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MODERN ADVANCED ACCOUNTING

second edition

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PREFACE

This edition of **Modern Advanced Accounting** represents a major revision of the popular first edition. The number of chapters devoted to the discussion of business combinations and consolidated financial statements has been expanded from five to seven, and the chapter on present value concepts and applications in the first edition has been replaced by a new chapter, "Accounting and Reporting for the SEC." The number of chapters has been held to eighteen in recognition of the fact that the time allotted to the advanced accounting course is now seldom more than one semester or two quarters.

Highlights of the second edition

New and challenging topics characterize this edition of **Modern Advanced Accounting** despite its relatively compact size. The coverage includes many of the current controversial topics which have stirred the accounting profession and the financial community in recent years. Considerable attention is given to issues dealing with the pooling-of-interests concept of accounting for business combinations (including the **FASB Discussion Memorandum** on this subject), interim statements, financial forecasts, reporting for segments of a business enterprise, financial reporting by multinational companies (including a discussion of **FASB Statement No. 8**), accounting for nonprofit organizations, and accounting and reporting requirements of the Securities and Exchange Commission.

The traditional topics of advanced accounting are presented in concise fashion. Thus, partnerships and joint ventures are covered in the first two chapters which carry the student from the basic concepts often summarized in introductory accounting to the CPA examination level, with its more complex problems of profit-sharing, realignment of ownership equities, and liquidation. Chapter 3, "Installment Sales and Consignments," has been updated and placed in the first section of the book. Chapter 4, "Accounting for Branches; Combined Financial Statements," provides a logical stepping-stone to the important area of business combinations in Chapter 5. Chapter 4 also sets the stage for the discussions and illustrations of consolidated financial statements, which comprise a major portion of the book and are presented in a carefully coordinated and realistic format in Chapters 6 through 11.

The chapter in the first edition dealing with consolidated financial statements at the date of a business combination has been expanded into two chapters, one devoted to purchase combinations and one devoted to pooling combinations. Similarly, the chapter in the first edition dealing with consolidated financial statements subsequent to the date of a business combination has been expanded into two separate chapters addressed to purchase combinations and to pooling combinations.

The remainder of the book includes individual streamlined chapters on the following topics: Segment reporting, interim statements, and financial forecasts; financial reporting by multinational companies; bankruptcy and corporate reorganization; accounting for estates and trusts; government entities; nonprofit organizations; and accounting and reporting for the Securities and Exchange Commission. In earlier advanced accounting textbooks some of these topics either were not covered or were covered in more than one chapter.

Carefully selected financial statements, or portions thereof, recently published by a large CPA firm, by the United States government, by a nonprofit organization, and by leading corporations are presented in appendices at the end of appropriate chapters so that many of the theoretical concepts in the text may be traced to real-world situations. Compound interest tables are presented in an appendix at the end of the book.

The authoritative pronouncements of the Financial Accounting Standards Board, the AICPA, the SEC, and the now-defunct Accounting Principles Board are interwoven into the discussion and in problem material throughout the book. However, we believe that an accounting textbook should encourage students to participate in a critical evaluation of accounting principles and should make students aware of the conflicts and shortcomings that exist within the traditional structure of accounting theory. We have therefore tried to provide students with an analytical basis for making this evaluation, to help them see that most of the controversial areas of accounting ultimately center on underlying issues and questions to which there are no neat and simple answers.

Review questions, exercises, short cases for analysis and decision, and problems

In providing four levels of problem material at the end of each chapter, this book goes well beyond the conventional range of textbooks in advanced accounting.

The **review questions** are intended for use by students as a self-testing and review device to measure their comprehension of key points in each chapter. Many of the questions are provocative, which makes them suitable for written assignments and leads to lively class discussion.

The **exercises** typically cover a specific important point or topic and generally do not require extensive computations. Many instructors may wish to use the exercises to supplement problem assignments, for class discussion, and for examination purposes.

