As we wrote this edition of *Intermediate Accounting*, the importance of financial accounting and reporting has never been more apparent. Recent failures of major corporations, such as Enron, WorldCom, and Global Crossing, have highlighted the need for relevant and reliable financial information to ensure that our capital market system functions efficiently. Although we are saddened by these failures and their negative consequences for companies, employees, investors, and creditors, we believe that much good can come from a renewed commitment to provide high-quality financial information to users of financial statements.

The Sarbanes-Oxley Act of 2002 will provide a framework that can be used to enhance the quality of financial information. For example, the Act mandates that managements and auditors meet higher standards in accounting and financial reporting in response to the recent business and accounting failures. Business executives must understand and certify to the accuracy of their company’s financial statements. Consequently, it is imperative that every student of business understands the fundamentals of accounting and financial reporting.

In this edition of *Intermediate Accounting*, we continue a tradition begun nearly 30 years ago of helping students understand, prepare, and use financial information. As indicated above, the importance of students’ understanding the role of financial information in capital markets has never been more important. For example, a recent *Wall Street Journal* ran the following headlines:

“The SEC Checks Whether Microsoft Was Too Conservative in Booking Revenues”
“Qwest Communications Acknowledges Some Off-Balance-Sheet Transactions”
“SEC Reviews Allegations That EMC Improperly Accounted for Some Sales”
“Krispy Kreme Makes Changes After an Accounting Technique Is Questioned”
“Marriott Is Set to Disclose Details of Write-Offs Related to Developer Franchising”

An important feature of *Intermediate Accounting*, therefore, is an enhanced effort to provide more perspective on the information available in financial reporting. As a result, special boxed insights titled “What Do the Numbers Mean?” illustrate how reporting methods affect the decisions of financial statement users. By means of these boxes, we hope to convey the excitement and ever-changing nature of accounting, illuminating its significance and highlighting its importance. During our years of teaching, we have found that many students, when introduced to the issues involved in financial reporting, genuinely enjoy the subject area.

A second key feature of this edition is the introduction of the Take Action! CD-ROM, which can be packaged with the text. The Take-Action! CD is an electronic gateway to a comprehensive set of materials that supplement the already comprehensive coverage of accounting topics in the textbook. Major elements of the Take Action! CD build on those contained in the Gateway to the Profession Digital Tool of the 10th Edition of *Intermediate Accounting*. In addition to updating the well-accepted material on the Digital Tool, the Take Action! CD has several new and enhanced features. These new features include self-assessment quizzes and interactive tutorials, which provide expanded discussion and explanation in a visual, audio, and narrative context. (Elements of the Take Action! CD are described in more detail later in the preface.)

The 11th Edition of *Intermediate Accounting* also introduces a new element to the “Using Your Judgment” section of the end-of-chapter material: A “Professional
Simulation” in each chapter provides students with a new and integrative context for applying the concepts introduced in the chapter. This new element is patterned after the new computerized CPA exam. It expands the focus of many of the elements of the Take Action! CD (writing, working in teams, using the analyst’s toolkit) to help students learn how to use accounting facts and procedures in various business contexts.

We continue to strive for a balanced discussion of conceptual and procedural presentations so that these elements are mutually reinforcing. In addition, text discussions focus on explaining the rationale behind business transactions before addressing the accounting and reporting for those transactions. As in prior editions, we have thoroughly revised and updated the text to include all the latest developments in the accounting profession and practice. For example, the chapter on intangibles has been completely revised to reflect new accounting standards for intangible assets. Benefiting from the comments and recommendations of adopters of the 10th Edition, we have made significant revisions. Explanations have been expanded where necessary; complicated discussions and illustrations have been simplified; realism has been integrated to heighten interest and relevancy; and new topics and coverage have been added to maintain currency. We have deleted some 10th Edition coverage from the text. For example, the two chapters related to stockholders’ equity have been combined and streamlined. Finally, to provide the instructor with flexibility of use and no loss in topic coverage, discussions of less commonly used methods and more complex or specialized topics have been moved to the Take Action! CD.

