

**Mc
Graw
Hill**

Education

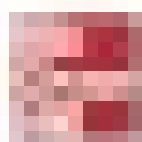
E. John Larsen
(美) E. 约翰·拉森 著

Modern Advanced Accounting 10e

现代高级会计

**Mc
Graw
Hill**

立信会计出版社
LIXIN ACCOUNTING PUBLISHING HOUSE



McGraw-Hill

THE McGRAW-HILL Companies
1221 Avenue of the Americas
New York, NY 10020-1398
Copyright © 2003 by The McGraw-Hill Companies, Inc.

Modern Advanced Accounting 10e

现代高级会计

1111111111

Modern Advanced Accounting 10e

现代高级会计

E. John Larsen

(美) E. 约翰·拉森 著

立信会计出版社

LIXIN ACCOUNTING PUBLISHING HOUSE

图书在版编目(CIP)数据

现代高级会计=Modern Advanced Accounting:英文/(美)兰森(Lansen, E. J.)著. —上海:立信会计出版社, 2007. 1

ISBN 978-7-5429-1700-3

I. 现… II. 兰… III. 会计学-教材-英文 IV. F230

中国版本图书馆 CIP 数据核字(2007)第 003954 号

现代高级会计(英文版)

出版发行	立信会计出版社
地 址	上海市中山西路 2230 号
邮政编码	200235
电 话	(021)64411389
传 真	(021)64411325
网 址	www.lixinaph.com E-mail lxaph@sh163.net
网上书店	www.lixinbook.com Tel: (021)64411071
经 销	各地新华书店

印 刷	立信会计常熟市印刷联营厂
开 本	850 毫米×1168 毫米 1/16
印 张	36.5
插 页	1
字 数	978 千字
版 次	2007 年 1 月第 1 版
印 次	2007 年 1 月第 1 次
印 数	1—3 000
书 号	ISBN 978-7-5429-1700-3/F·1518
定 价	60.00 元

如有印订差错 请与本社联系调换

《现代高级会计》出版说明

本书是美国南加州大学拉森教授编写的《现代高级会计》(第10版),由立信会计出版社与麦格劳—希尔公司合作以影印改编形式在中国国内出版。本书是我国当前可以见到的美国大学高级会计学教材中的最新版本。

本书自1975年第一版出版以来已重版十次,持续获得读者高度赞赏,是一本有影响的优秀高级会计教材。

本书的特点主要有两个方面:

第一,取材新。书中有很多其他美版教材不具有的内容,例如:(1)第1章反映了美国安然事件后作出会计整肃要求的萨班·奥克斯莱法案(2002年),并引述了美国注册会计师协会等的相关文件。(2)许多题材重新引述了美国证券交易委员会纠正错误会计实践的《会计及审计执行文件》。(3)反映了美国财务会计准则委员会和国际会计准则委员会的准则趋同计划和多处不同点的对比。

第二,简要。近年美版大学高级会计学教材多在结构上显得偏颇,例如合并报表题材中含有大量较低层次簿记性操作,而且往往这部分内容占相当大篇幅。而本书这些内容压缩,却仍概括了所有重点,从而可以较少课时达到基本相同的效果,值得向我国读者推荐。

我们在本书的编辑过程中,充分考虑两国法制的差别,某些会计题材在中短期内没有迅速趋同的前景。从实际效果出发,压缩和删减了非营利组织会计。此外,美版会计教材大多配有丰富的习题,篇幅过大。考虑到我国一般教学计划中没有这样大的课时比重,对习题部分也作了精简。

本书可作为国内大学会计专业本科生、研究生高级会计课程教材。

本书在编辑过程中,得到会计专家纪洪天教授的审核和指导,在此向纪先生表示衷心的感谢。

立信会计出版社

Preface

A MODERN APPROACH TO ADVANCED ACCOUNTING

Like the nine editions preceding it, *Modern Advanced Accounting*, 10e, provides students with the tools necessary to succeed in the modern world of accounting. The emphasis throughout the book is on financial accounting concepts and on the application of those concepts to problems arising in both business and nonbusiness organizations. Specialized accounting entities such as partnerships and affiliated companies and topics such as international accounting standards and business segments are dealt with in terms of current-day accounting issues. The book continues to earn high praise from reviewers and adopters for the following:

Case Studies That Challenge Students to Get Beyond the Basics

Modern Advanced Accounting, 10e, continues to emphasize case studies involving analytical and conceptual thinking on both accounting and ethical issues, some of which require students to research suggested references on the Internet. These cases challenge students to stretch their thinking beyond the basic accounting issues.

