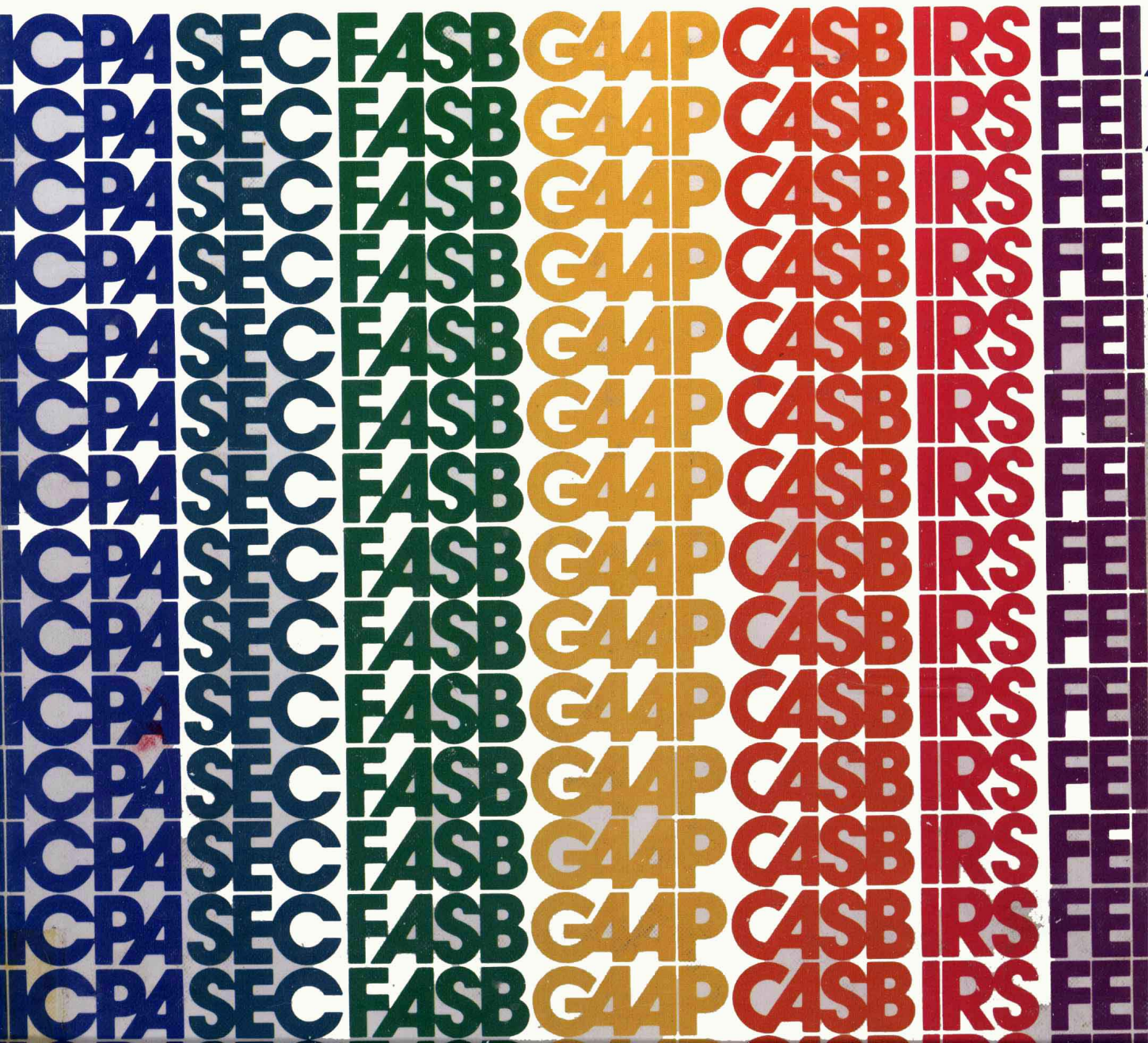


Kieso and Weygandt

INTERMEDIATE ACCOUNTING

Third Edition



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Third Edition

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Dedicated to

C. A. Moyer and Arthur R. Wyatt

For their many contributions to
accounting education and the accounting
profession and for their influence
in our lives.

