

ACCOUNTING

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• Dyckman • Dukes • Davis •

Fourth Edition

INTERMEDIATE

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Fourth Edition

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To our wives and families:
Ann, Daniel, James, Linda, David
Phyllis, Peter, Anna
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INTERMEDIATE ACCOUNTING

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He is a former member of the Financial Accounting Standards Board Advisory Committee and the Financial Accounting Foundation, which oversees the FASB. He was president of the American Accounting Association in 1982 and received the association's *Outstanding Educator Award* for the year 1987. He also received the AICPA's *Notable Contributions to Accounting Literature Award* in 1966 and 1977.

Professor Dyckman has extensive industrial experience that includes work with the U.S. Navy and IBM. He has conducted seminars for Cornell Executive Development Program and Managing the Next Generation of Technology, as well as for Ocean Spray, Goodyear, Morgan Guaranty, GTE, Southern New England Telephone, and Goulds Pumps.

Professor Dyckman has coauthored several books and written over 50 journal articles on topics from financial markets to the application of quantitative and behavioral theory to administrative decision making. He has been a member of the editorial boards of *The Accounting Review*, *The Journal of Finance and Quantitative Analysis*, *The Journal of Accounting and Economics*, *The Journal of Management Accounting Research*, and *The Journal of Accounting Education*.

Roland E. (Pete) Dukes, Ph.D., is professor of accounting at the University of Washington where he teaches intermediate and advanced financial accounting at the undergraduate and graduate levels. He has served as chairman of the department of accounting from 1983 to 1992. He received his doctorate from Stanford University.

A member of the American Accounting Association, Professor Dukes has chaired the Annual Meeting Technical Program Planning Committee, the Doctoral Consortium Committee, the Notable Contribution to Accounting Liter-

ature Committee, and the Corporate Accounting Policy Seminar Committee. He has also served as a Distinguished Visiting Faculty for the Doctoral Consortium, as Director of the Doctoral Consortium, and as the Puget Power Affiliate Program Professor of Accounting at the University of Washington from 1986 to 1990. In 1993, Professor Dukes was named the William R. Gregory Accounting Faculty Fellow at the University of Washington.

Professor Dukes has published numerous articles in accounting journals, including *The Accounting Review*, *Journal of Accounting Research*, and the *Journal of Accountancy*. He has served on the editorial boards of *The Accounting Review*, *Journal of Accounting Research*, and *Journal of Accounting Literature*. He has been a consultant to the Financial Accounting Standards Board and authored the *FASB Research Report*, which investigated the effect of SFAS No. 8 on security return behavior. Professor Dukes also has served as a consultant to the Securities and Exchange Commission and to industry and government.

Charles J. Davis, Ph.D., C.P.A., is professor of accounting at California State University, Sacramento, and has served as Department Chair. He received his doctorate in accounting from the University of Illinois at Urbana.

Professor Davis has taught in the areas of financial and managerial accounting and auditing at both the intermediate and advanced levels. He has also been active in CPA review programs and has taught internationally. Professor Davis received excellence in teaching awards from both the University of Illinois at Urbana and California State University, Sacramento. In addition, he has been active in student accounting groups on campus.

Professor Davis has written journal articles in accounting and related business fields that appear in *Advances in Accounting*, *Issues in Accounting Education*, *Journal of Accounting and Public Policy*, in several health-care fiscal management journals, and in international accounting journals. He worked as a staff auditor for Peat, Marwick, Mitchell and Company and has served as a consultant to industry and government. Professor Davis is a member of the American Accounting Association.

PREFACE

INTRODUCTION

We continue to revise *Intermediate Accounting* with the student in mind. Our mission is to present critical concepts in a clear, concise way that is most helpful to learning and to enhancing the student's interest. The major changes we have made have this goal in mind. This revision was driven by extensive research into the preferences of current users as well as faculty who were not adopters of the *Third Edition* of this text. Instructors tell us they prefer a text that is user-friendly and that fosters the learning process.

We believe this edition reflects the views of both non-adopters and our faithful group of repeat users. We have learned a great deal. We thank them for their support and their suggestions. Our hope is that our text truly is a book that students will want to read and one from which they will learn a great deal.

As the authors of this text, we have put our many years of practical experience in teaching intermediate accounting to work in designing what we feel is an outstanding text for intermediate accounting. We have learned what works and what does not in the classroom and have exercised special care when covering those areas that are especially troubling for students. We involve the student in the learning process by developing the logic for important and controversial principles and by integrating real-world examples of financial reporting into the text.

By starting each chapter with a short introduction involving the main issues of the chapter in a real-world context, we first catch the student's interest and then hold it to the end of the chapter. We welcome your comments on how to improve continually the learning process for our students and add value for our adopters.

OVERALL OBJECTIVES AND CHANGES FOR THE FOURTH EDITION

The fourth edition builds on the foundation of the third edition and maintains its:

- Comprehensive and up-to-date coverage of accounting principles.
- Use of examples to illustrate procedure.
- Clear writing style.
- Thorough end-of-chapter material.
- Emphasis on critical thinking.
- Real-world emphasis in both text and end-of-chapter material.
- Flexible organizational structure.
- Diverse set of pedagogical features.

Curriculum Concerns We believe that the curriculum should continue to respond to issues pertaining to encouraging students to learn how to learn. Rather than emphasize rote learning of rules and regulations, we underscore how important it is for users and preparers of financial statements to understand accounting principles and how they are applied in financial reporting decisions. We also believe that without a firm grounding in accounting principles, the more user-oriented features would be of little value. Once the basics are internalized, the focus is on the process of inquiry in which the student learns to identify problem situations, search for relevant information, analyze and interpret the information, and reach valid conclusions.

