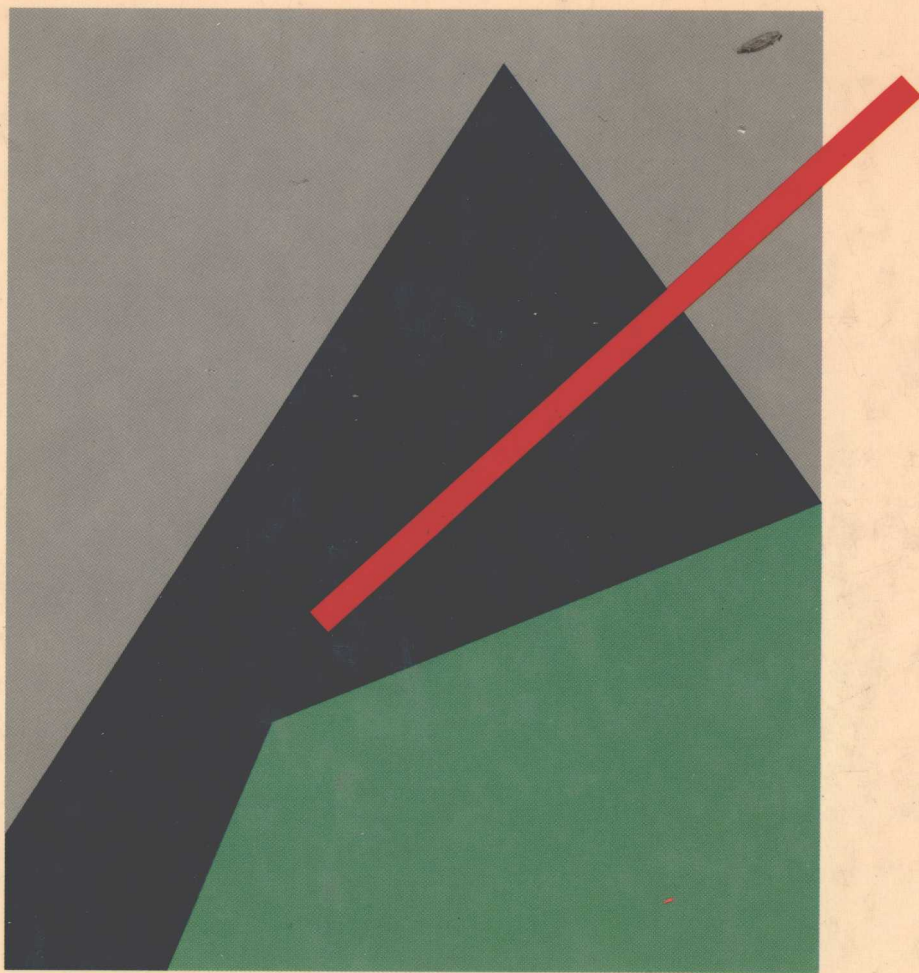


ADVANCED FINANCIAL ACCOUNTING



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ADVANCED FINANCIAL ACCOUNTING

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McGRAW-HILL BOOK COMPANY

New York St. Louis San Francisco Auckland Bogotá Caracas Colorado Springs Hamburg
Lisbon London Madrid Mexico Milan Montreal New Delhi Oklahoma City
Panama Paris San Juan São Paulo Singapore Sydney Tokyo Toronto

This book was set in Times Roman by Better Graphics, Inc.
The editors were Robert D. Lynch and Larry Goldberg;
the cover was designed by Scott Chelius;
the production supervisor was Denise L. Puryear.
R. R. Donnelley & Sons Company was printer and binder.

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1 2 3 4 5 6 7 8 9 0 DOCDOC 8 9 3 2 1 0 9 8

ISBN 0-07-003366-8

Library of Congress Cataloging-in-Publication Data

Baker, Richard E.

Advanced financial accounting/Richard E. Baker, Valdean C.

Lembke, Thomas E. King; Serge Matulich, consulting editor.

p. cm.

Bibliography: p.

ISBN 0-07-003366-8

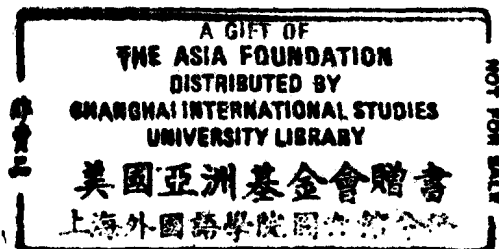
1. Accounting. I. Lembke, Valdean C. II. King, Thomas E.

