional complexities at the back of the chapter, and a few optional topics in appendixes, should satisfy this need. Note that end-of-chapter materials are closely correlated and tied to the textual material. End-of-chapter materials are divided and labeled as basic or expanded to model the division of coverage in the chapters.

### **Expanded End-of-Chapter Material**

While users were pleased with the end-of-chapter assignments in the fourth edition, a major effort has been made to upgrade and make this material even better. We have changed and clarified existing exercises and problems and added a significant number of new, short exercises. Many professors indicate that they don't have time to cover long problems and that

they prefer more short exercises. We have responded to this request.

In addition, we have added a variety of new end-of-chapter materials. Specifically, we have added written and oral communication assignments, library assignments (such as looking up annual report information and reading current periodicals), business analysis cases, and ethics cases. In the *Instructor's Guide and Solutions Manual*, we note which of these assignments are best suited for group work. Professors who want to follow AECC recommendations by including more cooperative learning and skills development assignments will find that this book satisfies their needs.

### Using the Cycle Approach

Although our goal in the fourth edition was to be user oriented, we kept the traditional financial statement organization that most principles books use. This left some users feeling that, although the chapter material was user oriented, the overall organization of the book still favored a preparer approach.

In the fifth edition, we have abandoned the financial statement organization. In its place, we use an organizational format more consistent with business activities and cycles. Specifically, after introducing and explaining financial reporting and the accounting cycle in Part 1 (Chapters 1–5), we discuss the operating activities of a business in Part 2 (Chapters 6–8) and the investing and financing activities in Part 3 (Chapter 9–12). We conclude the financial portion of the text by discussing other dimensions of financial reporting in Part 4 (Chapters 13 and 14).

The managerial portion of the text continues this emphasis on understanding business activities and cycles. Part 5 covers the foundations of management accounting (Chapters 15–18), similar to Part 1 for financial accounting. Part 6 discusses the management activities of planning, control, and performance evaluation (Chapters 19–23). Part 7 concludes the book by explaining other dimensions of decision making (Chapters 24–26).

We have added a new chapter (Chapter 5) on the integrity of financial information, which should add greatly to students' understanding of the financial reporting process. We have dropped the separate chapter on partnerships and proprietorships, and instead include essential material on those topics in Chapter 11. We have also dropped several appendices (such as reversing entries and using a work sheet to account for inventory), which we feel were

very preparer oriented. And to make the book even more user oriented, we discuss important relationships and include applicable ratios throughout the text. Chapter 14 ties all the ratios together in a chapter that analyzes and presents comprehensive financial statements.

The result of the organization, additions, and deletions is 14 chapters of financial accounting, an amount that professors should be able to cover in one term. Overall, there are 26 chapters, which is consistent with our objective of approximately a 50-50 split for financial and managerial topics.

### More Real-World Examples

In the fourth edition, we added Business Environment Essays throughout the chapters and "Setting the Stage" scenarios at the beginning of each chapter. These features have been very well received and are maintained and strengthened in the fifth edition. In addition, we have added a significant number of references to real company annual reports and business news articles. Real company data are used as illustrations wherever possible (as long as it doesn't overly complicate a topic). Finally, PepsiCo, Inc.'s entire annual report is shown in the Appendix at the back of the text and is referenced throughout the text. Considered together, these changes make the fifth edition of this book one of the most user-oriented texts on the market and one that implements the AECC recommendations for changing the way we teach accounting.

### IMPORTANT STRENGTHS FROM PREVIOUS EDITIONS

In addition to the philosophical and specific content changes that are new to the fifth edition, several strengths have been maintained from previous editions.

#### Corporate Emphasis

The text is written with an emphasis on corporations to reflect the real world of financial reporting. In Chapter 2, the entity concept is explained, and each type of business organization is defined and described briefly. Also, the corporation is used to explain and illustrate the primary financial statements. Early chapter references to proprietorships and partnerships have been deleted to simplify the coverage and to avoid confusion among students.

