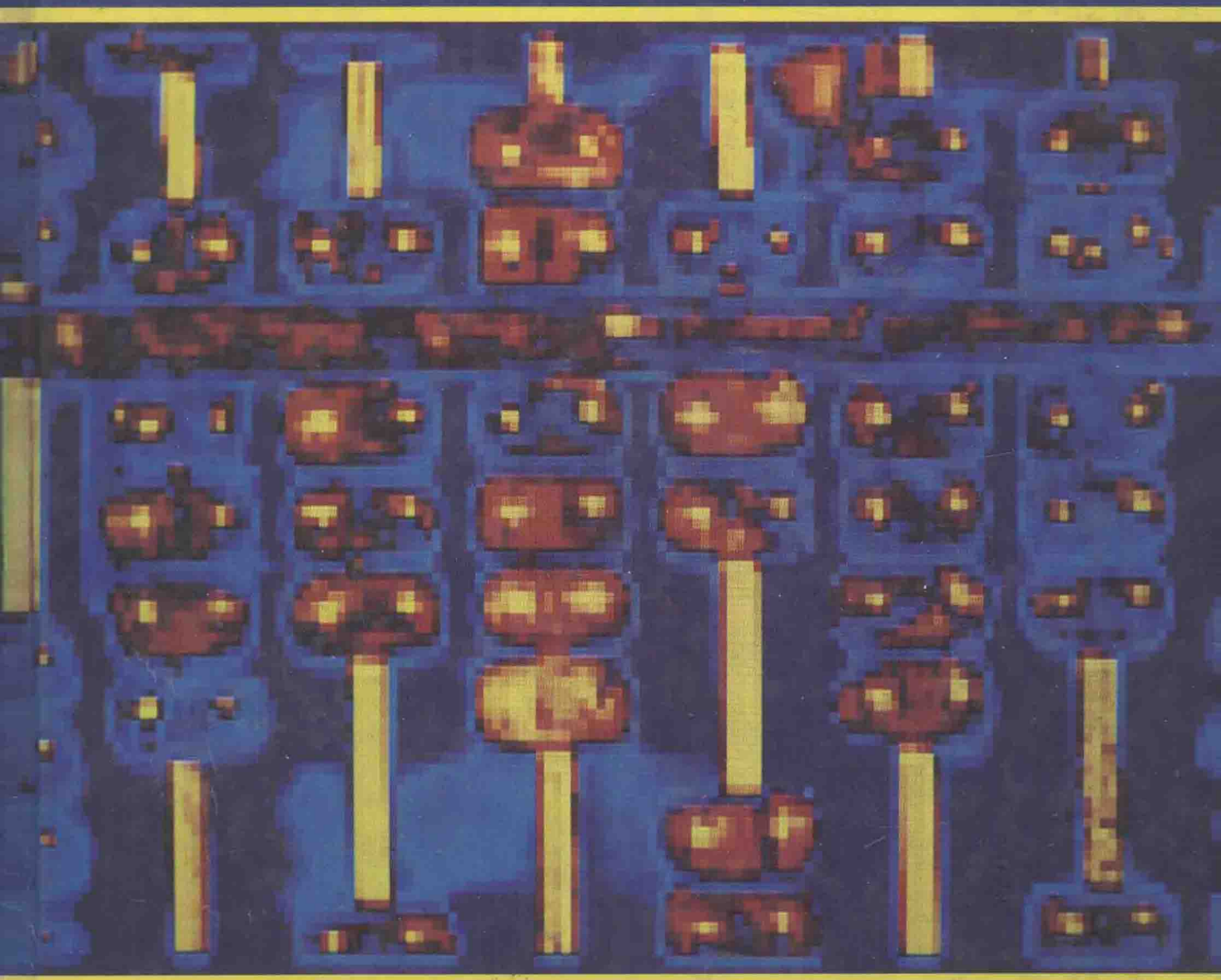


# Accounting Principles

REVISED PRINTING



KIGER

LOEB

MAY

# ACCOUNTING PRINCIPLES

REVISED PRINTING

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# ACCOUNTING PRINCIPLES

CHARLES J. BRUNYARD

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# PREFACE

Our goal in writing ACCOUNTING PRINCIPLES was to provide a text that is better in several ways than those currently available—one that incorporates actual business examples, presents accounting principles very clearly and thoroughly, and pays careful attention to vocabulary building.