III. Matulich, Serge. IV. Title.

HF5635.B165 1989

657'.046—dc19

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**Dedicated to
Sheri, Lois, and Robin**

Advanced accounting focuses on the study of the accounting and reporting principles used by a variety of business entities. These entities vary considerably in size and complexity in comparison with the single corporate entity that is the focus of intermediate financial accounting. The daily business press carries a multitude of news stories about the many multicorporate business entities that dominate the economy, the merger and acquisition mania in the corporate sector, the effects of foreign events on multinational firms, the impact of spending by governmental entities, and numerous other topics involving the subject matter of advanced accounting. Accountants are directly involved with these events and must be able to deal knowledgeably with the accounting ramifications.

This text provides comprehensive coverage of the topics usually identified as being within the domain of advanced accounting. As the field of accounting has expanded in scope and content, the number of topics considered as candidates for inclusion in the advanced accounting course has increased, and some of the traditional topics now require more extensive coverage. Most one-term courses will not be able to cover all the subject matter included in this text. In recognition of the time limitations in the advanced accounting course, the materials included in this text have been structured to permit the most efficient use of the time available. Each subject matter area is a self-contained unit, making it possible to exercise substantial flexibility in sequencing the course materials. In addition, the organization of individual chapters permits going into greater depth on some topics while remaining with more basic coverage on others. The main body of each chapter includes materials that are primary to the understanding of the topic. At the end of most chapters, an "Additional Considerations" section explores related topics of a specific nature, providing a more detailed knowledge of the primary topics. Several chapters include appendixes containing discussions of alternative accounting procedures or illustrations of procedures or concepts that are of a supplemental nature.

The basic philosophy of this book is to provide a strong conceptual foundation for the topics presented so the readers will understand the reasoning underlying

the procedures that follow. A "building block" approach is used to build on the conceptual foundation, with the basic aspects of the topics discussed first and the complexities added gradually in successive steps.

A distinguishing feature of this book is the use of a continuous case for each of the major subject matter areas. For example, the consolidation material is constructed around an integrated set of illustrations involving Peerless Products Corporation and its subsidiary, Special Foods, Inc. An in-depth look at these two companies 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. An important additional benefit of this continuity of data is that students need to become familiar with only one set of data and can more quickly move through the illustrations. Once readers become familiar with the basic example, they can focus on the specific point of each new illustration without the confusion of having to absorb a completely new set of data.

A second feature of the text is the large number of illustrations provided as part of the discussion of each of the topics. These illustrations present the comprehensive workpapers, resulting financial statements, and other computations and comparisons used in developing an understanding of a particular topic. The illustrations are clearly cross-referenced to the relevant text discussion. All journal entries within individual chapters are numbered sequentially to use in referencing and to avoid confusing one illustration with another. Workpaper eliminating entries presented in the consolidation materials are separately identified with an (E) and are shaded to distinguish them from book entries. In those cases where alternative accounting treatments may be applied to an event, 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. In this way, readers can clearly see each step of the process and can more easily assess the important differences between alternatives. The material coverage has been focused so that advanced accounting is more than just a large number of procedures. The logic and theory underlying the procedures are stressed to provide an anchoring point for understanding each accounting treatment. The continual aim throughout the book is to replace memorization with understanding.

ORGANIZATION

The first portion of the text deals with corporate expansion through various forms of business combinations and examines different treatments of intercorporate ownership. The preparation of consolidated financial statement is discussed, starting with the basic consolidation process and then examining a variety of intercompany transactions. The discussion focuses on the relationship between Peerless Products Corporation and its subsidiary, Special Foods, Inc., and the intercorporate transactions in which they engage. Financial statements involving branches and agencies also are considered in this section of the text.

The text then deals with international operations, including the treatment of transactions denominated in foreign currencies and the translation of the financial statements of foreign affiliates. These issues are viewed in the context of Peerless Products Corporation and its West German subsidiary.

Special reporting issues also are discussed, including the preparation of segment and interim reports. In addition, the role of the Securities and Exchange Commission in regulating publicly traded companies is examined.

