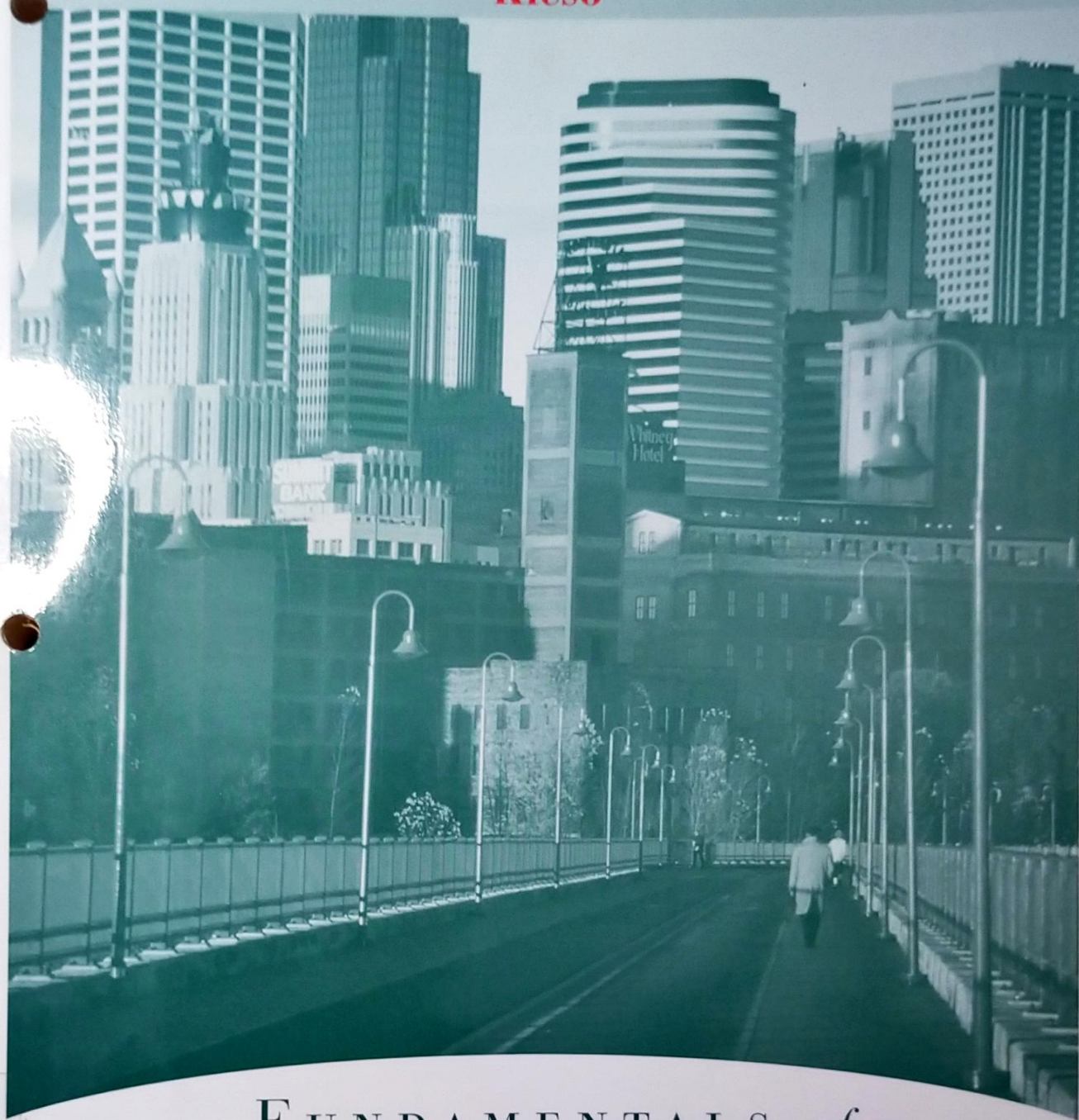


STUDY GUIDE

Kieso



FUNDAMENTALS *of* **INTERMEDIATE ACCOUNTING**

KIESO | WEYGANDT | WARFIELD

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FUNDAMENTALS OF INTERMEDIATE ACCOUNTING

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NOTE TO STUDENTS

This Study Guide is provided as an aid to your study of *Fundamentals of Intermediate Accounting*, by Donald E. Kieso and Jerry J. Weygandt, and Terry D. Warfield. If used wisely, it can supplement and reinforce your understanding of the concepts and techniques presented in the textbook. **Never rely on the Study Guide as a substitute for a thorough reading of the textbook material.** This Study Guide merely highlights the in-depth presentation in the textbook.

An approach that combines use of the Study Guide and textbook material is suggested below.

1. Read the textbook presentation of the chapter.
2. Read the chapter review paragraphs in the Study Guide.
3. Answer the questions and review exercises appearing at the end of the chapter review paragraphs and compare your answers with those found at the end of each chapter. The extent of your success in answering these questions and exercises will indicate your understanding of the chapter. If you were unsuccessful in answering a large percentage of these questions correctly, you should read the textbook again.
4. Work the problems assigned from the textbook.

Solutions to the review questions and exercises are found at the end of each chapter. In addition to identifying the correct answer to each true-false and multiple choice question, an explanation is provided indicating why the answer is false and why a particular alternative (for multiple choice questions) is correct. This approach is designed to aid you in gaining a complete understanding of the material in each chapter.

