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Principles of Accounting

Second Edition



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PREFACE

In the first edition of *Principles of Accounting*, our goal was to provide a comprehensive first course in accounting with an approach that was appropriate for students planning a career in the field as well as students seeking a general understanding of accounting. This approach featured a balance of conceptual and procedural material, simple language, straightforward exhibits, interesting problem material, and carefully organized study aids and ancillary materials.

In this Second Edition, we have attempted to enhance this approach by changing the order of certain topics, breaking down the more involved concepts and procedures into smaller, more manageable steps, and introducing business situation problems. We believe that the Second Edition will be even more flexible and teachable than the first edition.

Innovations in this edition and successful features carried over from the first edition include the following:

- **Demonstration Problems for Review** are new to this edition. Comprehensive problems that illustrate the main principles, procedures, and computations explained in key chapters, **Demonstration Problems** are designed to reinforce understanding of the chapter and prepare students for the end-of-chapter problem material. Solutions immediately follow the demonstration problems.
- **Business Decision Problems** have been added to each chapter of the Second Edition. Each **Business Decision Problem** presents an unstructured situation requiring students to apply concepts to a realistic business situation.
- Thoroughly up-to-date discussions of FASB pronouncements, APB Opinions, and selected S.E.C. reporting requirements have been incorporated in the Second Edition, including the major provisions of *FASB Statement No. 33* on inflation accounting.
- Approximately 60 percent of the boxed inserts (enrichment pieces) are new to this edition. These enrichment pieces are not only topical and interesting, but they give students greater insight into accounting concepts. New boxed inserts treat minicomputers, bad checks, retail markups, treasury stock acquisitions, corporate takeovers, inflation, factories in space, the role of CPAs in management advisory services, and productivity, innovation, and profit.

- More single-topic exercises have been included in this edition. Designed for classroom use, these exercises enable the instructor to cover most of the salient points of each chapter in a single lecture.
- Alternate problems, most of which parallel a basic problem given at the end of each chapter, are provided for all the main concepts of each chapter. Thus, the instructor may alternate problems from term to term, or if desired, may assign additional problems of a particular type in a given term.
- Simple examples and exhibits are used throughout the book to illustrate important concepts, and, where possible, the dollar amounts are in round figures. Color is used instructively to highlight important definitions and procedures.
- As in the previous edition, Key Points to Remember are provided at the end of each chapter to aid students in reviewing the material.
- An extensive glossary of accounting terminology appears at the back of the book. This location makes it easy for students to locate the definition for any particular term or concept at any point in their study of the material.
- A Checklist of Key Figures is included at the back of the text. Total and summary figures are provided so that students can check their work without having all the solution given.

HIGHLIGHTS OF CHANGES AND ADDITIONS IN THE SECOND EDITION

In this edition, an introduction to accounting principles in the first chapter of the book serves as a frame of reference for students during their study of the early chapters. The material on automated data processing in Chapter 6 has been updated and expanded. Because of the increased importance of leases, an introduction to this subject is given in Chapter 10. Material on inflation accounting from Chapter 17 of the first edition has been updated, condensed, and incorporated into Chapter 16. This chapter now has a complete exposition of inflation accounting, including examples of current-value accounting. Chapter 17, "Statement of Changes in Financial Position: Analysis of Funds and Cash Flows" (formerly Chapter 19) has been completely rewritten to make this difficult material more accessible to students; in particular, an innovative worksheet has been introduced to simplify the material. Chapter 18, "Analysis of Financial Statements," has been rewritten, with new and forthright examples, to clarify the concepts presented in the chapter.

Chapter 19, "Consolidated Financial Statements," has been totally rewritten so that each major concept is treated clearly and individually. Wholly owned subsidiaries are treated before majority-held subsidiaries, the consolidated income statement has been simplified, and a basic treatment of "pooling of interests" has been moved to the end of the chapter. A worksheet approach has been used to convey each basic idea of consolidated statements.

The sequence of cost and managerial accounting chapters—the previous edition's Chapters 23 through 28—has been expanded by one chapter in the Second Edition and moved to Chapters 21 through 27. The sequence has been extensively revised to include more basic material on accounts and procedures unique to manufacturing firms (Chapter 21), providing students with a better background for their study of job order and process cost accounting.

Other changes in the Second Edition are positioning partnership accounting before corporation accounting and moving "Income Taxes and Their Effect on Business Decisions" to the end of the book; instructors may cover or omit the latter material, depending on the time available or the thrust of the course. The chapter on income taxes has been substantially revised to reflect major tax legislation for the time between the first edition and the present.

PROGRAM OF SUPPLEMENTARY AIDS

TEST ITEM FILE A class-tested test-item file (test bank), totally new to the Second Edition, is part of the instructional package. This booklet provides 30 multiple-choice and 10 other objective questions for each chapter of the book—more than 1,100 questions in all.

STUDY GUIDE Prepared by Imogene Posey of the University of Tennessee, the *Study Guide* provides a comprehensive chapter review, a Check Your Knowledge section, and a set of exercises for each chapter and Appendixes A and B. Answers to questions and solutions to exercises appear at the end of each chapter of the study guide.

PRACTICE SETS Four practice sets, keyed to the chapters in the book, cover the central concepts and procedures of accounting. Both Practice Set A and Alternate Set A with Business Papers deal with a single proprietorship. Practice Set B deals with a corporation. Practice Set C covers a job order cost accounting system. All the practice sets provide printed forms, with headings, names, and much of the preliminary data provided to eliminate busywork and to permit the students to concentrate on concepts and procedures. The new practice sets were prepared by Rosanne Mohr, of the University of Wisconsin.

WORKING PAPERS Two sets of working papers are provided for the problems at the end of the chapters, including the alternate problems. All are identified by problem number and name. When appropriate, given problem data have been entered to save time for the students.

SOLUTIONS MANUAL The *Solutions Manual* describes all the problem material and offers probable difficulty and estimated time for solution of each problem. Answers are given for all the questions, exercises, and problems at the end of each chapter.

ACHIEVEMENT TESTS Sixteen achievement tests—14 two-chapter tests suitable for 50-minute class periods, and two comprehensive tests, each covering 14 chapters of material, are available on spirit masters to adopters of the book. A key to the achievement tests is also furnished.

TRANSPARENCIES Transparencies of the problem solutions given in the *Solutions Manual* are available on request to departments adopting the textbook.

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