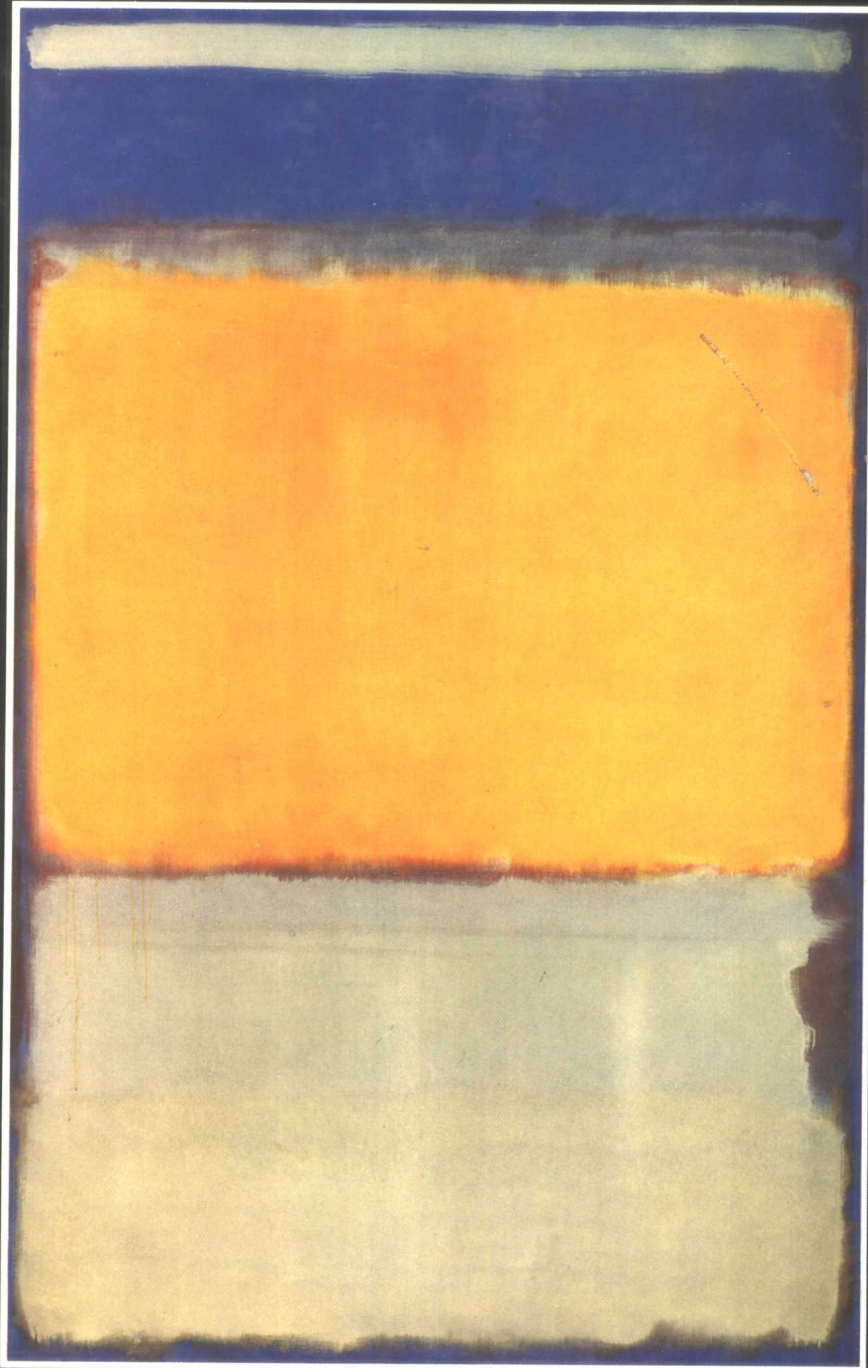


SECOND EDITION

INTRODUCTION TO FINANCIAL ACCOUNTING



Kirkland A. Wilcox
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INTRODUCTION TO FINANCIAL ACCOUNTING

SECOND EDITION

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NAVAL POSTGRADUATE SCHOOL, MONTEREY



1817

HARPER & ROW, PUBLISHERS, New York
*Cambridge, Philadelphia, San Francisco,
London, Mexico City, São Paulo, Sydney*

Cover: Oil on canvas by Mark Rothko entitled *Number 10*, 1950. Collection, The Museum of Modern Art, New York. Gift of Philip Johnson. Copyright © 1984 The Museum of Modern Art, New York.

