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FINANCIAL & MANAGERIAL ACCOUNTING



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Belverd E. Needles, Jr.

Ph.D., CPA, CMA

Professor of Accounting

DePaul University

Henry R. Anderson

Ph.D., CPA, CMA

Professor of Accounting

Director, School of Accounting

University of Central Florida

James C. Caldwell

Ph.D., CPA

Partner, Educational Consulting Services

Arthur Andersen & Co.

Dallas/Fort Worth

To: **Professor Reginald R. Rushing**
Texas Tech University

Professor S. James Galley
Augustana College (Illinois)

Professor W. Baker Flowers
University of Alabama

For motivating and guiding us through our undergraduate accounting programs and inspiring us to become accounting educators.

This book is written to provide accurate and authoritative information concerning the covered topics. It is not meant to take the place of professional advice.

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PREFACE

FINANCIAL & MANAGERIAL ACCOUNTING is a comprehensive first course in accounting for students with no previous training in accounting or business. Designed for both majors and non-majors, it is intended for use in two-semester, two-quarter, or three-quarter sequences in which there is an equal emphasis of financial and managerial accounting. The textbook is part of a well-integrated package of materials for students and instructors, including both manual and computer ancillaries.

Objectives of This Textbook

Our discussions with college and university instructors throughout the country lead us to believe that in today's environment there is a desire on the part of many of our colleagues for a new organization to the principles of accounting course, one that devotes approximately the same amount of time to managerial accounting as it does to financial accounting while maintaining the same pedagogical method that has been used successfully in the principles course for many years. Specifically, our objectives in writing this textbook are:

1. To provide equal coverage of financial accounting and managerial accounting;
2. To provide more coverage of managerial accounting than is found in the typical principles of accounting textbook;
3. To cover both topics at a level suitable for freshman and sophomore students.

Equal Coverage of Financial and Managerial Accounting

This text contains twenty-eight chapters. Chapters 1–14 are financial accounting topics, and chapters 15–28 are managerial accounting topics. Sometimes considered to be financial accounting topics, the statement of cash flows and financial statement analysis, Chapters 27 and 28, respectively, may be inserted immediately after Chapter 14, if desired.

Increased Coverage of Managerial Accounting

With twelve chapters devoted to managerial accounting, our text provides the most complete coverage of managerial accounting of any principles textbook. This coverage is equivalent to that found in single volume managerial accounting books and means that students are introduced to

the field of management accounting in a patient, pedagogically sound way and that the topics are covered thoroughly enough to give students an understanding of the topics that they can use throughout their future business and accounting careers.

Coverage at the Principles Level

Using the time-tested approach to the principles course, this text presents the accounting cycle and merchandising accounting (Chapters 1–5) based on the sole proprietorship. The approach used in Chapter 6 and following chapters is the same type as that used in single-volume accounting texts based on the corporate approach. Thus, freshmen and sophomore students are introduced to accounting in a way they can understand. At the same time, they are introduced to all the topics necessary to understand at this level the financial reporting of modern corporations. We have judiciously chosen the topics to be covered so that they can be presented with the same readability, pacing of topics, clarity of presentation, and balance of concepts and practices that appears in an optimally organized principles textbook. To provide maximum flexibility, we have also provided a series of six appendixes of optional topics, each presented in a mini-chapter format with exercises and problems.

Features of This Textbook

In writing FINANCIAL & MANAGERIAL ACCOUNTING we have included the same features that have made our previous textbooks among the most widely-used textbooks in accounting education. These features include:

1. Readability and clarity of presentation
2. Integrated learning objectives throughout the package
3. Authoritative, practical, and contemporary content
4. Decision-making emphasis
5. Strict system of quality control
6. Most complete and flexible package.