and to

Donna,	Enid,
Douglas,	Matthew,
and Debra	Erin,
	and Lia

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Preface

The third edition of *Intermediate Accounting* discusses in depth the traditional (intermediate) financial accounting topics as well as the recent developments in accounting valuation and reporting practices promulgated by the leading professional accounting organizations and applied by practitioners in public accounting and industry. Explanations and discussions of financial accounting theory are supported and illustrated by examples taken directly from practice and authoritative pronouncements.

Continuing to keep pace with the complexities of the modern business enterprise, we have added many new topics, clarified some of the existing coverage, added numerous illustrations, and updated all material where necessary. To make the book even more comprehensive than the earlier editions, we have made greater use of judiciously selected appendices. The fifteen appendices are concerned primarily with complex subjects, lesser used methods, or specialized topics. Our intent in using the appendices is to provide the instructor with greater flexibility in choosing topics to cover or omit.

The text is organized into six major parts.

1. Financial Accounting Functions and Basic Theory
(Chapters 1 to 6)
2. Current Assets and Current Liabilities
(Chapters 7 to 10)
3. Plant Assets and Long-Term Liabilities
(Chapters 11 to 14)
4. Stockholders' Equity, Dilutive Securities, and Investments
(Chapters 15 to 18)
5. Issues Related to Income Determination
(Chapters 19 to 23)
6. Preparation and Analysis of Financial Statements
(Chapters 24 to 27)

NEW FEATURES

Some of the additions, significant revisions, and new features of this edition are as follows. In Chapter 1 we have added an updated discussion on the accounting profession's responses to recent governmental interest in accounting and auditing, including the reports of the Moss Committee, the Metcalf Committee, and the Cohen Commission. In Chapter 2 we have integrated coverage of recent FASB Statements and Exposure Drafts of Financial Accounting Concepts on (a) objectives and (b) elements of financial statements and (c) qualitative criteria for evaluating accounting policies. Chapter 3 has been reorganized slightly. The preparation of a work sheet has been integrated into the chapter and specialized journals are discussed in an appendix; our coverage of "conversion of cash basis to accrual basis" has been expanded. The "statement of changes in financial position" has been added to Chapter 5, where the presentation focuses on the content and interpretation of this statement (Chapter 24 is still devoted to the preparation of this statement). Minor additions to Chapter 6 concern the form of "computing unknown interest rates, number and amount of annuities," "interpolation," and a complete annuity due table has been included.

Chapter 8 has been updated by coverage of "capitalization of interest cost," expanded by adding topics on "special sale agreements," and clarified by simplifying our presentation of "dollar-value LIFO" and adding a graphic comparative analysis of the effect of major inventory methods. We have added a new appendix on "special LIFO reporting problems" to Chapter 9 that covers "initial adoption of LIFO," "LIFO reserves," "interim reporting problems," and "index determination for dollar-value LIFO." LIFO retail, formerly an appendix, has been integrated into Chapter 9.

"Capitalization of interest cost" has been integrated into our coverage of acquisition of plant and equipment in Chapter 11. To Chapter 12 we have added discussions on "discovery value" and "reserve recognition accounting (RRA)" for natural resources. The "methods of measuring goodwill" in Chapter 13 are better organized and presented in this edition. Two appendices have been added to Chapter 14: "Illustration of Serial Bond Amortization and Redemption Before Maturity" and "Accounting for Troubled Debt Restructurings."

Chapters 15 and 16 on stockholders' equity have been slightly expanded with coverage on "redeemable preferred stock," the "nature of stockholders' equity" and many new illustrations on disclosure. "Employee compensation and stock option plans" in Chapter 17 has been revised, updated, and expanded to include a section on "stock appreciation rights (SARs)."