NEW FEATURES

Based on extensive reviews, focus groups, and interactions with other intermediate accounting instructors and students, we have developed a number of new pedagogical features and content changes designed both to help students learn more effectively and to answer the changing needs of the course.

New Chapters

As discussed, we have completely updated the chapter on intangibles, and we have streamlined the coverage of stockholders’ equity by combining Chapters 15 and 16 of the 10th Edition.

New Pedagogy

With the introduction of the “What Do the Numbers Mean?” boxed insights and the Professional Simulations, we have enhanced the pedagogy in the book to better engage students in the material and to provide new opportunities for students to apply accounting concepts to various business contexts.

Take Action! CD

As described above, the Take Action! CD is a major resource of the 11th Edition, which can be packaged with the text or is available separately for purchase. Key elements of the Take Action! CD are described below.

Analyst’s Toolkit

“Tools” in the Analyst’s Toolkit consist of the following items.

Database of Real Companies. More than 20 annual reports of well-known companies, including three international companies, are provided on the Take Action! CD. These annual reports can be used in a variety of ways. For example, they can be used for illustrating different presentations of financial information or for comparing note disclosures across companies. In addition, these reports can be used to analyze a
company's financial condition and compare its prospects with those of other companies in the same industry. Assignment material provides some examples of different types of analysis that can be performed.

Company Web Links. Each of the companies in the database of real companies is identified by a Web address to facilitate the gathering of additional information, if desired.

Additional Enrichment Material. A chapter on Financial Statement Analysis is provided on the CD, along with related assignment material. This chapter can also be used in conjunction with the database of annual reports of real companies.

Spreadsheet Tools. Present value templates are provided which can be used to solve time value of money problems.

Additional Internet Links. A number of useful links related to financial analysis are provided to expand expertise in this area.

Professional Toolkit
Consistent with expanding beyond technical accounting knowledge, the Take Action! CD emphasizes certain skills necessary to become a successful accountant and financial manager.

Writing Materials. A primer on professional communications gives students a framework for writing professional materials. This primer discusses issues such as the top ten writing problems, strategies for rewriting, how to do revisions, and tips on clarity. This primer has been class-tested and is effective in helping students enhance their writing skills.

Group Work Materials. Recent evaluations of accounting education have identified the need to develop more skills in group problem solving. The Take Action! CD provides a second primer dealing with the role that groups play in organizations. Information is included on what makes a successful group, how you can participate effectively in the group, and do's and don'ts of group formation.

Ethics. The Professional Toolkit contains expanded materials on the role of ethics in the profession, including references to:

- Speeches and articles on ethics in accounting.
- Codes of ethics for major professional bodies.
- Examples and additional case studies on ethics.

Career Professional Spotlights. Every student should have a good understanding of the profession he or she is entering. Career vignettes on the Take Action! CD indicate the types of work that accountants do. Other aspects of the spotlights on careers are included on the Take Action! CD to help students make successful career choices. These include professional Web links—important links to Web sites that can provide useful career information to facilitate the student’s efforts in this area.

Student Toolkit
Also included on the Take Action! CD are features that help students process and understand the course materials. They are:

Interactive Tutorials. To help students better understand some of the more difficult topics in intermediate accounting, we have developed several interactive tutorials that provide expanded discussion and explanation in a visual and narrative context. Topics addressed include the accounting cycle; inventory methods, including dollar-value LIFO; depreciation and impairment of long-lived assets; and interest capitalization.
Note that these tutorials are for the benefit of the student and should require no use of class time on the part of instructors.

Expanded Discussions and Illustrations. The Expanded Discussion section provides additional topics not covered in depth in the textbook. The Take Action! CD gives the flexibility to enrich or expand the course by discussion of additional topics such as those listed below.

International Accounting. The Take Action! CD provides an expanded discussion of international accounting institutions, the evolution of international accounting standards, and a framework for understanding the differences in accounting practice. This discussion is designed to complement the International Reporting Cases in the “Using Your Judgment” sections.

Take Action! CD Topics. Topics included on the Take Action! CD are as follows (with appropriate chapter linkage identified).