A Special Emphasis on Ethics



Modern Advanced Accounting begins with a chapter on ethical issues in accounting, and integrates coverage of ethics as appropriate in the subsequent chapters. Coverage of ethical issues in those chapters is denoted by a special icon. The ethics codes of the AICPA, FEI, and IMA are presented, along with summaries of numerous SEC Accounting and Auditing Enforcement Releases and illustrations of financial accounting and reporting from public companies' financial reports.

Extensive End-of-Chapter Material to Ensure Mastery of the Material

The learning and assignment material provided at the end of the chapter is divided into four groups: review questions, exercises, cases, and problems. Review questions may be used by students as a self-testing and review device to measure comprehension of key points. Exercises typically cover a specific point or topic and do not require extensive computations. Cases require analytical reasoning, but generally require little or no quantitative data. Students are required to analyze business situations, to apply accounting standards, and to propose or evaluate a course of action. Finally, the problems demonstrate the concepts presented in the theoretical discussion included in the chapter. Ample opportunity exists to vary homework assignments from term to term.

A UNIQUE ORGANIZATION TO FACILITATE LEARNING

Following the first chapter on ethical issues in advanced accounting, the remaining 18 chapters are grouped into five areas of concentration to facilitate the planning and presentation of the subject matter and make it easier for students to learn and retain the concepts and procedures presented.

Part One: Accounting for Partnerships and Branches (Chapters 2 through 4)

Following ethical issues in Chapter 1, the first section deals with the accounting principles and procedures for partnerships, joint ventures, and branch operations. Partnerships (limited liability, general, and limited) and joint ventures are covered in

Chapters 2 and 3, which take the student from the basic concepts of partnership accounting often presented in an introductory accounting course to the more complex problems of income sharing, realignment of partners' equities, and liquidation. Chapter 4, which deals with home office—branch relationships and combined financial statements, provides a logical stepping-stone to the six chapters dealing with business combinations and consolidated financial statements.

Part Two: Business Combinations and Consolidated Financial Statements (Chapters 5 through 10)

The sequencing of topics in Chapters 5 through 10 is designed to take the student from the less complex date-of-business combination accounting and financial statement display issues to the more rigorous features of post-combination accounting and display matters. Where appropriate, provisions of the FASB's proposed *Statement*, "Consolidated Financial Statements: Purpose and Policy," are discussed in Chapters 6 through 10.

Part Three: International Accounting: Reporting of Segments, for Interim Periods, and to the SEC (Chapters 11 through 13)

The many complex matters involved in international accounting are discussed in Chapters 11 and 12, which emphasize the increasing importance and impact of the International Accounting Standards Board. The three topics covered in Chapter 13 are indirectly related to the subject matter of Chapters 11 and 12 and thus are included here.

Part Four: Accounting for Fiduciaries (Chapters 14 and 15)

The fourth section of the book includes chapters entitled "Bankruptcy: Liquidation and Reorganization" and "Estates and Trusts." Although some instructors may not cover these two traditional topics in their courses, I believe that it is imperative to include them for those who wish to do so. Many accountants in today's practice environment must assist clients with problems of bankruptcy, liquidation, reorganization, and the accounting for estates and trusts.

