



SEVENTH

EDITION

ADVANCED ACCOUNTING

HOYLE SCHAEFER

Advanced Accounting

Seventh Edition

Joe B. Hoyle

*Associate Professor of Accounting
Robins School of Business
University of Richmond*

Thomas F. Schaefer

*KPMG Professor of Accounting
Mendoza College of Business
University of Notre Dame*

Timothy S. Douppnik

*Professor of Accounting
The Darla Moore School of Business
University of South Carolina*



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ADVANCED ACCOUNTING

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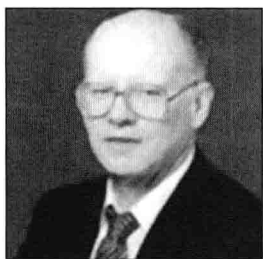
Advanced Accounting

To our families

The real purpose of books is to trap the
mind into doing its own thinking.

Christopher Morley

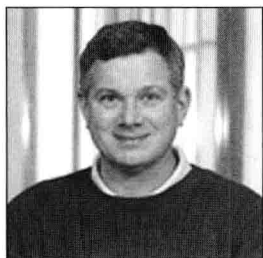
About the Authors



Joe B. Hoyle

University of Richmond

Joe B. Hoyle is Associate Professor of Accounting at the Robins School of Business at the University of Richmond, where he has been named a Distinguished Educator five times. He has been named Professor of the Year on two occasions and teaches Intermediate Accounting I and II and Advanced Accounting. He is also author of *Fast Track CPA Examination Review* and coauthor of *The Lakeside Company Case Studies in Auditing*. He is president of HoyleCPA Success, which sells review material worldwide.



Thomas F. Schaefer

University of Notre Dame

Thomas F. Schaefer is the KPMG Professor of Accounting at the University of Notre Dame. He has written a number of articles in scholarly journals such as *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting & Economics*, *Accounting Horizons*, and others. His primary teaching and research interests are in financial accounting and reporting. Tom served as President during the 2003–2004 term for the American Accounting Association's Accounting Programs Leadership Group and served as a member on the Board of Directors for the Federation of Schools of Accounting.



Timothy S. Douplik

University of South Carolina

Timothy S. Douplik is Professor of Accounting at the University of South Carolina, where his primary teaching and research interest is in international accounting. Tim has been a visiting professor at several universities worldwide and worked as a visiting research professor at the Universidade de São Paulo, Brazil. He has published extensively in this area in journals such as the *International Journal of Accounting* and the *Journal of International Business Studies*. He has also written two research monographs on foreign currency translation published by the FASB. Tim is active in the American Accounting Association and recently completed a term as chair of the International Accounting Section.

Hoyle 7e Solves the Puzzle

The approach used by Hoyle, Schaefer, and Douplik gets students thinking critically about accounting, just as they will do as they prepare for the CPA exam. Read on to understand how students will succeed as accounting majors and as future CPAs by using *Advanced Accounting, 7e*.

Thinking Critically

With this text, students gain a well-balanced appreciation of the accounting profession. As Hoyle 7e introduces them to the field's many aspects, it will often focus on past and present issues. The development of financial reporting is shown as a result of a history of considered debate that continues today and into the future.

Readability

The writing style of the six previous editions was highly praised. **Students easily comprehend** chapter concepts because of the conversational tone. The authors have made every effort to ensure that the writing style remains engaging, lively, and consistent.

Although no two business combinations have the following characteristics that potentially enhance value.

EXHIBIT 2-1
Recent Notable Business Combinations

Acquirer	Target
America OnLine	Time Warner
Pfizer, Inc.	Mobil
Exxon Corp.	AirTel
Vodafone Group PLC	Media
AT&T Corp.	US West
Qwest Communications Inc.	CBS
Viacom Inc.	Atlantic
BP Amoco PLC	Ascent
Lucent Technologies Inc.	Broadcom
Yahoo! Inc.	

Real-World Examples

Students better relate what they learn to what they will encounter in the business world after reading these frequent examples. Quotations and articles from *Forbes*, *The Wall Street Journal*, *Time*, and *Business Week* are incorporated throughout the text. Data have been pulled from business and government financial statements as well as official pronouncements.

Discussion Question

HOW DOES A PURCHASE DIFFER FROM AN ACQUISITION?

