



LARSEN

# MODERN ADVANCED ACCOUNTING

FIFTH  
EDITION



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FIFTH EDITION

# Modern Advanced Accounting

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# **Modern Advanced Accounting**

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# Preface

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The fifth edition of *Modern Advanced Accounting* may be used in a one-semester or two-quarter course, at either the undergraduate level or the graduate level. The emphasis throughout the book is on accounting concepts and on analysis of the problems that arise in the application of these underlying concepts to specialized accounting entities—partnerships, branches, affiliated companies, governmental units, nonprofit organizations, and estates and trusts—and on topics such as segments of business enterprises, interim reporting, reporting for the Securities and Exchange Commission, accounting for multinational enterprises, and bankruptcy.

The fifth edition reflects the continuing changes that have been occurring in the development of accounting principles and practices, with special attention to the official pronouncements and exposure drafts of the Financial Accounting Standards Board (FASB), the Securities and Exchange Commission (SEC), the American Institute of Certified Public Accountants (AICPA), and the Governmental Accounting Standards Board (GASB).

## New Features of Fifth Edition

Many chapters have been updated to include recent changes in law and relevant pronouncements by accounting rule-making bodies. For example, the following have been incorporated in this edition: (1) *GASB Statements 9* and *11* dealing with the statement of cash flows and the measurement focus and basis of accounting, respectively, in Chapter 13; (2) *FASB Invitation to Comment*, “Financial Reporting by Not-for-Profit Organizations: Form and Content of Financial Statements” in Chapter 15; and (3) the FASB’s *A Guide to Implementation of Statement 96 on Accounting for Income Taxes* in Chapter 9.

The most significant new feature of the fifth edition is a new Chapter 20, “Ethical Issues in Advanced Accounting.” The National Commission on Fraudulent Financial

Reporting recommended in its 1987 report that ethical issues be dealt with in *all* accounting courses. The new Chapter 20 is a response to that recommendation.

## **Organization of Subject Matter**

I anticipate that the organization of chapters into five parts will be useful to instructors and students. This arrangement should facilitate the planning and presentation of the subject matter and, I hope, make it easier for students to learn and retain the concepts and procedures presented. A brief description of the contents of each of the five parts follows.

### **Part One: Accounting for Partnerships and Branches (Chapters 1 through 3)**

The first part deals with the accounting principles and procedures for partnerships, joint ventures, and branch operations. Partnerships (both general and limited) and joint ventures are covered in the first two chapters, which carry the student from the basic concepts of partnership accounting often presented in an introductory accounting course to the more complex problems of profit sharing, realignment of partners' equities, and liquidation. Chapter 3, which deals with home office—branch relationships and combined financial statements, provides a logical stepping-stone to the seven chapters dealing with business combinations and consolidated financial statements.

An added feature in Chapter 1 is a statement of cash flows for a general partnership.

### **Part Two: Business Combinations and Consolidated Financial Statements (Chapters 4 through 10)**

Since the issuance in 1987 of *FASB Statement 94*, "Consolidation of All Majority-Owned Subsidiaries," no new pronouncements have been produced in the FASB's Consolidations and Related Matters project. Consequently, most of the changes in Part Two are minor: an amplification of "push-down" accounting (Chapter 5), clarification of serial goodwill recognized in the installment acquisition of a subsidiary (Chapters 9 and 10), and correction of accounting for a subsidiary's post-combination acquisition of treasury stock (Chapter 10).

### **Part Three: Accounting for Nonbusiness Organizations (Chapters 11 through 15)**

Apart from the new features in Part Three described on page xvii, Chapters 11 through 15 have been revised where appropriate to clarify the many complexities of accounting for governmental units and nonprofit organizations.

### **Part Four: Accounting for Fiduciaries (Chapters 16 and 17)**

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.

### **Part Five: Other Topics in Advanced Financial Accounting (Chapters 18 through 20)**

Accounting for multinational enterprises is covered in Chapter 18; Chapter 19 deals with industry segments, interim reports, and reporting for the SEC; and Chapter 20 discusses ethical issues in advanced accounting. The principal focuses of Chapter 20 are on (1) the ethics codes of the National Association of Accountants, the Financial Executives Institute, and the American Institute of Certified Public Accountants; and (2) Securities and Exchange Commission enforcement actions dealing with advanced accounting topics.