NEW TO THE TENTH EDITION

The text and supplementary materials have been revised to reflect the latest accounting pronouncements and standards, including:

- The Sarbanes-Oxley Act of 2002 and its creation, the Public Company Accounting Oversight Board, in Chapters 1 and 13.
- The Financial Accounting Standards Board's reexamination of purchase accounting for business combinations in Chapter 5.
- *Variable interest entities* and *special purpose entities* in Chapter 6.
- Financial Accounting Standards Board/International Accounting Standards Board convergence project in Chapter 11.
- *FASB Interpretation No. 46* (original and revised), "Consolidation of Variable Interest Entities" in Chapter 6.
- *FASB Statement No. 144*, "Accounting for the Impairment or Disposal of Long-Lived Assets" in Chapter 13.
- *GASB Statement No. 42*, "Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries" in Chapter 18.
- *GASB Statement No. 41*, "Budgetary Comparison Schedules-Perspective Differences" in Chapter 19.
- *GASB Statement No. 44*, "Economic Condition Reporting: The Statistical Section"

in Chapter 19.

Online Learning Center with Power Web (URL: www.mhhe.com/larsen10e) is a book-specific website that includes the following:

- *Power Web*: This feature is a unique website that extends the learning experience beyond the core textbook and includes the following learning aids:
 - Current readings with assessments
 - Study tips and self-quizzes
 - Links to related sites
 - Web research guide
 - Access to Northern Light Search Engine providing Internet access to additional articles
- *Online Quizzes*: Interactive quizzes provide an additional opportunity for self-study and review.
- *Text Updates*: As appropriate, new standards and pronouncements are posted to the Online Learning Center.
- *Professional Resources*: Links to appropriate professional resources are also provided.

Brief Contents

Preface I

- 1** Ethical Issues in Advanced Accounting 1

PART ONE

Accounting for Partnerships and Branches 22

- 2** Partnerships; Organization and Operation 22
- 3** Partnership Liquidation and Incorporation; Joint Ventures 65
- 4** Accounting for Branches; Combined Financial Statements 105

PART TWO

Business Combinations and Consolidated Financial Statements 141

- 5** Business Combinations 141
- 6** Consolidated Financial Statements: On Date of Business Combination 171
- 7** Consolidated Financial Statements: Subsequent to Date of Business Combination 211
- 8** Consolidated Financial Statements: Intercompany Transactions 258

- 9** Consolidated Financial Statements: Income Taxes, Cash Flows, and Installment Acquisitions 310

- 10** Consolidated Financial Statements: Special Problems 343

PART THREE

International Accounting: Reporting of Segments, for Interim Periods, and to the SEC 383

- 11** International Accounting Standards; Accounting for Foreign Currency Transactions 383
- 12** Translation of Foreign Currency Financial Statements 405
- 13** Reporting for Components; Interim Reports; Reporting for the SEC 439

PART FOUR

Accounting for Fiduciaries 499

- 14** Bankruptcy; Liquidation and Reorganization 499
- 15** Estates and Trusts 526

GLOSSARY 556

目 录

序		第 9 章 合并财务报表:所得税、现金流量 与分期购取 310
第 1 章 高级会计中的道德问题 1		第 10 章 合并财务报表中的特殊问题 343
第 1 篇 合伙及分支机构会计 22		第 3 篇 国际会计:分部报告、 中期报告、对证券交易 委员会的报告 383
第 2 章 合伙企业:组织与经营 22		第 11 章 国际会计准则;外币交易 会计 383
第 3 章 合伙企业的清算与合并; 合资企业 65		第 12 章 外币财务报表的折算 405
第 4 章 分支机构会计;联合财务报表 105		第 13 章 分部报告、中期报告、证券交易 委员会要求的报告 439
第 2 篇 企业合并与合并财务 报表 141		第 4 篇 信托会计 499
第 5 章 企业合并 141		第 14 章 破产、清算与重组 499
第 6 章 合并财务报表:购并日的合并 财务报表 171		第 15 章 遗产与信托 526
第 7 章 合并财务报表:购并日后的合并 财务报表 211		术语解释 556
第 8 章 合并财务报表:集团内公司间 业务 258		

