

The Robert N. Anthony / Willard J. Graham Series in Accounting

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Preface

Fundamental Accounting Principles is intended to provide the textual materials for the first year-long accounting course at the college and university level. This course typically has a variety of objectives. For many students, the course provides the first educational exposure to many business topics including forms of business organization, typical business practices, legal instruments such as notes, bonds, and stocks, and financial statements. Specific objectives often include: (1) developing a general understanding of financial reports and analyses that students will find useful in their personal affairs regardless of their fields of specialization, (2) introducing students to managerial decision processes and the use of accounting information by the managers of a business, (3) providing a strong foundation for subsequent courses in business and finance, and (4) initiating the coursework leading to a career in accounting. *Fundamental Accounting Principles* is designed to serve all of these objectives.

The central orientation of the book is to explain how accounting data are accumulated and how the resulting reports are prepared so that students can interpret and use accounting information intelligently and effectively. The concepts and principles that guide the preparation of accounting information are persistently emphasized so that students will be able to generalize and apply their knowledge to a variety of new situations. As new concepts and principles are gradually introduced throughout the book, they are defined, explained, and illustrated with practical applications. Thus, students need not hold abstract concepts in limbo before they see how the concepts are applied. This careful integration of conceptual principles and their application to specific business situations is a hallmark of *Fundamental Accounting Principles*.

This Tenth Edition contains substantially more important revisions than one might normally expect to observe in a book that has a successful tradition. Numerous important changes have been introduced to make the Tenth Edition an exciting, completely up-to-date product. Many of these changes have resulted from extensive input by Ninth Edition adopters. The teaching effectiveness of the book should be markedly improved in several areas. Important new topics have been covered. A substantial number of additional exercises, problems, and provocative problems have been added to the book. Yet with all of these changes, the basic objectives and philosophy of *Fundamental Accounting Principles* have not changed. The goal is to provide a rigorous and at the same time exceptionally readable teaching package. Consistent with the tradition of this book, extraordinary measures have been taken to minimize errors in the text and all supplementary materials. Students will find the book interesting to read and highly comprehensible. Instructors will find the book to be rigorous and comprehensive.

Some of the important changes in the book include the following:

1. All of the homework material in the book has been revised. The addition of several new exercises, problems, and provocative problems has increased the diversity of assignment material. This diversity is most apparent in terms of the varied levels of difficulty contained in the end-of-chapter material.
2. Some instructors prefer to minimize the time devoted to corporations during the first semester. To facilitate this preference, the revised homework material for Chapter 5 includes several assignments that are based on the single proprietorship as well as several that are based on the corporation. Thus, adopters may choose to include or exclude the corporation assignment material throughout the first half of the book.
3. Adopters of the Ninth Edition have overwhelmingly requested that the discussion of inventories in Chapter 5 and in Chapter 21 be revised to reflect a closing-entry approach. The vast majority of adopters argue that students can identify most easily with a focus on the income statement. Thus, all of the elements in the cost of goods sold calculation are transferred to Income Summary as part of the closing process. The availability of alternative procedures is, however, recognized.
4. Chapter 6 includes an expanded and updated discussion of computerized accounting information systems. The increasing importance of microcomputers in small accounting systems is emphasized.
5. Chapter 10 includes a discussion of the accelerated cost recovery

system and a more complete discussion of the difference between land and land improvements. The topic of tax allocation has been shifted to Chapter 28.

6. Editorial improvements in Chapter 11 provide clearer definitions of betterments, leases, and leaseholds. Also, reasons are provided for the fact that financial accounting depreciation records are now almost always different than tax records.
7. The present value tables in Chapter 12 and the examples involving interest throughout the book have been revised to reflect a range of interest rates that is consistent with recent real-world rates. The topic of mortgages has been moved to Chapter 12, and the difference between long-term and current liabilities is clearly defined. Also, the necessity of reclassifying the current portion of long-term obligations is explained.
8. Chapter 13 has been revised to reflect recent changes in the law and expanded to include a discussion of employee fringe benefits. The discussion of legal requirements for depositing payroll taxes and withholdings is presented more concisely.
9. The discussion of preferred stock in Chapter 15 has been expanded to include more precise illustrations of the allocation of dividends between preferred and common. In that chapter, the tax characteristics of corporations are clarified as offering potential advantages as well as disadvantages.
10. The illustrations of consolidated statements in Chapter 16 have been revised and simplified in a manner that draws more attention to the equity method and the related elimination entries. Extraneous changes in the balance sheet from one period to the next have been removed. Another important change in Chapter 16 is to insert a relatively complete discussion of temporary and long-term investments in marketable equity securities, including explanations of the cost method, lower-of-cost-or-market, and equity method. Also, the discussion of dividends has been streamlined, and the difference between legal restrictions on retained earnings and voluntary appropriations of retained earnings has been clarified.
11. Since the stock investment material has been shifted to Chapter 16, the revised Chapter 17 relates entirely to bonds. It now includes a discussion of bond investments as well as bonds payable. Also, the chapter includes a substantially expanded explanation of the straight-line method of premium or discount amortization and a tabular analysis that shows the difference between the straight-line method and the interest method.
12. Chapter 18 has been very substantially revised so that the statement of changes in financial position is presented on both a work

