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ADVANCED ACCOUNTING

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To Madeline

JOE ANTHONY

To my father, Robert, and brother, Scott

ROBIN P. CLEMENT

To Tom, Grant, and Tara

SUZANNE LOWENSOHN



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PREFACE



The ninth edition of *Advanced Accounting* includes 21 chapters designed for financial accounting courses beyond the intermediate level. The ninth edition has been updated to reflect recent business developments and changes in accounting standards and regulatory requirements, especially the coverage of consolidated financial statements, goodwill, and other intangible assets and derivative securities.

An important feature of the book is the continued student orientation, which has been further enhanced with this edition. The ninth edition strives to maintain an interesting and readable text for the students. The focus on the complete equity method is maintained to allow students to focus on accounting concepts rather than bookkeeping techniques in learning the consolidation materials. The edition maintains the reference text quality of prior editions through the use of Electronic Supplements to chapters provided on the *Advanced Accounting* Web site.

The ninth edition maintains several student-oriented features from the last edition. The presentation of consolidation materials highlights working-paper-only entries with shading, and presents working papers on single upright pages. All chapters include excerpts from the popular business press and references to real world companies, institutions, and events. We use examples from annual reports of companies and governmental and non-profit institutions to illustrate key concepts and maintain student interest. Assignment materials include items from past CPA Examinations and have been updated and expanded to maintain close alignment with coverage of the chapter concepts. We maintain identification of names of parent and subsidiary companies beginning with P and S, allowing immediate identification. We also maintain parenthetical notation in journal entries to clearly indicate the direction and types of accounts affected by transactions. The ninth edition introduces the use of learning objectives throughout all chapters to allow students to better focus their study time on the important concepts.

NEW TO THIS EDITION

Important changes in the ninth edition of Advanced Accounting include:

- Coverage of ethics in financial accounting and reporting has been expanded to reflect recent accounting scandals. This includes coverage of provisions from Sarbanes-Oxley, where appropriate.
- All chapters have been updated to include coverage of international reporting standards and issues, where appropriate.
- Learning objectives for the students are numbered and identified throughout the text.
- Chapters 1 through 11 have been updated to reflect the most recent FASB statements and interpretations related to consolidated financial reporting, including accounting for variable interest entities under FIN 46(R).

- Chapters 3 and 4 now include detailed examples on how to prepare consolidation working papers using electronic spreadsheet software. Students will find this especially useful, although instructors who prefer not to use class time on these mechanics will also benefit.
- Descriptions have been added to all exercises and problems to permit easy identification.
- Chapter 12 coverage of derivative instruments and hedging activities has been revised and updated to permit easier understanding of these complex topics by the students.
- The governmental and not-for-profit chapters have been updated to include all standards through GASB 46. These chapters have also been enhanced with the addition of illustrations from the financial statements from Golden, Colorado. Coverage now includes service efforts and accomplishments, as well as postemployment benefits other than pensions.

ORGANIZATION

Chapters 1 through 11 cover business combinations, the equity and cost methods of accounting for investments in common stock, and consolidated financial statements. This emphasizes the importance of business combinations and consolidations in advanced accounting courses, as well as in financial accounting and reporting practices.

Accounting and reporting standards for purchase method business combinations are introduced in Chapter 1. The chapter also provides necessary background material on the form and economic impact of business combinations. Chapter 2 introduces the complete equity method of accounting as a one-line consolidation, and this approach is integrated throughout subsequent chapters on consolidations. This approach permits alternate computations for such key concepts as consolidated net income and consolidated retained earnings, and helps instructors to explain the objectives of consolidation procedures. The alternative computational approaches also assist students by providing a check figure for their logic on these key concepts.

The one-line consolidation is maintained as the standard for a parent company in accounting for investments in its subsidiaries. Procedures for situations in which the parent company uses the cost method or an incomplete equity method to account for investments in subsidiaries are covered in Electronic Supplements to the chapters which are available on the Web site at www.prenhall.com/beams. The supplements include assignment materials for these alternative methods so that students can be prepared for consolidation assignments regardless of the method used by the parent company.

New pooling of interest accounting has been eliminated as the result of FASB Statement No. 141. However, existing poolings are grandfathered in under SFAS 141. Coverage of pooling of interests accounting and reporting is maintained either in appendices or in Electronic Supplements on the Advanced Accounting Web site.