Contents

Preface I

Chapter 1

Ethical Issues in Advanced Accounting 1

Scope of Chapter 1

What Is Fraudulent Financial Reporting? 2

An Example of Fraudulent Financial Reporting 2

Ethical Standards for Preparers of Financial Statements and Financial Reports 3

Significant Events in the Establishment of Ethical Standards for Management Accountants and Financial Executives 4

Analysis of Ethical Standards for Management Accountants and Financial Executives 6

Concluding Observations 7

Appendix 1

IMA Standards of Ethical Conduct for Members 8

Appendix 2

FEI Code of Ethics 10

Appendix 3

AICPA Code of Professional Conduct 11

Review Questions 20

Exercises 20

Cases 21

PART ONE

ACCOUNTING FOR PARTNERSHIPS AND BRANCHES 22

Chapter 2

Partnerships: Organization and Operation 22

Scope of Chapter 22

Organization of a Limited Liability Partnership 23

Characteristics of an LLP 23

Deciding between an LLP and a Corporation 23

Is the LLP a Separate Entity? 24

The Partnership Contract 24

Ledger Accounts for Partners 25

Loans to and from Partners 25

Valuation of Investments by Partners 26

Income-Sharing Plans for Limited Liability Partnerships 26

Partners' Equity in Assets versus Share in Earnings 26

Division of Net Income or Loss 26

Financial Statements for an LLP 33

Correction of Partnership Net Income of Prior Period 36

Changes in Ownership of Limited Liability Partnerships 36

Accounting for Changes in Partners 36

Accounting and Managerial Issues 37

Admission of a New Partner 37

Acquisition of an Interest by Payment to One or More Partners 37

Investment in Partnership by New Partner 39

Bonus or Goodwill Allowed to Existing Partners 39

Bonus or Goodwill Allowed to New Partner 41

Retirement of a Partner 42

Limited Partnerships 44

Accounting for Limited Partnerships 45

Financial Statements for Limited Partnerships 45

SEC Enforcement Actions Dealing with Wrongful

Application of Accounting Standards for Partnerships 47

AAER 202 47

AAER 214 47

Review Questions 48

Exercises 49

Cases 53

Problems 57

Chapter 3

Partnership Liquidation and Incorporation; Joint Ventures 65

Scope of Chapter 65

Liquidation of a Partnership 65

The Meaning of Liquidation 65

Division of Losses and Gains during Liquidation 66

Distribution of Cash or Other Assets to Partners 66

Payments to Partners of an LLP After All Noncash Assets Realized 67

Equity of Each Partner Is Sufficient to Absorb Loss from Realization 67

IV Contents

<i>Equity of One Partner Is Not Sufficient to Absorb That Partner's Share of Loss from Realization</i>	68
<i>Equities of Two Partners Are Not Sufficient to Absorb Their Shares of Loss from Realization</i>	70
<i>Partnership Is Insolvent but Partners Are Solvent</i>	71
<i>General Partnership Is Insolvent and Partners Are Insolvent</i>	73
Installment Payments to Partners	75
<i>General Principles Guiding Installment Payments</i>	76
<i>Determining Appropriate Installment Payments to Partners</i>	76
<i>Preparation of a Cash Distribution Program</i>	77
<i>Withholding of Cash for Liabilities and Liquidation Costs</i>	82
<i>Liquidation of Limited Partnerships</i>	83
Incorporation of a Limited Liability Partnership	83
Joint Ventures	87
<i>Present-Day Joint Ventures</i>	87
<i>Accounting for a Corporate or LLC Joint Venture</i>	88
<i>Accounting for an Unincorporated Joint Venture</i>	89
SEC Enforcement Actions Dealing with Wrongful Application of Accounting Standards for Joint Ventures	91
Review Questions	92
Exercises	93
Cases	97
Problems	99