The text presents GAAP as the current solution to a continually evolving host of financial reporting questions. By acquainting the student with the political nature of standard setting, the reader becomes aware that both users and preparers are affected by the outcome of the standard-setting process. Therefore each of us should have input into the deliberations that establish reporting standards. A fair number of the end-of-chapter cases require students to adopt this perspective in making recommendations on reporting issues. We hope this text stimulates a more interactive and involved learning process on the part of students as they learn.

Appearance and Exposition The design of this text should make reading and learning more interesting and pleasant for the student. More important, we have made much greater use of examples, diagrams, tables, flowcharts, and other visuals in an effort to use graphical material as much as possible in place of pure textual discussion to facilitate the learning process. A short example is often better than using a verbal approach. We have introduced the "Crystal Clear Connections" icon to show the integration of critical topics throughout the text.

We have found in our teaching that visual aids and examples help students get over the initial introduction to new material, increase their interest and enthusiasm, and improve retention. Use of graphical material also is more efficient in terms of the space required to present a concept. The interaction of several components of a complex procedure often is more easily assimilated visually. You will find fewer long paragraphs compared to earlier editions, and fewer pages without page breaks of some kind.

Critical Chapters From discussions with our reviewer panel and colleagues at several universities across the country, we have identified eight topics that are critical to understanding intermediate accounting. These are

integrated throughout the text and clearly indicated by the use of linking icons. The topics are *cash flows*, *pensions*, *inventory*, *leases*, *revenue recognition*, *taxes*, *bonds*, and *earnings per share* and are concentrated in nine chapters:

Chapter	Topic
7	Revenue Recognition
10	Inventory, Alternative Valuation Methods
14	Investments in Debt and Equity Securities
16	Long-Term Liabilities
17	Accounting for Leases
18	Accounting for Pensions
19	Accounting for Income Taxes
22	Earnings per Share
23	Statement of Cash Flows

We have made a special effort in these chapters to proceed from the less difficult and more conceptual material to the more complex procedural and technical material. Our aim here is to build the student's confidence while emphasizing the conceptual and theoretical underpinnings. We believe that with this foundation, the student is better equipped to tackle the more difficult accounting procedures and longer examples that characterize the material in each of these chapters. An added benefit of this approach is that instructors who wish to deemphasize the more complex mechanics of applying GAAP to practical situations may do so without compromising accounting theory. To provide complete coverage and to help students master the more difficult technical material, we have added a number of review problems after major sections within each of these chapters.

User Emphasis Where appropriate, we have added a short section on financial ratio effects to selected chapters. Rather than devote an entire chapter to financial statement analysis and the use of financial statement information (as was the case in a previous edition of this text), we have integrated the discussion of ratios in relevant chapters. By integrating ratio coverage and specific GAAP, we are able to discuss the effects of GAAP choices and other aspects of financial reporting in a more dynamic context. We believe that the student will learn more about the usefulness and limitations of ratios while simultaneously studying the major substantive issues of a chapter.

Up-to-Date Coverage Another goal of this edition is to maintain up-to-date and comprehensive coverage of accounting principles while not significantly increasing the size of the text. The coverage of relevant professional pronouncements is current as of the date of publication. It includes discussion of all recently published FASB statements and exposure drafts that affect intermediate accounting. However, while recognizing the necessity of maintaining comprehensive coverage, the realities of the marketplace and the ever-increasing number of professional standards have caused us to reevaluate the relative

importance of certain topics, resulting in some deletions and reductions of coverage in other areas.

In addition, we have updated most introductions, often shortening them to focus on the chapter issues within a real-world context. Most of the real-world examples within the text and end-of-chapter material have been updated. Global views were rewritten where necessary to reflect major changes in international accounting.

End-of-Chapter Material The problem material for each chapter has been reordered and organized into two parts:

Part I: Understanding and Applying Concepts and Standards.

This part includes questions, exercises, and problems and stresses the basic understanding of relevant GAAP and application of those standards. These items typically are more straightforward and structured than those in Part II.

Part II: Analysis, Judgment, and Communication

This part includes cases, financial statement analysis problems, and comparative analysis problems. As such, this part of the end-of-chapter material stresses more open-ended situations, writing, and real-world contexts. One of the benefits of real-world problems is that students are exposed to more complex and realistic situations. These contexts often do not lend themselves as readily to solution as do the items in Part I. Significant exposure to this type of material is, we believe, an important part of the education of an accountant.

Specific end-of-chapter changes include:

1. **Quantity of items.** In the nine chapters designated as critical chapters, we have added several more exercises and problems, with particular emphasis on the application of GAAP and required procedures. With the addition of these exercises and problems, our text should exceed the coverage in other intermediate texts in terms of the quantity and variety of end-of-chapter material. Other exercises and problems, and especially our cases and analysis problems probe more conceptual issues.

For all chapters, completely new items have been added, both in areas for which accounting principles have changed and in areas where they haven't. In addition, roughly one-quarter of existing items that were retained have been modified so that the previous homework solution will no longer apply. This should help ease the transition to this edition. We are grateful to Professor Loyd Heath of the University of Washington who contributed problems to selected chapters. His problems are typically longer writing cases involving more complex financial reporting situations.