Chapter 1
- Expanded discussion of international accounting.
- Expanded discussion of ethical issues in financial accounting.

Chapter 2
- Discussion of accounting for changing prices.

Chapter 3
- Presentation of work sheet using the periodic inventory method.
- Specialized journals and methods of processing accounting data.
- Tutorial on the accounting cycle.

Chapter 6
- Present-value-based measurements, including an expanded discussion of spreadsheet tools for solving present value problems.

Chapter 7
- Discussion of how a four-column bank reconciliation (the proof of cash) can be used for control purposes.
- Expanded example of transfers of receivables without recourse, with accounting entries.
- Tutorials on the accounting for bad debts and transfer of receivables.

Chapter 8
- Tutorial on inventory cost flow assumptions.
- Tutorial on LIFO issues, including dollar-value LIFO.

Chapter 10
- Tutorial on interest capitalization.

Chapter 11
- Discussion of lesser-used depreciation methods, such as the retirement and replacement methods.
- Tutorial on depreciation methods.
- Tutorial on impairments.

Chapter 12
- Expanded discussion on valuing goodwill.

Chapter 13
- Expanded discussion on property taxes.
Chapter 15
• Expanded discussion on the par value method for treasury stock.
• Expanded discussion on quasi-reorganizations.

Chapter 16
• Comprehensive earnings per share illustration.

Chapter 17
• Illustration of accounting entries for transfers of investment securities.
• Expanded discussion of special issues related to investments.

Chapter 19
• Discussion of the conceptual aspects of interperiod tax allocation, including the deferred and net of tax methods.
• Discussion of accounting for intraperiod tax allocation, with examples.

Chapter 21
• Discussion of real estate leases and leveraged leases.

Chapter 23
• Discussion of the T-account method for preparing a statement of cash flows. A detailed example is provided.

Chapter 24
• Discussion of accounting for changing prices both for general and specific price level changes.
• Financial analysis primer.

In addition to these materials, illustrative disclosures of financial reporting practices are provided.

Self-Study Tests and Additional Self-Tests. Each chapter on the Take Action! CD includes two sets of self-tests to allow students to check their understanding of key concepts from the chapter.

Glossary. A complete glossary of all the key terms used in the text is provided, in alphabetical order. Page numbers where these key terms appear in the text are also shown.

Learning Style Survey. Research on left brain/right brain differences and also on learning and personality differences suggests that each person has preferred ways to receive and communicate information. After taking this quiz, students will be able to pinpoint the study aids in the text that will help them learn the material based on their particular learning styles.

In summary, the Take Action! CD is a comprehensive complement to the 11th Edition of *Intermediate Accounting*, providing new materials as well as a new way to communicate that material.

**ENHANCED FEATURES**

We have continued and enhanced many of the features of the 10th Edition of *Intermediate Accounting*, including the following.

**Chapter-Opening Vignettes**
We have updated and introduced new chapter-opening vignettes to provide an even better real-world context that helps motivate student interest in the chapter topic.
“Using Your Judgment” Section

The “Using Your Judgment” section at the end of each chapter has been revised and updated. Elements in this section include a Financial Reporting Problem (featuring 3M Company), Financial Statement Analysis Case, Comparative Analysis Case (featuring The CocaCola Company and PepsiCo, Inc.), Research Case(s), International Reporting Case, and the new Professional Simulation. Explicit writing and group assignments and ethics cases have been moved out of the Using Your Judgment sections and are instead integrated into the Exercises, Problems, and Conceptual Cases. Exercises, problems, and cases that are especially suited for group or writing assignments and those that specifically address ethics are identified with special icons, as shown here in the margin.

Real-World Emphasis

We believe that one of the goals of the intermediate accounting course is to orient students to the application of accounting principles and techniques in practice. Accordingly, we have continued our practice of using numerous examples from real corporations throughout the text. The names of these real companies are highlighted in red. Illustrations and exhibits marked by the icon shown here in the margin or by company logos are excerpts from actual financial statements of existing firms. In addition, the 2001 report of 3M Company is included in Appendix 5B, and many real-company financial reports appear in the database on the Take Action! CD.