Readability and Clarity of Presentation

The text's intended audience, the freshman or sophomore student, has influenced the organization of the book in several ways. First, we have carefully planned the timing of new concepts and techniques to facilitate learning. The pace enables the student to grasp and retain the material. Second, we have taken special care, particularly in the early part of the book, to limit the number of difficult concepts or practices in each chapter. Third, clarity of presentation, consistent reading level, and uniform terminology have been rigorously applied throughout the text, including

the chapter assignment material. Fourth, we focus throughout on understanding, rather than mere memorization. We believe that concepts take on meaning when applied, and practices are most easily understood if related to a conceptual foundation. Fifth, we emphasize concepts and practices that will be useful to students throughout their careers, whether they are accounting majors or not.

Learning by Objectives

We take a definite pedagogical approach to writing **FINANCIAL & MANAGERIAL ACCOUNTING**. We have made extensive use of integrated learning objectives and learning theory. Learning objectives are integrated throughout the text and package, from the preview and presentation of the chapters to the assignment material, chapter reviews, study aids, and the testing and evaluation materials.

Authoritative, Practical, and Contemporary

This book presents accounting as it is practiced, but the concepts underlying each accounting practice are also carefully explained. Accounting terms and concepts are defined according to current pronouncements of the AICPA, APB, and FASB. The Statement of Financial Accounting Concepts of the FASB's Conceptual Framework Study form the theoretical underpinning of the book and are used to assess various accounting situations and controversies. In addition, we have taken steps to assure that, to the extent possible within the framework of introductory accounting, the practical material is realistic in terms of how accounting is practiced today.

Decision-Making Emphasis

Another objective has been to present the contemporary business world and the real-life complexities of accounting in a clear, concise, easy-to-understand manner. Accounting is treated as an information system that helps management, investors, and creditors make economic decisions. In addition to other questions, exercises, and problems, the chapter assignments include two decision-oriented features in each chapter—an exercise on “Interpreting Accounting Information” and a “Financial or Management Decision Case.” In each situation the student is required to extract quantitative information from the exercise or case and make an interpretation or a decision.

Quality Control

We have developed, together with our publisher, a system of quality control that has been applied to all parts of the package to assure the most technically and conceptually accurate textbook and package possible. Among many other steps, this system involves thorough reviews by users, visits to and discussion with users by the authors, extensive in-house editorial review and accuracy checking, and class testing.

Complete and Flexible Learning System

Finally, we believe that FINANCIAL & MANAGERIAL ACCOUNTING is the most complete and flexible package for a first-year accounting course that places equal emphasis on financial and managerial accounting. All parts of the system fit within the pedagogical system of learning by objectives established by the authors. This comprehensive learning is described in the following sections.

Pedagogical Features

Learning Objectives Action-oriented objectives at the beginning of each chapter indicate in precise terms what the students should be able to do when they complete the chapter. The objectives are stated again in the margins beside pertinent text discussion. Then, the end-of-chapter review clearly relates each objective to the content of the chapter. The end-of-chapter assignments are also keyed to specific learning objectives.

Real-World Applications Many chapters include graphs or tables illustrating the practice of actual businesses in relation to the topics of the chapter. In addition, most of the exercises on Interpreting Accounting Information are based on the published financial reports of real companies.

Key Terms and Glossary Throughout the book, key accounting terms are emphasized with bold color type and clearly defined in context. These terms are also assembled in a comprehensive glossary for easy reference.

Chapter Review A unique feature of each chapter is a special review section comprising (1) a Review of Learning Objectives that summarizes the main points of the chapter in relation to the objectives; (2) a Review Problem with complete solution to demonstrate the Chapter's major procedures before students tackle the exercises and problems; and (3) a Self-Test in Chapters 1 through 7 that reviews the basic concepts of these crucial early chapters, with end-of-chapter answers that provide immediate feedback to the students.

Questions Discussion questions at the end of each chapter focus, for the most part, on major concepts and terms.

Classroom Exercises Classroom Exercises provide practice in applying concepts taught in the chapter and are very effective in illustrating lecture points. Each exercise is keyed to the learning objectives. In addition, transparencies are available for all exercise solutions.