2. **Financial statement analysis.** Several problems addressing ratio analysis and financial statement analysis have been added. A common theme of these problems is to ask the student to address the effects of alternative

measurement choices on financial ratios. These problems require a broader knowledge of the effects of GAAP choice because aggregate measures typically are involved in the ratios considered in these problems. These ratio problems complement the chapters that have sections devoted to ratio analysis in them, but also appear in other chapters.

3. Comparative analysis. We have added more comparative financial statement problems in response to favorable comments by adopters. These items address specific aspects of accounting principles within the chapter by comparing the reporting practices of two firms, often in the same industry. More chapters now have a comparative problem, and some have more than one. We have found that the comparative problem is a convenient avenue to discuss GAAP choice, ratios, and other aspects of financial statement analysis in a real-world context.

4. Group items. We have added new items and modified some of the longer, existing items that are conducive to a team solution. The goal of these problems is to encourage students to work together, share ideas, and learn from one another.

We suggest that the instructor plan the group work before assigning these items. For example, the instructor can assign primary responsibility for one part of these items to each class group. Each group then reports to the class. Each group also should be aware of the remaining parts of the problem and evaluate other groups' reports. Another strategy for group application is for each group to perform all parts of each item, then have the leader of each group provide a brief report on the answer. After each group reports, the groups re-form and discuss the aspects of the discussion they missed, and what aspects they alone discovered. For additional strategies on group work, see Peek, Winking, and Peek, "Cooperative Learning Activities: Managerial Accounting," *Issues in Accounting Education*, Spring 1995, v. 10, no. 1, pp. 111–25.

5. World Wide Web Problems. In a few selected chapters we have added problems that make use of the World Wide Web portion of the Internet. As such, students can put the Web to work in the context of an intermediate accounting issue. These problems provide an important exposure to actual financial statements because the entire statement is at their disposal. None of the data is given in the text. The student retrieves the 10-K report of the firm identified in the problem from the SEC's EDGAR database. The solutions given in the answer manual reflect the most recent statements available. We would appreciate your comments on this and other possible uses of information technology for improving the text.

6. Accuracy. We have checked and rechecked each end-of-chapter item. In addition, to increase the accuracy of the problems and solutions, Jim Emig of Villanova University checked each item independently. We are confident that you will find the text essentially error-free.

TOPICAL CHANGES IN THE FOURTH EDITION

Along with the overall changes in this edition, the fourth edition has been updated to reflect changes in accounting and reporting principles since the previous edition and to fine-tune the coverage. The following list highlights the substantive changes made to each chapter.

Chapter 2 *Conceptual Framework*

A new Global View covering the IASC's conceptual framework has been added which compares and contrasts the U.S. and international frameworks. A new appendix on comprehensive income, currently on the FASB's agenda, replaces the Future Directions Appendix.

Chapter 3 *Accounting Cycle*

A new section explaining in greater detail the differences between the cash and accrual bases of accounting has been added. This section appears near the adjusting entry section and reinforces the importance of the adjusting process. The discussion also explains how concepts from Chapter 2, Conceptual Framework, affect the more procedural recording process.

Chapter 4 *Income Statement*

The section on accounting for discontinued operations has been rewritten to clarify when gains and losses on disposal are recognized. The sections dealing with multiple versus single-step reporting formats have been condensed. We added a short discussion of the Jenkins Committee report and its possible implications for changes in the income statement. In addition, a number of new analysis problems have been added.

Chapter 5 *Balance Sheet and Statement of Cash Flows*

A new section on ratio analysis has been added and illustrates how balance sheet and income statement information is used by analysts in developing several types of financial ratios.

Chapter 7 *Revenue Recognition*

The chapter has been reorganized to focus attention earlier on accounting for long-term contracts. This change reflects the relative importance of the topic. The section has been supplemented with more analysis and examples.

Chapter 8 *Cash and Receivables*

This chapter includes newly written material covering relevant portions of two new pronouncements: *SFAS No. 125*, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and *SFAS No. 118*, "Accounting by Creditors for Impairment of a Loan." The discussion and examples on factoring with recourse have been changed to reflect the new criteria for determining when a transfer of financial assets is recorded as a sale or as a loan (*SFAS No. 125*). The section on loan impairments also was revised to accommodate the choices now open to creditors for recognizing interest revenue on impaired loans (*SFAS No. 118*). New examples were added to illustrate these recognition choices.

Chapter 9 *Inventory*

The example applying LIFO in a perpetual inventory system has been removed. The discussion on LIFO liquidation has been extended. The DV-LIFO section has been rewritten and now includes both a simple and a more involved example.

Chapter 11 *Plant Assets*

This chapter was modified significantly in two areas. First, the FASB Exposure Draft "Accounting for Certain Liabilities Related to Closure and Removal of Long-Lived Assets" has been incorporated into the early part of the chapter. This proposed standard would alter the amount capitalized for assets requiring significant closure costs and require liability recognition. A section on the effect of capitalized interest on financial ratios has been added. This material enhances the discussion of the effect of interest capitalization on the quality of earnings. The material on exchanges of plant assets was rewritten to replace the "tentative" gain discussion on similar assets with a method we believe is easier to follow and more consistent with general accounting principles.

Chapter 12 *Depreciation*

A section on financial ratios contrasts the effects of straight-line and accelerated depreciation methods on profitability ratios including rate of return on assets and equity. A discussion on early warning disclosures incorporates material from AICPA SOP 94-6, "Disclosure of Certain Significant Risks and Uncertainties," which requires disclosure of information about risk-related items including uncertainties and the use of estimates in financial statements. The most significant change in the chapter is the incorporation of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Related to this discussion is another new section about restructuring charges which highlight a recent EITF ruling on accounting for these costs.