International Insights

International Insight paragraphs that describe or compare IASB standards and the accounting practices in other countries with U.S. GAAP are provided in the margin. We have continued this feature to help students understand that other countries sometimes use different recognition and measurement principles to report financial information. These insights are marked with the icon shown here in the margin.

Currency and Accuracy

Accounting continually changes as its environment changes; an up-to-date book is therefore a necessity. As in past editions, we have strived to make this edition the most up-to-date and accurate text available.

Streamlined Presentation

We have continued our efforts to keep the topical coverage of Intermediate Accounting in line with the way instructors are currently teaching the course. Accordingly, we have moved some optional topics into appendixes and have omitted altogether some topics that formerly were covered in appendixes, moving them to the Take Action! CD. Details are noted in the list of specific content changes below and in the earlier CD-content list.

CONTENT CHANGES

The following list outlines the revisions and improvements made in chapters of the 11th Edition.

Chapter 1 Financial Accounting and Accounting Standards

- New vignette.
- Updated international discussion.
Chapter 2 Conceptual Framework Underlying Financial Accounting
• New vignette.
• Enhanced discussion of the new concepts statement on present values and cash flows.

Chapter 3 The Accounting Information System
• Updated vignette.
• Presentation of work sheet in spreadsheet format.
• The accounting equation analyses in the margin next to key journal entries now include indication of the cash flow effect.

Chapter 4 Income Statement and Related Information
• New vignette.
• Updated discussion of quality of earnings. Updated discussion of irregular items.
• Deleted appendix on discontinued operations, given changes in accounting standards.

Chapter 5 Balance Sheet and Statement of Cash Flows
• New vignette.
• New featured company.

Chapter 6 Accounting and the Time Value of Money
• Introduced new concepts statement on present values and expected cash flows.
• Moved appendix on spreadsheets to Take Action! CD.

Chapter 7 Cash and Receivables
• Updated vignette.
• Added new graphic on uncollectible accounts.

Chapter 8 Valuation of Inventories: A Cost Basis Approach
• New vignette on usefulness of inventory disclosures.
• Streamlined discussion of manufacturing costs and absorption costing.

Chapter 9 Inventories: Additional Valuation Issues
• Updated vignette.

Chapter 10 Acquisition and Disposition of Property, Plant, and Equipment
• New vignette on the significance of property, plant, and equipment.
• Updated discussion on capital additions and repairs.

Chapter 11 Depreciation, Impairments, and Depletion
• New vignette on impairments.
• Introduced component depreciation.

Chapter 12 Intangible Assets
• New chapter, given new standard on intangible assets.

Chapter 13 Current Liabilities and Contingencies
• Streamlined discussion of current liabilities.
• Moved property taxes payable to Take Action! CD.
• Introduced new standard on asset retirement obligations.
• Updated discussion on guarantees.

Chapter 14 Long-Term Liabilities
• New vignette on the impact of debt levels on equity markets.
• Streamlined discussion on types of bonds and bond ratings. Updated discussion on reporting of gains and losses on extinguishment of debt.
• Updated discussion of off-balance-sheet financing.
Chapter 15 Stockholders’ Equity
- New combined chapter on stockholders’ equity.

Chapter 16 Dilutive Securities and Earnings Per Share
- New vignette.
- Updated discussion of hybrid securities.
- New graphic on components of compensation.
- Updated discussion of stock options.

Chapter 17 Investments
- Updated vignette on equity method.
- Updated discussion on equity method and goodwill.
- Moved appendix on special issues related to investments to Take Action! CD.

Chapter 18 Revenue Recognition
- Updated discussion of regulatory environment related to revenue recognition.
- Introduced new International Insights.

Chapter 19 Accounting for Income Taxes
- Updated vignette.
- Streamlined discussion of alternative minimum tax.
- Streamlined discussion of multiple tax rates.

Chapter 20 Accounting for Pensions and Postretirement Benefits
- New vignette on pension funding.
- New graphic on magnitude of pension plans.
- Streamlined discussion of capitalization.