Most students in their first accounting course have very limited awareness of the business environment either through course work or direct exposure to the business world. To enhance their awareness, we have exercised care throughout ACCOUNTING PRINCIPLES to introduce the business environment as a basis for understanding the role of accounting in the real world of business. We use actual business examples to capture and hold student interest. Thus, students will find examples involving Chrysler, Eastman Kodak, Exxon, Ford Motor Company, Johnson & Johnson (the impact of the Tylenol poisoning incident), K mart, Polaroid, Toro, Weyerhaeuser (the effects of the eruption of Mount St. Helens), the Concorde, and Atari, among many others. These examples have been carefully chosen to illustrate the impact that the accounting principle being discussed has on the business environment. Most of these appear in the text material, but we also found it useful to present some real business incidents in assignment material for student analysis. Such is the case, for example, with Exercise 16-10 (page 526) dealing with the Tylenol tragedy. We have found in class testing the text (at the University of Georgia, James Madison University, and East Tennessee State University) that real-life examples can be very meaningful to students, since real companies and events are easy for students to relate to.

Many of these actual business examples cast the student in the role of a manager using an accounting procedure or principle to make a business decision. For example, in Chapter 9, we discuss Polaroid's write-down of its Polarvision (instant home movie system)

inventory under the lower-of-cost-or-market principle to make the student realize that writing down inventory reduces profits, which is a significant matter to a business manager. Such practical examples also serve to reinforce a student's memory and understanding of concepts.

As another way of keeping students oriented toward the business use of accounting principles, we frequently begin the discussion of an accounting concept or procedure with a brief description of its business application. For example, in Chapter 8, "Accounts and Notes Receivable," we open our presentation of accounts receivable procedures with a discussion of credit management. Similarly, in the managerial chapters, we discuss the nature of business decisions that managers make using the accounting information discussed in the chapter at hand. For example, in Chapter 22, "Manufacturing Operations," we describe the nature of manufacturing operations and the uses managers make of cost accounting information. In Chapter 25, "Budgeting and Standard Costing," after calculating a variation from standard cost, we suggest potential underlying causes of the variation which management should investigate.

Throughout the text we are careful to move from relatively simple topics to more complex concepts. Thus, in recognition of students' limited exposure to business, we begin with accounting for the single-owner business; in Chapter 14 we introduce accounting for partnerships; in Chapter 15 we take up accounting for corporations; and in Chapter 18 we turn to consolidation of corporations. Similarly, in Chapters 1 through 4 we use service companies to introduce the basic accounting cycle; we add a measure of complexity in Chapter 5 by introducing merchandising, which requires a firm to maintain an inventory of goods for sale; and then in Chapter 22 we introduce accounting for manufacturing enterprises. We give only limited

recognition to the existence of income tax until Chapter 28, the point at which students are best equipped to understand the discussion.

By now it should be clear that we wanted to provide a text which not only teaches the principles of accounting but which also recognizes that in most schools the accounting principles course serves as an introduction to business. This awareness is reflected in several features of the text:

- The use of actual business examples.
- Brief descriptions of internal control implications in many chapters.
- Careful attention to the vocabulary building that is crucial in introducing accounting and business, in the form of two glossaries: a running glossary within each chapter and a reference glossary at the back of the book (see below).
- Painstaking attention to clarity of presentation and to the introduction and organization of material in ways that are easy for students to follow. For example:

In Chapters 2 and 3 the debit and credit process is directly related to the accounting equation.

A six-column worksheet is introduced in Chapter 3 without adjusting entries, and then in Chapter 4 the discussion is expanded to include adjusting entries.

In Chapter 5 the process of adjusting ending inventory and establishing cost of goods sold under the periodic inventory method is related directly to the presentation of ending inventory in the income statement.

Side-by-side journal entries for debtor and creditor are used in Chapter 8 as an aid to the discussion of notes receivable and notes payable.