Chapter 4

Accounting for Branches; Combined Financial Statements 105

<i>Scope of Chapter</i>	105
Branches and Divisions	105
Start-Up Costs of Opening New Branches	106
Accounting System for a Branch	106
<i>Reciprocal Ledger Accounts</i>	107
<i>Expenses Incurred by Home Office and Allocated to Branches</i>	107
<i>Alternative Methods of Billing Merchandise Shipments to Branches</i>	108
<i>Separate Financial Statements for Branch and for Home Office</i>	108
<i>Combined Financial Statements for Home Office and Branch</i>	109
<i>Working Paper for Combined Financial Statements</i>	111
<i>Billing of Merchandise to Branches at Prices above Home Office Cost</i>	114
<i>Working Paper When Billings to Branches Are at Prices above Cost</i>	116
<i>Treatment of Beginning Inventories Priced above Cost</i>	120
<i>Reconciliation of Reciprocal Ledger Accounts</i>	122

<i>Transactions between Branches</i>	126
SEC Enforcement Action Dealing with Wrongful Application of Accounting Standards for Divisions	127
Review Questions	127
Exercises	128
Cases	133
Problems	135

PART TWO BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS 141

Chapter 5

Business Combinations 141

<i>Scope of Chapter</i>	142
Business Combinations: Why and How?	142
<i>Antitrust Considerations</i>	143
<i>Methods for Arranging Business Combinations</i>	143
<i>Establishing the Price for a Business Combination</i>	144
Purchase Method of Accounting for Business Combinations	145
<i>Determination of the Combinor</i>	146
<i>Computation of Cost of a Combinee</i>	146
<i>Allocation of Cost of a Combinee</i>	147
<i>Illustration of Purchase Accounting for Statutory Merger, with Goodwill</i>	148
<i>Illustration of Purchase Accounting for Acquisition of Net Assets, with Bargain-Purchase Excess</i>	151
<i>Other Topics in Accounting for Business Combinations</i>	152
Appraisal of Accounting Standards for Business Combinations	159
SEC Enforcement Actions Dealing with Wrongful Application of Accounting Standards for Business Combinations	159
AAER 38	159
AAER 275	160
AAER 598	160
AAERs 601, 606, and 607	160
Review Questions	161
Exercises	161
Cases	164
Problems	167

Chapter 6

Consolidated Financial Statements: On Date of Business Combination 171

<i>Scope of Chapter</i>	171
Parent Company—Subsidiary Relationships	171

<i>Nature of Consolidated Financial Statements</i>	171
<i>Should All Subsidiaries Be Consolidated?</i>	172
<i>The Meaning of Controlling Interest</i>	172
<i>Criticism of Traditional Concept of Control</i>	173
<i>FASB's Proposed Redefinition of Control</i>	173
<i>The Problem of Variable Interest Entities</i>	174
Consolidation of Wholly Owned Subsidiary on Date of Business Combination	175
Consolidation of Partially Owned Subsidiary on Date of Business Combination	184
<i>Nature of Minority Interest</i>	189
<i>Consolidated Balance Sheet for Partially Owned Subsidiary</i>	191
<i>Alternative Methods for Valuing Minority Interest and Goodwill</i>	191
<i>Bargain-Purchase Excess in Consolidated Balance Sheet</i>	193
<i>Disclosure of Consolidation Policy</i>	195
<i>International Accounting Standard 27</i>	195
<i>Advantages and Shortcomings of Consolidated Financial Statements</i>	196
<i>"Push-Down Accounting" for a Subsidiary</i>	196
SEC Enforcement Actions Dealing with Wrongful Application of Accounting Standards for Consolidated Financial Statements	198
AAER 34	198
AAER 1762	199
Review Questions	199
Exercises	200
Cases	204
Problems	206

Chapter 7

Consolidated Financial Statements: Subsequent to Date of Business Combination 211

<i>Scope of Chapter</i>	211
Accounting for Operating Results of Wholly Owned Subsidiaries	211
<i>Equity Method</i>	211
<i>Cost Method</i>	212
<i>Choosing between Equity Method and Cost Method</i>	212
<i>Illustration of Equity Method for Wholly Owned Subsidiary for First Year after Business Combination</i>	212
<i>Illustration of Equity Method for Wholly Owned Subsidiary for Second Year after Business Combination</i>	223
Accounting for Operating Results of Partially Owned Subsidiaries	226