Interpreting Accounting Information This feature asks the student to interpret published financial information (in Chapters 1–14 and 27–28) or

internal management reports (in Chapters 15–26). Most are based on excerpts from actual annual reports or on published articles about well-known corporations or organizations. Among the companies included are K Mart, Sears, U.S. Steel, Marathon Oil, Chrysler, Lockheed, and Airborne Express. Each of these exercises required students to demonstrate their ability to interpret published information by extracting data from what they read and by making a computation and interpretation.

A and B Problems We have included two sets of problems to provide maximum flexibility in homework assignments. In general the problems are arranged in order of difficulty, with Problems A-1 or B-1 for each chapter being the simplest and the last in the series the most comprehensive. A and B problems have been matched by topic so that A-1 and B-1, for example, are equivalent in content and level of difficulty. In addition, all problems are keyed to the learning objectives. Difficulty ratings, time estimates, and solutions are available to the instructor. Transparencies of all solutions are also available.

Financial and Management Decision Cases Each chapter contains a case that emphasizes the usefulness of accounting information in making decisions. The business background and financial information for each case are presented in a decision context. The decision maker may be a manager, an investor, an analyst, or a creditor. In the role of decision maker the student is asked to extract the relevant data from the case, make computations as necessary, and make a decision.

Appendixes To provide the maximum flexibility, we have included six appendixes at the end of the book on optional topics that may be inserted as desired by the school or faculty. Each appendix is in mini-chapter format with questions, exercises, and problems. The topics of these appendixes are:

Appendix A: Special-Purpose Journals

Appendix B: Financial Accounting Concepts

Appendix C: The Use of Future Value and Present Value in Accounting

Appendix D: Compound Interest and Present Value Tables

Appendix E: International Accounting

Appendix F: Overview of Income Taxes for Individuals

Supplementary Learning Materials

Study Guide with Selected Readings

This learning aid is a chapter-by-chapter guide to help the student understand the main points of the chapter. Each chapter begins with a summary, organized by learning objective, of the major concepts and

applications in the chapter. Next, to test the student's basic knowledge of the chapter content, there are matching, completion, true-false, and multiple choice exercises. Finally, students are asked to apply their knowledge in short exercises. All answers are provided at the end of the Study Guide.

The Study Guide also contains readings selected from professional journals and the popular press to provide broader understanding of the topics in the chapters. A summary of financial accounting theory is also provided. In addition, the complete financial statements with all footnotes, supplementary disclosures, management commentary, and auditor's report for the Coca-Cola Bottling Company are provided for additional student analysis.

Working Papers 1 and 2

Working Papers are designed to accompany all the A & B problems in the text. Forms are provided for each problem with column headings and company names preprinted for easy identification. Working papers for Chapter 27, "The Statement of Cash Flows" and Chapter 28, "Financial Statement Analysis" are included in both volumes to allow for flexible coverage of these chapters during the course.

Traditional Practice Sets

With the exception of *Sailsports* and *The Windham Company*, the following practice sets require a knowledge of special journals and subsidiary ledgers, covered in Appendix A.

Sailsports: Cumulative Practice Set Covers seven months' worth of business transactions for a sole-proprietorship rental company. Provides hands-on training in accounting procedures. (After Chapter 2)

Micro-Tec, 2nd Edition This practice set covers a one-month accounting cycle for a sole-proprietorship merchandising company. It is available in both workbook and business papers formats, and requires about 12 hours to complete. (Chapter 5)

Oak Shoppe: Audit Problem Requires students to use source documents to trace and correct errors in one month's transactions, and then generate an accurate set of financial statements for the company. It requires 10–12 hours to complete. (Chapter 5)

The Book Loft: Shoebox Practice Set This unique practice set requires students to organize a disordered set of documents covering one month's transactions for a retail bookstore, and establish a complete set of accounting records for the company. It requires 10–12 hours to complete. (Chapter 5)