Side-by-side journal entries for bond issuer and bond investor are used in Chapter 17 as an aid to the discussion of the issuance of, and investment in, bonds.

In Chapter 19, on the statement of changes in financial position, the discussion of how transactions affect working capital uses five T accounts for working capital, noncurrent assets, noncurrent liabilities, common stock, and retained earnings.

The cost of production report for process cost accounting in Chapter 23 is presented using the relatively simple approach of average costing, which is often used in practice, greatly lessens the computational burden, and is less confusing to students.

## ORGANIZATION AND DEPTH OF COVERAGE

Extreme care was taken to introduce and organize material in a manner that is easy for students to follow. The structure of each chapter is clearly reflected in the organization of its subheads. The text was very carefully written to ensure that explanations are clear and easy to understand.

Chapter 1 provides an introduction to accounting, and Chapters 2 through 4 provide a concise presentation of the accounting cycle. In Chapter 2 we introduce the analysis of business transactions and the use of T accounts. Chapter 3 demonstrates the accounting cycle except for adjusting entries. By introducing a simplified worksheet without adjusting entries in Chapter 3, we can devote Chapter 4 to adjusting entries and their placement on the worksheet. Chapter 5 discusses accounting for merchandising. Because the basic accounting cycle provides the debit and credit framework, most instructors will choose to cover these chapters in depth. Subsidiary accounts, special journals, and electronic data processing are covered in Chapter 6 and may be omitted if the instructor so desires.

In Chapter 7 the general elements of internal control are introduced and discussed specifically in relation to cash. Chapters 7–12 and 14–17 cover the balance sheet topics dealing with assets, liabilities, and owners' equity. In addition, Chapter 13 includes accounting theory and accounting for changing prices; Chapter 14 covers partnership accounting; and Chapter 17 covers straight-line amortization of bond premiums and discounts. The Appendix to Chapter 17 (which is optional) covers time value of money concepts and the effective interest method of amortization.

Chapter 18, on consolidations (which some instructors may wish to omit), provides coverage of the problems of accounting for business combinations. Chapter 19 introduces the statement of changes in financial position using the worksheet method. The problems in the B series in this chapter require analysis of transactions in addition to preparation of a worksheet. Chapter 20, on financial statement analysis, is unusual in its coverage of CPAs' reports issued on financial statements. Chapter 21 introduces the use of accounting information for planning and controlling business operations. Chapters 22–27 focus on managerial and cost accounting. Chapter 28 covers both individual and corporate income taxes.



## LEARNING AIDS WITHIN THE TEXT

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Many learning aids—glossaries, key point summaries, demonstration problems, and assignment material—are built into the text.

### Glossaries

Because for many students the course in principles of accounting is an introduction to business, basic vocabulary is an important component of the material students must master. For this reason, the text contains two forms of glossaries:

*Running Glossary.* Throughout the text, when a key term is introduced, it is set in bold type and a definition is provided in the adjacent margin. The running glossary emphasizes the importance of these key terms and facilitates a quick review of vocabulary.

*Reference Glossary.* Important terms in the text are compiled into a complete glossary which appears at the back of the book. The reference glossary provides a full definition of each of the terms and gives the text page on which the term is introduced and explained.

### Key Point Summaries

Each chapter contains a summary of the key points made in that chapter. This summary helps the student remember and review key points and principles.

### Demonstration Problems

Where appropriate, many chapters present one or two demonstration problems, which provide a comprehensive review of important topics discussed in the chapter. In addition to pinpointing key issues for students, these problems constitute an excellent review. Students may solve the demonstration problem after their initial study of the chapter and evaluate their mastery of the material by comparing their solution to the solution given in the text; or students may simply view the demonstration problem as an additional example to study.

## Assignment Material

We have included an abundance of assignment material, including questions, exercises, two sets of problems, business decision problems, and check figures. To keep this material closely tied to the text, we prepared all of it, including the solutions for each chapter, as we wrote the individual chapters.

*Questions.* Each chapter contains a series of questions that highlight the key issues discussed in the text. Generally, students should be able to answer all these questions before they move on to the exercises and problems. The questions may also be used as the basis of class discussion.