On December 31, 2000, Acme Taxicab Company (Acme) purchased Wilbury's Cabs. Acme exchanged 600 shares of its common stock for all of the outstanding shares of Wilbury's Cabs. The market value on that date of \$100 per share.

The only assets owned by Wilbury's Cabs were 15 automobiles, each with a book value of \$5,000 and a market value of \$74,000. Acme has 15 automobiles of its own with a book value of \$74,000.

Discussion Questions

This feature **facilitates student understanding** of the underlying accounting principles at work in particular business events. Similar to mini-cases, these questions help explain the issues at hand in practical terms. Many times, these cases are designed to demonstrate to students why a problem is a problem and worth considering.

for Your Students

CPA Exam Prep

In response to the new CPA exam, the authors have developed an end-of-chapter feature to **better prepare students** for the CPA exam. “Develop Your Skills” asks questions that address the four skills students will need to master in order to pass the exam: Research, Analysis, Excel, and Communication. An icon appears to indicate when these skills are tested.

FARS RESEARCH CASE—SFAS 141 “BUSINESS COMB

CPA
skills

Acello Company has agreed to merge with BlairCo using the agreement include the following:

- BlairCo, the larger firm, will issue additional shares to change for their shares after which the corporate entity will survive as the continuing firm.
- The former owners of Acello will hold 65 percent of the change ratios reflected a premium paid by Acello's owners.
- BlairCo's former chief executive officer (CEO) and other roles in the combined firm for at least two years.
- The former chairman of the board of directors of Acello will be a director of the combined firm. Within two months of the closing of the transaction, the former chairman of the board of directors of Acello will be a director of the combined firm.

End-of-Chapter Materials

As in previous editions, the homework material remains a strength of the text. The sheer quantity of questions, problems, and Internet assignments will test, and therefore **expand the student's knowledge** of chapter concepts. Excel Spreadsheet Assignments extend specific problems and are located on the text's Online Learning Center at www.mhhe.com/hoyle7e. An Excel icon appears next to those problems that have corresponding spreadsheet assignments.

Comprehensive Illustration

(Estimated Time: 30 to 50 Minutes) Every chapter is designed to assist students in tying together the full reading of each chapter, attempt to work out a solution that follows the problem, noting the

PROBLEM

Part A

On January 1, 2003, Big Company pays \$70,000 for Little Company, which has a value of \$60,000.

Questions

1. A company acquires a rather large investment in whether the equity method of accounting should be used.
2. What indicates an investor's ability to significantly influence an investee?
3. Why does the equity method record dividends received as investment account, not as dividend income?
4. Jones Company possesses a 25 percent interest in the company. Under what circumstances might Jones decide to account for this investment?

Develop Your Skills

EXCEL CASE 1

CPA
skills

On January 1, 2004, Acme Co. is considering a privately held enterprise, for \$700,000. The enterprise has a 10 percent annual increase in profits in each dividend of \$30,000 for the foreseeable future valued by \$375,000. Acme realizes that it will increase over the next 10 years—the patent's estimated value have book values that approximate market values.

Problems

1. When an investor uses the equity method to account for dividends received by the investor from the investee should be recorded as:
 - a. A deduction from the investor's share of the investee's earnings.
 - b. Dividend income.
 - c. A deduction from the stockholders' equity account.
 - d. A deduction from the investment account. (AICPA adapted)
2. Which of the following is not an indication that an investor has significant influence over an investee?

Supplements

Instructor's Resource CD
(ISBN 0072834986)

This includes electronic
files for all of the
Instructor Supplements:

For the Instructor

- **Instructor's Resource and Solutions Manual**, revised by the text authors, includes the solutions to all discussion questions, end-of-chapter questions, and problems. Chapter outlines are provided to assist instructors in preparing for class.
- **Test Bank**, revised by John Hamer, University of Massachusetts at Lowell, and Lynn Clements, Florida Southern College, has been significantly updated in accordance with the new CPA exam. In addition, the number of questions has been increased in each chapter, offering a larger pool of material to choose from when creating a test.
- **Brownstone Computerized Test Bank** is delivered in the latest version of Diploma, from Brownstone. It can be used to make different versions of the same test, change the answer order, edit and add questions, and conduct online testing. Technical support for this software is available at (800) 331-5094.
- **PowerPoint Presentations**, revised by Richard Rand of Tennessee Technological University, a complete set of slides covers many of the key concepts presented in each chapter.
- **Excel Template Problems and Solutions**, revised by Jack Terry of ComSource Associates, Inc, allow students to develop important spreadsheet skills by using Excel templates to solve selected assignments.