College Words and Sounds Store, 2nd Edition This practice set covers a two-month accounting cycle for a small merchandising concern. In addition to special journals, it deals with credit card sales, petty cash, vouchers, and payroll. This practice set is available in workbook format and requires 12–15 hours. (Chapter 9)

The Windham Company This practice set is really two sets in one. The first (used after Chapter 16) requires students to prepare the worksheet and financial statements for a manufacturer using a periodic inventory system. The second (used after Chapter 17) covers the same tasks for a manufacturing firm using a perpetual inventory system. The practice set has been formatted in such a way that it can be easily solved using the LOTUS® 1-2-3 spreadsheet. This practice set is available in workbook format, requiring about 10 hours.

Financial Analysis Cases

Three financial analysis cases are available to realistically introduce students to the interpretation and analysis of the information contained in a company's annual report. Although both cases are comprehensive in nature, *Heartland Airways* places more emphasis on such issues as debt equity and long-term solvency and *Richland Home Centers, Inc.* places more emphasis on short-term liquidity, inventory management, and accounts receivable. Both cases require students to perform ratio and trend analysis and to prepare a statement of cash flows.

General Mills involves the broad analysis of consolidated financial statements for a major corporation.

All three cases may be introduced after covering the chapters in Part Eight, *Analyses of Accounting Information*, wherever they may appear in the course.

Management Decision Case

McHenry Hotels, Inc. involves the systematic analysis of the Dallas branch of McHenry Hotels, Inc., a chain of luxury hotels. Students are required to evaluate all major aspects of the hotel's operations, including its accounting system, past and future profitability, and budget, while preparing a comprehensive report for the Board of Directors. (This case may be started after Chapter 21).

Computerized Financial Practice Sets

Instructors may choose among six computer-assisted, interactive practice sets covering a broad range of business organizations and accounting tasks. These practice sets require no prior computer knowledge. They do, however, with the exception of *Sounds Abound* and *Cook's Solar Energy*, require a knowledge of special journals, covered in Appendix A.

Berger Automotive Company and Stormer Painting Company These are computer-assisted, interactive practice sets that can actually be done manually if the instructor wishes. Each covers twelve months' activity, during which time the company evolves from a sole proprietorship service business to a corporation. Transaction analysis is stressed and the speed with which a computer can speed the flow of accounting data is demonstrated. The practice sets require only 40 to 90 minutes a week and can be handled as a laboratory or as a test. (These sets may be begun after Chapter 2.)

Parks Computer Company and Matthew Sports Company Each covers twelve months' financial activity. During this time, each evolves from (1) a sole proprietorship service business to (2) a sole proprietorship merchandising business to (3) a corporation merchandising business to (4) a corporation manufacturing business. Most of the major transactions specific to each form of business organization are covered—from simple sales and purchase transactions, through accounting for cost of goods sold to various stock transactions through such manufacturing accounting procedures as applying factory overhead and accounting for raw materials, work in process, and finished goods inventories. Work sheets and financial statements for a manufacturing business are also covered. (These may be begun after Chapter 2, but a knowledge of special journals, covered in Appendix A, is necessary to begin the fourth month's transactions.)

Cook's Solar Energy Systems, 2nd Ed. Covers a one-month accounting cycle for a sole proprietorship merchandising company. This program covers 50 transactions and requires only 75 minutes of computer time to complete. (Chapter 5)

Sounds Abound This covers 39 transactions comprising a one-month accounting cycle for a sole proprietorship service company. It shows students how to record transactions using a computer and enables them to prepare financial statements automatically. It is easy to use and can be completed in two hours on the computer.

Computerized Managerial Decision Case

Polyform, Inc. is a plastics manufacturing firm. Students are required to evaluate data, make decisions, and analyze those decisions using the microcomputer. A cost and/or managerial emphasis is possible by selecting units from the case's modular organization. (After Chapter 17)

Microcomputer Business Simulations

Lawson's Supply Center, Inc. introduces students to computerized procedures used by a building supplies company to carry out five

accounting tasks. Each stand-alone simulation—General Ledger (Chapter 4), Accounts Receivable (Chapter 7), Cash (Chapter 7), Payroll (Chapter 9), and Accounts Payable (Chapter 9)—cover one month's business transactions.