*Exercises and Problems.* One set of exercises and two series of problems are provided at the end of each chapter. Exercises generally require the application of a single concept introduced in the chapter, whereas problems generally cover more than one concept. Each exercise and problem is labeled with an indication of the text topic or topics that it covers.

*Business Decision Problems.* Most chapters include one or more business decision problems, in which students are placed in the role of a manager who must make a business decision using concepts discussed in the chapter.

*Check Figures.* Check figures from the solutions to the problems and business decision problems are provided on the endpapers of the book when it is reasonable to do so. These check figures have been chosen to help students stay on the right track in pursuing a solution.

## SUPPLEMENTARY MATERIAL FOR STUDENTS

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In addition to the learning aids within the text itself, a variety of supplements are available to help students master the principles of accounting. These include a Student Mastery Guide, a computer-assisted practice set, two manual practice sets, and working papers.

### Student Mastery Guide

Written by Thomas E. McKee, East Tennessee State University, James H. Potts, University of South Ala-



bama, and Ralph L. Benke, James Madison University, the study guide is packaged in two volumes, covering Chapters 1–15 and Chapters 15–28. Each chapter of the study guide includes learning objectives for the text chapter, a chapter review, a review of key terms, true-false and multiple choice questions, and problems and essay questions. Unique features include a diagnostic pre-test with solutions (referring the student to relevant pages in the text) and a common errors section. A post-test with solutions gives students additional opportunities to test their mastery of the chapter. The test solutions not only provide the correct answers but also explain *why* each answer is correct.

## Computer-Assisted Practice Set

*Computer-Assisted Practice Set/DASH* (Davis Shoes) is written by Louis F. Biagioni, Indiana University, Bloomington. Developed and thoroughly class tested at Indiana University, this practice set enables students to become familiar with the use of an EDP system to record accounting data and to generate financial statements. It is available for use with the Apple Computer, the IBM PC, and most main frames.

## Manual Practice Sets

Two manual practice sets accompany the text. One—dealing with the basic accounting cycle of “Rocky Mountain Sports,” by Molly Murray of Colorado State University—is designed to be used anytime after Chapter 6. Another, by H. Ronald Pitt and Kay C. Pitt of Northern Arizona University, deals with corporation accounting and may be used after Chapter 17.

## Working Papers

Working papers—one set for use with Chapter 1–15 and another set for use with Chapters 15–28—provide students with forms needed for solving the exercises and problems in the text. The working papers furnish enough information to keep students from getting bogged down in “busy work.”

## SUPPLEMENTARY MATERIALS FOR INSTRUCTORS

A variety of supplements are available to assist instructors in planning and conducting a course in principles

of accounting: an Instructor’s Resource Manual, a Solutions Manual, acetate transparencies, and a Test Bank.

## Instructor’s Resource Manual

This manual is written by Gail Shaw, Jay H. Coats, Robert S. Maust, Adolph A. Neidermeyer, and G. Stevenson Smith, all of West Virginia University. For each text chapter the manual provides a chapter outline, a problem map that relates problems to chapter topics, the approximate time needed to solve each problem, a review of learning objectives, extensions for enriching lecture material, teaching suggestions on handling the more difficult topics, additional demonstration problems with solutions, a spot quiz, and sample outlines for organizing courses on the quarter and semester systems.

## Solutions Manual

This manual includes complete solutions to all questions, exercises, problems, and business decision problems in the text. Explanations are included, and each step involved in solving an exercise or problem is illustrated to enhance in-class discussions of homework assignments.

## Acetate Transparencies

High-quality acetate transparencies of solutions are provided for all end-of-chapter exercises and problems for use in class discussions of homework assignments.

## Test Bank

Kenneth C. Bost of James Madison University prepared approximately 2,700 questions that are tied to the specific learning objectives in the Student Mastery Guide and have been class tested. These multiple-choice questions are available on a computer tape, in printed booklet form, and on floppy disks for IBM and Apple II. Preprinted tests compiled from questions in this test bank include seven four-page tests and four eight-page mid-term and final examinations.

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