<i>Illustration of Equity Method for Partially Owned Subsidiary for First Year after Business Combination</i>	227
<i>Illustration of Equity Method for Partially Owned Subsidiary for Second Year after Business Combination</i>	237
<i>Concluding Comments on Equity Method of Accounting</i>	242

Appendix

Cost Method for Partially Owned Subsidiary	242
Review Questions	248
Exercises	249
Cases	253
Problems	253

Chapter 8

Consolidated Financial Statements: Intercompany Transactions 258

<i>Scope of Chapter</i>	258
Accounting for Intercompany Transactions Not Involving Profit (Gain) or Loss	258
<i>Loans on Notes or Open Accounts</i>	258
<i>Leases of Property under Operating Leases</i>	261
<i>Rendering of Services</i>	261
<i>Income Taxes Applicable to Intercompany Transactions</i>	261
<i>Summary: Intercompany Transactions Not Involving Profit or Loss</i>	262
Accounting for Intercompany Transactions Involving Profit (Gain) or Loss	262
<i>Importance of Eliminating or Including Intercompany Profits (Gains) and Losses</i>	262
Intercompany Sales of Merchandise	263
<i>Intercompany Sales of Merchandise at Cost</i>	263
<i>Unrealized Intercompany Profit in Ending Inventories</i>	264
<i>Intercompany Profit in Beginning and Ending Inventories</i>	267
<i>Intercompany Profit in Inventories and Amount of Minority Interest</i>	268
<i>Should Net Profit or Gross Profit Be Eliminated?</i>	269
Intercompany Sales of Plant Assets	269
<i>Intercompany Gain on Sale of Land</i>	269
<i>Intercompany Gain on Sale of Depreciable Plant Asset</i>	271
Intercompany Lease of Property under Capital/Sales-Type Lease	275
Intercompany Sales of Intangible Assets	280
Acquisition of Affiliate's Bonds	281
<i>Illustration of Acquisition of Affiliate's Bonds</i>	281
<i>Accounting for Gain in Subsequent Years</i>	284
<i>Reissuance of Intercompany Bonds</i>	288

Illustration of Effect of Intercompany Profits (Gains) on Minority Interest 288
Comprehensive Illustration of Working Paper for Consolidated Financial Statements 291
SEC Enforcement Action Dealing with Wrongful Accounting for an Intercompany Account 299
AAER 992 299.
Review Questions 299
Exercises 300
Cases 304
Problems 305

Chapter 9

Consolidated Financial Statements: Income Taxes, Cash Flows, and Installment Acquisitions 310

Scope of Chapter 310
Income Taxes in Business Combinations and Consolidations 310
Income Taxes Attributable to Current Fair Values of a Combinee's Identifiable Net Assets 310
Income Taxes Attributable to Undistributed Earnings of Subsidiaries 312
Income Taxes Attributable to Intercompany Profits (Gains) 314
Consolidated Statement of Cash Flows 322
Illustration of Consolidated Statement of Cash Flows 322
Installment Acquisition of Subsidiary 326
Illustration of Installment Acquisition of Parent Company's Controlling Interest 326
Parent Company's Journal Entries for Installment Acquisition 327
Working Paper for Consolidated Financial Statements 329
Review Questions 331
Exercises 332
Cases 336
Problems 337

Chapter 10

Consolidated Financial Statements: Special Problems 343

Scope of Chapter 343
Changes in Parent Company's Ownership Interest in a Subsidiary 343
Parent Company Acquisition of Minority Interest 343
Parent Company Sale of a Portion of Its Subsidiary Common Stockholdings 346

Subsidiary's Issuance of Additional Shares of Common Stock to the Public 350

Subsidiary's Issuance of Additional Shares of Common Stock to Parent Company 352

Subsidiary with Preferred Stock Outstanding 354

Illustration of Minority Interest in Subsidiary with Preferred Stock 354

Preferred Stock Considerations subsequent to Date of Business Combination 356

Stock Dividends Distributed by a Subsidiary 358

Illustration of Subsidiary Stock Dividend 359

Treasury Stock Transactions of a Subsidiary 360

Illustration of Treasury Stock Owned by Subsidiary on Date of Business Combination 360

