

# INTERMEDIATE ACCOUNTING

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# ACCOUNTING

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Paul Danos and Eugene A. Imhoff, Jr.

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TO OUR FAMILIES

Mary Ellen, Amanda, and Melissa  
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# PREFACE

This text covers the underlying principles, procedures, and reporting requirements necessary to gain an understanding of *both* the preparation and the use of modern financial reports of profit-seeking entities. The number of such factors affecting accounting has grown at an unprecedented pace during the past decade. Mirroring this growth, many accounting texts have expanded the number of subjects covered.

The basic premise of this text is that *conceptual commonalities* tie much of financial accounting together. Emphasizing these commonalities should aid the learning process. Although generally accepted accounting principles (GAAP) contain many important, specific, and sometimes arbitrary, prescriptions, the main goal of this text is to highlight the conceptual foundations of these prescriptions, with ample discussion of why departures from them take place.

## OVERALL ORGANIZATION OF THE TEXT

The organization of this text reflects our view of financial accounting. We see the subject matter as a mixture of concepts, procedures, and reporting requirements. Our belief is that covering accounting procedures and reporting requirements without regard for the underlying concepts is not conducive to a thorough understanding of financial accounting. At the same time, some abstract concepts take on much more meaning as specific procedures are illustrated. For these reasons, we have attempted to interrelate concepts and procedures throughout the text.

In Part 1, “An Introduction to Financial Accounting Organizations, Concepts, and Techniques,” we cover the fundamentals. Chapter 1 describes the political and institutional setting. Chapter 2 covers the Conceptual Framework Study of the Financial Accounting Standards Board and other key aspects of basic accounting the-

ory. In Chapters 3 and 4 we introduce the more specific concepts underlying conventional financial statements, including such things as how changes in accounting estimates and methods are reported and the concept of funds flow measurement as an economic indicator of the entity's activities. We introduce the present-value measurement concept in Chapter 5 and other accounting valuation models (such as replacement cost) in Chapter 6.

The six chapters of Part 1 introduce fundamental accounting concepts that are important to a full understanding of the specific accounting procedures and disclosure requirements discussed in Part 2, "Assets," and Part 3, "Equities." For example, several chapters in Parts 2 and 3 consider the procedures and reporting requirements to account for an "accounting change" (such as a change in estimate or a change in principles), which were introduced in Chapter 3. Also, each chapter in Parts 2 and 3 ends with a discussion of funds flow effects, thereby relating back to the introduction to funds flow in Chapter 4. Expanded coverage of the conceptual framework of accounting, first introduced in Chapter 2, is found in virtually every chapter of the text, and discussion of many of the specific generally accepted accounting procedures and reporting requirements draws upon an understanding of the valuation concepts introduced in Chapters 5 and 6. Thus, the fundamental concepts of accounting introduced in Part 1 pave the way to a full understanding of the material presented in Parts 2, 3, and 4.

Part 4 of the text summarizes and expands on the key accounting concepts, procedures, and reporting requirements necessary to evaluate and use modern financial reports for decision making. The chapters of Part 4 focus on some of the more complex elements of financial reporting and expand upon topics first covered in Parts 1, 2, and 3. For example, Chapter 23 reviews the revenue-recognition concept introduced in Chapter 3 and applied throughout the book. Chapter 24 provides a wide-ranging review of the financial reporting of accounting changes and expands on the coverage of error analysis and correction. Chapter 25 consists of a comprehensive evaluation of the statement of changes in financial position, which was first discussed in Chapter 4. Chapter 26 provides detailed coverage of accounting for changing prices according to current generally accepted accounting principles and reviews the concepts that underlie the required supplementary disclosures. In this way, Chapter 26 broadens the discussion in Chapter 6. Chapter 27 provides a capstone review of the nature and use of financial statements, including a discussion of interim and segment reporting requirements, an outline of key Securities and Exchange Commission reports, and an introduction to analysis of financial statements.

