



INTERMEDIATE ACCOUNTING

◆
Revised Edition

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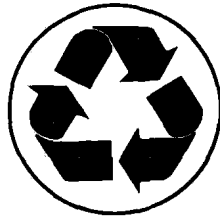
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INTERMEDIATE ACCOUNTING

To our wives and families:
Ann, Daniel, James, Linda, David
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ABOUT THE AUTHORS

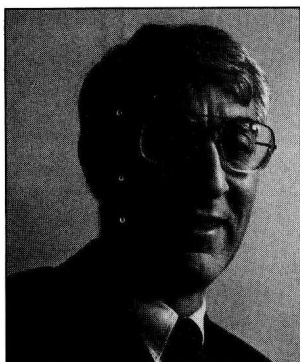


Thomas R. Dyckman, Ph.D., is Ann Whitney Olin Professor of Accounting and Quantitative Analysis and Associate Dean for Academic Affairs at Cornell University's Johnson Graduate School of Management. In addition to teaching accounting and quantitative analysis, he is a program coordinator of Cornell's Executive Development Program. He earned his doctorate degree from the University of Michigan.

A former member of the Financial Accounting Standards Board Advisory Committee, Professor Dyckman is presently a member of 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 extended industrial experience that includes work with the U.S. Navy and IBM. He has conducted seminars for the University of California Management Development Program and the Credit Bureau Executives' Program, 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* and *The Journal of Management Accounting Research*.



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 since 1983. 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, and the Notable Contribution to Accounting Literature 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.

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 and chair of the department of accountancy at California State University, Sacramento. 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. 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*, and *Journal of Accounting and Public Policy*, and in several health-care fiscal management journals. He serves on the editorial review board of *Advances in Accounting*. 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

PHILOSOPHY AND PURPOSE

Financial reporting plays a unique role in the process of allocating resources in our economy. The subject matter of this text, *Intermediate Accounting*, Revised Edition, is the development of the principles underlying that reporting process.

This revision represents a major reorganization and rewriting effort. Our aim is to improve the text as a learning tool while continuing the comprehensiveness and technical quality of previous editions.

The text is completely current as to the date of publication, and includes discussion of the most recent FASB statements. In particular, we have incorporated FASB *Statement Nos. 102* and *104* concerning the statement of cash flows, *Statement No. 105* on financial instruments, *Statement No. 106* on postemployment benefits other than pensions, and the latest pronouncements on accounting for income taxes into the text. Every attempt has been made to assure the accuracy of this material.

Each of us has taught intermediate accounting for many years. In doing so, we have developed an awareness of the issues and applications most difficult for the student to master and have exercised special care in those areas to make the presentation as clear, understandable, and stimulating as possible.

Before embarking on this revision, we surveyed the marketplace to solicit views on topics to be included in the intermediate accounting course, chapter sequencing, desirability of real-world examples, and degree of comprehensiveness. The answers to our surveys and questionnaires were exceptionally helpful in providing overall direction for this revision. In addition, the panel of 30 reviewers were a tremendous source of information about the market and our proposed changes in pedagogy. The insights and recommendations of these reviewers helped shape the final form and substance of the text.

Objectives and Overall Approach of the Revised Edition This revised edition has several objectives. The primary objective is to provide comprehensive coverage of financial accounting topics, both application and rationale. The text emphasizes the reasons for specific

accounting principles, along with clear discussions and illustrations of their applications. We believe that continual integration of theory and practice is the most efficient way to present the subject matter. When the student discovers there is a reason for a procedure, much less is relegated to pure memorization. Consequently, this text does not rely on large and complex exhibits as the sole explanation for accounting procedures.

A secondary objective is to bring the subject to life and increase the student's interest in the material. To accomplish this, we have greatly increased the text's real-world emphasis. The text has literally hundreds of examples of real-world reporting and frequent discussions of the financial reporting experiences of actual firms.

