

ADVANCED FINANCIAL ACCOUNTING

Second Edition

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PREFACE

The second edition of *Advanced Financial Accounting* is a comprehensive and highly illustrated presentation of the accounting and reporting principles used in a variety of business entities. The daily business press carries many stories about the merger and acquisition mania of multicorporate entities, the foreign activities of multinational firms, the operations of governmental and nonprofit entities, and other topics typically included in advanced accounting. Accountants must know how to deal with the accounting and reporting ramifications of these events.

KEY FEATURES

Important features of this book are the clear and readable discussions of concepts and the detailed demonstrations of these concepts through illustrations and explanations. The many favorable responses to the first edition confirm our belief that clear presentation and comprehensive illustrations are key to learning the sophisticated topics in an advanced accounting course. Other key features of the Second Edition include the following:

- *A building-block approach based on a strong conceptual foundation.* Students are provided with a thorough conceptual foundation before advancing to the procedures. The basics of the topics are discussed first, and the complexities are added gradually in successive steps.
- *The use of a continuous case for each major subject matter area.* The comprehensive case of Peerless Products Corporation and its subsidiary, Special Foods, Inc., has been continued. An important advantage of using a continuous, comprehensive case is that students must become familiar with only one set of data and can then move more quickly through the discussion and illustrations. The case adds realism to the study of advanced accounting and permits students to see the effects of each successive step on the financial reports of a company. After students become familiar with the basic example, they can focus on the point of each new illustration without having to absorb a new set of data. Comparisons of different outcomes from alternative accounting methods can be quickly and

readily evaluated because the same base illustration is used to discuss each alternative. The accounting and reporting procedures for each alternative are presented and then compared and contrasted with one another. Students can clearly see each step of the process and can more easily assess the important differences between alternatives. The positive feedback about the use of the comprehensive case methodology in the first edition confirms our beliefs about the efficiency and effectiveness of this approach for learning advanced accounting.

- *Extensive illustrations of key concepts.* The book is heavily illustrated with complete workpapers, financial statements, and other computations and comparisons used in developing an understanding of each topic. The illustrations are clearly cross-referenced to the relevant text discussion. Workpaper entries presented in the consolidation material are separately identified with an (E) and are shaded to clearly differentiate them from book entries. The extensive use of illustrations makes the learning process more efficient by allowing students to quickly and readily see the applications of the concepts. In addition, the illustrations reinforce understanding of the concepts by demonstrating the effects of the accounting concepts on the financial statements. In this manner, students understand that the many workpaper procedures typically covered in advanced accounting are the means to a desired end, not the end in themselves.

- *Comprehensive coverage with significant flexibility.* The subject matter of advanced accounting is expanding at an unprecedented rate. New topics are being added, and traditional topics require more extensive coverage. Flexibility is therefore essential in an advanced accounting text. Most one-term courses are unable to cover all the topics included in this text. In recognition of time constraints, this text is structured to provide the most efficient use of the time available. The self-contained units of subject matter allow for substantial flexibility in sequencing the course materials. In addition, individual chapters are organized to allow for opportunities to go into greater depth on some topics through the use of the “Additional Considerations” sections. Several chapters include appendixes containing discussions of alternative accounting procedures or illustrations of procedures or concepts that are of a supplemental nature.

ORGANIZATION

The first part of the text covers business combinations and intercorporate ownership. The preparation of consolidated financial statements is discussed, beginning with the basic consolidation process and continuing through a variety of intercompany transactions. The continuous case of Peerless Products Corporation and its subsidiary, Special Foods, Inc., is used to demonstrate the concepts of consolidation. Accounting procedures for branches and agencies also are considered in this section of the text.

The next part of the text deals with multinational operations, including the treatment of transactions denominated in foreign currencies and the translation of

the financial statements of foreign entities. These concepts are presented in the context of Peerless Products Corporation and its German subsidiary.

Special reporting issues in preparing segment and interim reports are discussed and illustrated. In addition, the role of the Securities and Exchange Commission in the regulation of accounting for publicly traded companies is examined.

The next section of the text focuses on partnership accounting and financial reporting in the context of the continuous example of the ABC Partnership. Partnership formation and operation are presented in one chapter, and a separate chapter covers partnership dissolution and alternative forms of liquidation.

As a reflection of its increasing importance, thorough coverage is given to the accounting and financial reporting requirements for governmental and not-for-profit organizations. Two extensive chapters dealing with state and local governmental entities are followed by two chapters providing comprehensive coverage of accounting for colleges and universities, health care providers, voluntary health and welfare organizations, and other not-for-profit organizations. Each chapter is constructed around a comprehensive, integrated case example and presents the essential linkages between the accounting principles used to measure transactions and the financial reporting required for these entities.

The last part of the text presents the accounting and financial reporting procedures for entities in financial difficulty. The chapter focuses again on the example of Peerless Products Corporation. Troubled debt restructurings are presented first, followed by an extensive discussion and illustration of the accounting and financial reporting requirements for companies in legal reorganization or bankruptcy.

FEATURES OF THE REVISION

Every effort was made to make this edition the most comprehensive and current advanced accounting text. The following are the major features of the revision:

- *Updating to reflect recent changes in accounting and financial reporting requirements.* Significant revisions were made in the chapters on health care providers, voluntary health and welfare organizations, and other not-for-profit organizations. Changes as a result of GASB pronouncements on requiring cash flow statements for enterprise funds, the measurement focus and basis of accounting for governmental entities, and reporting component units have been fully integrated into the two chapters on governmental accounting. The recent change in financial reporting for business entities in legal reorganization is fully integrated into the chapter on accounting for companies in financial difficulty. Recent FASB “Discussion Memorandums” on consolidation procedures and bases of measurement are considered in the chapters on consolidation.