Sponsoring Editor: *John Greenman/Anne Farley*
Development Editor: *Robert Ginsberg*
Project Editor: *Cynthia L. Indriso*
Designer: *Gayle Jaeger*
Production Manager: *Willie Lane*
Compositor: *Progressive Typographers, Inc.*
Printer and Binder: *The Murray Printing Company*
Art Studio: *J & R Technical Services, Inc.*

INTRODUCTION TO FINANCIAL ACCOUNTING, Second Edition
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Library of Congress Cataloging in Publication Data

Wilcox, Kirkland A., 1940-

Introduction to financial accounting.

Includes index.

1. Accounting. I. San Miguel, Joseph G. II. title.

HF5635.W69 1984 657 83-10775

ISBN 0-06-047103-4

Preface

This text is designed for the first course of a financial-accounting/managerial-accounting sequence. The authors' aim has been to aid students in understanding financial statements and the process of financial reporting. The primary emphasis is on accounting concepts and the communication of financial information, yet mechanical and procedural techniques have been examined in sufficient detail to give students a basic understanding of the accounting process and how it provides information for financial reports.

In addition to the traditional core topics, the book offers basic coverage of several topics of increasing importance to students whose knowledge of accounting will be applied in a society where financial and physical resources often are limited. For example, Chapter 17 focuses on financial reporting and changing prices. Leasing transactions are presented in Chapter 14 and internal control issues are discussed in Chapter 15.

Because of the number of topics offered, the text may present more material than a particular instructor may wish to cover in a one-semester course. The book is organized with this possibility in mind. Each chapter and the related homework materials are divided into parts that present specific topics. This structure allows the user a substantial degree of flexibility. It makes it easy for the instructor to omit a topic without loss of continuity.

Pedagogical devices—learning objectives, demonstration problems with solutions (new to this edition), chapter summaries, and lists of key terms—are included in each chapter to help students focus attention on the basic concepts and terminology to be learned. In addition, a glossary of terms with cross-references to chapters is presented at the end of the text along with two sets of financial statements published by different types of companies. The authors recognize the importance of homework material, both for instructors and for students, and have included a variety of study and review aids—questions, short problems for quick review, longer situational problems, comprehensive problems, continuing problems, and discussion cases. There are nearly 800 individual items in all. This material has been classroom tested and the solutions have been triple-checked for accuracy.

**NEW
ORGANIZATION
OF THE SECOND
EDITION**

The text offers complete coverage of topics typically found in a financial accounting course. The order of presentation, however, is somewhat different from that used in more traditional texts and in the first edition of this book. The second edition begins, as usual, with a discussion of the

accounting process. Rather than continue with coverage of balance sheet items as is done traditionally, we have elected to discuss the accounting procedures for various types of transactions and the related accounts.

The transactions approach was chosen because we feel it offers several improvements over the traditional presentation. The usual method is to structure the course around the categories shown on the balance sheet, taking them in order. This approach can be very abstract because students find it hard to relate the categories to anything in their previous experience. On the other hand, the transactions approach introduces accounting concepts via the natural flow of accounting information as it accumulates in the course of business. Students are able to see how actual business transactions (which they can easily relate to) can be translated into the abstraction of the balance sheet. For example, we discuss accounting for capital stock transactions (Chapter 10) before we discuss investments in marketable securities (Chapter 12). In this way, we introduce students to equity securities before asking them to learn how to account for investments in such securities. The material becomes easier to learn, and it can be learned more quickly and retained better. An additional advantage of the transactions approach is that it permits us to present accounting techniques in conformity with the internal accounting systems that managers are responsible for implementing in the real world of business. The sequence of events shown in the text parallels the procedures used by accountants and auditors. From the very beginning, students learn what they need to know in conformity with the way they will have to use the knowledge.