Two structural changes include (1) placement of casualty insurance losses (coinsurance) into an appendix and (2) the addition of a new appendix on the effects of price-level changes on financial statements. This short appendix restores material that had been removed from the previous edition and emphasizes the effects of inflation. We chose Chapter 12 as the appropriate place for this material because of the relatively large effect of price-level changes on depreciation expense, and therefore on earnings and total assets. Purchasing power gains and losses from holding monetary items also are discussed.

Chapter 13 *Intangible Assets*

The section on measuring and accounting for goodwill has been rewritten to clarify measurement issues and to illustrate accounting for goodwill. The section on restoration costs has been de-emphasized because it is covered in detail in Chapter 11. More end-of-chapter exercises and prob-

lems have been added dealing with accounting for computer software development costs.

Chapter 14 *Investments*

New material on disclosures for financial instruments has been added to correspond with SFAS No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments." A new appendix on how financial instruments are used in managing risk highlights options, futures, and swaps. A new example illustrating how derivatives can be used to reduce the risk of foreign currency exchange rate fluctuations, commodity price changes, and interest rate fluctuations brings the area to life and explains the incentives for both parties in these transactions.

Chapter 16 *Long-Term Liabilities*

The section of the chapter discussing debt retirement has been modified to incorporate SFAS No. 125's new definition of what constitutes an extinguishment of debt. For example, in-substance defeasance no longer meets the definition. Also, Appendix A on troubled debt restructure and Appendix C on debt securities held to maturity were modified to reflect changes brought about by SFAS Nos. 118, 121, and 125.

Chapter 17 *Leases*

Appendices A and B are now combined and include only leases involving land and buildings, as well as leveraged leases.

Chapter 18 *Pensions*

A new summary diagram was added early in the chapter as a big picture of the major issues in pension accounting and includes the important effects on financial statements and a summary of the journal entries required each period. The summary allows students to keep in mind the overall objective of pension accounting as the details are studied. The sections on component five of pension expense (pension gains and losses) and additional minimum pension liability were completely rewritten with simplification in mind. New examples have been added to explain the effect of gains and losses on pension expense and how amounts are rolled forward to future periods without being amortized. The alternative approach to computing pension expense, involving the use of actual return on plan assets, has been deemphasized.

Chapter 19 *Income Taxes*

This chapter has been rewritten and reorganized to emphasize the conceptual underpinnings of interperiod tax allocation with new and shorter examples. The approach uses a step-by-step method leading to the tax accrual entry. Each new issue is addressed separately before merging several concepts together. The more complex examples are placed later in the chapter. The valuation allowance is not introduced until later in the chapter for example. Several new examples are added to complement the new organization.

The conceptual basis for each aspect of interperiod tax allocation is fully developed.

Chapter 20 *Contributed Capital*

A new section on financial statement analysis has been added. This section discusses the use of ratios involving owners' equity in the evaluation of a firm's performance and risk. The use of leverage as measured by debt to equity ratios is examined. The uses and limitations of book value per share also are discussed.

Chapter 21 *Retained Earnings*

A major rewrite of this chapter covers accounting for compensation-based stock options in accordance with *SFAS No. 123*. Coverage of stock appreciation rights is clarified. The discussion on alternative ways to account for stock splits and stock dividends has been rewritten.

Chapter 22 *Earnings per Share*

This chapter underwent the most significant change as a result of the adoption of *SFAS No. 128*, "Earnings per Share and Disclosure of Information about Capital Structure." The new standard replaces primary and fully diluted EPS with basic (historical) EPS and diluted EPS (reflecting full dilution). EPS no longer involves common stock equivalency testing. The chapter uses completely new examples to illustrate the new reporting requirements. The cooperation between the FASB and IASC aimed at achieving greater cross-border agreement in EPS reporting is briefly discussed in a global view. The end-of-chapter material also incorporates the proposed new standard and is completely revised.

Chapter 23 *Statement of Cash Flows*

The similarities and differences between the direct and indirect methods of presenting the statement of cash flows have been clarified. In particular, the logic underlying the determination of items to include in the operating activities section for both methods has been improved. The student is walked-through several examples of operating items and is shown how to report the resulting cash flows in the direct method operating section as well as in the reconciliation of earnings and operating cash flows. This is probably the most challenging aspect of preparing the statement for students.

Chapter 24 *Accounting Changes*

To emphasize the major concepts, less involved examples of current and retroactive changes, as well as error corrections were placed in the first half of the chapter. Once the student learns the overall goal of reporting for accounting changes, they can proceed to longer, more complex examples involving comparative statements which now appear in the latter half of the chapter. Instructors may wish to limit the coverage of the chapter to the more basic material. In this way, the student will learn the most important material without struggling through the longer examples.

Chapter 25 *Special Topics*

The growing importance of line-of-business reporting highlights the new version of this chapter. We also have added a brief discussion of the Jenkins Committee report and its implications for financial reporting.

KEY PEDAGOGICAL FEATURES

We continue many of the pedagogical features from our previous edition that have received positive reviews from current adopters. The purpose of these features is to facilitate the learning process and to provide variety in the text and end-of-chapter material. Also, the previous section on changes to the fourth edition highlights several more. A brief discussion of each follows. Many of these are denoted with an icon, in either the text or end-of-chapter material. The icons for those features are shown in the list below.

Text Features



Crystal Clear Connections. Extensive customer research has driven the fourth edition, resulting in clearer presentation of topics determined to be difficult for students. A new icon clearly indicates the integrated treatment of topics throughout the text.

