

Robert F. Meigs & Walter B. Meigs

# FINANCIAL ACCOUNTING

— Sixth Edition —



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## **FINANCIAL ACCOUNTING**

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# Preface

A new edition provides authors with an opportunity to add new material, to condense the coverage of topics that have declined in relative importance, to reorganize portions of the book to improve instructional efficiency, and to refine and polish the treatment of basic subject matter. We have tried to do all these things in this sixth edition.

The environment of accounting is changing fast, and the shift toward computers, the increasing public interest in income tax policies, and the growing importance of international business activity affect the goals and content of an introductory text in accounting. In order to function intelligently as a citizen as well as in the business community, every individual needs more than ever before an understanding of basic accounting concepts. Our goal is to present accounting as an essential part of the decision-making process for the voter, the taxpayer, the government official, the business manager, and the investor.

This edition, like the preceding ones, is designed for use in the first college-level course in accounting. In this course, instructors often recognize three groups of students: those who stand at the threshold of preparation for a career in accounting, students of business administration who need a thorough understanding of accounting as an important element of the total business information system, and students from a variety of other disciplines who will find the ability to use and interpret accounting information a valuable accomplishment. During the process of revision, we have tried to keep in mind the needs and interests of all three groups.

## NEW FEATURES IN THIS EDITION

### *In the text*

- 1 Comprehensive Review Problems for each of five parts in the textbook. (The text is organized into five parts, each consisting of from two to four related chapters.) These problems illustrate the major concepts introduced in each part. For example, the Comprehensive Problem for Part One is a “mini-practice set,” covering the entire accounting cycle. The Comprehensive Problem for Part Five asks students to analyze the financial statements of a well-known corporation. Partially filled-in working papers are provided for these problems in the Working Papers supplement.
- 2 Introductory level coverage of the new Statement of Cash Flows.
- 3 Coverage of the historic Tax Reform Act of 1986, including the effects of the Act upon individuals and corporations.

- 4 A new chapter on current liabilities and payroll accounting.
- 5 A new appendix on accounting for the effects of inflation, emphasizing the FASB's new guidelines for voluntary disclosure.
- 6 Chapter learning objectives integrated into the text material through marginal notations and summaries at the end of each chapter.
- 7 More than 70 new Exercises, Problems, Business Decision Cases, and Comprehensive Problems. In addition, most of the exercises and problems carried forward from the prior edition have been revised.
- 8 In each chapter, a new first exercise emphasizing accounting terminology. This exercise is coordinated with similar exercises in the **Test Bank** and the **Study Guide**.
- 9 Increased emphasis upon accounting theory and generally accepted accounting principles throughout the text.
- 10 Careful shortening of the text, which now contains 16 chapters rather than 17. The content of many individual chapters also has been revised and shortened.

### ***New features in the supplemental package***

- 1 ***General Ledger Software and Applications***, produced by CYMA/McGraw-Hill.
- 2 ***Accounting/Lotus Connection***, by E. James Meddaugh. Software, data, and instructions for working accounting problems with Lotus 1-2-3.
- 3 An enlarged ***Study Guide***, now providing thorough explanations of the reasoning behind the correct answer to each multiple-choice question. Also features many new questions and exercises, with solutions now at the end of each chapter.
- 4 ***Computer Tutorial***—a computer-based test bank for use by students. Includes a wide variety of objective questions and exercises for each chapter in the text. For all objective questions, the software provides students with immediate feedback explaining why their answers are right or wrong.
- 5 A greatly expanded ***Test Bank***, available as a printed manual or in computer-based formats.
- 6 An expanded set of ***Teaching Transparencies***, now in color.

### **FEATURES CARRIED FORWARD FROM PRIOR EDITIONS**

Special qualities that are carried forward from prior editions include:

- 1 Depth of coverage. Topics are covered in a depth that will qualify the student for subsequent course work in accounting.
- 2 Accuracy in all problem material and solutions. All problems, solutions, and examination materials have been developed and tested first-hand by the authors in their own classes for introductory accounting students. This personal attention to accuracy is supplemented by independent testing by other accounting faculty.