The **short cases for analysis and decision** generally require some analytical reasoning but involve little or no computational effort by students. In these short cases students are called upon to analyze business situations, to apply generally accepted accounting principles, and to propose a course of action. However, students are not required to prepare

lengthy working papers or otherwise to manipulate accounting data on an extensive scale. The short cases have been class-tested and have proven to be an effective means of encouraging students to take clear-cut positions in the argument of controversial accounting issues. A number of the cases have been adapted from recent Uniform CPA Examinations, and are especially recommended if the instructor wishes students to develop skill in communicating accounting concepts and to weigh the merits of opposing arguments.

The **problems** range in difficulty from simple to complex and in the length of time required for solution—from 15 minutes to more than an hour. Some of the problems also are adapted from recent Uniform CPA Examinations, and many have been designed especially to demonstrate the concepts presented in the theoretical discussion. Probably no more than a third of the short cases and problems would be used in a single offering of a course in advanced accounting; consequently, ample opportunity exists to design homework assignments for different sections and from semester to semester.

The Study Guide

An important supplement accompanying this edition is a **Study Guide** prepared by the authors of the textbook and designed to help students measure their progress by immediate feedback. The **Study Guide** contains for each chapter an outline of the most important points in the textbook, plus a variety of objective questions and short exercises. Answers to the questions and exercises appear in the back of the **Study Guide** to help students in a prompt self-evaluation of their understanding of significant subject matter included in each chapter. Experience indicates that the use of the **Study Guide** increases student understanding of the subject matter with a minimum of additional effort.

Partially filled-in working papers (accounting work sheets)

A set of partially filled-in working papers for all problems is published separately for use by students. On these working papers the company names, the problem numbers, numerous headings, and some preliminary data (such as trial balances) have been entered to save students time and to facilitate rapid review by the instructor.

Teaching aids

A full complement of teaching aids is available for instructors who adopt **Modern Advanced Accounting**. In addition to a complete solutions manual the publisher has prepared a book of examination questions, a set of transparencies for problem solutions, and a checklist of key figures for problems.

The **solutions manual** contains complete answers to all questions, exercises, short cases, and problems. A brief description, time estimate, and a difficulty rating are given in the solutions manual for each case and problem.

One of the new supplements accompanying this edition is a bound book of **Examination Questions** with test material arranged chapter by chapter for the entire text. Numerous true or false questions, completion statements, multiple-choice questions, and short problems are included for each chapter. This book of examination questions should be a most useful source for instructors who prefer to assemble their own examinations to emphasize certain chapters or topics. The increased use of objective questions on the Uniform CPA Examinations has provided an extensive source of this type of test material. The use of these questions should aid students preparing for the Accounting Theory and Accounting Practice sections of the Uniform CPA Examination, as well as providing comprehensive testing over the subject matter covered in each chapter.

Another new feature is a set of **transparencies** for instructors who wish to display in the classroom complete solutions for problems assigned for homework. These transparencies are considered by many instructors to be an effective means of showing good solutions format for the more complex problems. The checklist of key figures for problems is available at no cost and in quantity to instructors who wish to distribute it to students. The purpose of the checklist of key figures is to aid students in verifying solutions for problems assigned as homework.

Contributions by others

The many instructors and students who used the first edition of **Modern Advanced Accounting** have contributed immeasurably to the improvement of this edition. Their suggestions for modification of certain problems and expansion or contraction of numerous sections of the text material have been most useful. Especially helpful was the advice received from Professors Howard L. Godfrey, University of North Carolina, Charlotte; Russell D. Langer, California State University, San Francisco; Richard A. Scott, Virginia Commonwealth University; Peter A. Budwitz, Central Connecticut State College; Charles F. Louie, The University of Santa Clara; James Graham, University of Wisconsin, Superior; Arthur A. Hiltner, The University of North Dakota, Grand Forks; Orville Keister, University of Akron, Akron; James Adler, University of Illinois, Chicago Circle; Hein F. Redelinghuys, The University of Texas at Dallas; Russell J. Petersen, University of Illinois; Robert W. Hill, California Polytechnic University, San Luis Obispo; Richard L. Strayer, California State University, Northridge; Stewart Berkshire, California State University, Long Beach; Philip Fu, The Chinese University of Hong Kong; Jon G. Norem,

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