- ing capital basis and on a cash basis. The differences between the two alternative formats are reconciled.
13. The sequence of Chapters 19 and 20 has been reversed so that the student's analysis of financial statements (Chapter 20) can incorporate the information contained in the *FASB Statement No. 33* disclosures (Chapter 19).
 14. An important change in Chapter 20 has been to introduce the concept of general purpose financial statements and the objectives of financial reporting as presented in *FASB Statement of Concepts No. 1*. The philosophy is that a clear understanding of the accountant's objectives in preparing financial statements is a necessary prerequisite to a knowledgeable analysis of those statements. A provocative problem following Chapter 20 requires the student to analyze the 1982 Annual Report of Texas Instruments which is disclosed in the Appendix to the book (along with the 1982 financial statements of Equifax Inc.).
 15. The sequence of Chapters 21, 22, and 23 has been changed so that responsibility and departmental accounting are now presented in Chapter 23. The content of that chapter is more closely related to subsequent chapters. This change also allows students to begin the cost and managerial accounting topics with the cost accumulation chapters. In Chapter 22, a major new illustration is introduced that clarifies not only the flow of costs but the relationship between the flow of costs in the General Ledger and the subsidiary ledgers in a job cost system.
 16. An important new section on segmental reporting to outside parties has been included in Chapter 23. This section describes the basic issues involved in segmental reporting and contrasts that process with the managerial process of accounting for the departments of a business. The section on responsibility accounting has been significantly revised and expanded to include illustrations of performance reports at differing managerial levels in the firm.
 17. The sequence of Chapters 24 and 25 has been reversed so that the two budgeting chapters will be adjacent to each other. An important new section of Chapter 24 contains a discussion of scatter diagrams and the process of estimating cost behavior. The concept of mixed costs is introduced in this section.
 18. In Chapter 27, the discussion of rate of return on average investment has been rewritten to include situations where cash flows are received uniformly throughout the year and situations where the cash flow is received at the end of each year.
 19. Chapter 28 reflects all of the changes in tax legislation that have occurred since the previous edition.

Several important changes and additions have been made in the supplementary materials for *Fundamental Accounting Principles*. These items include the following:

COMPUTERIZED PRACTICE SETS. Two new computerized practice sets have been written to accompany the Tenth Edition. Both are designed to run on microcomputers and have been extensively classroom tested. *Lite Flight*, by Christine Sprenger and Keith Weidkamp, is a single proprietorship exercise that may be assigned after coverage of Chapter 6. *KC's Deals on Wheels*, by Christine Sprenger, Keith Weidkamp, and Clifford Burns, is a larger exercise that includes more transactions, perpetual inventories, comparative statements, notes receivable, interest, and depreciation. It may be assigned after coverage of Chapter 10.

MANUAL PRACTICE SETS. Three manual practice sets are available for use with *Fundamental Accounting Principles*. Colorful Paint, Inc., is intended to be used at the completion of Chapter 8. An alternative practice set, Small Hardware Store, is designed as a single proprietorship and includes a variety of business papers to be used in analyzing transactions. Schwab Manufacturing Company may be assigned after coverage of Chapter 21.

WORKING PAPERS. Separate booklets of working papers for solutions to the problems and alternate problems are available for Chapters 1–14 and Chapters 14–28. Note that Chapter 14 is included in both booklets to increase flexibility in course design.

STUDY GUIDES. The study guides and solutions for the Tenth Edition have been revised to include more detailed outlines of each chapter. Separate booklets are available for Chapters 1–14 and Chapters 14–28.

ACHIEVEMENT TESTS. Three alternative series of achievement tests are available in bulk to adopters. Each series includes 10 tests plus two final examinations.

MACHINE-GRADEABLE TESTS and ADDITIONAL EXAMINATION MATERIALS. The booklet of additional examination and quiz material has been thoroughly revised and expanded to include a set of machine-gradable examinations. Included in this booklet are solutions to all of the examination questions in the booklet and to the achievement tests.

COMPUTERIZED TEST BANK. A large bank of objective test questions is available together with the Irwin Computerized Test Generator

System. Adopters may also draw upon the test bank through the use of Teletest, an in-house test preparation service for instructors who want assistance with exam preparation.

INSTRUCTOR'S LECTURE GUIDE. A completely new lecture guide to accompany the Tenth Edition of *Fundamental Accounting Principles* has been prepared by Elliott S. Levy and Laurie W. Pant of Bentley College. The lecture guide includes a topical classification of the assignment materials at the end of each chapter, a list of suggested objectives and areas for emphasis by the instructor, a detailed lecture outline for each chapter, and a list of suggested assignments.

SOLUTIONS MANUALS. Complete answers and solutions to all of the assignment material at the end of each chapter are provided in two solutions manuals. Also included are estimates of the time required by an average student to complete each problem.

TRANSPARENCIES. An expanded number of illustrative transparencies for use in teaching is available with the Tenth Edition. Transparencies of the solutions to all of the exercises and problems following each chapter are also available.

CHECK FIGURES. A list of key figures in the solutions to problems is available in quantity for distribution to students by the instructor.

Those who've made important contributions to this Tenth Edition include students, adopters, colleagues, and friends. We are particularly appreciative of the input by Alvin Black, Northeastern University; Eugene A. Braun, Northern Virginia Community College; Paul Brown, Yale University; Eric Carlsen, Kean College; Al A. Evans, Evangel College; Anna Fowler, The University of Texas at Austin; Robert Hardin, Henry Ford Community College; Jill Jones, University of West Florida; Marcella Y. Lecky, The University of Southwestern Louisiana; Elliott S. Levy, Bentley College; Janet Maly, The University of Texas at Austin; James F. McDermott, Northeastern University; Laurie W. Pant, Bentley College; L. L. Price, Ft. Steilacoom Community College; Daniel Short, The University of Texas at Austin; Sherry Stewart, Peak Marwick Mitchell; Charles E. Thompson, El Camino College; and Bill Wells, Tulsa Junior College. Patricia Kardash Lee has made an exceptional contribution through her assistance in preparing the manuscript.

William W. Pyle

Kermit D. Larson

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