- 3 Perspective — careful effort throughout the text and problems to utilize current and realistic prices, interest rates, and profit levels.
- 4 People-oriented problems which depict the complex decisions that must be made by men and women acting as managers, investors, and in other roles.
- 5 Abundant problem material, including review questions, exercises, problems, and Business Decision Cases. In addition, each chapter contains a glossary of key terms and a demonstration problem to assist students in developing skill in analyzing and solving accounting problems.
- 6 Checklist of key figures for problems and Business Decision Cases included on the inside cover pages of the textbook.
- 7 Coverage of computer-based accounting systems integrated into the early “accounting cycle” chapters.
- 8 Frequent use of real business examples — termed *Cases in Point* — to illustrate key accounting concepts.
- 9 The most thorough coverage of income taxes found in an introductory level textbook. Our coverage of income taxes emphasizes basic concepts likely to remain relevant for many years to come.
- 10 An appendix featuring an introductory level discussion of international accounting and foreign currency translation, complete with problem material.
- 11 Careful integration into the text and problem material of recent pronouncements of the Financial Accounting Standards Board.
- 12 The most comprehensive package of supplementary materials available for any financial accounting textbook.

## NEW AND EXTENSIVELY REVISED CHAPTERS

In terms of chapter content, this sixth edition represents our most extensive revision to date. The text contains two new chapters, yet is one chapter shorter. Two chapters have been condensed into one; chapter content and sequence have been rearranged, and many new topics are discussed.

Chapter 5, “Accounting for Purchases and Sales of Merchandise,” has been extensively revised. The new format is shorter and, we believe, more effective. In a revised Chapter 6, we now discuss in one place the related topics of internal control and accounting systems.

In Chapter 7, we have shortened the text by condensing into one chapter the related topics of cash, accounts receivable, and notes receivable. We have moved the discussion of marketable securities, formerly included in this chapter, to follow our discussions on bonds payable and capital stock.

An all-new Chapter 10 covers in one place the various types of current liabilities, including accounts payable, notes payable, and payrolls. The topic of loss contingencies also is covered in this chapter.

We have moved the chapter on bonds payable and other long-term liabilities (now Chapter 11) to precede the chapters on owners’ equity. This change enables us to discuss the major balance sheet topics in “balance sheet order.”

Chapter 13, “Corporations: A Closer Look,” has been extensively revised. This chapter covers many special corporate reporting topics, such as discontinued operations, earnings per share, stock dividends, and stock splits. We have tried to shorten and to clarify our discussion of each topic, while increasing our emphasis upon the proper interpretation of these events by the users of financial statements. In keeping with these goals, we have added to this chapter a brief discussion of marketable securities. This addition enables us to explain the effects of many stockholders’ equity transactions from the viewpoints of both the issuing corporation and the investor.

We actually unveiled our new Chapter 14, “Measuring Cash Flows,” in our Revised Fifth Edition. This chapter covers in an introductory manner the all-new Statement of Cash Flows—a fundamental change in basic financial reporting requirements.

A discussion of our revised chapters is never complete without addressing the dynamic topic of income taxes. We have integrated throughout the textbook the latest income tax concepts and regulations. In addition, our extensively revised Chapter 16 presents income tax concepts which, stemming from the Tax Reform Act of 1986, are likely to form the framework of income taxation for many years to come. We regard our introductory-level coverage of income taxes as a unique strength of this textbook.

## SUPPLEMENTARY MATERIALS

A distinguishing characteristic of this textbook is the wide variety of supplementary learning and teaching aids for students and instructors. All these materials, with the exception of the computerized supplements, were prepared personally by the authors of the textbook.

### *For students*

- 1 ***A self-study guide.*** The ***Study Guide*** enables students to measure their progress by immediate feedback. This self-study guide 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 following each chapter. As an additional study aid, the reasoning behind the answer to each multiple-choice question is explained in detail. This guide provides a useful review for students before classroom discussions and examinations.
- 2 ***Working papers.*** A soft-cover book of partially filled-in working papers of the problems, Business Decision Cases, and Comprehensive Problems is published separately from the text. These work sheets provide for each problem, Business Decision Case, and Comprehensive Problem the appropriate type of columnar paper. In addition, problem headings and “given” data have been filled in to save students much of the mechanical pencil-pushing inherent in problem assignments.