Throughout the text, we discuss the process by which specific accounting principles are developed, thus reinforcing the real-world nature of financial reporting standards. The impact of lobbying and the need for compromise by the FASB is discussed in several chapters affected by the more controversial pronouncements. One aim of this emphasis is to develop the student's ability to critically evaluate particular reporting standards. We want the student to address the question: Is a particular accounting principle successfully fulfilling the primary objective of financial statements, namely to provide information useful for decision making? A second aim is to acquaint the student with the political setting in which standard-setting takes place.

The topical sequencing of material within each chapter is designed to present the important reporting issues and the reasons financial statement users and preparers are concerned about them. This approach leads to a discussion of the current GAAP solution to the issue with appropriate rationale. In the more controversial areas, we consider other potential solutions and why these may have been rejected by the relevant rule-making body. As a result, the student is frequently reminded of the dynamic and interactive nature of the standard-setting process and the inherent difficulties facing standard setters in reaching a consensus.

We also emphasize the areas for which the ac-

counting standards provide a choice from among several alternative methods. In related discussions, the text probes the incentives for choosing from among alternative accounting methods.

Curriculum Concerns This revision is responsive to the concerns of the Accounting Education Change Commission. These concerns suggest a new orientation for accounting education. With this new direction, students should be encouraged “to learn how to learn.” Curricula should emphasize the underlying concepts, rather than memorization of rules and regulations. The focus is on the process of inquiry in which the student learns to identify problem situations, to search for relevant information, to analyze and interpret the information, and to reach a well-reasoned conclusion.

With these goals in mind, this revised edition frequently asks questions and presents important contemporary issues in a manner that compels the student to think about the appropriate solution to a reporting problem. We believe that the discussions of the more controversial and involved issues will lead the student to his or her own position on the issues. To this end, the text often focuses on the process of inquiry, rather than encouraging memorization of the standards and procedures. What information would the user find more helpful in making decisions? What would the student do in this situation?

We view the current GAAP solutions to reporting problems as one step in the continuing evolutionary process of attempting to provide the most cost-effective and useful information possible. The text involves the student in that process. For example, many of the cases require students to identify and solve unstructured problems and to consider multiple data sources. Our computerized end-of-chapter items encourage interaction and help the student learn by doing. In addition, by weaving theory and application together throughout the text, students are encouraged to apply their knowledge to new situations.

Writing Style and Exposition The text mixes a clear, direct, and concise writing style with an active voice to maintain the positive flow of the material and the student’s attention. The text is well outlined and provides considerable structure and good transition between topics. We have clarified and simplified many of the application examples without sacrificing completeness.

The text makes generous use of outlining by using distinctive captions to provide a chronological structure for the reader. We have attempted to minimize the number of pages without any visual “break.” We believe that frequent use of examples, headings and new pedagogical devices increases understandability and ease of reading, while maintaining the student’s

interest. A greater use of visual aids is apparent in this edition. Furthermore, the new pedagogical features enhance the learning experience for students.

An increased use of summary tables and exhibits helps to synthesize the more complex areas, and gives the student an opportunity to evaluate progress. Many of the exhibits and illustrations were class-tested to fine tune them.

To increase the conversational tone and use of current terminology, certain terms were changed. For example, “balance sheet” replaces “statement of financial position,” “income statement” replaces “statement of income,” and “payment” replaces “rent” in present value discussions. *Statements of Financial Accounting Standards* are referred to as *SFASs*. Also, in the text and the end-of-chapter material, the revised edition uses actual year designations such as 1991, rather than 19A, for increased realism.

The text assumes completion of the basic college-level introductory course in financial accounting and is intended primarily for schools covering intermediate accounting in two semesters or three quarters. For example, one logical sequencing for a two semester course is Chapters 1–14 in the first course, followed by Chapters 15–26. By quarter: Chapters 1–8, Chapters 9–16, and Chapters 17–26. This text covers material that is a foundation for a later course in advanced financial accounting and for graduate courses.