Appendixes

In order to make the text even more flexible, the number of chapter-end appendixes has been increased from two to five. Appendix A (Chapter 3) presents special revenue recognition methods such as installment basis and the percentage-of-completion method for long-term construction contracts. Appendix B (Chapter 5) discusses the net method of recording sales (as opposed to the gross method), and Appendix C (Chapter 9) presents the basics of accounting for pension costs. Accounting for interest and principal on installment contracts is examined in Appendix D (Chapter 11), and Appendix E (Chapter 13) discusses the effective interest method of accounting for bond transactions. These topics are presented in appendixes to allow the instructor to choose which, if any, should be assigned for study.

Information processing systems

For those instructors who wish to place more emphasis on accounting procedures and mechanics, information processing systems are covered in Chapter 18. This chapter provides additional detail on the basic data-gathering system and on accounting for payrolls and related expenses. Instructors who wish to assign these topics will find that the material fits logically after either Chapter 9 or Chapter 14.

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The basic approach of the text is, first, to examine the “forest”—the financial statements and the relationships among them—and then to investigate the “trees” that make up the forest—the types of transactions and the various components that comprise the financial statements and the accounting concepts and problems associated with these topics.

The text is divided into five sections. Most instructors will want to assign topics in the order in which they are presented. However, the section divisions allow the instructor who prefers a different topical organization to design a course that accomplishes his or her desired objectives.

Briefly, the text is organized as follows:

Section One (Chapters 1–4): The Accounting Model and the Accounting Process

Section One examines the overall accounting model upon which the balance sheet and income statement are based and the accounting process for merchandising and service-oriented companies. Separate chapters on the balance sheet (Chapter 2) and the income statement (Chapter 3) introduce each statement and help the student understand the kinds of financial information that each statement communicates.

Section Two (Chapters 5–9): Accounting for Operating Transactions

Section Two discusses the problems associated with accounting for sales and receivables; purchases, cost of goods sold, and inventories; the acquisition of fixed assets and depreciation; and other obligations arising from normal business operations such as accrued expenses, contingencies, and income taxes.

Section Three (Chapters 10–14): Accounting for the Accumulation of Capital and Investments in Productive Resources

Section Three presents an analysis of the accounting problems associated with capital stock and other owners' equity transactions; short-term and long-term investments in equity securities; long-term debt and investments in debt securities; and other long-term assets such as intangible assets, natural resources, and leasing transactions. This section also contains a chapter on the time value of money and present value techniques.

Section Four (Chapters 15–17): Selected Topics Related to Financial Reporting

Section Four discusses several special topics that are important to financial statement users. These include the statement of changes in financial position; financial statement analysis; interpretation of audit reports; accounting for the effects of inflation; and accounting for business transactions.

Section Five (Chapter 18): Supplementary Topics in the Accounting Process

Section Five is included for those instructors who wish to place more emphasis on accounting procedures and mechanics. It extends the discus-

sion of the accounting process begun in Section One to include special journals, subsidiary ledgers, and accounting for payrolls and related expenses. The chapter could be assigned after Chapter 9 or Chapter 14.

Appendix I: Live Financial Statements

Appendix I presents actual, recent financial statements and footnotes of two companies. These statements can be used for quick reference by the instructor in the classroom.

Appendix II: Time-Value-of-Money Tables

Time-value-of-money tables are shown at the end of the book for easy reference.

A Guide to Accounting Language

The complete glossary of terms used in the text includes cross-references to the chapter where the term was introduced.

*DESIGN OF
CHAPTERS TO
AID LEARNING*

The text has been written to help students in the tasks of learning the basic concepts that form the foundation of financial accounting and of becoming familiar with accounting language. The following pedagogical devices are included:

Learning objectives and chapter summaries

Each chapter begins with a list of the student's learning objectives for that chapter. This feature helps students understand exactly what they are expected to learn from the chapter. Short chapter-end summaries provide immediate review of the material just covered.

Demonstration problems

In response to requests from users of the first edition and from reviewers, we have added 55 new demonstration problems to the second edition. There are one or more demonstration problems in most parts of each chapter. The demonstration problems are designed to illustrate the concepts discussed in the chapter. They include the facts of the problem, a listing of the requirements to be completed, and the solution to each requirement. In some cases alternate solutions are also examined. These problems and solutions should facilitate the student's understanding of the effects of the concepts discussed in the chapter on the various components of the financial statements. The demonstration problems will aid in analyzing, interpreting, and solving the homework problems.