Chapter 21 Accounting for Leases
- Updated vignette and graphic on airline leases.
- Streamlined discussion of leasing advantages.
- Streamlined journal entries for lessor accounting.
- Moved summary lease illustrations to appendix.

Chapter 22 Accounting Changes and Error Analysis
- New vignette on restatements.
- Streamlined discussion on accounting change framework.
- Added spreadsheet presentation of accounting error work sheet.
- Updated appendix for equity method goodwill.

Chapter 23 Statement of Cash Flows
- Updated vignette on usefulness of cash flows.
- Introduced spreadsheet presentation of cash flow work sheet.

Chapter 24 Full Disclosure in Financial Reporting
- New vignette on quality financial reporting.
- New accounting policy illustration.
- Updated discussion of related party transactions.
- Updated discussion of fraudulent financial reporting.

END-OF-CHAPTER ASSIGNMENT MATERIAL

At the end of each chapter we have provided a comprehensive set of review and homework material consisting of Questions, Brief Exercises, Exercises, Problems, and short Conceptual Cases. For this edition, many of the exercises and problems have been
revised or updated. In addition, the Using Your Judgment sections, which (as described earlier) include Financial Reporting Problems, Financial Statement Analysis Cases, Comparative Analysis Cases, Research Cases, International Reporting Cases, and Professional Simulations, have all been updated. All of the assignment materials have been class-tested and/or double-checked for accuracy and clarity.

The Questions are designed for review, self-testing, and classroom discussion purposes as well as for homework assignments. Typically, a Brief Exercise covers one topic, an Exercise one or two topics. Exercises require less time and effort to solve than do Problems. The Problems are designed to develop a professional level of achievement and are more challenging and time-consuming to solve than the Exercises. Those Exercises and Problems that are contained in the Excel Problems supplements are identified by the icon shown here in the margin.

The Conceptual Cases generally require an 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. The “Using Your Judgment” assignments, described earlier, are designed to develop students’ critical thinking, analytical, research, and communication skills.

Probably no more than one-fourth of the total exercise, problem, and case material must be used to cover the subject matter adequately. Consequently, problem assignments may be varied from year to year without repetition.

SUPPLEMENTARY MATERIALS

Accompanying this textbook is an improved and expanded package of student learning aids and instructor teaching aids.

The Intermediate Accounting, 11th Edition, Take Action! CD, described in detail on pages v–viii and available for packaging with the textbook, provides additional tools for students and instructors. Its three parts consist of the Analyst’s Toolkit, the Professional Toolkit, and the Student Toolkit. Other teaching and learning aids are described below. In addition, other resources for students and instructors can be found at the book’s companion Web site at www.wiley.com/college/kieso.

Instructor Teaching Aids

Instructor’s Resource System on CD-ROM (IRCD)

• Resource manager with friendly interface for course development and presentation.
• Includes all instructor supplements, text art, and transparencies.

Instructor’s Manual: Vol. 1: Chs. 1–14
Instructor’s Manual: Vol. 2: Chs. 15–24

• Lecture outlines keyed to text learning objectives.
• Chapter reviews.
• Also available on the Kieso Web site and IRCD.

Solutions Manual, Vol. 1: Chs. 1–14

• Answers to all Brief Exercises, Exercises, Problems, and Case material provided.
• Classification Tables categorize the end-of-chapter material by topic to assist in assigning homework.
• Also available on the Kieso Web site and IRCD.
• Assignment Tables (of characteristics) describe the end-of-chapter material, its difficulty level, and estimated completion time.
• All solutions have been triple-checked to ensure accuracy.
Test Bank, Vol. 1: Chs. 1–14

Test Bank, Vol. 2: Chs. 15–24

• Essay questions with solutions for true-false, multiple choice, short answer, and essays help you test students’ communication skills.
• Estimated completion times facilitate test planning.
• Computations for multiple-choice problems assist you in giving partial credit.
• Also available on the Kieso Web site and IRCD.

Computerized Test Bank IBM

• A large collection of objective questions and exercises with answers for each chapter in the text.
• Enables you to generate questions randomly or manually and modify/customize tests with your own material.
• Enables you to create versions of the same test by scrambling by type, character, number, or learning objective.
• Also available on the Kieso Web site and IRCD.