Illustration of Treasury Stock Acquired by Subsidiary subsequent to Business Combination 361

Indirect Shareholdings and Parent Company's

Common Stock Owned by a Subsidiary 363

Indirect Shareholdings 363

Parent Company's Common Stock Owned by a Subsidiary 369

Concluding Comments on Special Problems 371

Review Questions 371

Exercises 372

Cases 375

Problems 376

PART THREE

INTERNATIONAL ACCOUNTING: REPORTING OF SEGMENTS, FOR INTERIM PERIODS, AND TO THE SEC 383

Chapter 11

International Accounting Standards; Accounting for Foreign Currency Transactions 383

Scope of Chapter 383
International Accounting Standards Board 384
Accounting for Foreign Currency Transactions 385
FASB Statements No. 52 and No. 133 386
Transactions Involving Foreign Currencies 386
Purchase of Merchandise from a Foreign Supplier 386
Foreign Currency Transaction Gains and Losses 387
Sale of Merchandise to a Foreign Customer 388
Loan Payable Denominated in a Foreign Currency 389
Loan Receivable Denominated in a Foreign Currency 390
Conclusions regarding Transactions Involving Foreign Currencies 390

<i>Forward Contracts</i>	391
<i>International Accounting Standards 21 and 39</i>	397
<i>Disclosures regarding Foreign Currency Transactions</i>	397
Review Questions	397
Exercises	398
Cases	402
Problems	402

Chapter 12

Translation of Foreign Currency Financial Statements 405

<i>Scope of Chapter</i>	405
Functional Currency	405
<i>Alternative Methods for Translating Foreign Entities' Financial Statements</i>	407
<i>Standards for Translation Established by the Financial Accounting Standards Board</i>	408
Remeasurement of a Foreign Entity's Accounts	408
<i>Illustration of Remeasurement of a Foreign Entity's Account Balances</i>	409
Translation of a Foreign Entity's Financial Statements	413
<i>Translation of Financial Statements of Foreign Influenced Investee</i>	413
<i>Translation and Consolidation of Financial Statements of Foreign Subsidiary</i>	416
<i>Summary: Remeasurement and Translation</i>	422
<i>Other Aspects of Foreign Currency Translation</i>	422
<i>International Accounting Standard 21</i>	424
<i>Appraisal of Accounting Standards for Foreign Currency Translation</i>	424
Review Questions	425
Exercises	425
Cases	429
Problems	430

Chapter 13

Reporting for Components; Interim Reports; Reporting for the SEC 439

<i>Scope of Chapter</i>	439
Reporting for Components of an Entity	439
<i>Background of Components Reporting</i>	439
<i>Proposal to Improve Segment Reporting</i>	440
<i>Allocation of Nontraceable Expenses to Operating Segments</i>	442
<i>SEC Requirements for Segment Information</i>	444
<i>Reporting the Disposal of a Business Component</i>	444
<i>International Accounting Standard 14</i>	445

<i>SEC Enforcement Action Dealing with Wrongful Application of Accounting Standards for Operating Segments</i>	445
--	-----

Interim Financial Reports 445

<i>Problems in Interim Financial Reports</i>	446
<i>APB Opinion No. 28</i>	447
<i>Reporting Accounting Changes in Interim Periods</i>	451
<i>Conclusions on Interim Financial Reports</i>	453
<i>IAS 34, "Interim Financial Reporting"</i>	453
<i>SEC Enforcement Actions Dealing with Wrongful Application of Accounting Standards for Interim Financial Reports</i>	453

Reporting for the SEC 455

<i>Nature of Reporting to the SEC</i>	455
<i>Organization and Functions of the SEC</i>	456
<i>Interaction between SEC and FASB</i>	457
<i>The SEC and the Public Company Accounting Oversight Board (PCAOB)</i>	459