REVISION APPROACH AND ORGANIZATION

Financial accounting is concerned with measurement of economic attributes and their recognition in asset, liability, owners’ equity, and income statement accounts. Income determination and disclosure also are important focuses of financial reporting. The revised edition reflects a new sequencing of chapters. After considering the conceptual framework of the FASB and a review of the accounting process, the chapters in this book are grouped into modules corresponding to the major balance sheet account classifications, in natural balance sheet order. Within each is a consideration of the related income and disclosure issues. The text concludes with a series of chapters on specialized accounting topics. These chapter groupings are:

Part	Chapters
I Foundation and Review	1–6
II Asset Recognition and Measurement	7–14
III Liabilities	15–19
IV Owners’ Equity	20–22
V Special Topics	23–26

Changes in Chapter Order The revised edition significantly changes chapter sequencing. The major changes in chapter order are:

Chapter 2, “The FASB’s Conceptual Framework of Accounting” (Chapter 6 in the previous edition) now appears earlier. We believe this is preferable because it allows the instructor to discuss theory before covering the financial statements in the review chapters. The reviewers responded to this major organizational change very favorably.

Chapter 7, “Revenue and Expense Recognition” (Chapter 13 in the previous edition) appears as the first chapter in the section of the text devoted to asset measurement. The chapter ties back to the conceptual framework (when to recognize assets), thereby linking theory with the practical issues of when to record revenues and expenses. The earlier presentation also allows the instructor to cover certain topics without first having to explain recognition criteria.

Chapter 14, “Investments: Temporary and Long Term” (Chapter 18 in the previous edition) is now sequenced as part of the asset section of the text. This grouping allows completion of revenue recognition issues (in this chapter, for intercompany investments) before taking up accounting issues related to liabilities.

Chapter 17, “Accounting for Income Taxes” (Chapter 23 in the previous edition) is now sequenced as part of the liability section of the text. In this way, the liability issues are completed before turning to owners’ equity.

Chapter 22, “Earnings per Share” (part of Chapter 22 in the previous edition) is now a stand-alone special topics chapter given the overall importance and complexity of the topic.

Chapter 25, “Financial Statement Analysis and Changing Prices” (part of Chapter 22 and Chapter 25 in the previous edition) are now combined in the revised edition. Adjustments for the effect of changing prices are no longer required, yet many financial statement users continue to make such adjustments when analyzing statements. Hence, adjusting for price-level changes is treated as part of financial statement analysis.

Chapter 26, “Special Topics: Segment Reporting, Interim Reporting, and Disclosures” is a new chapter that combines parts of chapters from the previous edition along with new material on disclosure issues from the FASB.

Flexibility in Use

In reordering the chapters, we had definite objectives in mind. The topical chapters are grouped to provide a more clear and logical transition within major parts of the text. The commonality of issues and principles within each part reinforces similar principles and enhances their understanding.

However, instructors are not bound by this order. For example, some instructors prefer to cover current liabilities immediately after current assets. This text provides the flexibility to accomplish this and virtually any other ordering desired. The chapters following Chapter 6 are topical in nature, and all rely on the first five chapters for conceptual grounding, and the “big-picture” review in Chapters 3 through 5. Given that the topical chapters are self-contained, a considerable degree of flexibility in chapter sequencing is maintained.

Also, use of appendixes increases the flexibility of topical coverage for the instructor. This additional flexibility is important given the ever-increasing scope of topics in the intermediate accounting course.

Real-World Emphasis

This text makes extensive use of financial reporting examples from actual companies when discussing specific reporting areas. We also make frequent use of the AICPA’s *Accounting Trends and Techniques* for information on trends in financial reporting. In addition, many references to reporting decisions and consequences from actual businesses are taken from *The Wall Street Journal*, *Forbes*, *Financial Executive*, and many other sources. The Sherwin-Williams Company graciously permitted us to reproduce their entire 1990 financial statements and accompanying notes.

Using actual companies in examples helps show how reporting is done in practice. References to well-known corporations capture and hold the student’s interest and reflect the tremendous variety of current accounting practices. The real-world examples also help to convince the student of the importance of many abstract concepts and procedures.