Ratio Analysis. Sections covering ratio and financial statement analysis in selected chapters integrate the effects of major accounting principle choices on financial ratios. This feature is discussed in greater length in the section on changes to the fourth edition.

Review Problems. Each chapter ends with a solved review problem to provide additional practice on the technical aspects in that chapter. In addition, the nine critical chapters also have review problems after each major section, adding further reinforcement to more complex topics.

Real-World Examples. We use examples of financial reporting practices of actual companies throughout the text. These examples not only place the subject matter squarely in the real world but also illustrate how firms interpret GAAP and put these principles into practice. To catch the student's interest, we start each chapter with a short introduction. The foundation of each is an example of

an actual reporting situation. In addition, we make liberal use of the financial press including *The Wall Street Journal*, *Financial Executive*, and other publications. Frequent use of the AICPA's *Accounting Trends and Techniques* brings further real-world perspective to the text.

Coca-Cola Financial Statement. The 1995 statements and footnotes of the Coca-Cola Company appear in an appendix to the text. This edition integrates these statements throughout the text discussion to a greater extent than the previous edition.



Global Views. This boxed element provides insights into international accounting issues pertaining to main issues in the chapter. Students learn that most countries have their own set of accounting principles, that groups of countries such as the European Union have other principles, and that the International Accounting Standards Committee is yet another source for accounting principles.



On the Horizon. This boxed element appears in several chapters and summarizes issues in progress and those that are just emerging. These elements connect to and extend the subject matter and remind the student that the process of generating accounting principles is never complete.

Concept Reviews. To reinforce major concepts, we have placed three short review questions at the end of each major section of each chapter. The questions are answerable directly from the text and serve the same function as a short quiz. The answers are provided in the solutions manual for the convenience of the instructor.

Learning Objectives. Each chapter starts with a list of the objectives for the chapter. The objectives are the key recognition, measurement, and reporting issues for the chapter area. The summaries and end-of-chapter material are tied back to the learning objectives.

Summary of Key Points. Each chapter ends with a list of major points discussed in the chapter. The summary is in list form. Each is keyed to the appropriate learning objective from the beginning of the chapter.

End-of-Chapter Material Features

Ratio Problems. Many chapters have one or more problems or exercises that require the student to analyze the effect of major measurement rules and GAAP choices on ratios most affected by the rules and choices. We believe a more meaningful coverage of ratios is possible by integrating the

coverage of ratios throughout the chapters. A closer linking of topical area with relevant ratios is thereby achieved.

Comparative Analysis. These problems appear in many of the chapters and use excerpts from the financial statements of two or more firms to highlight different measurement and reporting practices. These also provide a context for financial statement analysis including the use of ratios.



Group Problems. Many chapters use longer problems and cases as a context for group work. This feature is discussed in greater length in the section on changes to the fourth edition.

Analysis of Financial Statements. Several of these problems appear in almost every chapter and help bring the subject matter to life within the context of an actual firm. These typically are less structured and the data is less organized relative to the exercises and problems in Part I of the end-of-chapter material.



Comprehensive Problems. Found in most chapters, these problems cover several of the chapter's learning objectives and bring together several issues in one problem. These problems help reduce the inherent modularization in coverage of intermediate accounting topics.



Writing Cases. Appearing in every chapter, these cases require students to write specific documents such as memos and reports. The solutions to several of the writing cases have been rewritten to exemplify a more conversational tone and to add realism to the exchange of ideas between the writer and the audience.



You Make the Call. These appear in several chapters and present a reporting issue that either has yet to be considered by the FASB or one that continues to provide an excellent context for students to develop their own analysis of the appropriate accounting treatment.

Ethics Problems. These cases appear in several chapters and focus on the ethical implications of particular actions and reporting decisions.

Coca-Cola Problems. Similar to Analysis of Financial Statement problems, these problems use the Coke financial statements as the database. Often, these items are more involved because we can draw on a much larger database of financial statement and footnote information. Also, more years of data are present than can be provided in other real-world problems in this text.

World Wide Web Problems. The web provides the data for these problems similar to Analysis of Financial Statement problems. But like the Coca-Cola problems, a richer database can be used to develop more elaborate items. This feature is discussed in greater length in the section on changes to the fourth edition.

 **Spreadsheet Problems.** Called SPATS problems, these problems and exercises are designed to be solved with a computer spreadsheet. Templates are provided for these problems.

ANCILLARIES AND SUPPLEMENTARY MATERIALS

For the Professor:

We have provided you with two different ways to purchase *Intermediate Accounting*. You can purchase *Intermediate Accounting, Chapters 1–14 and Chapters 15–25* in two separate volumes, or *Chapters 1–25* in one volume.

Intermediate Accounting, Fourth Edition, offers numerous teaching aids to assist the instructor.

Solutions Manual, Chapters 1–14 and 15–25 Done in two volumes, this comprehensive solutions manual provides complete solutions and explanations for all end-of-chapter questions, cases, exercises, and problems. The estimated completion time for each item is given in the assignment assistance schedule at the beginning of each chapter. Answers to the concept review questions are included at the end of each volume of the solutions manual.

Test Bank, Chapters 1–14 and 15–25 Prepared by Doris deLepinasse of Adrian College and revised and expanded with this edition, the test bank offers approximately 4,000 questions and problems from which to choose in preparing examinations. This test bank contains true-false, short-answer, problems, and cases.