When preparing for examinations, the Study Guide material may be used to determine your recall of the information presented in specific chapters. Once you have identified those subject areas in need of further review, return to the textbook material for a complete discussion of the subject matter involved. Remember, the Study Guide merely highlights the textbook material; it cannot be relied upon as a comprehensive treatment of a subject area.

In the study of accounting, there is no substitute for hard work and a desire to learn. A proper attitude and a willingness to work will go a long way toward ensuring your success in accounting.

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Douglas W. Kieso

Financial Accounting and Accounting Standards

CHAPTER STUDY OBJECTIVES

1. Identify the major financial statements and other means of financial reporting.
2. Explain how accounting assists in the efficient use of scarce resources.
3. Identify some of the challenges facing accounting.
4. Identify the objectives of financial reporting.
5. Explain the need for accounting standards.
6. Identify the major policy-setting bodies and their role in the standards-setting process.
7. Explain the meaning of generally accepted accounting principles.
8. Describe the impact of user groups on the standards-setting process.
9. Understand issues related to ethics and financial accounting.

CHAPTER REVIEW

1. Chapter 1 describes the environment that has influenced both the development and use of the financial accounting process. The chapter traces the development of financial accounting standards, focusing on the groups that have had or currently have the responsibility for developing such standards. Certain groups other than those with direct responsibility for developing financial accounting standards have significantly influenced the standard-setting process. These various pressure groups are also discussed in Chapter 1.

Nature of Financial Accounting

2. (S.O. 1) **Financial accounting** is the process that culminates in the preparation of financial reports on the enterprise as a whole for use by parties both internal and external to the enterprise.

3. **Financial statements** are the principal means through which financial information is communicated to those outside an enterprise. The financial statements most frequently provided are (1) the balance sheet, (2) the income statement, (3) the statement of cash flows, and (4) the statement of owners' or stockholders' equity. Other means of financial reporting include the president's letter or supplementary schedules in the corporate annual report, prospectuses, and reports filed with government agencies.

4. (S.O. 2) Accounting is important for markets, free enterprise, and competition because it assists in providing information that leads to capital allocation. The better the information, the more effective the process of capital allocation and then the healthier the economy.

5. (S.O. 3) The challenges facing financial accounting are the following:

- a. **Non-financial measurements** such as customer satisfaction indexes, backlog information, and reject rates on goods purchased.
- b. **Forward-looking information.**

- c. **Soft assets.**
 - d. **Timeliness.**
6. (S.O. 4) The objectives of financial accounting are to provide information that:
- a. is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions;
 - b. helps present and potential investors and creditors and other users in assessing the amount, timing, and uncertainty of perspective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans; and
 - c. clearly portrays the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events, and circumstances that change its resources and claims to those resources.

7. (S.O. 5) The accounting profession has developed a common set of standards and procedures known as **generally accepted accounting principles (GAAP)**. These principles serve as a general guide to the accounting practitioner in accumulating and reporting the financial information of a business enterprise. Although the adoption of some generally accepted accounting principles has caused controversy among accountants as well as members of the financial community, a majority of the members in each group recognize the ultimate benefit an accepted set of accounting principles can bring to the financial reporting process.

Accounting Organizations

8. (S.O. 6) Financial accounting standards in use at this time in the United States are primarily a result of the accounting profession's efforts during the past 75 years. Prior to that time accounting practices were relatively unsophisticated owing to the lack of extensive economic development in the United States. The **American Institute of Certified Public Accountants (AICPA)**, the national professional organization of practicing Certified Public Accountants (CPAs), has been a catalyst in the development of GAAP in the United States. Although the responsibility for setting accounting standards now rests with the FASB, the Securities and Exchange Commission (SEC), the Governmental Accounting Standards Board (GASB), and other organizations can and do influence the standards-setting process.

9. The **SEC** takes a great deal of interest in the standards developed by the accounting profession. The SEC is an agency of the federal government that monitors the activities of corporate enterprises whose stock is publicly held. The SEC requires each corporate entity under its jurisdiction to **file a set of annual audited financial statements**. The SEC has the mandate to establish accounting principles; however, the SEC's involvement in the development of accounting standards has varied. In general, the SEC has supported the development of accounting standards by the private sector; however, there have been times when they have stepped in and prodded the private sector into a different direction.

10. The first group appointed by the AICPA to address the issue of uniformity in accounting practice was the **Committee on Accounting Procedure (CAP)**. This group served the accounting profession from 1939 to 1959. During that period it issued 51 **Accounting Research Bulletins (ARBs)** that narrowed the wide range of alternative accounting practices then in existence. Even though the work of the Committee on Accounting Procedure was a valuable aid to accounting practitioners, the authority for its pronouncements rested solely on general acceptance by the accounting profession.

11. In 1959, the AICPA created the **Accounting Principles Board (APB)**. The major purposes of this group were (a) to advance the written expression of accounting principles, (b) to determine appropriate practices, and (c) to narrow the areas of difference and inconsistency in practice. The APB was designated as the AICPA's sole authority for public pronouncements on accounting principles. Its pronouncements, known as **APB Opinions**, were intended to be based mainly on research studies and be supported by reasons and analysis. The APB Opinions constituted GAAP until superseded by subsequent pronouncements of the body designated by the accounting profession to issue such pronouncements. Although the AICPA recognized other sources as providing substantial authoritative support for