# ADVANCED ACCOUNTING

**GLOBAL EDITION** 

Floyd A. Beams

Virginia Polytechnic Institute and State University

Joseph H. Anthony

Michigan State University

**Bruce Bettinghaus** 

Grand Valley State University

Kenneth A. Smith

University of Washington

## **PEARSON**

Boston Columbus Indianapolis New York San Francisco Upper Saddle River

Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montréal Toronto
Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

## CONTENTS

### Preface 17

#### CHAPTER 1

Business Combinations 25

Reasons for Business Combinations 26
Antitrust Considerations 27
Legal Form of Business Combinations 28
Accounting Concept of Business Combinations 29
Accounting for Combinations as Acquisitions 30
Disclosure Requirements 39
The Sarbanes-Oxley Act 39

#### CHAPTER 2

Stock Investments—Investor Accounting and Reporting 49

Accounting for Stock Investments 49

Equity Method—a One-Line Consolidation 52
Investment in a Step-by-Step Acquisition 60

Sale of an Equity Interest 61

Stock Purchases Directly from the Investee 61
Investee Corporation with Preferred Stock 62

Extraordinary Items and other Considerations 63

Disclosures for Equity Investees 63

Testing Goodwill for Impairment 65

#### CHAPTER 3

An Introduction to Consolidated Financial Statements 85

Business Combinations Consummated through Stock Acquisitions 85
Consolidated Balance Sheet at Date of Acquisition 89
Consolidated Balance Sheets after Acquisition 93
Assigning Excess to Identifiable Net Assets and Goodwill 95
Consolidated Income Statement 101
Push-Down Accounting 102
Preparing a Consolidated Balance Sheet Worksheet 103

Consolidation Techniques and Procedures 121

Consolidation under the Equity Method 121

Locating Errors 128

Excess Assigned to Identifiable Net Assets 128

Consolidated Statement of Cash Flows 134

Preparing a Consolidation Worksheet 139

#### CHAPTER 5

Intercompany Profit Transactions-Inventories 167

Intercompany Inventory Transactions 168

Downstream and Upstream Sales 172

Unrealized Profits from Downstream Sales 175

Unrealized Profits from Upstream Sales 178

Consolidation Example-Intercompany Profits from Downstream Sales 180

Consolidation Example - Intercompany Profits from Upstream Sales 183

#### CHAPTER 6

Intercompany Profit Transactions—Plant Assets 207

Intercompany Profits on Nondepreciable Plant Assets 207

Intercompany Profits on Depreciable Plant Assets 212

Plant Assets Sold at Other than Fair Value 220

Consolidation Example—Upstream and Downstream Sales of Plant Assets 221

Inventory Purchased for Use as Operating Assets 224

#### CHAPTER 7

Intercompany Profit Transactions—Bonds 239

Intercompany Bond Transactions 239

Constructive Gains and Losses on Intercompany Bonds 240

Parent Bonds Purchased by Subsidiary 242

Subsidiary Bonds Purchased by Parent 248

#### CHAPTER 8

Consolidations—Changes in Ownership Interests 267

Acquisitions during an Accounting Period 267

Piecemeal Acquisitions 270

Sale of Ownership Interests 272

Changes in Ownership Interests from Subsidiary Stock Transactions 278

Stock Dividends and Stock Splits by a Subsidiary 281

Indirect and Mutual Holdings 297

Affiliation Structures 297
Indirect Holdings—Father-Son-Grandson Structure 299
Indirect Holdings—Connecting Affiliates Structure 302
Mutual Holdings—Parent Stock Held by Subsidiary 306
Subsidiary Stock Mutually Held 315

#### CHAPTER 10

Subsidiary Preferred Stock, Consolidated Earnings per Share, and Consolidated Income Taxation 331

Subsidiaries with Preferred Stock Outstanding 331
Parent and Consolidated Earnings Per Share 337
Subsidiary with Convertible Preferred Stock 340
Subsidiary with Options and Convertible Bonds 341
Income Taxes of Consolidated Entities 342
Income Tax Allocation 343
Separate-Company Tax Returns with Intercompany Gain 346
Effect of Consolidated and Separate-Company Tax Returns on Consolidation Procedures 350
Business Combinations 357
Financial Statement Disclosures for Income Taxes 362