Solutions Transparencies, Chapters 1–14 and 15–25 Acetate transparencies of solutions to all exercises, problems, and cases are free to adopters. Now increased in clarity, these transparencies are especially useful when covering problems in large classroom settings.

Teaching Transparencies, Chapters 1–14 and 15–25 Selected lecture transparencies based on material from the textbook and based on material from outside the book.

Instructor's Resource Manual, Chapters 1–14 and 15–25 This manual includes overviews, learning objectives, lecture outlines, problem analysis, and transparency masters. It was prepared by Craig Bain, Northern Arizona University.

Computerized Testing Software This microcomputer test generator program allows the instructor to select and

edit exam questions from the test bank database. Questions can be selected using several criteria, such as chapter, type of question (e.g., multiple choice, true-false, problem solving), and level of difficulty. The software is menu-driven, requiring little computer knowledge. It comes with a program disk, data disks containing the Test Bank database, and clearly written documentation. It provides password protection, can be used on a network, and is available on both 5.25" and 3.5" diskettes for IBM compatible microcomputers.

Teletest Irwin is happy to serve those customers without access to administrative support or a computer system. Simply choose your questions from the Test Bank and call Irwin/McGraw-Hill College New Media. By calling a toll free number, users can specify the content of exams and have a laser printed copy of the exam mailed to them within one day.

Ready Shows Ready Shows is a package of multimedia lecture enhancement aids that uses PowerPoint® software to illustrate chapter concepts.

The following item is intended for student use at the option of the instructors.

Spreadsheet Applications Template Software (SPATS) Selected exercises and problems in each chapter, identified by a spreadsheet symbol, can be solved using SPATS. The software contains innovatively designed templates based on Lotus 1-2-3 and includes a very effective Lotus 1-2-3 tutorial. SPATS is available on 5.25" and 3.5" disks. Upon adoption, this package is available for classroom or laboratory use.

For the Student:

Several support materials have been designed especially for the student.

Study Guides, Chapters 1–14 and Chapters 15–25 The study guides provide the student with a summarized look at each chapter's issues. Included are outlines, chapter overviews, key concepts, review questions, true-false, multiple choice questions, and critical thinking exercises. The study guides were prepared by Craig Bain of Northern Arizona University.

Working Papers, Chapters 1–14 and Chapters 15–25 Two sets of working papers are available for completing assigned problems and exercises. In many instances, the working papers are partially filled in to reduce the "pencil pushing" required to solve the problems, yet not so complete as to reduce the learning impact.

Manual Practice Set Video One Wholesalers, a manual practice set, can be assigned after Chapter 6 as a review of the accounting cycle.

Computer Supplement Wild Goose Marina, Inc. offers a complete corporate simulation and is intended for use after coverage of stocks, bonds, and cash flows. The corporate simulation is prepared by Leland Mansuetti and Keith Weidkamp, both of Sierra College.

Ready Notes This booklet of Ready Show screen printouts enables students to take notes during Ready Show presentations.

Check Figures A list of check figures for selected end-of-chapter items is available.

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[NOTE TO THE STUDENT]

The most important goal of a text is to assist you in learning the material of the course. The learning process is more effective when the ideas are presented in real-world contexts. Thus, each chapter begins with an actual situation.

The subject matter of this book, financial accounting, is critically important to many of the major decisions made in this country and abroad. Financial accounting information impacts the decisions that lead to resource allocation, the distribution of wealth, and the comparative competitive strengths of firms, industries, and economies.

Financial accounting is the study of the public information that organizations publish about their economic performance. This information is disseminated to those outside the organization for evaluation and action. Investors decide which firms' stocks or bonds they will buy. Other organizations use the data to decide whether to acquire them. Unions use the data in contract negotiations. Governments develop tax and trade policies based in part on financial reporting information, and these are only a few of the major types of decisions that rely heavily on accounting data.

It is our aim to develop the subject matter of this area so that you will be aware of the types of information that are made available, the rules that govern its composition and disclosure, and the limitations to current financial reporting practice.

Financial reporting is a dynamic field. It is changing daily. Issues of comparability, relevance, reliability, and practicality underlie the choices that must be made in preparing financial statements. Critical thinking and judgment are essential. Ethical and international considerations are often involved. We will be considering all these issues in the chapters ahead and in the problems, cases, and exercises you will be asked to complete.

Our adventure through the window of this book into the world of financial accounting will, we hope, be exciting, challenging, and rewarding. With your instructor's help, you should be able to master the material soon to be placed at your fingertips. Let the voyage begin!

| BRIEF CONTENTS

| PART I FOUNDATION AND REVIEW

- 1 The Environment of Accounting**
- 2 The FASB's Conceptual Framework of Accounting**
- 3 Review: The Accounting Information Processing System**
- 4 Review: The Income Statement and the Retained Earnings Statement**
- 5 Review: The Balance Sheet and the Statement of Cash Flows**
- 6 Interest: Concepts of Future and Present Value**

| PART II ASSET RECOGNITION AND MEASUREMENT

- 7 Revenue and Expense Recognition**
- 8 Cash and Receivables**
- 9 Inventory: Basic Valuation Methods**
- 10 Inventory: Alternative Valuation Methods**
- 11 Operational Assets: Acquisition, Disposal, and Exchange**
- 12 Operational Assets: Depreciation and Impairment**
- 13 Intangible Assets and Natural Resources**
- 14 Investments in Debt and Equity Securities**

| PART III LIABILITIES

- 15 Short-Term Liabilities**
- 16 Long-Term Liabilities**
- 17 Accounting for Leases**
- 18 Accounting for Pensions and Other Postemployment Benefits**
- 19 Accounting for Income Taxes**

| PART IV OWNER'S EQUITY

- 20 Corporations: Contributed Capital**
- 21 Corporations: Retained Earnings and Stock Options**
- 22 Earnings per Share**

| PART V SPECIAL TOPICS

- 23 Statement of Cash Flows**
- 24 Accounting Changes and Error Corrections**
- 25 Special Topics: Disclosures, Segment Reporting, and Interim Reporting**