Two other types of reporting entities are discussed next. First partnerships are discussed, with one chapter dealing with partnership formation and operation and another chapter dealing with partnership dissolution and liquidation. These chapters focus on the example of the ABC Partnership. Second, governmental and not-for-profit entities are discussed. Reflecting the importance of governmental and not-for-profit entities, thorough coverage is provided in this area. Two extensive chapters on governmental accounting are followed by two additional chapters providing comprehensive coverage of accounting for colleges and universities, hospitals, voluntary health and welfare organizations, and other not-for-profit organizations. Each of the chapters is constructed around a comprehensive example and continues the overall approach of the text by illustrating the accounting principles within an integrated example.

In the last portion of the text, problems of companies in financial difficulty are examined, focusing again on the example of Peerless Products and Special Foods. Accounting and financial reporting procedures for troubled debt restructurings and bankruptcy are discussed and illustrated. Finally, the special problems of accounting for estates and trusts are presented and illustrated for one of the original partners who began the ABC Partnership. Thus, the text covers virtually the full spectrum of entity types.

Every effort has been made to make this the most comprehensive and current advanced accounting text possible. Recent changes in the accounting standards defining the consolidated reporting entity, requiring a statement of cash flows, and changing the approach to accounting for deferred income taxes have been incorporated into the text. Furthermore, reflecting recent changes in reporting intercorporate investments, the consolidations portion of the text emphasizes the basic equity method while also illustrating the fully adjusted equity method and the cost method in appendixes. This approach both facilitates learning and is consistent with current practice.

The end-of-chapter materials have been designed to provide a range of assignments from focused exercises requiring the understanding of a basic concept to problems and cases requiring broader, more integrated solution skills. Items relating to the "Additional Considerations" sections of the chapters are noted with an asterisk (*) next to the item number. Those items relating to appendixes are denoted by "A." Because, for many students, advanced accounting provides an important part of their preparation for the Uniform CPA Examination, selected CPA Examination questions have been included. In areas where adequate questions were not available from past examinations, original CPA Examination-type questions were developed.

ACKNOWLEDGMENTS

A text such as this is the collection of the thoughts and contributions of many different individuals. We have been fortunate to have benefited from the efforts of a large number of persons to whom we wish to express our sincerest appreciation. L. Vann Seawell (Indiana University, Bloomington) was an initiating force for this project, and we are indebted to him for his assistance and expressions of confidence. Serge Matulich (Rollins College) served as consulting editor for Chapters 12 through 23 and provided many constructive comments. Arthur Nieminsky (California State University, Northridge) provided useful suggestions and materials for Chapters 1 through 10. Donna Ulmer (Southern Illinois University, Edwardsville) helped in developing materials for Chapter 11. Karen White (Southern Illinois University, Edwardsville) provided needed assistance at critical times. Wayne Higley (Buena Vista College) reviewed and helped develop many of the problems for Chapters 12 through 23. Douglas Stein (University of Wisconsin, Madison) reviewed and evaluated the question material and assisted in the preparation of the solutions to the questions in Chapters 12 through 23. Wayne and Doug's attention to detail is greatly appreciated, and their efforts have contributed to making the homework as comprehensive as possible. Typing assistance was provided by Susie Horton and Margaret Hjelmberg, who always presented smiles, even under the toughest deadlines. We are grateful for the assistance and direction of the McGraw-Hill personnel, especially Jim DeVoe and Robert Lynch.

We appreciate the cooperation of the American Institute of Certified Public Accountants and the Institute of Management Accounting for providing permission to adapt and use materials from the Uniform CPA Examinations and the CMA Examinations, respectively.

The reviewers for the text were John Engstrom, Northern Illinois University; Orville Keister, University of Akron; Gordon May, University of Georgia; E. James Meddaugh, Ohio University; David Mehlke, Marquette University; Gail Newell, Western Michigan University; Joann Rockness, North Carolina State University; and John Simon, Northern Illinois University. They did an excellent job, providing many helpful suggestions. James Chiu (California State University, Northridge) provided outstanding service in checking each question, case, exercise, and problem in the text to ensure that the end-of-chapter material is as direct and clear as possible.

Above all, we extend our deepest appreciation to our wives, who provided the encouragement and support necessary to complete this project. They typed manuscript, helped keep the project organized, performed the numerous tasks essential for a project of this type, and provided the encouragement to invest the time and effort needed to make this the best book possible. We express our gratitude and dedicate this book to them: Sheri Baker, Lois Lembke, and Robin King.

Richard E. Baker
Valdean C. Lembke
Thomas E. King

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