#### CHAPTER 11

Consolidation Theories, Push-Down Accounting, and Corporate Joint Ventures 381

Comparison of Consolidation Theories 382

Illustration—Consolidation Under Parent-Company and Entity Theories 384

Push-Down Accounting and Other Basis Considerations 393

Joint Ventures 399

## CHAPTER 12

Derivatives and Foreign Currency: Concepts and Common Transactions 421

Derivatives 421
Foreign Exchange Concepts and Definitions 426
Foreign Currency Transactions other than Forward Contracts 428

#### CHAPTER 13

Accounting for Derivatives and Hedging Activities 439

Accounting for Variable Interest Entities 402

Accounting for Derivative Instruments and Hedging Activities 439
Accounting for Hedge Contracts: Illustrations of Cash Flow and
Fair-Value Hedge Accounting Using Interest Rate Swaps 449
Foreign Currency Derivatives and Hedging Activities 453

Foreign Currency Financial Statements 473

Objectives of Translation and the Functional Currency Concept 473

Application of the Functional Currency Concept 475

Illustration: Translation 479

Illustration: Remeasurement 485

Hedging a Net Investment in a Foreign Entity 489

#### CHAPTER 15

Segment and Interim Financial Reporting 507

Segment Reporting 507

Interim Financial Reporting 513

Guidelines for Preparing Interim Statements 515

#### CHAPTER 16

Partnerships—Formation, Operations, and Changes in Ownership Interests 533

Nature of Partnerships 533

Initial Investments in a Partnership 534

Additional Investments and Withdrawals 536

Partnership Operations 537

Profit- and Loss-Sharing Agreements 538

Changes in Partnership Interests 544

Purchase of an Interest from Existing Partners 545

Investing in an Existing Partnership 548

Dissociation of a Continuing Partnership through Death or Retirement 551

Limited Partnerships 553

#### CHAPTER 17

Partnership Liquidation 569

The Liquidation Process 569

Safe Payments to Partners 573

Installment Liquidations 575

Cash Distribution Plans 581

Insolvent Partners and Partnerships 584

#### CHAPTER 18

Corporate Liquidations and Reorganizations 599

Bankruptcy Reform Act of 1978 599

Liquidation 602

Illustration of a Liquidation Case 604

Reorganization 611

Financial Reporting during Reorganization 615

Financial Reporting for the Emerging Company 616

Illustration of a Reorganization Case 617

An Introduction to Accounting for State and Local Governmental Units 633

Historical Development of Accounting Principles for State and Local Governmental Units 633

Overview of Basic Governmental Accounting Models and Principles 635

The Financial Reporting Entity 646

Comprehensive Annual Financial Report 647

#### CHAPTER 20

Accounting for State and Local Governmental Units—Governmental Funds 671

Recent Changes to Governmental Fund Accounting 671

The General Fund 672

Accounting for the General Fund 672

Permanent Funds 685

Capital Projects Funds 686

Special Assessment Activities 691

Debt Service Funds 691

Governmental Fund Financial Statements 693

Preparing the Government-Wide Financial Statements 696

#### CHAPTER 21

Accounting for State and Local Governmental Units—Proprietary and Fiduciary Funds 719

Proprietary Funds 719

Internal Service Funds 720

Enterprise Funds 724

Proprietary Fund Financial Statements 727

Fiduciary Funds 729

Preparing the Government-Wide Financial Statements 734

Required Proprietary Fund Note Disclosures 734

#### CHAPTER 22

Accounting for Not-for-Profit Organizations 745

The Nature of Not-for-Profit Organizations 745

Not-for-Profit Accounting Principles 746

Voluntary Health and Welfare Organizations 751

"Other" Not-for-Profit Organizations 758

Nongovernmental Not-for-Profit Hospitals and Other Health Care Organizations 758

Private Not-for-Profit Colleges and Universities 762

Estates and Trusts 781

Creation of an Estate 781
Probate Proceedings 782
Administration of the Estate 782
Accounting for the Estate 783
Illustration of Estate Accounting 784
Accounting for Trusts 788
Estate Taxation 789

Glossary G-1

Index 1-1