

INTERMEDIATE ACCOUNTING

Fourth
Edition

INTERMEDIATE ACCOUNTING

FOURTH EDITION

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**INTERMEDIATE
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PREFACE

This fourth edition of *Intermediate Accounting* is the second volume in a coordinated accounting *series*. This book is designed for use in an intermediate-level accounting course following the introductory course in accounting. The emphasis throughout is on accounting theory and concepts and on analysis of the problems that arise in applying these underlying concepts to financial accounting. As in the introductory volume of the series, attention is focused on the use of accounting information as a basis for decision making by management, stockholders, creditors, and other users of financial statements and accounting reports.

The fourth edition reflects the dramatic changes which have been occurring in the development and application of accounting concepts, with special attention to the official pronouncements and the exposure drafts of the Financial Accounting Standards Board and the Securities and Exchange Commission. Chapter 1 serves to place in perspective for the student the development and application of accounting concepts. Increased emphasis is given to the objectives of financial statements and to the influence of the FASB. The increasingly active role of the SEC in stressing disclosure and in protecting investors also receives attention.

A brief and rapid review of basic data-collecting processes in Chapter 2 reinforces the student's understanding of fundamental recording, classifying, and summarizing procedures. This background leads naturally to a consideration, in Chapters 3 and 4, of the assumptions and

basic principles on which the accountant's determination of periodic income and periodic reports of financial position are based. The discussion in these chapters (and throughout the remainder of the book) is not limited to a description of acceptable practices. We believe it is important at this stage in accounting education to encourage students to participate in a critical evaluation of accounting concepts and to make students aware of the conflicts and shortcomings that exist within the traditional structure of accounting theory. At the same time it is important to provide students with an analytical basis for making this evaluation, to help them see that most of the controversial areas of accounting ultimately center on underlying issues and questions to which there are no neat and simple answers. To this end, the critical evaluation of accounting concepts is correlated with the **Statements** of the Financial Accounting Standards Board, the **Opinions** and **Statements** of its predecessor the Accounting Principles Board, and with the **Accounting Series Releases** of the SEC.

The first four chapters of the book constitute an overview of the entire accounting process and are designed to provide a gradual transition from the introductory course in accounting to the more rigorous professional level of analysis in the following chapters.

Chapter 5 is a new chapter devoted to the concepts of present value. The early introduction of this topic paves the way to using present value and future value concepts for certain receivables and liabilities, for amortization of discounts and premiums, and for leases, pension plans, and fund accumulations.

Chapters 6 through 10 deal with the problems that arise in accounting for and controlling cash, marketable securities, receivables, and current liabilities. Chapter 11, "Long-Term Investments," emphasizes the equity method of accounting for long-term investments in corporate securities and analyzes the impact of the most recent FASB views on valuation of securities.

In Chapters 12 through 14, attention is centered on the problems of accounting for and reporting on a firm's investment in plant and equipment and intangible assets.

Chapters 15 through 21 are concerned with special accounting problems peculiar to corporate organizations. These problems are focused largely on the stockholders' equity and long-term debt sections of the balance sheet, but their implications are often considerably broader. Such contemporary and controversial topics as the reporting of leases in financial statements and accounting for pension plans (Chapter 16), stock options (Chapter 18), earnings per share (Chapter 20), and income tax allocation (Chapter 21) are explored in depth.

Chapter 22, "Accounting and Inflation," recognizes the increasing impact on accounting of changes in the purchasing power of the dollar and the economic value of assets. Included in this chapter is a thorough discussion and analysis of the disclosure of replacement cost information as required by recent actions of the SEC.

Chapter 23 explains the standards of disclosure required when corporations make significant accounting changes. It also deals with the effect of errors on financial statements and the process of constructing financial statements from incomplete records.

The newest of the basic financial statements, the Statement of Changes in Financial Position, is presented in Chapter 24 along with evaluation of the significance of cash flow and other fund flow information. The final chapter, 25, is devoted to the important issues that make the analysis of financial statements both a demanding and interesting process.

New features and features carried forward from prior editions

One of the new features of this edition is an **Examination Question Manual** with test material arranged chapter by chapter for the entire text. This examination manual contains objective questions in a variety of formats and also numerous short exercises for each chapter. It should be a most useful source for instructors who prefer to assemble their own examinations and to emphasize certain chapters or topics.

An especially useful supplement carried forward from the prior edition is a **Study Guide** prepared by the authors and designed to help students measure their progress by immediate feedback. The **Study Guide** contains for each chapter an outline of the most important points in the textbook plus a variety of objective questions and short exercises. Answers to the questions and exercises appear in the back of the **Study Guide** to help students in prompt self-evaluation of their understanding of each chapter.

This edition like the preceding one contains two groups of problems, Group A and Group B. This arrangement allows individual instructors to vary their problem assignments in different sections of the course, or from year to year. The problems in the two groups are of similar difficulty and require about the same solution time. Either the A Group or B Group of problems provides more than enough material for assignments throughout an offering of the course.