CONTENTS

PART I

FOUNDATION AND REVIEW 1

1 The Environment of Accounting 2

- Introduction 2
- The Nature of Financial Accounting 4
- External versus Internal Accounting Information 4
 - Objective of Financial Reporting for External Decision Makers 4
- Professional Accounting 5
- The Interaction of Financial Accounting with Its Environment 7
 - The Need for Financial Reporting Standards 8
 - The Evolution of the Current Standard-Setting Process 10
- The Financial Accounting Standards Board 10
 - Board Pronouncements 11
 - What Are GAAP? 13
 - Official Accounting Pronouncements Related to GAAP 13
 - The Hierarchy of Accounting Standards for Financial Reporting 14
- Impact of Other Organizations on GAAP 14
 - The Internal Revenue Service 14
 - American Institute of Certified Public Accountants 15
 - Securities and Exchange Commission 16
 - American Accounting Association 16
 - Governmental Accounting Standards Board 17
 - Financial Executives Institute and Institute of Management Accountants 17
 - Other Groups 17
- Attaining Consensus in a Political Environment 17
- Ethics and Financial Reporting 21
- Summary of Key Points 22
- Review Problem 23

2 The FASB's Conceptual Framework of Accounting 29

- Introduction 29
- The FASB's Conceptual Framework 30
 - Overview of the FASB's Conceptual Framework of Accounting 31
- SFAC No. 1: Objectives of Financial Reporting by Business Enterprises* 32
 - Users of Financial Statements 32
 - Financial Reporting Objectives 33
- SFAC No. 2: Qualitative Characteristics of Accounting Information* 34

- SFAC No. 5: Recognition and Measurement in Financial Statements of Business Enterprises* 36

- Recognition Criteria 36
- Measurement Criteria 36
- Environmental Assumptions 36
- Implementation Guidelines 38
- Implementation Constraints 42
- General-Purpose Financial Statements 44
- Acceptance of *SFAC No. 5* 44

- SFAC No. 6: Elements of Financial Statements of Business Enterprises* 44
- Summary of Key Points 48
- Review Problem 48
- Appendix: Comprehensive Income (not currently GAAP) 49

3 Review: The Accounting Information Processing System 61

- Introduction 61
- Accounts and Transaction Recording 62
- The AIS and the Accounting Cycle 64
- Step 1: Identify Transactions or Events to Be Recorded 64
- Step 2: Journalize Transactions and Events 66
- Step 3: Post from Journals to Ledger 66
- Step 4: Prepare Unadjusted Trial Balance 67
- Step 5: Journalize and Post Adjusting Journal Entries 69
 - Deferrals 69
 - Accruals 71
 - Other Adjusting Entries 71
- Step 6: Prepare Adjusted Trial Balance 75
- Step 7: Prepare Financial Statements 76
- Step 8: Journalize and Post Closing Journal Entries 77
 - Income Statement Accounts 77
 - Dividends 79
- Step 9: Prepare Post-Closing Trial Balance 79
- Step 10: Journalize and Post Reversing Journal Entries 79
 - Deferred Item—Expedient Method 80
 - Accrued Item 80
- Beyond the Primary Financial Statements 81
 - The Management Discussion and Analysis Section 81
- Summary of Key Points 82
- Review Problem 83
- Appendix 3A: Worksheets, the Accounting Cycle, and Interim Reporting 86
- Appendix 3B: Control Accounts, Subsidiary Ledgers, and Special Journals 90

4 Review: The Income Statement and the Retained Earnings Statement 113

- Introduction 113
- What the Income Statement Represents 115
- Format Issues Evolving from General Practice 117
 - General Formats of the Income Statement 117
 - The Choice between Single- and Multiple-Step Formats 119
- Format Issues Governed by Accounting Pronouncements 121
- Reporting Extraordinary Items 122
- Reporting Unusual or Infrequent Gains and Losses 124
- Reporting Discontinued Operations 124
- Reporting Accounting Changes 131
- Disclosure Guidelines for the Income Statement 134
- Earnings per Share 134
- Retained Earnings Statement 136
 - Prior Period Adjustments 137
- Appropriations of and Restrictions on Retained Earnings 137
- Summary of Key Points 139
- Review Problem 139
- Appendix: Conceptual Issues in the Determination of Income 141

5 Review: The Balance Sheet and the Statement of Cash Flows 163

- Introduction 163
- The Balance Sheet 165
 - Format of the Balance Sheet 165
 - Basic Definitions and Classifications 167
 - Assets 169
 - Liabilities 172
 - Owners' Equity 173
- Additional Reporting Issues 175
 - Offsetting Assets and Liabilities 175
 - Loss and Gain Contingencies 175
 - Valuations Reported in the Balance Sheet 176
 - Terminology 177
 - Comparative Statements 177
 - Subsequent Events 178
 - Disclosure Notes 179
 - The Auditors' Report 179
 - Usefulness of the Balance Sheet 181
 - Limitations of the Balance Sheet 182
- The Statement of Cash Flows 183
 - Basic Definitions 183
 - Statement Formats 186
 - Usefulness of the Statement of Cash Flows 188
- Ratio Analysis 188
 - Ratios that Measure Liquidity (Solvency) 189
 - Ratios that Measure Efficiency (Activity) 190