LOTUS[®] Problems for Accounting Software and Workbook

This disk-based program, when used with the LOTUS[®] spreadsheet software allows students to select pre-programmed worksheets and use them to solve problems from the text. The workbook contains instructions for using the program. A guide to the templates is available.

TRICALC[™] Integrated Software for Accounting and Workbook

This teaches students how to build spreadsheets using approximately 40 problems, similar to those in the text, using the TRICALC[™] software program. TRICALC[™] software also includes word processing and data base applications.

Instructor's Resource Materials

Instructor's Handbook with Achievement Tests The Instructor's Handbook provides for each chapter a list of the topic headings in the text; a learning objectives chart for the end-of-chapter assignments; an analysis of the time and difficulty involved to solve each problem; lecture resource materials that provide, for each learning objective, a summary statement, a list of new words, terms, and related text illustrations, and a suggested lecture outline. Also included are Achievement Tests. Each test covers two or three chapters.

Instructor's Solutions Manual The Instructor's Solutions Manual contains solutions to all questions, exercises, and problems in the text. Each problem is rated by level of difficulty (easy, medium, or difficult) and time needed to solve it. Charts indicate the learning objectives covered by each question, exercise, and problem.

Check List of Key Figures This item is available in quantity to instructors.

Test Bank Contains more than 2,800 items with about 30 true-false questions, 55 multiple-choice questions, ten exercises, and five problems per chapter. Every question is carefully matched to a specific learning objective in the text, and is classified according to one of four levels of student mastery: recall, comprehension and understanding, applications, and analysis.

Microtest and Call-in Testing Service Computer version of the *Test Bank*.

Boxed Solutions Transparencies and Lecture Outlines Over 950 flexible mylar transparencies (printed in oversize, clear, 11-point bold type) provide instructors with solutions to every question, exercise and problem in the text. A nine- to ten-page lecture outline for each chapter is included.

Teaching Transparencies About 100 two-color teaching transparencies are supplied in a convenient three-ring binder for instructors' use.

Grade Performance Analyzer This computerized gradebook program for microcomputers facilitates orderly recordkeeping, calculating, and posting of student grades.

ACKNOWLEDGMENTS

An introductory accounting text is a long and demanding project that cannot succeed without the help of one's colleagues. We are grateful to a large number of professors and other professional colleagues as well as students for constructive comments that have led to improvements in the text. Unfortunately, space does not permit us to mention all those who have contributed to this volume.

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Cerritos College

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Ms. Margaret Griffith

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Professor George Holdren

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Professor Alice James

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Professor Mark Kiel
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Professor Harold L. Royer
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Professor Ronald N. Savey
Western Washington University

Professor Joseph Schliep
Normandale Community College

Professor Nathan Schmukler
Long Island University

Professor Donald L. Seat
Valdosta State College

Professor David A. Skougstad
Metropolitan State College

Professor John R. Stewart
University of Northern Colorado

Dr. DuWayne Wacker
University of North Dakota

Professor Loren K. Waldman
Franklin University

Dr. Richard B. Watson
*University of California—
Santa Barbara*

Professor Robert Wennagel
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B.E.N. H.R.A. J.C.C.

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Note: The topic of income tax is integrated throughout the book at those points where it is relevant to the discussion. Appendix F covers personal income taxes.

LOTUS® Problems for Accounting workbooks and accompanying LOTUS® template diskettes can be used to solve the end of chapter problems.

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Sailsports—Cumulative Practice Set

The following computer-assisted practice sets may be started after Chapter 2:

*Parks Computer Company
Matthew Sports Company
Cook's Solar Energy Systems,
Second Edition
Sounds Abound
Berger Automotive Company
Stormer Painting Company*

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*The following computer-assisted business
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