- *Additional student learning tools.* Revised text and new illustrations have been developed to clarify complex topics. For example, adopters of the first edition indicated that students had difficulty differentiating budgetary from real

accounts for governmental entities. For the second edition, the convention of capitalizing budgetary accounts, as used in the 1988 *Governmental Accounting, Auditing and Financial Reporting*, is used in the two chapters on governmental accounting. New illustrations in the two international accounting chapters help students understand the timeline aspects of multinational operations. New illustrations presenting overviews and comparisons of alternative accounting methods are integrated throughout the text. These new illustrations will enhance students' study and understanding of the topics.

- *Significantly enhanced end-of-chapter materials.* The end-of-chapter materials have been revised and a much broader selection of materials has been provided. Based on comments from users of the text, many of the problems and exercises from the first edition have been retained. A wide range of questions, cases, exercises, and problems are presented at the end of each chapter to permit the instructor to make selections consistent with teaching objectives. Advanced accounting provides important preparation for the Uniform CPA Examination, and CPA Examination questions from recent exams have been included to ensure up-to-date coverage of the exam. Additional integrated, comprehensive problems have been provided as alternative assignment materials. A number of the exercises have been revised to cover more effectively the range of topics presented in each chapter. Items related to the "Additional Considerations" sections of the chapters are noted with an asterisk (*) next to the item number. Those items related to appendixes are denoted by "A" or "B" to designate the specific appendix. Finally, additional cases in many of the chapters provide opportunities for students to use discovery learning skills and to enhance their written communication skills.

ANCILLARY PROGRAM

This text is accompanied by a full ancillary program with items designed to complement your teaching efforts and your students' learning process. If you would like information and costs on the supplemental materials, please contact your local McGraw-Hill representative. We value both your interest and our supplements.

Student Supplements

In addition to the learning aids contained in the text, the following supplements are available to help students learn advanced accounting:

Study guide Closely coordinated with the text, this study guide contains summaries of the key concepts presented in each chapter and provides self-diagnostic and review materials in the form of multiple-choice, true/false, and fill-in-the-blank questions, as well as both short and comprehensive exercises, and problems. The solutions are given in the study guide so that students can readily assess their achievement level and identify topics that need further review.

Accounting workpapers The workpapers are the forms needed to solve most end-of-chapter problems in the text. To increase efficiency for the students, the forms already contain trial balances, other opening data, and column headings.

Checklist of key answers Key answers are provided for many of the end-of-chapter materials in the text.

Instructor Supplements

These teaching aids have been prepared by the authors of the textbook, each of whom has taught advanced accounting for many years. The following supplements are available:

Solutions manual Solutions are provided for all questions, cases, exercises, and problems in the text. Solutions are carefully explained and logically presented. Answers to many of the multiple-choice questions include computations and explanations. Instructors can prepare transparencies directly from the solutions manual or can choose from the overhead transparencies available for selected exercises and problems.

Overhead transparencies Large-type transparencies have been prepared for approximately 100 exercises and problems in the text.

Instructor's resource manual This manual consists of a summary and overview of each chapter and a key point outline that may be used to guide class discussion of each chapter. Teaching ideas are offered for the effective use of discovery learning activities, the use of electronic spreadsheeting in advanced accounting, and ways to increase student interest in the material. Descriptions are provided for each case, exercise, and problem to help instructors assign end-of-chapter materials that meet the specific learning objectives of the course. A large number of key exhibits from the text are presented in large type to make the production of lecture-enhancing transparencies easy. Additional problems are also presented for selected chapters which can be used to demonstrate chapter topics.

Test bank This comprehensive collection of both conceptual and procedural test items has been completely revised. The material is organized by chapter and includes a large variety of multiple-choice questions and exercises and problems that can be used to measure student achievement in the topics in each chapter. The test items are closely coordinated with the text to ensure consistency.

Computerized testing program Questions in the Test Bank are available through RHTest, the computerized testing program. With RHTest, instructors can create and print tests quickly and easily. The computerized testing program

allows instructors to edit, add, and delete questions, and to print scrambled versions of the same test.

Computer templates for workpaper problems Spreadsheet templates are provided for problems from the text that require extensive workpaper format solutions. This software is available for both DOS-based and Macintosh computers. Students can work with the electronic spreadsheet to solve consolidation and other workpaper problems.

ACKNOWLEDGMENTS

This text includes the thoughts and contributions of many individuals, and we wish to express our sincere appreciation to them. First, and foremost, we thank all the students in our advanced accounting classes, from whom we have learned so much. In many respects, this text is an outcome of the learning experiences we have shared with our students.

We are indebted to our colleagues in advanced accounting for helping us reach our goal of writing the best possible advanced financial accounting text. We appreciate the many valuable comments and suggestions from the instructors who used the first edition of the text. Their comments and suggestions have contributed to making this text a more effective learning tool. We especially wish to thank: Mark Bettner, Bucknell University; Dennis Bline, University of Texas, San Antonio; David Doran, Pennsylvania State University, Erie; John Engstrom, Northern Illinois University; David Gotlob, Indiana University—Purdue University at Fort Wayne; Sharron Hoffmans, University of Texas, El Paso; James Lahey, Northern Illinois University; Philip Meyer, Boston University; Jon Nance, Southwest Missouri State University; Terence Reilly, Albright College; Max Rexroad, Illinois State University; Andrew Rosman, University of Connecticut; Norlin Rueschhoff, University of Notre Dame; John Simon, Northern Illinois University; Ted Skekel, University of Texas, San Antonio; and James Stice, Brigham Young University.

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Above all, we extend our deepest appreciation to our wives and children, who continue to provide the encouragement and support necessary to complete this project.

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