### **Review Questions, Exercises, Cases, and Problems**

The learning and assignment material provided at the end of each chapter is divided into four groups: review questions, exercises, cases, and problems. Most end-of-chapter material has been tested in class by the author.

The review questions may be used by students as a self-testing and review device to measure their comprehension of key points in each chapter.

An exercise typically covers a specific point or topic and does not require extensive computations. Instructors may use the exercises to supplement problem assignments, for class discussion, and for examinations.

The cases require analytical reasoning but involve little or no quantitative data. Students are required to analyze business situations, to apply accounting principles, and to propose or evaluate a course of action. However, they are not required to prepare lengthy working papers or otherwise to manipulate accounting data on an extensive scale. The cases have proved to be an effective means of encouraging students to take positions in the argument of controversial accounting issues.

Several problems demonstrate the concepts presented in the theoretical discussion included in the chapter. Probably no more than a third of the problems would be used in a single course; consequently, ample opportunity exists to vary homework assignments from term to term.

### **Supplements with the Fifth Edition**

As was the case with previous editions, the fifth edition of *Modern Advanced Accounting* is accompanied by a comprehensive package of supplementary items for both students and instructors.

#### **For the student**

1 A student *Study Guide*, prepared by the author, is designed to help students measure their progress by providing immediate feedback. It contains an outline of the more important points for each chapter, plus a variety of objective questions and short exercises. Answers to the questions and exercises are at the end of each Study Guide chapter to help students evaluate their understanding of the subject matter.

**2** *Accounting Work Sheets* for the problems are available for purchase by students. On these work sheets the organization names, problem numbers, numerous headings, and some preliminary data (such as trial balances) have been entered to save students' time and to facilitate review by the instructor.

**3** A *Checklist of Key Figures* is provided for most problems. In this edition of *Modern Advanced Accounting* the checklist is on the inside front and back covers of the textbook. The purpose of the checklist is to aid students in verifying intermediate amounts in problem solutions and in discovering errors.

### For the instructor

**1** A *Solutions Manual* is available from the publisher to adopters of the text. The Solutions Manual contains answers to all review questions, exercises, cases, and problems in the text. In addition, at the beginning of each chapter, there are short descriptions, time estimates, and difficulty ratings for each of the problems, to help instructors choose problems that best fit the needs of their individual courses in terms of scope, level, and emphasis.

**2** A booklet of *Examination Questions*, with text material arranged chapter by chapter, is available at no charge. It contains true-or-false and multiple-choice questions and short problems for each chapter. Instructors should find the booklet a useful source of material for assembling examinations, because they may emphasize those topics or chapters that meet their course outline. Complete answers are provided for all questions and problems.

**3** An *Instructor's Teaching Guide* is a teaching aid designed to assist instructors in preparing assignments and in covering the materials in class. The author's goals in providing this supplement were to make the task of instructors easier and to enable them to use their time more efficiently, so that the students' learning process would be enhanced.

**4** *Overhead Transparencies* of problem solutions are available for most of the problems in the text. For long, complex problems, the transparencies are considered by many instructors to be an effective means of showing desired organization and format of solutions.

### Acknowledgments

I am grateful to the Financial Accounting Standards Board and the Governmental Accounting Standards Board, which granted me permission to quote from *Statements*, *Discussion Memoranda*, *Interpretations*, and *Exposure Drafts*. All quotations used are copyrighted by the Financial Accounting Standards Board or the Governmental Accounting Standards Board, High Ridge Park, Stamford, Connecticut, U.S.A., and are reprinted with permission. Copies of the complete documents are available from the Financial Accounting Standards Board or the Governmental Accounting Standards Board.

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Finally, I give special thanks to A. N. Mosich, who contributed significantly to the genesis of this book and to the contents of previous editions. His past participation was invaluable.

**E. John Larsen**



CHAPTER 1  
Partnership Organization and Operation

CHAPTER 2  
Partnership Liquidation; Joint Ventures

CHAPTER 3  
Accounting for Branches; Combined Financial Statements

# Accounting for Partnerships and Branches

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