## Strong Management Accounting Coverage

The user orientation of the text is also apparent in the management accounting section (Chapters 15–26). Every chapter has been revised, where appropriate, to integrate new management accounting concepts, such as quality, just-in-time (JIT) inventories, value chain considerations, and activity-based costing (ABC), and to eliminate unnecessary detail and complexity. These changes, combined with the others already mentioned, provide the most current management accounting coverage available in a principles text.

## Focus on Ethics

A section in Chapter 1 introduces the topic of ethics. A general decision model for resolving ethical issues is presented, along with a brief summary of the American Institute of Certified Public Accountants' *Code of Professional Conduct*. Chapter 15 includes a discussion of the ethical responsibilities of management accountants and the code of ethics for management accountants. In addition, most chapters contain at least one ethics case relating to the topics covered in the chapter. The cases present ethical dilemmas that require students to think about behavioral and moral issues in business and accounting. Research in moral development suggests that students who are exposed to, and required to think about, ethical issues develop a stronger personal code of ethics than do those who are naive about the issues. We believe these ethics cases will provide a basis for rich classroom discussions.

## Chapter Organization and Structure

Each chapter is carefully structured to help students focus on important ideas and remember them. Specific components found in each chapter include:

**LEARNING OBJECTIVES.** Each chapter begins with specific learning objectives to guide students in their study of the chapter. Where applicable, the learning objectives are classified as basic or expanded. These objectives show students and instructors the organizational flow of the chapter and help students evaluate their understanding of the main points within each chapter. The objectives are integrated in the text margins and summarized at the end of the chapter.

**SETTING THE STAGE.** An interesting, real-life sce-

nario “sets the stage” for each chapter. These scenarios tie directly to material covered in the chapter and help students relate chapter topics to actual business happenings.

**BUSINESS ENVIRONMENT ESSAYS.** The text contains numerous real-world examples, adapted from financial newspapers and business publications, that illustrate important concepts being discussed. These examples enable students to see how the accounting topics they are studying are applied and interpreted in real-world situations.

**KEY TERMS.** Throughout each chapter, key terms are defined in the margins, making it easier for students to learn accounting, the language of business. A list of key terms (with page references) is presented at the end of each chapter to provide additional reinforcement, and all key terms are defined in a comprehensive glossary at the end of the book.

**SUMMARIES.** Several concise summaries are presented within each chapter to help students remember the important points just discussed, and each chapter concludes with a comprehensive summary, organized by learning objectives.

**REVIEW PROBLEMS.** A basic material and an expanded material review problem (where applicable) are provided at the end of each chapter. These review problems (with solutions) demonstrate the application of the major concepts and procedures covered in the chapter.

**APPENDIXES.** To allow greater flexibility of coverage, the optional topics of work sheets and special journals are covered in appendixes at the end of Chapter 4.

**END-OF-CHAPTER MATERIALS.** The end-of-chapter materials are designed to test and reinforce student understanding in various ways. The discussion questions are intended to refine students' understanding of specific accounting terms and concepts. The exercises deal with single concepts, and each can be completed fairly quickly (a maximum of 30 minutes). The problems generally take longer to complete than the exercises, and they probe for a deeper level of understanding. Those problems identified as “Unifying Concepts” and those with “Interpretive Questions” require students to analyze or interpret the computed results. The end-of-chapter assign-

ments are divided into basic and expanded material, consistent with the chapter.

Two types of cases are included at the end of every chapter to help students develop analytical, problem-solving, and communication skills. The business analysis cases demonstrate how accounting affects day-to-day business decisions and require students to interpret data, as well as solve problems. The ethics cases require students to consider behavioral and moral issues in accounting and business. As mentioned earlier, written and oral communication assignments and business activities are also included, consistent with AECC recommendations. Those that best fit group work are identified in the *Solutions Manual/Instructor's Resource Guide*.