Chapter 3 introduces the preparation of consolidated financial statements. Students learn how to allocate the purchase price to the fair values of the subsidiary's identifiable net assets and to implied goodwill. Chapter 4 continues consolidations coverage, introducing working paper techniques and procedures. The text emphasizes the three-section, vertical financial statement working paper approach throughout, but Chapter 4 also offers a trial balance approach in the appendix. The standard employed throughout the consolidation chapters is working papers for a parent company that uses the complete equity method of accounting (i.e., one-line consolidations) for investments in subsidiaries.

Chapter 8 discusses changes in the level of subsidiary ownership, and Chapter 9 introduces more complex affiliation structures. Chapter 10 covers several consolidation-related topics: (1) subsidiary preferred stock, (2) consolidated earnings per share, and (3) income taxation for consolidated business entities. Branch accounting is the topic covered in the Electronic Supplement to Chapter 10. Chapter 11 is a theory chapter. It discusses alternative consolidation theories, pushdown accounting, leveraged buyouts, corporate joint ventures, and key concepts related to accounting and reporting by variable interest entities. The appendix presents current cost implications for consolidated financial reporting.

Chapters 9 through 11 cover specialized topics and have been written as stand-alone materials. Coverage of these chapters is not necessary for assignment of subsequent text chapters.

Business enterprises become more global in nature with each passing day. Survival of the modern business depends on access to foreign markets, suppliers, and capital. Some of the unique challenges of international business and financial reporting are covered in Chapters 12 and 13. Chapter 12 discusses accounting for derivative financial instruments and applies these concepts to foreign currency transactions. Coverage includes import and export activities and forward or similar contracts used to hedge against potential exchange losses. Chapter 13 covers translation and remeasurement of foreign-entity financial statements, one-line consolidation of equity investees, consolidation of foreign subsidiaries for financial reporting purposes, and combining foreign branch operations.

Chapter 14 introduces topics of segment reporting under FASB Statement No. 131, as well as interim financial reporting issues. Partnership accounting and reporting are covered in Chapter 15 and 16. Chapter 17 discusses accounting and reporting procedures related to corporate liquidations and reorganizations.

Chapters 18 through 20 provide an introduction to governmental accounting, and Chapter 21 (the final chapter) introduces accounting for voluntary health and welfare organizations, hospitals, and colleges and universities. These chapters are completely updated through GASB Statement No. 46, providing students with a good grasp of key concepts and procedures related to governmental and not-for-profit accounting.

As in the last edition, we maintain coverage of SEC accounting requirements and fiduciary accounting for estates and trusts in Appendices A and B, respectively, which are available on the *Advanced Accounting* Web site.

INSTRUCTOR'S RESOURCES

- Solutions Manual: Prepared by the authors. Includes updated answers to questions and solutions to exercises and problems. Solutions to assignment materials included in the Electronic Supplements are also included. Solutions are provided in electronic format, making electronic classroom display easier for instructors. All solutions have been accuracy checked to maintain a high quality of work.
- Instructor's Manual: Contains (a) comprehensive outlines of all chapters; (b) class illustrations; (c) descriptions for all exercises and problems, including estimated times for completion; (d) alternative lesson plans covering different chapters; and (e) a checklist for students of key figures in the problems.
- Test Item File: Includes more than 1,000 up-to-date test questions in True/False. Multiple Choice, Short Answer, and Problem formats. Solutions to all test items are also included.
- TestGenEQ: Test management software containing all the material from the Test Item File. This software is very user-friendly and allows instructors to view, edit, and add test questions; select questions randomly or manually; create tests using drag-and-drop or point-and-click transfer; and print in a variety of formats.
- Companion Website: To access visit www.prenhall.com/beams. The faculty portion of the Web site is a one-stop resource and includes files available for download of Transparency Masters, Spreadsheet Templates, and Power Points.

STUDENT RESOURCES

Companion Website: To access, visit **www.prenhall.com/beams**. The student portion of the Web site includes an Online Study Guide of True/False and Multiple Choice questions, as well as Spreadsheet Templates, and Power Point presentations by chapter.

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