Ethics

A topic of continuing interest in business schools, ethical issues are treated in several chapters through an ethics case in the end-of-chapter material. Ethics cases are included in Chapters 3, 6, 8, 9, 11, 12, 16, 19, 23, and 24. Portions of the AICPA Code of Professional Conduct are reproduced in an appendix to Chapter 1. In addition, implicit references are made to the ethics of financial reporting throughout the text.

End-of-Chapter Materials

Numerous changes and revisions were made to this material. Older and more repetitive items were deleted, and many new items were added. These additions supplement the already considerable inventory of homework assignments. CPA examination questions continue to be used in this edition; many were updated.

The **questions** at the end of each chapter provide a context for in-class discussion; **exercises** are generally structured applications of specific issues in the chapter; **problems** generally are longer and less structured applications of one or more specific issues in the chapter; and **cases** often require the student to integrate several issues in the chapter and provide an opinion on a reporting problem or situation.

The cases and some problems provide an opportunity for students to practice their analytical and written communication skills. Furthermore, they frequently place the student in an unstructured setting requiring a broad view to be taken of a business reporting problem. The context in which financial reporting is used must be considered in these instances.

To help the instructor choose appropriate items, each exercise, problem, and case is titled to indicate the primary issue involved. In addition, each is keyed to one or more learning objectives to allow instructors to select those areas they wish to emphasize.

The quantity and variety of items, both in substance and level of difficulty, allows an instructor to vary the homework items from term to term. The end-of-chapter material was checked for accuracy by faculty colleagues.

NEW PEDAGOGICAL FEATURES

Several new pedagogical features have been added to the revised edition. They are designed to make learning easier and, in general, to make this text more user-friendly.

Learning Objectives

Done in list form, a set of proactive learning objectives opens each chapter to provide the student with learning goals and a preview of upcoming topics.

Introductions

Immediately after the list of learning objectives are the introductions or “stage setters” that discuss events and reporting by actual companies relevant to the chapter and provide a transition to the upcoming

chapter topics. These introductions are attention-grabbing and help the reader understand the significance of the area about to be studied.

Concept Reviews

Throughout the chapters, usually at the end of major sections, students are asked to respond to a brief list of questions. These questions are answerable directly from the text and help students check their understanding of the section’s basic concepts or message. These questions also provide a break from the reading and reinforce the major ideas. In addition, the concept reviews give the readers an idea of how well they comprehended the material before moving ahead. The questions are analogous to a short quiz after a lecture on a particular part of a chapter. The answers to the concept review questions are provided at the end of the solutions manual for the convenience of the instructor.

Summary of Key Points

Each chapter concludes with a recap of the main ideas presented. The summaries are now done in list format rather than a paragraph style. The list format better highlights the chapter’s content by making the most important ideas more easily identifiable. Each point is keyed to the relevant learning objective.

Review Problem with Solution

Immediately after the summary of key points, a review problem illustrates several of the chapter’s main concepts, followed by the solution. The review problems also provide additional practice for the student and a self-test for evaluating progress.

Key Terms

Just before the end-of-chapter material, a list of the chapter’s most important new terms appears. Page references indicate where the terms were defined and initially discussed. The key terms are printed in a second color for emphasis allowing the student to easily locate them, and to review their meanings in the context of the chapter.

Comprehensive Problems

In many chapters, one or more problems in the end-of-chapter material cover several of the chapter’s learning objectives. Their objective is to integrate the more important ideas into a single situation. They are identified by this symbol in the margin:

COMPREHENSIVE PROBLEM

Ethics Case

Many chapters include a case in the end-of-chapter material that emphasizes the ethical implications of particular actions and reporting decisions. The student often is placed in a situation requiring a decision that has ethical ramifications. These cases are identified by this symbol in the margin:



Sherwin-Williams Cases

Many chapters also include a case based on the 1990 annual statements of the Sherwin-Williams Company. This case provides an up-to-date application of the chapter material to an actual company. These problems are identified by the Sherwin-Williams logo.



Spreadsheet Applications Template Software (SPATS)

Many chapters include problems and exercises solvable on a computerized spreadsheet. Templates are provided for these problems. A spreadsheet symbol in the margin identifies these problems.