### LEARNING AND TEACHING AIDS THAT ACCOMPANY THE TEXTBOOK

This textbook is part of a comprehensive and carefully prepared educational package that offers various forms of assistance to both instructors and students. Each of the supplementary items available for use with the text is described briefly.

#### Available to Students

**STUDY GUIDES.** The Study Guides provide a means for students to reexamine the concepts and procedures in each chapter from several different perspectives. These publications, which are printed in two volumes (one covering Chapters 1–14, the other covering Chapters 13–26), include learning objectives; detailed chapter summaries; discussions of topics that cause problems for students and suggestions for overcoming those problems; and tests for student self-assessment, including matching, true-false, multiple-choice questions, and computational exercises (all with solutions).


**WORKING PAPERS.** Appropriate printed forms for students to use in solving end-of-chapter problems are available in two bound volumes. The first volume is for use with Chapters 2–14, and the second volume is for use with Chapters 13–26.

**SOLUTIONS SOFTWARE, PREPARED BY WARREN W. ALLEN AND DALE H. KLOOSTER.** This software is a general ledger program tailored specifically to *Accounting: Concepts and Applications*. Available in MS-

DOS® and Windows®<sup>1</sup> versions, the software may be used to solve selected end-of-chapter problems, which are identified with the symbol shown at the right.



**ELECTRONIC SPREADSHEET APPLICATIONS FOR ACCOUNTING PRINCIPLES USING LOTUS 1-2-3 FOR WINDOWS, PREPARED BY GAYLORD N. SMITH OF ALBION COLLEGE.** This supplemental text-workbook with template diskette includes accounting applications and a Lotus® 1-2-3®<sup>2</sup> for Windows tutorial. It requires approximately 20–25 hours for completion.

**HOMEWORK ASSISTANT TUTORIAL (HAT) SOFTWARE, PREPARED BY RAY MESERVY OF BRIGHAM YOUNG UNIVERSITY.** This Windows-based software visually teaches the relationships among T-accounts, journals, ledgers, and financial statements in solving end-of-chapter problems, which are identified with the symbol shown at the right. This is also an ideal classroom teaching aid. 

#### Available to Instructors

**SOLUTIONS MANUAL/INSTRUCTOR'S RESOURCE GUIDE.** These manuals, printed in two volumes, contain answers to all discussion questions and detailed solutions for exercises, problems, business analysis cases, and ethics cases. A table is provided at the beginning of each chapter showing the estimated completion time and level of difficulty for each exercise, problem, and case. Assignments suited for group work are also identified. The manuals also contain teaching transparency masters designed to aid the instructor in presenting key concepts and principles discussed in the text.

**TEST BANK, PREPARED BY DAVID COTTRELL OF BRIGHAM YOUNG UNIVERSITY.** A collection of more than 2,000 examination problems, multiple-choice questions, true-false questions, and matching exercises, accompanied by solutions, is available in both printed and microcomputer (MicroExam III) versions. The Test Bank is designed to save time in preparing and grading periodic and final examinations. The printed version of the Test Bank also in-

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cludes sample quizzes for each chapter and sample examinations for groups of chapters.

**SOLUTIONS TRANSPARENCIES.** Acetate transparencies of solutions to all end-of-chapter problems are available.

**POWERPOINT SLIDES, PREPARED BY DAVID COTTELL OF BRIGHAM YOUNG UNIVERSITY.** Selected teaching transparencies of key concepts and exhibits from the text are available in PowerPoint®<sup>3</sup> presentation software.

## ACKNOWLEDGMENTS

Throughout the textbook, relevant publications of standard-setting and professional organizations are discussed, quoted, or paraphrased. We are indebted to the American Accounting Association, the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, and the Institute of Management Accountants for material from their publications.