Test Preparation Service

• Simply call Wiley’s Accounting Hotline (800-541-5602) with the questions you have selected for an exam. Wiley will provide a master within 24 hours.

Solutions Transparencies, Vol. 1: Chs. 1–14

Solutions Transparencies, Vol. 2: Chs. 15–24

• Provided in organizer box with chapter file folders.
• Large, bold type size for easier class presentation.
• Provided for all exercises, problems, and brief exercises.

PowerPoint Presentations

• Designed to enhance presentation of chapter topics and examples.
• Separate presentation for each chapter, available on the Kieso Web site and IRCD.

Teaching Transparencies

• More than 100 color figure illustrations and exhibits.

Checklist of Key Figures

• Available at the Kieso Web site to both students and instructors, and on the Instructor’s Resource System CD (IRCD).

Solutions to Rockford Practice Set

• Available for download from the Kieso Web site, this supplement provides solutions to the Rockford Practice Set.

Solutions to Excel Templates

• Available for download from the Kieso Web site and IRCD, these are solutions to the Solving Problems Using Excel Workbook templates.

Course Management Resources

• Course content cartridges are available for both WebCT and Blackboard.

CPA Connection

The CPA Connection is a new resource developed for the 11th Edition. This booklet provides instructors with information about the computerized uniform Certified Public Accountant (CPA) examination scheduled to be administered for the first time in 2004. It provides knowledge about the changes in the exam and gives instructors ideas to assist their students in practicing the type of skills necessary to pass the Financial
Accounting and Reporting section of the exam. Many of the ideas and tips included in the booklet are directly linked to Intermediate Accounting. Specifically, The CPA Connection: (1) develops awareness of the changed exam format, delivery, and content as it affects the financial accounting area, and (2) presents ideas and testing formats that instructors may choose to incorporate into their intermediate accounting classes. The CPA Connection should be viewed as a reference source, from which instructors can easily select and use the information that fits into their classroom situation. In addition, The CPA Connection booklet will be supplemented by an e-mail newsletter.

**Student Learning Aids**

*Student Study Guide, Vol. 1: Chs. 1–14*

- Chapter Learning Objectives
- Chapter Outline—a broad overview of general chapter content with space for note-taking in class.
- Chapter Review with summary of key concepts.
- Glossary of key terms.
- Review Questions and Exercises—self-test items with supporting computations.

*Working Papers, Vol. 1: Chs. 1–14*

- Solution forms and partially completed solutions forms for all end-of-chapter problems and exercises.
- Demonstrates how to correctly set up solution formats.

*Excel Working Papers, Vol. 1: Chs. 1–14*

- Solution forms and partially completed solutions forms for all end-of-chapter problems and exercises; solution forms are available as Excel templates.
- Solutions can be typed directly into the templates, which are saved onto a hard drive or written manually after forms are printed.
- Students enter data electronically, enabling them to paste homework to a new file and e-mail the work sheet to their instructor.


- Provides additional questions and problems to develop students’ problem-solving skills.
- Explanations assist in the approach, set-up, and completion of problems.
- Tips alert students to common pitfalls and misconceptions.

*Solving Problems Using Excel Workbook*

- Spreadsheet requirements range in difficulty (from data entry to developing spreadsheets).
- Each chapter consists of a basic tutorial, a more advanced tutorial, and two or three problems from the text.
- Each problem is followed by “what-if” questions to build students’ analytical skills.

*Rockford Corporation: An Accounting Practice Set*

*Rockford Corporation: A Computerized Accounting Practice Set*

- Practice set that has been designed as a students’ review and update of the accounting cycle and the preparation of financial statements.
- Available in a print version and in an updated computerized version.
Business Extra Web Site at www.wiley.com/college/businessextra

- Gives you instant access to a wealth of current articles dealing with all aspects of accounting.
- Articles are organized to correspond with the chapters of this text.
- To access Business Extra, you will need to purchase the “Doing Business in Turbulent Times” booklet.

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If this book helps teachers instill in their students an appreciation for the challenges, worth, 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 and ethical 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.

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