KEY CHAPTER REVISIONS

The changes to the revised edition were very extensive. The following list highlights major revisions made in each chapter.

Chapter 1, "The Environment of Accounting"

- The basic accounting model has been moved to Chapter 3.
- The 1988 RJR Nabisco takeover is used to illustrate the value and limitations of financial reporting.
- Portions of the AICPA's Code of Professional

Conduct are reproduced to provide fundamental ethics coverage.

Chapter 2, "The FASB's Conceptual Framework of Accounting"

- The environment in which the FASB functions and the political nature of the standard-setting process are emphasized.
- The major parts of the *Statements of Financial Accounting Concepts*, as they reflect the development of accounting principles, are discussed in chronological order.
- The historical development of the conceptual framework highlights the nature of the standard-setting process.

Chapter 3, "Review: The Accounting Information Processing System"

- The more general systems approach to the accounting cycle is discussed in the chapter, while an appendix that includes acetate transparencies illustrates the worksheet.
- Greater emphasis is placed on adjusting and reversing entries.
- A new discussion comparing two methods of recording operating cash flows that precede recognition of revenue and expense helps the student to understand adjustments and reversals.

Chapter 4, "Review: The Income Statement and the Statement of Retained Earnings"

- New and detailed discussion of the measurement and reporting guidelines for discontinued operations results in comprehensive coverage of this topic.
- The coverage of intraperiod tax allocation parallels the greater emphasis on items below income from continuing operations.
- The new emphasis on the issue of current operating performance versus the all-inclusive approach to income measurement complements the discussion of comprehensive income.

Chapter 5, "Review: The Balance Sheet and the Statement of Cash Flows"

- The balance sheet and statement of cash flows of Merck and Company are used to present and illustrate many of the concepts in this chapter.
- The various valuation approaches used in the balance sheet, the usefulness of the balance sheet, and the limitations of the balance sheet are stressed.
- Both the direct and indirect forms of the statement of cash flows are discussed and illustrated.

Chapter 6, "Interest: Concepts of Future and Present Value"

- Symbols for future and present value calculations are now more user-friendly.

- Use of summary tables and time-line exhibits simplifies the presentation.
- The interest tables now appear in an appendix.

Chapter 7, "Revenue and Expense Recognition"

- The earlier coverage of revenue recognition will assist the discussion of asset recognition in later chapters.
- The fundamental concepts of revenue and revenue recognition are emphasized throughout the chapter.
- The conceptual discussion leads to the general criteria for revenue recognition.

Chapter 8, "Cash and Receivables"

- Three formats for bank reconciliations are covered and greater emphasis is placed on proof of cash.
- The in-depth discussion on using receivables for financing reflects the complexities in this area.
- New coverage of notes receivable exchanged for cash and other privileges demonstrates the variety of uses for notes and resulting accounting issues.

Chapter 9, "Inventory Measurement, Cost of Goods Sold, and DV LIFO"

- Coverage of consignments is expanded.
- The chapter now distinguishes between cost-flow assumptions under both the periodic and perpetual systems.
- A new section on inventory pools emphasizes the importance of cost-benefit concerns in this area.

Chapter 10, "Alternative Inventory Valuation Methods"

- The LCM material has been rewritten to clarify the calculation process and includes additional situations.
- There is new coverage of the use of LCM in reporting income taxes.
- The discussion of the gross margin and retail methods is rewritten to emphasize calculational steps.

Chapter 11, "Operational Assets: Acquisition, Disposal, and Exchange"

- The discussion of the issue of what to capitalize includes the FASB exposure draft on donations.
- The substantially greater emphasis on capitalization of interest includes both theory and application.
- A generalized approach to valuing property acquired in an exchange helps to simplify this area.

Chapter 12, "Operational Assets: Depreciation and Impairment"

- Considerably greater emphasis is placed on the nature of depreciation, incentives for choice of method, and what depreciation means to the financial statement user.
- Depreciation policy is discussed in terms of its effect on dividend policy and cash flows.

- A section on impairment of value considers the decade-long trend of corporations to take large write-offs of operational assets.