Questions, exercises, cases, and problems

An abundance of question and problem material is provided at the end of each chapter. This material is divided into four groups: questions, exercises, short cases for analysis and decision, and problems.

The questions are intended for use by students as a self-testing and review device to measure their comprehension of key points in each chapter. Many of the questions are also of a provocative nature, which makes them suitable for written assignments and engenders lively class discussion. Short exercises appear at the end of each chapter. Typi-

cally, an exercise covers a specific important point or topic and does not require extensive computations. Many instructors will wish to use the exercises to supplement problem assignments, for class discussion, and for examination purposes.

The short cases for analysis and decision are essentially problems that require analytical reasoning but involve little or no quantitative data. In this category of problem material students are called upon to analyze business situations, to apply accounting principles, and to propose a course of action. They are not required, however, to prepare lengthy schedules or otherwise to manipulate accounting data on an extensive scale. These short cases have all been class-tested and have proved their worth as a means of encouraging students to take clear-cut positions in the argument of controversial accounting issues. In all but the early chapters of the book, a number of the short cases for analysis have been adapted from CPA examination material. The cases (and selected questions) are especially recommended if the instructor wishes to develop in students skill in communicating accounting concepts and in weighing the merits of opposing arguments.

Problem material has been extensively revised. Many of the problems are new, and those carried over from the preceding edition have been thoroughly revised. Special attention has been given to the inclusion of an adequate number of shorter problems in each chapter. The problems range in difficulty from simple to complex. Most of the problems in the Accounting Theory and Accounting Practice sections of recent Uniform CPA Examinations which are appropriate to intermediate accounting are included, although many have been considerably modified. In addition, several problems have been designed especially to demonstrate the concepts presented in the theoretical discussion. Probably no more than a fourth of the total case and problem material would be used in a given course; consequently ample opportunity exists to vary problem assignments from year to year.

Aiding the student to achieve proficiency in handling professional-level problems

A feature of this fourth edition is the inclusion of a greater number of short problems closely correlated with the text material. No CPA problems are used in the early chapters of the book. The gradation of problems in difficulty is carefully tailored to aid the student in a smooth progression from introductory accounting to a professional level of achievement.

A checklist of key figures is provided for most problems. The purpose of the checklist is to aid students in verifying their problem solutions and in discovering their problem solutions and their own errors. The checklist appears on the inside front and back covers of the text.

Two sets of partially filled-in working papers are published separately from the textbook. One set is designed for Group A problems and one set for Group B problems. Partially filled-in working papers are thus provided for *all* problems. On these work sheets, the company names, problem numbers, numerous headings, and some preliminary data (such as trial balances) have been entered to save student time and to facilitate rapid review by the instructor. Abundant material is included in either set of problems for a comprehensive course, hence the acquisition of a single set of partially filled-in working papers will meet a student's needs for the course.

Transparencies of problem solutions

These transparencies prepared by the publisher are available for the instructor, who wishes to display in a classroom complete solutions to most problems. For longer more complex problems, the transparencies are considered by many instructors to be a highly effective means of showing desired organization and format of solutions.

Contributions by others

The many instructors and students who used the earlier editions of this book have contributed immeasurably to the improvements in this edition. Their suggestions for modification of certain problems and expansion or contraction of certain sections of the text material have been most useful and constructive. Especially helpful was the advice received from Professors Charlene Abendroth, California State University, Hayward; Leonard A. Bacon, West Texas State University; Brian J. Briggs, Rochester Institute of Technology; Andrew Butula, Middlesex Community College; Robert K. Eskew, Purdue University; Kenneth L. Fox, Kansas State University; Lou Gilles, University of South Carolina—Coastal Carolina; Robert W. Hill, California Polytechnic University at San Luis Obispo; Edgar A. Houston, Rider College; Carol Inberg, California State University, Hayward; Richard Kochanek, University of Connecticut, Storrs; John Lacey, University of California, Los Angeles; George F. Malecek, St. Mary's University of San Antonio; Robert F. Meigs, California State University, San Diego; Cornelius Russell, Marist College; W. F. Rylander, Texas A&I University, Corpus Christi; Thomas G. Secoy, Illinois State University; Jane Stockard, Kansas State University; A. M. Tchobanian, San Francisco State University; Richard L. Townsend, University of Tennessee, Knoxville; Richard J. Vargo, University of Texas, Arlington; DuWayne Wacker, University of North Dakota; Jerold M. Weiss, Hunter College; Gerald F. Wiles, State University of New York Agricultural and Technical College, Alfred; and Lance G. Collins, Douglas Hester, Robert R. Smith, and Miklos A. Vasarhelyi of the University of Southern California.

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Walter B. Meigs
A. N. Mosich

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