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*K. Fred Skousen*

*W. Steve Albrecht*

*James D. Stice*

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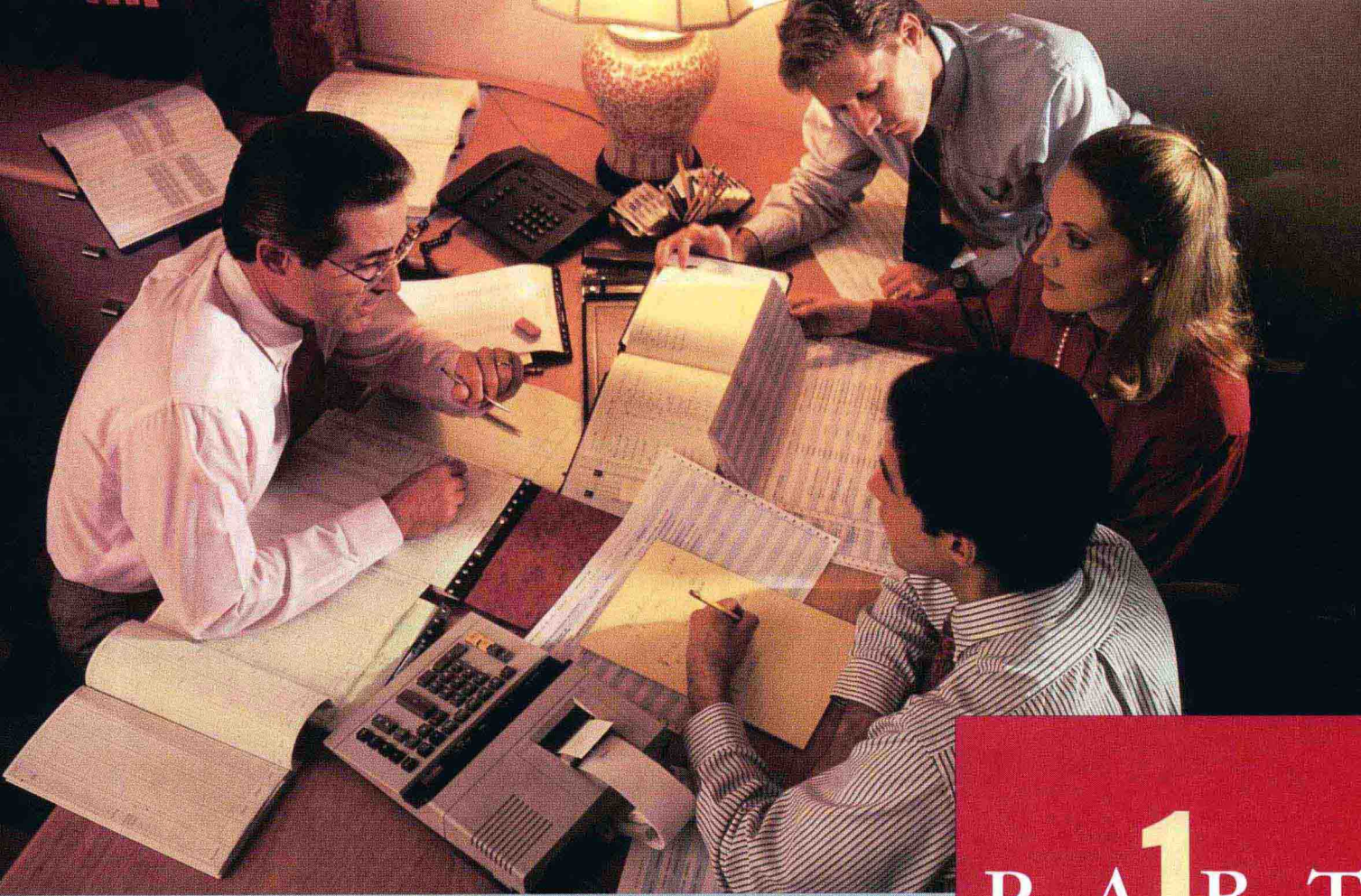
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# PART 1

## Financial Reporting and the Accounting Cycle

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- 2 Financial Statements: An Overview
- 3 Transactions and the Accounting Cycle
- 4 Completing the Accounting Cycle
- 5 The Integrity of Financial Information