Chapter 13, "Intangible Assets and Natural Resources"

- The accounting for all intangibles other than goodwill, research and development, and computer software costs is reorganized.
- In-depth treatment of goodwill estimation emphasizes concepts and examples.
- The oil and gas controversy complements a complete discussion of accounting for natural resources.

Chapter 14, "Investments: Temporary and Long Term"

- Changing between the cost and equity method is discussed and illustrated.
- Consolidations discussion is shorter and has been moved to an appendix.
- Also moved to an appendix are special purpose funds, cash surrender value of life insurance, and future contracts.

Chapter 15, "Short-Term Liabilities"

- New coverage of bonus payments is added.
- The chapter now includes refinancing of short-term debt and the reporting of debt as short term.
- The sections on taxes collected for third parties, property taxes, and conditional payments are extensively revised.

Chapter 16, "Long-Term Liabilities"

- Greater emphasis is placed on theory discussion and the rationale for FASB positions on such controversial topics as troubled debt restructuring, debt extinguishment, and valuation of debt issued with equity securities.
- There is new coverage of troubled debt restructuring, which now appears in an appendix.
- The FASB's financial instruments project is discussed in terms of project financing relationships, unconditional purchase obligations, zero-coupon bonds, and creative financial instruments.

Chapter 17, "Accounting for Income Taxes"

- Accounting for operating losses precedes inter-period tax allocation.
- The latest Exposure Draft for income taxes is incorporated in the body of the text. The more complex procedures for determining the amount of deferred tax assets are covered in the appendix.
- The coverage in the chapter is complete and flexible so that the instructor can choose to focus on the procedures and requirements of the Exposure Draft or on those of *SFAS 96* if the Exposure Draft is not adopted.

Chapter 18, “Accounting for Leases”

- ♦ Accounting for lessor and lessee is covered in series rather than in parallel fashion; the lessee is considered first (emphasis on liabilities).
- ♦ Greater emphasis is placed on special issues including different interest rates, bargain renewal offers, and the use of guaranteed residual values to secure off-balance-sheet financing.
- ♦ An appendix covers real estate and leveraged leases.

Chapter 19, “Accounting for Pensions”

- ♦ The chapter is totally reorganized using a modularized approach to emphasize the basics and to ease into the complexities.
- ♦ New coverage of ERISA, PBGC and pension termination enhances the real-world flavor of the subject.
- ♦ Three new appendixes appear: postemployment benefits other than pensions; settlements, curtailments, and termination benefits; and accounting for the pension plan.

Chapter 20, “Corporations: Contributed Capital”

- ♦ Professional corporations and Subchapter S corporations are now discussed.
- ♦ Greater emphasis is placed on the issues underlying redeemable preferred shares.
- ♦ Examples of self-tender offers to acquire treasury stock and retirement of stock increase the comprehensive coverage of owners’ equity accounting.

Chapter 21, “Corporations: Retained Earnings and Stock Options”

- ♦ Fractional share rights and stock appreciation rights receive greater emphasis.
- ♦ The discussion of quasi reorganizations is moved to an appendix.

Chapter 22, “Earnings per Share”

- ♦ EPS is given its own chapter to allow for more detailed discussion.
- ♦ Primary EPS is discussed before fully diluted EPS.
- ♦ Extensive examples are now provided.

Chapter 23, “Statement of Cash Flows”

- ♦ The spreadsheet is simplified to allow a simultaneous solution of the statement under both direct and indirect methods.
- ♦ The direct and indirect methods are discussed separately through the first complete statement example to emphasize their different characteristics; then both methods are discussed in the more complex examples because the reconciliation of net operating cash flow and net income are present in both.
- ♦ The approaches to preparing the statement are illustrated: format-free, spreadsheet, and the T-account.

Chapter 24, “Accounting Changes and Error Corrections”

- ♦ The issues affecting accounting changes and alternative views and motivations for changes are stressed.
- ♦ The direct and indirect effects of current accounting changes are now covered.
- ♦ Changing to LIFO is discussed.