Appendix

Excerpts from the 2003 Annual Report of The McGraw-Hill Companies, Inc. 460

Review Questions	486
Exercises	486
Cases	492
Problems	492

PART FOUR

ACCOUNTING FOR FIDUCIARIES 499

Chapter 14

Bankruptcy: Liquidation and Reorganization 499

<i>Scope of Chapter</i>	499
The Bankruptcy Code	500
Bankruptcy Liquidation	500
<i>Debtor's (Voluntary) Petition</i>	500
<i>Creditor's (Involuntary) Petition</i>	501
<i>Unsecured Creditors with Priority</i>	501
<i>Property Claimed as Exempt</i>	502
<i>Role of Court in Liquidation</i>	502
<i>Role of Creditors</i>	502
<i>Role of Trustee</i>	502
<i>Discharge of Debtor</i>	502
<i>Role of Accountant in Bankruptcy Liquidation</i>	503
<i>Financial Condition of Debtor Enterprise: The Statement of Affairs</i>	503
<i>Estimated Amounts to Be Recovered by Each Class of Creditors</i>	507
<i>Accounting and Reporting for Trustee</i>	507

Bankruptcy Reorganization 509

Appointment of Trustee or Examiner 510

Plan of Reorganization 510

Accounting for a Reorganization 510

Disclosure of Reorganization 512

Review Questions 513

Exercises 514

Cases 518

Problems 518

Chapter 15

Estates and Trusts 526

Scope of Chapter 526

Legal and Accounting Aspects of Estates 526

*Provisions of Uniform Probate Code Governing
Estates 526*

*Provisions of Revised Uniform Principal and Income
Act Governing Estates 529*

Illustration of Accounting for an Estate 530

Legal and Accounting Aspects of Trusts 540

*Provisions of Uniform Probate Code Governing
Trusts 540*

*Provisions of Revised Uniform Principal and Income
Act Governing Trusts 541*

Illustration of Accounting for a Trust 541

Review Questions 543

Exercises 544

Cases 550

Problems 551

Glossary 556

Chapter One

Ethical Issues in Advanced Accounting

Scope of Chapter

Ethics—right conduct—has been a subject of discussion for centuries. For example:

In *Nicomachean Ethics*, Book II, Aristotle (384—322 BC) wrote:

It is no easy task to be good... wherefore, goodness is both rare and laudable and noble. In

Meditations, Books III and VII, Marcus Aurelius (121—180 AD) declared:

A man then must stand erect, not kept erect by others... Be thou erect or be made erect.

William Shakespeare (1564—1616) provided the following speeches in two of his plays:

Iago. Good name in man and woman; dear my lord,
Is the immediate jewel of their souls;
Who steals my purse steals trash; 'tis something, nothing;
'Twas mine, 'tis his, and has been slave to thousands;
But he that filches from me my good name
Robs me of that which not enriches him
And makes me poor indeed.
(*Othello*, 3. 3. 155—160)

Mowbray. The purest treasure mortal times afford
Is spotless reputation; ...
Mine honour is my life; both grow in one;
Take honour from me, and my life is done...
(*The Tragedy of King Richard II*, 1. 1. 177—183)

Recent highly publicized accounting scandals have made it clear that ethical conduct of accountants has not met the standards inherent in the foregoing quotations. In the article "Scandal Scorecard," *The Wall Street Journal* described 12 egregious accounting frauds involving publicly owned business enterprises; many of the frauds involved the chief financial officer, controller, chief accounting officer, and other accountants of the enterprises.¹ One outcome of those and other scandals was the enactment of the federal Sarbanes-Oxley Act of 2002 (SOX), which authorized the establishment of a Public Company Accounting Oversight Board to regulate the conduct of accountants both in public practice and in publicly owned business enterprises.

The vocabulary of accounting now includes the following terms:

Cute accounting to describe stretching the *form* of accounting standards to the limit, regardless of the *substance* of the underlying business transactions or events

Cooking the books to indicate fraudulent financial reporting

¹"Scandal Scorecard," *The Wall Street Journal*, October 3, 2003, p. B1.