- Ratios that Measure Equity Position and Coverage 190
- Ratios that Measure Profitability 190

Summary of Key Points 192

Review Problem 192

6 Interest: Concepts of Future and Present Value 216

- Introduction 216
- Time Value of Money 217
- Basic Interest Concepts 217
 - Concept of Interest 217
 - Consistent Interest Periods and Rates 218
 - Simple versus Compound Interest 218
- Overview of Future Value and Present Value 219
 - Single Principal Amount 220
 - Annuity Amount 220
 - The Ordinary Annuity and the Annuity Due 220
 - Future Value and Present Value Tables and Formulas 220
- Values of a Single Payment 221
 - Future Value of 1 221
 - Present Value of 1 222
 - Future Value and Present Value of 1: Calculation Methods Compared and Computed 222
- Accounting Applications of a Single Payment 224
 - Future Value of a Single Payment 224
 - Determining an Unknown Interest Rate or Unknown Number of Periods 225
 - Interpolation of Table Values 225
 - Present Value of a Single Payment 226
 - Determining the Interest Rate 227
- Values of an Annuity 227
 - Future Value of an Ordinary Annuity 227
 - Present Value of an Ordinary Annuity 228
 - Future Value of an Annuity Due 229
 - Present Value of an Annuity Due 230
- Accounting Applications of an Annuity 230
 - Future Value of an Annuity 231
 - Determination of Other Values Related to the Future Value of an Annuity 233
 - Present Value of an Annuity 233
 - Determination of Other Values Related to the Present Value of an Annuity 235
 - Using Multiple Present and Future Values 235
- Summary Table 237
- Summary of Key Points 238
- Review Problem 239
- Appendix: Present and Future Value Interest Tables 240

PART II**ASSET RECOGNITION AND MEASUREMENT 261****7 Revenue and Expense Recognition 262**

- Introduction 262
- The Concepts of Revenue and Expense 264
- The Earnings Process 264
- The Recognition Process 265
- The Revenue Principle 266
- Revenue Recognized at Delivery (Point of Sale) 268
- Revenue Recognition before Delivery 268
 - Guidance on the Choice between the Two Methods 269
 - Measuring Progress toward Completion 269
 - Illustration of Alternative Methods of Accounting for Long-Term Contracts 270
- Review Problem: Revenue Recognition after Delivery 278
- Revenue Recognition When Right of Return Exists 279
- Installment Sales Method of Revenue Recognition 281
- The Cost Recovery Method 288
- Review Problem 290
- Alternative Methods of Revenue Recognition before Delivery 292
 - Completion of Production 292
 - Accretion Basis 292
 - Discovery Basis 292
- Revenue Recognition for Service Sales 293
 - Specific Performance Method 293
 - Proportional Performance Method 294
 - Completed-Performance Method 294
 - Collection Method 294
- Expense Recognition 295
 - Matching: An Implementation Principle 295
 - Direct Expenses 296
 - Indirect Expenses 296
- Recognition of Gains and Losses 296
- Ethical Considerations 297
- Summary of Key Points 298

8 Cash and Receivables 311

- Introduction 311
- Accounting for Cash 312
 - Characteristic of Cash and Cash Equivalents 312
 - Internal Controls for Cash 313
 - Petty Cash Funds 314
 - Control of Cash through Bank Accounts 315
- Accounting for Receivables 319
 - Recognition and Measurement of Accounts Receivable 319

Measurement of Uncollectible Accounts

- Receivable 322
- Events and Accounting Entries for Uncollectible Accounts—The Allowance Method 322
- Estimating Bad Debt Expense—The Allowance Method 323
- Direct Write-Off of Uncollectible Accounts 327
- Use of Accounts Receivable to Obtain Immediate Cash 327
- Factoring Accounts Receivable 328
- Assignment and Pledging of Accounts Receivable 332
- Disclosure of Accounts Receivable Financing Arrangements 334
- Recognition and Measurement of Notes Receivable 334
 - Notes Receivable Accounting Illustrations 336
 - Accounting for Loan Impairments 339
 - Discounting Notes Receivable 343
 - Dishonored Notes 345
- Summary of Key Points 346
- Review Problem 347

9 Inventory: Basic Valuation Methods 374

- Introduction 374
- The Importance of Inventories 374
- Inventory Categories 376
- Items Included in Inventory 377
- Components of Inventory Cost 379
 - Freight-In (Freight on Purchases) 379
 - Purchase Discounts (Cash Discounts on Credit Purchases) 379
- Inventory Recording Methods 379
 - Periodic Inventory System 379
 - Perpetual Inventory System 381
 - Accounting for Periodic and Perpetual Systems 381
- Measurement of Inventory Values for Accounting Purposes 385
 - Allocation of Costs to Inventory and Cost of Goods Sold 385
- Inventory Cost Flow Methods 386
 - Underlying Concepts of Cost Flow 386
 - Reporting Inventories 387
 - Specific Cost Identification Method 387
 - Average Cost Method 388
 - First-In, First-Out Cost Method 390
 - Last-In, First-Out Method 392
 - Comparison of LIFO with FIFO 393
- LIFO: Special Topics 395
 - Adoption of LIFO 395
 - LIFO Liquidation 396
 - Management Selection of LIFO versus FIFO 397
 - Pooled LIFO 399
 - Dollar Value LIFO Method 401