- 3 **Computer Tutorial.** Using objective questions and exercises from our Study Guide, this computer-based supplement allows students to test themselves on any chapter. For objective questions, the tutorial provides immediate on-screen explanations of why incorrect answers are wrong, along with page references to discussions in the textbook. To assist in solving exercises, the tutorial includes a built-in calculator and numerous “help screens.”
- 4 **Manual practice set.** The manual practice set available with our preceding edition has been completely revised. Designed for use after completing Chapter 6 of the text, the **World Premieres, Inc.**, practice set is bound in two separate books, making it easier for students to journalize transactions, post entries, and prepare financial statements. The purpose of this manual practice set is to acquaint students with the flow of information through an accounting system and to allow them to perform personally each step in the accounting cycle.
- 5 **Computerized practice set.** The **Candlelight Restaurant Supply, Inc.**, practice set accompanying this sixth edition allows students to experience hands-on operation of a computer-based accounting system.  
This computerized practice set has a unique instructional feature that identifies any erroneous input. If an error is made in analyzing a transaction, the computer responds with hints and help statements until the transaction is recorded correctly. Thus, any printed computer output generated by the student represents a correct solution to the practice set. The practice set is accompanied by a special instruction booklet for the student.
- 6 **CYMA/McGraw-Hill** An educational version of a leading **general ledger software** package. The narrative of transactions and chart of accounts for our manual practice set, **World Premieres, Inc.**, is provided for use with this software. However, the software is extremely flexible; it may be used to work most accounting cycle problems, and to maintain personal accounting records or those of a small business.
- 7 **Checklist of key figures for problems.** This list appears on the front and back inside covers of this book. The purpose of the checklist is to aid students in verifying their problem solutions and in discovering their own errors.

### *Supplements for instructors*

- 1 **Solutions manual.** A comprehensive manual containing answers to all review questions, exercises, problems, Business Decision Cases, and Comprehensive Problems contained in the text, along with a complete solution to the manual practice set.  
In the development of problem material for this book, special attention has been given to the inclusion of problems of varying length and difficulty. By referring to the time estimates, difficulty ratings, and problem descriptions in the **Solutions Manual**, instructors can choose problems that best fit the level, scope, and emphasis of the course they are offering.
- 2 **An instructor's guide.** This separate manual includes the following three sections for each chapter of the textbook:



- a A brief topical outline of the chapter listing in logical sequence the topics the authors like to discuss in class.
- b An assignment guide correlating specific exercises and problems with various topics covered in the chapter.
- c Comments and observations.

The “Comments and observations” sections indicate the authors’ personal views as to relative importance of topics and identify topics with which some students have difficulty. Specific exercises and problems are recommended to demonstrate certain points. Many of these sections include “Asides,” introducing real-world situations (not included in the text) that are useful in classroom discussions.

Also included in the Instructor’s Guide are sample assignment schedules, ideas for using each element of the supplemental package, solutions to the parallel sets of *Achievement Tests* and *Comprehensive Examinations*, and solutions to the computer-based practice sets.

- 3 Two parallel sets of *Achievement Tests* and *Comprehensive Examinations*. Each set consists of four Achievement Tests with each test covering three or four chapters; the Comprehensive Examination covers the entire text and may be used as a final examination.
- 4 *An enlarged test bank*. With an abundance of true-false questions, multiple-choice questions, and short exercises organized on a chapter-by-chapter basis, this supplement is a valuable resource for instructors who prepare their own examinations.
- 5 *Transparencies of solutions to exercises, problems, and cases*. This visual aid enables instructors to display by overhead projector the complete solution to every numerical exercise, problem, Business Decision Case, and Comprehensive Problem in the text. The transparencies now use a bold typeface for greater clarity.
- 6 *Teaching transparencies*. A large number of transparencies have been produced for use in the classroom to illustrate various accounting concepts and procedures. These transparencies all differ from the illustrations appearing in the textbook and are enhanced by the use of color.

## CONTRIBUTIONS BY OTHERS

We want to express our sincere thanks to the many users of the preceding editions who offered helpful suggestions for this edition. Especially helpful was the advice received from the following reviewers:

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We also are grateful to the Financial Accounting Standards Board which granted us permission to quote from FASB Statements, Discussion Memoranda, Interpretations, and Exposure Drafts. All quotations are copyrighted © by the Financial Accounting Standards Board, High Ridge Park, Stamford, Connecticut 06905, U.S.A. and are reprinted with permission. Copies of the complete documents are available from the FASB.

Robert F. Meigs  
Walter B. Meigs

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