For the Student

Study Guide/Working Papers (ISBN 0072834994). Revised by Richard Rand, this combination study guide and working papers reinforces the key concepts of the book by providing students with chapter outlines, multiple-choice questions, and problems for each chapter in the text. In addition, this paperback contains all the forms necessary for completing the end-of-chapter material.

Excel Template Problems (mhhe.com/hoyle7e) are available on the Student Center of the text's Online Learning Center. The software includes innovatively designed templates that may be used with Excel '97 and 2000 to solve many complicated problems found in the book. These problems are identified by a logo in the margin.

PowerPoint Presentations (mhhe.com/hoyle7e) are available on the Student Center of the text's Online Learning Center. These presentations accompany each chapter of the text and contain the same slides that are available to the instructor.

Technology

Online Learning Center

www.mhhe.com/hoyle7e

For instructors, the book's website contains the Instructor's Resource and Solutions Manual, PowerPoint slides, Excel templates and solutions, Interactive Activities, Text and Supplement Updates, and links to professional resources.

The student section of the site features online chapter quizzing activities, including a multiple choice quiz and a key term flashcard quiz to accompany each chapter of the text. Students are able to download a sample Study Guide chapter in PDF format. PowerPoint presentations and Check Figures are also available to download, and the chapter Excel template exercises are located here, as well. The authors have listed several CPA-related links and other important links relating to text and professional material.

In addition, students and instructors alike will appreciate the OLC's links to many of McGraw-Hill's most popular online technologies, including PowerWeb, PageOut, and ALEKS.

HoyleCPA Success

Joe B. Hoyle has taught his own CPA Exam Review program since 1980. Nearly a decade ago, he formed HoyleCPA Success with three other partners to help accountants inside and outside the United States conquer this challenging exam. From the beginning, they had very specific goals: to produce the best possible review products on the market; to provide these products at reasonable prices; to treat each customer like a friend; and to help as many people as possible pass the CPA Exam. To date, Joe Hoyle is very pleased with their achievements. Messages arrive almost daily from customers around the world telling them just how much their products have helped. To see what is available to the prospective CPA, visit www.hoylecpa.com.

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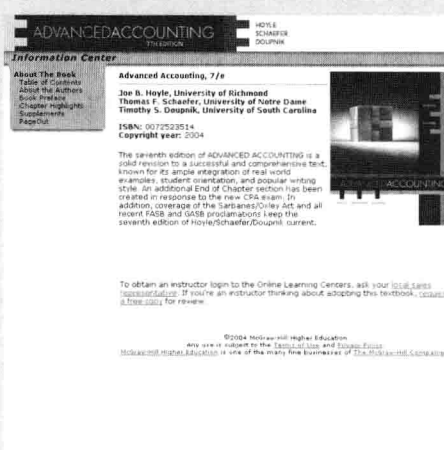
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PowerWeb

PowerWeb: The Dynamic Accounting Profession takes you beyond Enron and looks at issues currently impacting the accounting profession. It offers timely articles and links culled by a real-world expert in advanced accounting. PowerWeb users can also take advantage of self-grading quizzes, interactive glossaries and exercises, and study tips.

Visit the PowerWeb site at www.dushkin.com/powerweb to see firsthand what PowerWeb can mean to your course.



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The Accounting Profession Is Changing

- Text and supplement authors have gone to great lengths to revise their material in accordance with the **new CPA exam**.
- In the wake of corporate scandals, the new **Sarbanes-Oxley Act** material has been incorporated into this edition.
- The text and supplements have been fully updated to reflect the most current **FASB** and **GASB** standards.

Changes within each chapter:

1 Expanded discussion of decision making involving equity method investments and criticisms of the equity method. Introduction of the use of the equity method in the presence of substantive minority participation rights. Two new Excel Cases, two new FARS Research Cases, and a new Analysis Case.

2 Introduction of Variable Interest Entities in the discussion of controlling financial interests. New discussions of the Sears–Lands’ End and Chevron–Texaco acquisitions. Expanded coverage of purchased in-process research and development acquired in business combinations in the text and end-of-chapter material. New Excel cases and FARS research cases in the end-of-chapter material.