Chapter 19 on revenue recognition has been reorganized around "product sales transactions" and "service sales transactions" to include new coverage of "accounting for service sales transactions." In order to integrate the tax effect into our coverage of "accounting changes and error analysis," we have moved our coverage on income tax allocation ahead of our chapter on accounting changes. Our presentations on "gross and net change tax computation methods" have been greatly clarified. Our coverage of "pension costs" has been revised slightly with some discussions being shortened ("two views of pension cost"), some being simplified ("normal, past, and prior service cost"), and some being expanded ("accounting for actuarial gains and losses" and "effects of the Pension Reform Act of 1974"). Ac-

counting for leases, Chapter 22, has been completely rewritten in order to update and integrate the many FASB statements and interpretations issued since Statement No. 13; also added to our lease chapter is coverage of “guaranteed and unguaranteed residual values,” “bargain purchase options,” and “initial direct costs.”

Chapter 24 on “statement of changes in financial position” has been completely revised along with the appendix so that the “work sheet approach” and the “T-account approach” are comparable. Because of the issuance of FASB Statement No. 33, we present in Chapter 25 all new, up-to-date coverage of financial accounting and changing prices” including comprehensive illustrations of “constant dollar” and “current value accounting.” To Chapter 26 we have added a new appendix on “fundamental analysis versus capital market analysis.” Chapter 27 on “Full Disclosure” has been expanded to include new coverage of “related party transactions,” “illegal acts,” “management’s responsibilities for financial statements,” and “criteria for making accounting and reporting choices.”

QUESTIONS, CASES, EXERCISES, AND PROBLEMS

At the end of each chapter we have provided a comprehensive set of review and homework material consisting of questions, cases, exercises, and problems. For this edition all exercises and problems have been revised, and the end-of-chapter material has been supplemented with many new cases and problems, nearly all of which have been class tested.

The questions are designed for review, self-testing, and classroom discussion purposes as well as homework assignments. The cases generally require essay as opposed to quantitative solutions; they are intended to confront the student with situations calling for conceptual analysis and the exercise of judgment in identifying problems and evaluating alternatives. Typically, an exercise covers a specific topic and requires less time and effort to solve than cases and problems. The problems are designed to develop a professional level of achievement and are more challenging to solve than the exercises.

Probably no more than one-fourth of the total case, exercise, and problem material must be used to cover the subject matter adequately; consequently, problem assignments may be varied from year to year.

SUPPLEMENTARY MATERIALS

Accompanying this textbook is an improved and expanded package of supplements consisting of instructional aids for either students or instructors: (1) a *Student Study Guide* (written by Raymond J. Clay, Jr., of Texas Tech University), (2) a booklet of “Examination Questions and Achievement Tests,” (3) a comprehensive “Solutions Manual” for the end-of-chapter material, (4) ruled “Working Papers” for all problems, (5) a “Practice Set” (with solutions) designed to accompany Chapter 3, (6) overhead projector transparencies for selected problems, (7) a “Checklist of Key Figures,” and (8) a new separate “Instructor’s Manual” containing lecture outlines, an annotated bibliography, and other enrichment materials.

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We thank the many users of our second edition who contributed to this revision through their comments and constructive criticism. Special thanks are extended to the primary reviewers of our third edition manuscript: Thomas Barton, Florida State University; Floyd A. Beams, Virginia Polytechnic Institute and State University; Willard H. Gallart, Loyola University of Chicago; Mary Noble, Southwest Missouri State University; LeRoy F. Imdieke and Ralph E. Smith, Arizona State University; and Mary Ellen Phillips, Oregon State University.

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We appreciate the cooperation of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board in permitting us to quote from their pronouncements. We also acknowledge permission from the American Institute of Certified Public Accountants and the Institute of Management Accounting to adapt and use material from the Uniform CPA Examinations and the CMA Examinations, respectively.

If this book helps teachers instill in their students an appreciation for the challenges and limitations of accounting, if it encourages students to evaluate critically and understand financial accounting theory and practice, and if it prepares students for advanced study, professional examinations, and the successful pursuit of their careers in accounting or business, then we will have attained our objective.

Suggestions and comments from users of this book will be appreciated.

Donald E. Kieso

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