

Robert F. Meigs & Walter B. Meigs

# FINANCIAL ACCOUNTING

—Seventh Edition—

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## **Financial Accounting**

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# P R E F A C E

We have treated this seventh edition as an opportunity to shift the emphasis of our text from the development of accounting information to its *use*. This “user-oriented” approach assists students in acquiring a better understanding of accounting information, and of the environment in which it is developed and used. It also enhances their ability to use accounting information in making economic decisions. Finally, this approach provides students with a better understanding of accounting concepts, and thereby provides a sound foundation for future learning.

Our own experiences as accounting educators have led us to endorse this user-oriented approach. We believe that it better suits the needs of both those students who will major in accounting and those who will not. In addition, we find that the broader and more analytical nature of this approach has greater appeal to the types of students the accounting profession is seeking to attract.

## THE CHANGES IN THIS SEVENTH EDITION

Because of our increased emphasis upon the use of accounting information, this seventh edition is our most extensive revision to date. The changes are numerous, affecting the topical coverage, in-text learning aids, assignment material, and every element of the supplementary learning and teaching aids. However, this seventh edition carries forward the structure and pedagogy developed in our prior editions. Instructors acquainted with our text should find this edition familiar and, we expect, even more “teachable.”

### New and Extensively Revised Chapters

Every chapter has been revised significantly. For example, each chapter contains greater emphasis upon the use of accounting information, and far more assignment material than ever before. Among the changes in topical content which 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, source, and significance of generally accepted accounting principles. Two \*Supplemental Topic sections now appear at the end of the chapter. The first of these

illustrates an annotated balance sheet of **Apple Computer, Inc.**, and the second contains a discussion of career opportunities in accounting.

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

Chapter 5, now entitled "Accounting for Merchandising Activities; Introduction to Financial Statement Analysis," exemplifies many of the changes in this seventh edition. In keeping with contemporary business practices, we emphasize perpetual inventory systems—the type of system used in every large business organization. Our coverage of periodic inventory systems has been revised and shortened, with more complete coverage provided in an appendix. The final portion of the chapter, "Introduction to Financial Statement Analysis," 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 the information in a data base may be tailored to suit the needs of specific decision makers. The chapter also explores the nature and purposes of financial and operational audits, along with the related topics of employee fraud, management fraud, and professional ethics.

Chapter 7, "Cash and Accounts Receivables," now includes discussions of cash management, accounts receivable turnover rates, and strategies for quickly converting receivables into cash. These additions reflect our increased emphasis on the use of accounting information by management, as well as by persons outside the business organization.

Chapter 8, "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 turnover rates, and the objectives of "inventory management." The nature and significance of large LIFO reserves are discussed as a \*Supplemental Topic.

Our discussions of current and long-term liabilities are combined in a new Chapter 10. New coverage of installment notes payable more clearly illustrates the distinction between interest expense and the cash payments for debt service. This chapter also includes an introductory-level discussion of the liabilities for pensions and other postretirement costs. We have revised extensively our coverage of bonds payable. We now focus upon the economic impact of bonds, including "junk bonds," but have reduced considerably the coverage traditionally accorded to the amortization of bond premium and discount. (The adjustments seldom are material in amount. Further, bonds almost never are issued at a premium). Chapter 10 concludes with a \*Supplemental Topic section discussing loss contingencies and commitments.

Chapter 13, "Measuring Cash Flows," now includes the indirect method of reporting the net cash flow from operating activities, as well as the direct method.

Chapter 14, "Analysis and Interpretation of Financial Statements," has been revised to reflect our emphasis of this topic throughout the textbook.

Chapter 15, "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 the AICPA and IMA (formerly NAA) codes of professional ethics.

We have integrated throughout the textbook many basic income tax concepts which affect business decisions. Further coverage of income taxes is provided in Appendix E. In comparison to prior editions, our new coverage of income taxes is more conceptual, and is not based upon the rates or regulations of a particular year.

### **Supplemental Topics and Appendixes**

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

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

In contrast to the \*Supplemental Topics, the Appendixes at the end of the text provide self-contained coverage of specialized topics. We consider coverage of the Appendixes optional; often these topics are covered elsewhere in the curriculum.

We have shortened our basic text to 15 chapters, a length we consider appropriate for a one-semester course. With the \*Supplemental Topics and Appendixes, however, the text provides more than enough material for a challenging two-quarter course in financial accounting.

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

Two new features have been added to our end-of-chapter learning aids. Chapter summaries have been expanded to explain the relationships between the current chapter and upcoming topics. Our objective in redesigning these summaries is to present financial accounting as an integrated information system, rather than as a series of loosely related topics.

The second new feature is the addition of multiple-choice Self-Test Questions in every chapter.

As in past editions, every chapter includes a summary organized by learning objectives, a demonstration problem, and a glossary of key terms.

### **Assignment Material**

One of the most distinctive features of this edition is the increase in the quantity and variety of the assignment material. The overall number of exercises, problems, and cases has been increased by more than 50%. Much of the new assignment material is based upon situations involving well-known companies.

We have developed a large number of Cases and Unstructured Problems

specifically for this edition. These assignments assist students in developing analytical abilities and communication skills, and also provide instructors with a wealth of assignment material well suited to in-class discussions.