3 Expanded coverage of goodwill, reporting units, and goodwill impairment in both the text and end-of-chapter material. New FARS research cases and Excel cases in the end-of-chapter material. A revised and updated computer project in the end-of-chapter material.

4 Coverage of the consolidation of Variable Interest Entities (FIN 46). Updated references to current FASB activity on the Economic Unit concept of reporting non-controlling interests.

Updated references to current FASB activity on the financial statement placements for reporting non-controlling interests.

New FARS research cases and Excel cases in the end-of-chapter material.

5 New Discussion Question on Enron’s earning management through its special purpose entities.

New FARS research cases and Excel cases in the end-of-chapter material.

New Analysis and Research Case on intercompany transactions.

Alternative accounting adjustment presentations for downstream intercompany inventory profit.

6 New coverage of FIN 46. Updated references to the FASB Project on Liabilities and Equity. New Excel Case in the end-of-chapter material.

7 New Excel Case on Indirect Subsidiary Control.

8 Updated excerpts from corporate annual reports.

9 Section on Hedging Foreign Exchange Risk has been completely rewritten. More detailed information on the accounting for derivatives in general, and foreign currency derivatives in particular in accordance with SFAS 133 and SFAS 138.

Detailed description of conditions under which hedge accounting is allowed.

Description of differences in accounting for cash flow hedge and fair value hedge.

Examples with journal entries for the following hedging combinations:

- Forward contract fair value hedge of foreign currency denominated asset.
- Forward contract cash flow hedge of foreign currency denominated asset.

and Hoyle 7e changes with it...

- Option cash flow hedge of foreign currency denominated asset.
 - Option fair value hedge of foreign currency denominated asset.
 - Forward contract fair value hedge of foreign currency firm commitment.
 - Option fair value hedge of foreign currency firm commitment.
 - Forward contract cash flow hedge of forecasted foreign currency denominated transaction.
 - Option cash flow hedge of forecasted foreign currency denominated transaction.
- 10** Excerpts from annual reports have been updated.
- 11** Updated to reflect the creation of the IASB and the current status of International Accounting Standards. Excerpts from annual reports have been updated.
- 12** Described the general provisions of the Sarbanes–Oxley Act, focusing on the overall impact on the accounting profession. Described the potential impact of the creation of the Public Company Accounting Oversight Board.
- 13** Updated information to describe and discuss the ramifications of some of the huge bankruptcies occurring over the last few years. Discussed possible amendments to the US bankruptcy laws.
- 14** Described some of the new types of legal formats being devised to limit the liability of ownership.
- 15** Discussed the possible protection afforded Arthur Andersen partners by being structured as an LLP, a limited liability partnership.
- 16** Heightened the coverage of the changes in governmental accounting that are occurring as cities, counties, and the like begin to adopt GASB Statement Number 34.
- 17** Used the financial statements of the City of Sacramento, California to illustrate the practical process of applying the provisions of GASB Statement Number 34. Sacramento was one of the first major cities to apply this new pronouncement so that its statements can serve as a model of the new reporting system.
- 18** Went into more detail in analyzing the financial statements prepared by charities as well as private colleges and universities to help students understand the types of information that are available to an outside decision maker.
- 19** Looked at the changes in estate planning that have been created by the decision made by Congress in 2001 to eliminate federal estate taxes in 2010.

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We could not produce a textbook of the quality and scope of *Advanced Accounting* without the help of a great number of people. We extend a special thank you to: Richard Rand at Tennessee Technological University for revising and adding new material to the Study Guide, Online Quizzes, and PowerPoint presentations; John Hamer at the University of Massachusetts-Lowell and Lynn Clements at Florida Southern College for revising and adding new material to the Test Bank; Jack Terry of ComSource Associates for creating Excel template exercises for students to use as they work through selected end-of-chapter material; Kim Temme at Maryville University and Beth Woods, CPA, for checking the text for accuracy; and Alice Sineath at Forsyth Technical Community College for checking the test bank for accuracy.

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Arkansas State University

Richard S. Rand, Jr.
Tennessee Technological University

Jack Reagan
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Texas Woman's University

Linda Schain
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Utah Valley State College–Orem

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University of Virginia

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