## STRUCTURE OF PARTS AND CHAPTERS

Each part of the text begins with a major *conceptual overview* that highlights the common theme of the several chapters of that part. For example, the overview of Part 2 reviews the general nature of assets. Each chapter has a common structure. Each begins with a *chapter overview* that previews the chapter material and notes its relationship to the underlying accounting concepts. Each chapter of Parts 2, 3, and 4 includes *illustrative material from published annual reports* to provide practical examples of the material being covered. As already mentioned, each chapter in Parts 2 and 3 of the text has a section on *funds flow effects* in order to stress the underlying economic effects of the transactions covered in the chapter. *Chapter summaries* identify the underlying concepts, procedures, and reporting requirements covered.

## **CHAPTER SEQUENCE AND ORDER OF COVERAGE**

Chapters 1 through 5 introduce fundamental accounting concepts and techniques. For this reason, these chapters should be covered before Parts 2, 3, and 4, unless students have had comparable exposure in other courses. Parts 2 and 3 are arranged in a basic balance sheet format. With the exceptions of the natural sequence of Chapters 9 and 10 on inventory and Chapters 11 and 12 on plant, property, and equipment and depreciation, the order of coverage of the chapters in Parts 2 and 3 can be varied to suit a particular course. Although Part 4 builds on previously developed materials, Chapters 23, 24, and 25 may be covered whenever the instructor feels the students have been adequately prepared for them. Chapters 6 and 26 are designed to stand on their own for the most part and may be inserted almost anywhere in the sequence of material depending on the instructor's preference. Chapter 27 seems to work best as a concluding chapter.

## **QUESTIONS, CASES, EXERCISES, AND PROBLEMS**

In addition to the hundreds of questions, cases, exercises, and problems developed specifically for this text, CPA and CMA exam materials are used as important learning tools. We have attempted to provide a wide variety of self-testing materials that are useful both for stimulating class discussions (questions and cases) and for testing comprehension in problem-solving contexts. Some of the exercises and problems are straightforward, relating directly to the chapter material; others are more complex, involving richer contexts from which students must sort out relevant data. Some require logical extensions of the chapter material or are designed to test the student's ability to integrate material from other chapters. Some of the questions and cases are also straightforward, with answers flowing directly from the text, whereas others involve the ambiguities encountered in the real world where no single response is obviously correct. The various levels of difficulty in the questions, cases, exercises, and problems permit the instructor to fashion a mix of assignments according to personal preferences.

## **SUPPLEMENTS TO THE TEXT**

This text is supplemented by the following materials:

1. A solutions manual
2. A set of transparencies
3. An instructor's resource manual
4. A test bank of over 1,000 questions and problems
5. A student guide
6. A practice set
7. A complete set of working papers

The instructor's manual, test bank, and student guide were prepared by Professor Thomas J. Frecka of the University of Illinois who also worked closely with us as a reviewer throughout the development of the text. All supplementary materials have been thoroughly integrated with the text. The instructor's resource manual provides the instructor with materials that supplement and enhance the topical coverage in each chapter. The student guide summarizes key concepts and provides as-



sistance and insights. This guide also contains a series of tests for self-study. The practice set is a simulated case problem that covers all the steps in the accounting cycle reviewed in the early chapters.

These supplements have been carefully designed to provide a challenging and useful package of materials to enhance the usefulness of the text.

The writing of any textbook is a challenging and demanding task. Throughout the long period of writing, reviewing, rethinking, and rewriting, our persistent goal has been to provide students of intermediate financial accounting with the most comprehensive, up-to-date, and clearly written text available. We feel that we have reached that goal. If you find that here and there we have fallen short, we would appreciate your writing us with your comments and suggestions for improvement.

PAUL DANOS  
EUGENE A. IMHOFF, JR.

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# OUTLINE

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APPENDIX B: ILLUSTRATIONS OF SPECIAL ITEMS IN FINANCIAL STATEMENTS
- 4 The Balance Sheet and the Statement of Changes in Financial Position: Fundamental Concepts
- 5 Compound Interest and an Introduction to Accounting Measurement of Future Cash Flows
- 6 Alternative Valuation Models

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