Chapter 25, “Financial Statement Analysis and Changing Prices”

- ♦ The inclusion of both financial statement analysis and accounting for changing prices is a major organizational change aimed at streamlining the coverage of these two related topics now that firms no longer are required to report on changing prices.
- ♦ New ratios used in financial statement analysis are discussed.
- ♦ Discussed are four models for reporting the effects of price level changes, the advantages and disadvantages of each, and a brief example highlighting the nature of each model.

Chapter 26, “Special Topics: Segment Reporting, Interim Reporting, and Disclosures”

- ♦ The first section is an all new discussion of standards and information overload and the principle of full disclosure.
- ♦ A discussion of the conflict between the FASB and financial statement users highlights the political nature of the standard setting process.
- ♦ A more straight-forward presentation of interim and segmental disclosure is included in this chapter.

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**ANCILLARIES AND SUPPLEMENTARY
 MATERIALS**

**FOR THE PROFESSOR:**

INTERMEDIATE ACCOUNTING, Revised Edition, offers numerous teaching aids to assist the instructor.

Solutions Manual, Chapters 1–14 and 14–26—Done in two volumes, this comprehensive solutions manual provides complete solutions and explanations for all end-of-chapter questions, exercises, problems, and cases. 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 the manual.

Test Bank, Chapters 1–14 and 14–26—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, and selected CPA examination questions. It was revised by Robert Su of California State University–Sacramento.

Solutions Transparencies—Acetate transparencies of solutions to all exercises and all problems are free to adopters. Now increased in clarity, these transparencies are especially useful when covering problems in large classroom settings.

Teaching Transparencies—Selected lecture transparencies based on text material are available for classroom use.

Instructor's Resource Manual—This manual includes overviews, learning objectives, lecture outlines, problem analysis by objective, summaries, key terms, review quizzes, and transparency masters. It was prepared by Dick D. Wasson of Central Washington University.

Computest 3—This advanced-feature test generator allows the adding and editing of questions; saves and reloads tests; creates up to 99 different versions of each test; attaches graphics to questions; imports and exports ASCII files; and permits the selection of questions based on type, level of difficulty, or keyword. Computest 3 provides password protection of saved tests and question databases and can run on a network. It is available in 5.25- and 3.5-inch versions.

Compugrade 3—More than a grading system on disk, Compugrade 3 is a complete classroom management system. This advanced software system tracks up to 100 scores per class—homework, project, bonus points, class participation, attendance, and more. A variety of reports can be printed depending on class needs, including student, class, and assignment summaries. Graphs of various statistics for individual students or the entire class may be viewed and printed.

Teletest—Through this service the instructor can create customized exams and receive masters and answer keys within 72 hours of contacting the publisher.

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 in the margin, 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-inch 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.

The Student Integrated Learning Systems, Chapters 1–14 (Volume I) and Chapters 14–26 (Volume II)—This option allows the student to purchase either Chapters 1–14 or Chapters 14–26 of the text with the related Study Guides and Working Papers in a three-ring binder. Students benefit by having all three course-related items in a single package at a significant cost savings.

Study Guides, Chapters 1–14 and Chapters 14–26—The study guides provide the student with a summarized look at each chapter's issues. Included are outlines, chapter overviews, key concepts, and review questions and exercises. The study guides were prepared by Rosita Chen and Sheng-Der Pan, both of California State University–Fresno.

Working Papers, Chapter 1–14 and Chapter 14–26—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, a manual practice set, can be assigned after Chapter 6 as a review of the accounting cycle.

Cases—**Cases on Recognition and Measurement**, prepared by Todd Johnson and Tim Lucas of the Financial Accounting Standards Board (FASB) staff contains 50 short cases that are based on the Accounting Education Change Commission (AECC) changes. The casebook includes an instructor's manual and is free to adopters of Intermediate Accounting.

Computer Supplement—Kellogg Business Systems by Leland Mansuetti and Keith Weidkamp, both of Sierra College, is a computerized simulation that can be used after Chapter 6. It is available on 5.25 and 3.5 disks.

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

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