Lists of key terms

Because it is important that students learn the definitions and usage of accounting terminology, a list of the key terms introduced in each chapter follows the chapter summary. These terms have been set in boldface type in the text. The list of terms includes page references that point the

student to the definition and textual explanation of any term that he or she needs to review. In addition, a guide to accounting language included at the end of the text provides definitions of key terms introduced in the book.

Homework material

Numerous questions, exercises, and problems are included at the end of each chapter. In addition, several chapters include one or more discussion cases that provide real-life examples of accounting problems or situations covered in the chapter. The homework is designed to help the student to master certain mechanical skills and also to understand the logic of the financial reporting system and related generally accepted accounting principles.

One innovation unique to this text is the use of two continuing problems in Chapters 2, 3, and 4. These problems are designed to take students completely through the accounting process for two service-oriented businesses. This approach enables students to learn more easily the building-block sequence in these very important first chapters.

The homework material has been class tested and triple-checked by the authors, by another instructor, and by a practicing CPA.

SUPPLEMENTARY MATERIALS

The following supplementary materials have been prepared to assist both the instructor and the student in using the text:

- 1 Instructor's Manual. This comprehensive manual, prepared by Kirkland A. Wilcox, contains suggested lecture notes and teaching hints based on the material presented in each chapter. Each problem is described and information on the estimated time needed to work each problem and the degree of problem difficulty is also indicated. A significant new addition to the Instructor's Manual is the inclusion of 10 supplementary Short Problems for Quick Review, with solutions, for each chapter. These additional short problems can be used as substitutes for the short problems at the end of the chapter, or they can be used for quizzes.
- 2 Solutions Manual. Answers and solutions to all homework questions, exercises, problems, and cases are included in the Solutions Manual.
- 3 Test Bank. The Test Bank contains short-answer questions and problems for each chapter. The short-answer questions consist of multiple-choice, true-false, and matching questions, and the level of difficulty is indicated for each one. All short-answer questions are available on MICROTEST, a computerized testing program for microcomputers. A complete and detailed solution for each problem is provided.
- 4 Transparencies of Problem Solutions. Clear, readable solutions to important problems are provided on transparencies for those instructors who wish to use them in the classroom.

- 5 **Student's Study Guide.** The study guide provides the student with an outline of each chapter, along with additional questions and problems to solve. Since answers are provided for these questions and problems, the student is able to test and measure his or her own comprehension of the text material. Each chapter in the *Guide* includes a demonstration problem to parallel the one in the text, and to guide the student through a typical transaction.
- 6 **Working Papers.** A package of working papers is available to help students logically solve all exercises and problems. Many of the working papers are partially completed with data such as company name or account titles in order to save students time.
- 7 **Practice Sets.** The two Practice Sets provide students with a comprehensive learning experience that develops their understanding of the accounting cycle, the function of the accounting system, and the preparation of financial statements. *Alpine Records & Tapes, Inc.*, covers material presented in Chapters 1-6 and Chapter 18. It goes over journalizing transactions in special journals and the general journal (using the net method for merchandise purchases). *Movies a la Carte, Inc.*, covers journalizing transactions in the general journal and uses the gross method for merchandise purchases.
- 8 **Checklist of Key Figures.** A checklist of key figures for all problems and continuing problems is provided. The purpose of key figures is to help students verify the accuracy of their solutions at key checkpoints in the problems and to give them instant feedback as to their success or failure up to that point in the homework problem.

ACKNOWLEDGMENTS

We are grateful to Ava Allsman of the University of Colorado and Anthony P. Curatola of Louisiana State University for their help in working all the problems. We also wish to thank the reviewers, whose assistance has been invaluable in preparing this edition. We are grateful for their thoughtful and detailed comments and criticisms. The following individuals read and commented on sections of the text and, in many cases, on the entire manuscript.

Anthony P. Curatola, Louisiana State University
Eugene E. Comiskey, Georgia Institute of Technology
Joyce E. Frakes, University of Denver
James C. Hunn, U.S. Naval War College, Newport
Douglas F. Hyde, Temple University
Mary S. Stone, The University of Alabama
James A. Tackett, Purdue University
Donald Tidrick, The Ohio State University
Terry Tranter, University of Minnesota
Mary T. Ziebell, Seattle University

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