We consider the five **Comprehensive Problems** to be among the most useful assignment material in the text. These problems tie together concepts presented over a span of chapters. Some of these problems are similar in scope to practice sets or supplementary materials, previously available to students only at additional cost. Three of our five Comprehensive Problems are new to this edition.

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.

### Supplementary Materials

This text is accompanied by a large number of supplementary learning and teaching aids. These supplements are described below, with emphasis upon the features new to this seventh edition.

#### For the student:

1. **A Self-Study Guide.** The **Study Guide** enables students to measure their progress by immediate feedback. It includes a summary of the highlights of each chapter, and an abundance of objective questions and short exercises. Answers to all questions and exercises are provided immediately after each chapter. As an additional study aid, the reasoning behind the answer to each true-false and multiple-choice question is explained in detail.
2. **Partially Completed Working Papers.** This soft-cover booklet provides the appropriate type of columnar paper for each Problem and Comprehensive Problem in the text. These working papers provide students with guidance in setting-up their solution. In addition, problem headings and “given” data already are filled in to save students much of the copying and “pencil-pushing” otherwise inherent in some assignments. (Partially completed working papers are **not** provided for the Discussion Questions, Exercises, or Cases and Unstructured Problems. These categories of assignment material may be answered on ordinary notebook paper or by using a word processor.)
3. **Computer Tutorial.** Using objective questions and exercises from our **Study Guide**, this supplement allows students to test themselves on any chapter using a personal computer. For objective questions, the tutorial provides immediate on-screen explanations of why incorrect answers are wrong, along with page references to the appropriate textbook discussions. To assist in solving exercises, the tutorial includes a built-in calculator and numerous “help-screens.” (Available in IBM 3½ and 5¼ inch formats.)
4. **Accounting/Lotus Connection**, by E. James Meddaugh. Using this software, problems in the text designated by the computer logo in the left margin may be worked easily on a personal computer. (Available in IBM 3½ and 5¼ inch formats. For use with Lotus 1-2-3 or compatible spreadsheet programs.)

5. **AIM**, (Accounting Information Manager), by John W. Wanless. This user-friendly general ledger software enables students to use a personal computer in working many "accounting cycle" problems in the text, including Comprehensive Problems 1, 2, and 4. This package also includes an innovative explanation of the evolution of double-entry accounting.

We previously have offered as supplementary materials several manual simulations of various accounting activities, termed **Accounting Applications**. These applications are no longer offered as supplementary items; comparable materials now are included in the text at no additional cost.

#### For the instructor:

1. **Solutions Manual**. A comprehensive manual containing solutions to all Discussion Questions, Exercises, Problems, Cases and Unstructured Problems, and Comprehensive Problems. All assignment material and the solutions were developed by the authors of the text.

A characteristic of this seventh edition is the vast increase in the quantity and variety of assignment material. To assist faculty in selecting the most appropriate assignments, tables are provided in each chapter indicating the topical content and pedagogical nature of each assignment.

Solutions to all Exercises and Problems also are available as **overhead transparencies**.

2. A new and greatly enlarged **Test Bank**. With an abundance of objective questions and short exercises, this supplement is a valuable resource for instructors who prepare their own quizzes and examinations. In its new format, this is one of the largest test banks ever to accompany a financial accounting textbook. Other new features of the expanded test bank include four **10-Minute Quizzes** and several short **essay questions** for each chapter.

Available as a printed manual, or in either of two computer-based formats (**RHTest** for IBM, and **MicroTest** for Macintosh). Both of the computerized test banks may be edited and expanded.

3. Two parallel sets of **Achievement Tests** and **Comprehensive Examinations**. Each set consists of three Achievement Tests, each covering four chapters, and a Comprehensive Examination covering all 15 chapters. (Appendixes and \*Supplemental Topics are **not** covered in Achievement Tests or Comprehensive Examinations. However, examination material on these topics is provided in the **Test Bank**.)
4. An **Instructor's Guide**, written by the authors of the textbook. This guide includes for each chapter and appendix in the text:
  - a. A brief topical outline indicating the topics that we like to discuss in class.
  - b. An assignment guide, providing at a glance the topical content of each Exercise, Problem, and Case.
  - c. Our personal comments and observations concerning the chapter content, methods of presentation, and usefulness of specific assignment material

In addition, the Instructor's Guide includes many "real-world" examples not found in the text, sample assignment schedules, suggestions for using each



element of the supplemental package, and solutions to the ***Achievement Tests*** and ***Comprehensive Examinations***.

5. ***Acetate Teaching Transparencies***. A large set of teaching transparencies also are available in the conventional acetate form, for use in classrooms which are not equipped for computer-based projection.
6. ***Primis Custom Publishing Capabilities***. Financial Accounting, Seventh Edition, text and selected supplements are available on the 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 cases, and articles from the Journal of Accountancy.

## CONTRIBUTIONS BY OTHERS

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We owe a special debt to Mary Meigs, San Diego State University. Professor Meigs is a coauthor of both the Study Guide and the Test Bank which accompany this seventh edition. She also has participated in virtually every stage of this project. Her contributions have improved the text and the supplementary materials in many ways.

Our special thanks also go to James M. Emig, Villanova University, and Robert P. Zwicker, Pace University, for assisting us in the proof stages of this edition with detailed reviews of text examples and end-of-chapter problem material.

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Robert F. Meigs  
Walter B. Meigs

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